EUROPEAN COMMISSION

MEMO

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Statement by the EC and the ECB following the conclusion of the second review of the financial assistance programme for Spain

A delegation from the European Commission, in liaison with the European Central Bank, the European Stability Mechanism and the European Banking Authority, completed the second review of the financial sector assistance programme for Spain from 28 January to 1 February 2013. The International Monetary Fund also participated in the review, fulfilling its role as an independent monitor. On the basis of the review, it can be concluded that the programme remains on track.

In an environment of further improved financial market conditions in Spain since the start of the last review, programme implementation has progressed, bolstered by developments in global capital markets and effective initiatives at a European level to tackle the sovereign debt crisis. Market access by the Spanish sovereign and private borrowers has improved, as foreign investors have returned to Spanish markets. Consequently, government bond yields have declined significantly and liquidity constraints on the Spanish banking sector have eased. Notwithstanding these welcome developments, heightened vigilance must be exercised to ensure that these positive trends can be maintained. Persistent efforts are needed to overcome the significant challenges that face the weakest parts of the banking sector, warranting decisive policy action, as outlined in the Memorandum of Understanding.

Banking sector conditions have broadly stabilised since the outset of the programme, primarily as a result of several factors: the adoption of restructuring plans, the recapitalisation or imminent recapitalisation of the State-aided banks, the establishment of, and transfer of assets to, SAREB (the new asset management company), as well as the easing of funding constraints. It will be of the utmost importance to fully implement the agreed restructuring plans for State-aided banks to facilitate the adjustment of the entire banking sector. The Spanish authorities must remain vigilant in steering and overseeing this process and must ensure that the fair degree of burden-sharing which is foreseen between investors in risky instruments and the taxpayer is preserved. The authorities ought to be ready to engage proactively should vulnerabilities in the execution of the programme re-emerge.

Important progress in separating impaired assets from banks has been achieved since the last review, with the commencement of operations by SAREB. Against the background of a necessarily demanding timeline, Spanish authorities have succeeded in designing, implementing and operationalizing this entity on time; the first, and largest, transfer of assets from banks to SAREB has also been achieved. Much work remains ahead in this regard, however, and the coming months will be devoted to making SAREB fully operational. A sound business plan is the foundation upon which the success of SAREB will rest, so it is of the utmost importance that this plan is kept both robust and credible, based on updated information.

Significant progress has been made with respect to horizontal financial-sector conditionality. Work remains ongoing in a number of areas, including the reform of the governance of the savings banks, a review of supervisory procedures at Banco de España, reforms of the regulatory frameworks governing banks' credit concentration and provisioning, and the enhancement of the credit register. In all these areas, the Spanish authorities have achieved or are very close to achieving compliance with the MoU and have made very tangible progress towards major and lasting reforms in these areas. Further conceptual work will be carried out in a number of areas by the Spanish authorities over the coming weeks, in liaison with the international partners. These reform projects must be speedily adopted and effectively implemented in order to allow them to contribute, as intended and as required, to securing the viability of the Spanish banking sector.

Although prospects have recently improved, the economic situation remains very challenging, with very high and rising unemployment, GDP contraction, and a need to reduce large stocks of internal and external debt. Notwithstanding the significant policy progress already made, further advances remain necessary in the consolidation of public finances - including reinforcing the institutional framework - and in the swift completion and implementation of the structural reform agenda, along the lines specified in last year's country-specific recommendations.

The next review is foreseen to take place in May 2013.