EUROPEAN CENTRAL BANK

EUROSYSTEM

PRESS RELEASE

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Statement by the staff of the European Commission and the European Central Bank following the sixth post-programme surveillance visit to Spain

Staff from the European Commission, in liaison with staff from the European Central Bank (ECB), carried out the sixth post-programme surveillance visit to Spain on 17-19 October 2016. The European Stability Mechanism (ESM) participated in the meetings on aspects relating to its Early Warning System. In the absence of a government with full legislative powers, the mission was limited in scope, mainly focused on financial sector issues. It also served as part of the Commission's monitoring in the framework of the Macroeconomic Imbalances Procedure.

The financial sector has continued to show a high degree of stability, supported by low funding costs, the ongoing restructuring of the sector and the strength of the economic recovery. The banking system has ample access to liquidity and is able to comfortably meet the regulatory capital requirements. Solvency levels are resilient to a stress scenario, as reflected in the 2016 stress test results of the European Banking Authority (EBA). The quality of banks' assets has further strengthened and by mid-2016 the non-performing loan ratio had fallen below 10% at the aggregate level. The main challenge for the banking sector, as in other euro area countries, remains sustaining profitability over the medium term, against the background of low interest rates and still negative growth of business volumes. Although the outstanding volume of credit is still decreasing, also reflecting the continuation of the deleveraging process by households and enterprises, new bank lending to households and SMEs continues to grow and supports economic activity. The implementation of the restructuring plans of the Spanish banks that have received state aid is almost completed. However, there has been no progress in the re-privatisation of the two remaining state-owned banks since 2014. Completing the restructuring and privatisation of these state-owned banks is important to strengthen the stability of the banking sector.

The divestment of SAREB's portfolio has been progressing. SAREB still has to complete the valuation of its assets in line with its new accounting guidelines. This could entail changes to the realisation and reporting of potential losses on parts of its assets.

Solid expansion of the Spanish economy continued in the first half of 2016, driven by private consumption, dynamic investment and exports. The pace of economic growth has once again exceeded expectations and remains well above the euro area average. However, although private sector deleveraging has progressed at a fast pace, the still high level of private and public debt is reflected in a sizeable amount of external liabilities, and low productivity growth makes competitiveness gains hinge upon cost advantages. The decrease in unemployment has been remarkable over the past two years, also thanks to the reforms undertaken in recent years, but at 19.5% of the labour force in August 2016 it remains among the highest in the EU, especially affecting youth.

Overall, robust growth of the Spanish economy continues to support the rebalancing of the economy and the stabilisation of the financial sector. However, ensuring a balanced, durable and inclusive growth path over the long term remains a challenge. Continued efforts are needed to further strengthen the resilience of the banking sector over the medium term. The structural reform agenda needs to be resumed once a government with full legislative powers is in place in order to further rebalance the economy, reduce unemployment and raise Spain's productivity and growth potential.

The Council decided in August that Spain had not taken effective action in response to its recommendation to correct the excessive general government deficit, and set a new fiscal adjustment path for Spain to correct its excessive deficit in 2018. The Commission is currently assessing Spain’s Draft Budgetary Plan and report on action taken towards compliance with this new adjustment path.

The next post-programme surveillance mission will take place in spring 2017.

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