EUROPEAN COMMISSION

MEMO

Brussels, 3 June 2013

Statement by the EC and the ECB following the conclusion of the third 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, carried out the third review of the financial sector assistance programme for Spain from 21 May to 31 May 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.

Spanish financial markets have further stabilised since the last review, with sovereign and corporate bond yields dropping amidst lower volatility. In parallel, the liquidity situation of the Spanish banking sector has further improved. This allowed Spanish banks to further regain access to funding markets and to reduce reliance on central bank financing. Also, the solvency position of Spanish banks has been bolstered after the recapitalisation of parts of the banking sector and the transfer of assets to SAREB (the Spanish asset management company), and solvency rates are above regulatory requirements.

The process of bank restructuring is well underway, guided by the restructuring plans, as adopted by the European Commission, for the banks having received State aid. The required burden-sharing exercises with banks´ shareholders and junior bond holders have made further progress.

Further important steps have been taken since the last review in separating impaired assets from banks, as the foreseen transfers of assets to SAREB have now been completed and SAREB has become fully operational. After the successful start of operations, based on a timely design, implementation and rendering operational of this new entity, SAREB now faces the major challenge of successfully managing and eventually divesting the portfolio of assets against the backdrop of the still very difficult market conditions for Spanish real estate.

Progress has also continued with respect to horizontal financial-sector conditionality. Thereby, compliance with the requirements in the Memorandum of Understanding is nearly complete and achievements toward strengthening the governance, regulatory and supervisory framework of the Spanish banking sector have been made. Implementation efforts need to continue, including in the areas of the reform of the governance of the savings banks and changing supervisory procedures at Banco de España. Recent government initiatives aimed at strengthening non-bank financial intermediation are welcome, including capital market funding and venture capital non-bank financing.

Notwithstanding these welcome developments, given the adverse economic situation, continued deleveraging needs of the Spanish non-financial sector, and adjustment in the real estate market that continue to severely affect lending volumes and to impact the asset quality of the Spanish banking sector, a close monitoring of the system should continue in order to preserve the final stabilisation of credit institutions. Vigilance is required to help ensure that these positive trends in the stabilisation of the Spanish financial sector can be maintained. It is also essential that burden sharing measures are completed and finalised as scheduled. In this context, the Spanish government has engaged in reconciling and balancing the justified concerns of mortgage debtors with imperative financial stability concerns. The implementation of the new law on this matter should be monitored to assess whether the trade-off achieved is appropriate or adjustments to guarantee financial stability are required. An ongoing diagnostics of the evolution of asset quality, the solvency situation and resilience of Spanish banks remains important in this context, in particular against the background of a nearing end of the programme.

The economic and budgetary situation remains challenging. While the correction of external and internal imbalances proceeds, risks remain amid high unemployment, contracting activity, still large private domestic and external debt and fast rising public debt. In its proposals for the 2013 country-specific recommendations and for a revised path for the correction of the excessive budget deficit, the Commission emphasised the need for further gradual consolidation of public finances in the years ahead, strengthening the public administration and accelerating the completion and implementation of reforms of product and factor markets.

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