EUROPEAN CENTRAL BANK

EUROSYSTEM

PRESS RELEASE

4 April 2014 - Statement by the European Commission and the European Central Bank following the conclusion of the first post-programme surveillance mission to Spain

After the expiry of the financial sector programme in January 2014, a staff team from the European Commission, in liaison with staff from the European Central Bank, undertook the first visit to Spain in the context of the post-programme surveillance (PPS) on 24-28 March and on 3 April. The European Stability Mechanism participated in the meetings on aspects related to its own Early Warning System.

Overall, the positive trends of policy progress, ongoing economic adjustment and diminishing financial stress that formed the basis for Spain's programme exit have continued, although important challenges to sustained economic and employment growth, public finances and the banking sector still remain.

A recovery in output is ongoing, as exports remain robust and domestic demand stops being a drag on growth amid rising confidence, easing financial conditions and a return to positive employment growth. Unemployment is on a gradual declining path, but still at a very high level. Inflation is below the euro area average and expected to stay low as the recovery of price competitiveness continues. The budget deficit was 6.6% of GDP in 2013, excluding the support to the financial sector, marginally above the EDP target, confirming that fiscal consolidation continued last year. Given the improved economic outlook, the 2014 deficit target should thus be well within reach with rigorous budgetary execution, whereas information on the measures planned to deliver the required fiscal adjustment in 2015 and 2016 is expected in the forthcoming Stability Programme. Large debt levels and related deleveraging needs in the private and public sectors put a lid on medium-term growth prospects and keep the economy vulnerable.

Banks' liquidity situation and financing structure have strengthened further since the beginning of the year, and 2013 results showed a firming of profitability, also on account of one-off factors. Solvency ratios have been further increased, including by the significant accounting impact of recent amendments to the tax code regarding deferred tax assets. The restructuring of banks having received State aid is well underway, with burden-sharing exercises completed, although litigation is still ongoing. NCG Banco has returned to private ownership, and a 7.5% public stake in Bankia has been sold. The process of privatisation and restructuring of the banking sector is expected to be pursued further with determination in 2014. Implementation of measures to strengthen the regulatory and supervisory framework has proceeded as planned, as well as measures to develop non-bank sources of finance. For banks, the main challenge at this stage appears to be the pressure on their profits from falling volumes of intermediation and still deteriorating asset quality, calling for close monitoring and adequate provisioning levels and capital buffers. SAREB's challenge of divesting its significant asset portfolio while maximising value also remains significant, as indicated by the latest revision of its strategic business plan.

Work on structural reforms continues, with some recent new initiatives such as a substantial revision of the corporate pre-insolvency framework to facilitate debt restructuring and the introduction of a temporary flat social security contribution rate on new additional permanent contracts, which could support a short-term increase in permanent contracts. Some measures have suffered delays, such as the law on professional services and associations, which could also turn out less ambitious than originally planned, and the start of operation of the independent fiscal authority. Following a comprehensive report by a committee of experts, the government is preparing a reform of the tax system. While there is some evidence of a positive impact on employment of reforms already implemented, the extent of the remaining challenges in the labour market and beyond corroborates the case for fully implementing, closely monitoring and, where needed, further strengthening the structural reform agenda.

The next PPS mission will take place in autumn 2014.

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