EUROPEAN CENTRAL BANK

EUROSYSTEM

PRESS RELEASE

23 March 2015 - Statement following the third post-programme surveillance visit to Spain

Staff from the European Commission, in liaison with the European Central Bank, carried out the third post-programme surveillance visit to Spain from 12-18 March. The European Stability Mechanism participated in the meetings on aspects related to its own Early Warning System.

Macroeconomic situation

The economic recovery strengthened further towards the end of 2014, with GDP growing at a faster pace than the euro area average. Reforms introduced since 2012 have contributed to the improved prospects in the labour market, further easing of financial conditions and enhanced confidence. The expansion of economic activity is underpinned also by lower oil prices, a favourable exchange rate and a less restrictive fiscal stance.

Following a significant improvement in recent years, the current account balance deteriorated in 2014 but remained slightly positive. This was related to the slowdown in external markets, but also to high import growth linked to the pick-up in final demand. The current account balance is expected to further strengthen in 2015. A more pronounced current account adjustment is still needed to put the large stock of net external liabilities on a downward trajectory.

The orderly deleveraging of the private sector has further advanced, but deleveraging needs remain high. Access to credit, in particular for households and healthier companies (including SMEs) with positive growth prospects, has improved significantly. Job creation has accelerated, but unemployment, in particular youth and long-term unemployment, remains very high, as does labour market segmentation. Government debt is still increasing and bringing it back to the 60% reference value will require a continued fiscal effort in the long run.

Financial sector developments and reforms

The stabilisation in the banking sector continues, marked by the improvement of banks´ asset quality, strengthened solvency and liquidity and a return of the sector to profitability. However, these signs of further stabilisation are not uniform across financial institutions. Overall stabilisation and in particular profitability have been driven by a decline in banks' funding costs, in a low-interest rate environment, and a fall in provisioning, as non-performing loans are being reduced. At the same time, lending volumes across the main areas of business are still contracting, as demand for new loans recovers from low levels.

The restructuring of the Spanish banking sector, and in particular of banks having received state aid, is progressing well. Most banks under restructuring plans are very well advanced in achieving the targets under these plans. The sale of public stakes in banks to private investors has made good progress. Completing the restructuring and privatisation of state-owned banks is necessary to put the banking sector on a sound long-term footing. The adoption and implementation of the necessary secondary legislation on the savings bank law of 2013, which includes the requirement that banking foundations with controlling stakes in banks set up a reserve fund, is proceeding. FROB, the Fund for Orderly Bank Restructuring, has taken up the new role of national executive resolution authority, leaving the national supervisors (Bank of Spain, CNMV) with the preventive role.

A key milestone for improving the management of SAREB's financial assets has been completed with the introduction of incentives in the servicers' contracts that link the remuneration with their performance. The new servicers are already operative and the migration of assets has started.

Progress on other structural reforms

Some additional progress has been observed in recent months on other structural reforms. Implementation of the public administration reform, the law on market unity and the reform of education and training continue. The reform of personal and corporate income taxation has been in force since January 2015. Moreover, Spain has advanced further with the reform of the insolvency framework, including the development of a framework for personal insolvency, and preliminary steps have been taken to speed up the administration of justice. Recently, new initiatives have also been adopted to support labour market integration and combat duality, to improve the effectiveness of active labour market policies and to increase the efficiency of employment placement services, although these are not delivering their full results as yet.

Outstanding reforms need now to be brought to completion (e.g. the market unity law), or should be complemented with additional measures (e.g. tackling segmentation in the labour market). There are notably implementation lags and risks stemming from the need for joint delivery by various tiers of government. 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, Spain is benefiting from past structural reforms, fiscal consolidation and bank recapitalisation, which are increasingly reflected in financial sector stabilisation, a strong economic recovery and low sovereign risk premia. Nonetheless, significant imbalances remain. Full and effective implementation of the reform agenda and its further strengthening 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 autumn 2015.

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