EUROPEAN CENTRAL BANK

EUROSYSTEM

# PRESS RELEASE

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## Staff statement following the tenth post-programme mission to Spain

European Commission staff, in liaison with staff from the European Central Bank, visited Madrid from 4 to 5 October for the tenth post-programme mission to Spain. Staff from the European Stability Mechanism participated in the meetings in the context of its Early Warning System.

The Spanish banking sector continues to enjoy overall comfortable solvency and liquidity. Its profitability has also improved thanks to the decline of loan-loss provisions related to the reduction in non-performing loans. The non-performing loans ratio for the Spanish banks, including on their international activity, has continued to decline to just above the EU average. Implementation of the January 2018 merger of BMN with Bankia has progressed well. Completing the privatisation of Bankia and encouraging the further divestment of banking foundations in savings banks will continue to reinforce the Spanish banking sector. Finally, the asset management company SAREB, which improved its gross margin but recorded again negative financial results, is preparing a new management strategy for its assets and is assessing how this might improve its profitability and effectiveness.

Spanish economic growth, underpinned by strong domestic demand, continues to outperform the euro area average and macroeconomic rebalancing has progressed. A weaker performance of the external sector in the first half of this year has driven a mild slowdown in the growth momentum, in line with expectations. Moreover, still high external and domestic debt levels and unemployment warrant policy efforts to ensure a more durable growth path and achieve higher productivity growth. In line with the country-specific recommendations issued by the Council of the European Union on 13 July, these should include steps to continue reducing unemployment, make the labour market more inclusive, improve the business environment and enhance the innovation capacity of the economy. At the same time, Spain should pursue fiscal consolidation with a view to ensuring a decisive reduction of its high government debt ratio and re-building the fiscal buffers needed to overcome any possible adverse shocks, while preserving the long-term sustainability of its public finances.

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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 spring 2019.

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