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 ninth post-programme surveillance visit to Spain

Staff from the European Commission, in liaison with staff from the European Central Bank (ECB), carried out the ninth post-programme surveillance visit to Spain on 9-10 April 2018. The European Stability Mechanism (ESM) participated in the meetings on aspects relating to its Early Warning System.

Amid continued strong economic growth, the Spanish banking sector enjoys overall comfortable liquidity, and several banks increased their issuance of debt securities. Also, banks have over previous quarters overall enjoyed continued profitability, with the exception of a one-off factor related to the resolution of Banco Popular in the second quarter of last year. Capital buffers have been supported by the issuance of both core and non-core capital instruments. This facilitated continuation of the reduction of NPLs on balance sheets, including in banks with relatively high amounts of legacy assets. The NPL ratio for the Spanish banks, including on their international activity, declined to close to the EU average. The merger of BMN with Bankia in January 2018, accompanied by FROB's sale of another minority stake in Bankia in December 2017, is the latest step in the process of restructuring of the Spanish banking sector. Completing the privatisation of the merged entity and the divestment plans of banking foundations in savings banks will further reinforce the Spanish banking sector. In addition, banks further improved their business models and efficiency and increased the supply of new loans to the economy. At the same time, the asset management company SAREB improved its gross margin, but recorded again negative financial results, which calls for further dedicated action in managing SAREB.

Going beyond the financial sector, the findings of the mission confirmed the Commission's assessment of Spain's economic situation presented in the context of the European Semester in February. Overall, the Spanish economy continues to enjoy robust growth and its rebalancing has progressed further, but high private and public debt levels and unemployment still represent vulnerabilities. It will be important that Spain

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puts in place policy efforts to ensure a durable growth path and achieve higher productivity growth. This includes steps to continue reducing unemployment, make the labour market more inclusive, improve the business environment and enhance the innovation capacity of the economy. Moreover, Spain should take the opportunity provided by the favourable economic conditions to pursue fiscal consolidation with a view to ensuring a decisive reduction in the government debt ratio and re-building the fiscal buffers that will enable Spain to overcome any adverse shocks.

The mission would like to thank the Spanish authorities for their constructive and open discussions. The next post-programme surveillance mission will take place in autumn 2018.

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