PRESS RELEASE

23 October 2017

Statement by the staff of the European Commission and the European Central Bank following the eighth post-programme surveillance visit to Spain

Staff from the European Commission, in liaison with staff from the European Central Bank (ECB), carried out the eighth post-programme surveillance visit to Spain on 16-18 October 2017. The European Stability Mechanism (ESM) participated in the meetings on aspects relating to its Early Warning System.

Amid continued strong economic growth, well above the euro area average, banks have further adjusted their business models and cost structures, in turn supporting growth by providing new loans to the economy. On aggregate, they comfortably meet the regulatory capital requirements and the quality of the banking sector assets has further strengthened, as the level and ratio of non-performing loans continues to drop. Only a few institutions are still dealing with the challenge of significant legacy assets in their balance sheets. The implementation of the restructuring plans of the Spanish banks that have received state aid is very close to completion and has fostered the viability of those banks. The banking sector at large was strengthened by the successful resolution of Banco Popular in June, with no losses for taxpayers or depositors. The preparation of the merger of state-owned Bankia and Banco Mare Nostrum is well advanced. Resuming the selling of the ownership stake of FROB in the merged entity and further divesting some banking foundations in savings banks will further reinforce the Spanish banking sector. More broadly, the swift and full implementation of the reform of the savings bank sector, in line with the original plan, remains important.

The asset management company SAREB has continued to address some major legacy problems stemming from the crisis, by progressing on the divestment of its portfolio. Nonetheless, its financial results have not yet improved, which calls for further dedicated action in the management of SAREB.

Overall, Spanish banks have continued to be profitable, but, as for their European peers, sustaining sufficient profitability over the medium term remains a key challenge for many institutions. This is mainly due to low interest rate margins, diminishing scope for further gains in operational efficiency and still subdued lending activity. Against this background, some Spanish credit institutions will have to continue to adapt their business models. It will be important to continue carefully monitoring the situation of the banking sector.

Strong and balanced growth, coupled with dynamic job creation, supports the correction of macroeconomic imbalances. However, challenges remain. The government deficit is still high, and government debt is only slowly declining and remains at just below 100% of GDP. Moreover, even though a sizeable reduction in private debt has been achieved, some sectors remain overleveraged. This is reflected in a significant, though declining, amount of external liabilities, highlighting persisting vulnerabilities. Similarly, unemployment has been declining at a fast pace, but remains very high especially among young and lowskilled workers. Finally, structural weaknesses hinder higher productivity growth. Addressing these challenges is pressing, as some of the external tailwinds that have supported Spain's past reform efforts in delivering the strong recovery, like the low oil prices, are abating.

Reform efforts to achieve higher productivity and ensure a durable and inclusive growth path need to be resumed. This includes steps to further reduce unemployment, make the labour market more inclusive and improve the business environment, while continuing to strengthen the financial sector. Moreover, the authorities should take the opportunity provided by the firm economic recovery to pursue fiscal consolidation with a view to ensuring a decisive reduction in the public deficit and debt ratios and rebuilding the fiscal buffers that will enable Spain to overcome any adverse shocks.

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 2018.

European Central Bank Directorate General Communications
Global Media Relations Division, Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, e-mail: media@ecb.europa.eu, website: www.ecb.europa.eu