EUROPEAN CENTRAL BANK
EUROSYSTEM

PRESS RELEASE

Press statement following the fourth post-programme surveillance visit to Spain

12 October 2015

Staff from the European Commission, in liaison with the European Central Bank, carried out the fourth post-programme surveillance visit to Spain from 5 to 8 October. The European Stability Mechanism participated in the meetings on aspects related to its own Early Warning System.

Macroeconomic situation

The economic recovery in Spain strengthened further in the first half of 2015, with GDP growth outpacing the euro area average. Improved access to credit for both firms and households and enhanced confidence, together with declining oil prices, have supported domestic demand, while favourable external developments and enhanced competitiveness have sustained exports, limiting the drag on growth from net exports.

The recovery is accompanied by strong job creation, also thanks to the reforms introduced in the labour market since 2012. However, while unemployment is decreasing rapidly, it remains very high, at over 22%. Persisting segmentation in the labour market could hinder further productivity growth and adjustment, and negatively affects working conditions.

Despite the improving economic conditions and outlook, significant imbalances remain. The orderly deleveraging of the private sector has further advanced, but private indebtedness remains very high. As the current account balance is expected to remain in surplus over the medium term, this will enable the reduction of the very high external debt. Still, larger surpluses than at present would be required for a sustained period of time to reduce it significantly.

The general government deficit is being reduced, against the backdrop of dynamic GDP growth, but remains among the highest in the euro area. While the high general government debt is expected to peak in 2015 and decline thereafter, windfall gains have not been used to accelerate its reduction.

Financial sector developments and reforms

The stabilisation in the banking sector has further progressed, marked by the improvement of banks´ asset quality, ample access to liquidity and strengthened solvency. In particular, non-performing loans are receding substantially, although they are still at elevated levels. Moreover, the implemented changes in the treatment of state guaranteed DTAs have removed an important element of uncertainty for the banking system. Profitability has been rising, but still relies to a large extent on declining funding costs, the reduced need to provision against loan losses, and income generated by banks' fixed income portfolios. At the same time, the outstanding volume of credit is still decreasing, partly reflecting the ongoing deleveraging process of households and enterprises, even if new loans are being generated at an increasing pace.

The restructuring of the Spanish banking sector, and in particular of banks having received state aid, is progressing well. Most banks under restructuring plans have achieved or are close to achieving the targets under these plans. Completing the restructuring and privatisation of state-owned banks is necessary to put the banking sector on a sound long-term footing. The recent adoption of secondary legislation to implement the savings banks law of 2013, which included the requirement that banking foundations – with controlling stakes in banks – set up a reserve fund, is a very welcome development. A fast completion and implementation of the ensuing circular is now needed. The reform will contribute to the sustainability of the savings banks going forward.

The entry into force of the new accounting framework for SAREB is a positive development, as it will allow an adequate treatment of impairments and of asset-price evolution, contributing to adapt deleveraging policies to the target, in a context of evolving circumstances.

Progress on other structural reforms

Policy progress observed in recent months includes: (i) the adoption of a new fiscal rule on healthcare spending for voluntary application at regional level, which however has still to be implemented by regional governments; (ii) the law on promoting corporate financing, adopted in April, which aims to improve access of firms to bank credit and foster non-bank financial intermediation; (iii) the reforms of the judicial system, intended to reduce the workload on judges by focusing their activity on issues of a judicial rather than administrative nature; (iv) the de-indexation law, adopted in March, which decouples prices of public services from the consumer price index; (v) a reform of the administrative procedure law, adopted in October, and (vi) the laws on highway and railway networks, adopted in September.

Imbalances from the pre-crisis period are correcting but are still substantial. The authorities should continue to tackle the related policy challenges, bringing outstanding reforms to completion (e.g. the market unity law) and complementing them with additional measures, for example with a view to tackling segmentation in the labour market. In addition, there are some pending key reforms, such as the reform of professional services and professional associations, which, if adopted, would benefit the whole economy.

Conclusion

Overall, past structural reforms, bank recapitalisation and supportive financial conditions are increasingly reflected in the stabilisation of the financial sector, a strong economic recovery and low sovereign risk premia. Nonetheless, significant challenges remain. Sound public finances and sustained reform efforts are paramount to sustain the recovery, further rebalance the economy and maintain low risk premia going forward.

The next post-programme surveillance mission will take place in spring 2016.

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