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Post-Programme Surveillance Report

Spain, Autumn 2016

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Contributors:

Emrah Arbak, Laura Bardone, Gerrit Bethuyne, Luis Garcia Lombardero, Lucas Gonzalez Ojeda, Peter Grasmann, Oskar Grevesmuhl, Mihai-Gheorghe Macovei, Ismael Valdes Fernandez, and the financial crisis task force of the Directorate General for Competition. Co-ordination and editing were ensured by Beatriz Moreno Haya and technical assistance was provided by Michel Gerday.

The report was prepared in liaison with the ECB.

Comments on the occasional paper would be gratefully received and should be sent, by mail or e-mail to:

Laura BARDONE
European Commission
Unit ECFIN.DDG1.F.3
B-1049 Brussels

Laura.Bardone@ec.europa.eu

or

Peter GRASMANN
European Commission
Unit FISMA.E.1
B-1049 Brussels

Peter.Grasmann@ec.europa.eu

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ABBREVIATIONS

BdE	Banco de España, Bank of Spain
BMN	Banco Mare Nostrum
BRRD	Bank Recovery and Resolution Directive
CDS	Credit Default Swap
CERSA	Compañía Española de Reafianzamiento, S.A., The Spanish Rebonding Company
CRDIV	Capital Requirement Directive
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EFSI	European Fund for Strategic Investments
EIF	European Investment Fund
ESM	European Stability Mechanism
EU	European Union
FROB	Spanish Executive Resolution Authority
ICO	Instituto de Crédito Official
IDR	In-Depth Review
IPO	Initial Public Offering
LTD	Loans-to-Deposits
MARF	Mercado Alternativo de Renta Fija, Alternative Fixed Income Market
MIP	Macroeconomic Imbalances Procedure
MREL	Minimum Requirement for own funds and Eligible Liabilities
NFCs	Non-Financial Corporations
PPS	Post Programme Surveillance
SAFE	Survey on the Access to Finance of small and medium-sized Enterprises
SAREB	Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria S.A.
SMEs	Small and Medium-sized Enterprises
SRB	Single Resolution Board
TLAC	Total Loss-Absorbing Capacity
y-o-y	year on year

EXECUTIVE SUMMARY

This sixth surveillance report provides an assessment of Spain's economic, fiscal and financial situation following its exit from the financial assistance programme in January 2014. A team from the European Commission (EC), in liaison with staff from the European Central Bank (ECB), carried out the sixth post-programme surveillance visit to Spain on 17-19 October 2016. The European Stability Mechanism (ESM) participated in the meetings on aspects relating to its own Early Warning System. The report is also due to cover the specific monitoring of policy progress to address imbalances in the context of the Macroeconomic Imbalances Procedure (MIP). However, in the absence of a government with full legislative powers at the time of the mission, the report does not cover in-depth issues over and above financial sector issues.

The pace of economic growth in the first half of 2016 once again exceeded expectations and remains well above the euro area average. Solid expansion of the Spanish economy continued in the first three quarters of 2016, driven by private consumption, dynamic investment and exports. Growth was underpinned by favourable external and financing conditions and strong job creation, in turn supported by continued wage moderation and the impact of past labour market reforms.

Robust growth continues supporting the rebalancing of the economy. The current account balance has been recording a surplus since 2013, and private sector deleveraging has progressed further. However, still high level of private and public debt is reflected in a sizeable amount of external liabilities, which expose the country to risks stemming from shifts in market sentiment. Furthermore, low productivity growth makes competitiveness gains hinge upon cost advantages and amplifies the risks associated to Spain's imbalances. The decrease of unemployment has been remarkable over the past two years, but at 18.9% of the labour force in the third quarter of this year, it remains among the highest in the EU and affects youth in particular, with negative impact on their employability. In addition, more than half of the unemployed have been without a job for more than one year.

Spain's general government deficit remains very high. Since 2014, its slow reduction has been relying to a large extent on the positive macroeconomic outlook and the improving financing conditions, also thanks to the steep decline in Spain's risk premia. Last summer, the Council decided that Spain had not taken effective action in response to its recommendation to correct the excessive general government deficit, and set out a new fiscal adjustment path for Spain with an extended deadline for the correction in 2018. It also required Spain to adopt measures to strengthen its fiscal framework and public procurement policy. In its assessment of action taken in response to the Council decision, the Commission concluded, on the basis of the projected achievement of the required headline deficit target in 2016, that the excessive deficit procedure can be kept in abeyance at this stage. ([1])

The financial sector has continued to show a high degree of stability, supported by its ongoing restructuring, low funding costs for banks and non-banks and the strength of the economic recovery. The banking system has ample access to liquidity and can comfortably meet the regulatory capital requirements. Solvency levels are resilient to a stress scenario, as reflected in the EBA 2016 stress test results. The quality of banks' assets has further strengthened and in mid-2016 the non-performing loan ratio fell below 10% at the aggregate level in June 2016. As elsewhere in Europe, sustaining profitability over the medium term, against the background of low interest rates and still negative growth of business volumes, remains the main challenge for the banking sector which needs to further improve its business model. The outstanding volume of credit is still decreasing, also reflecting the continuation of the deleveraging process by households and enterprises. However, new bank lending to firms and households, in particular to small and medium-sized enterprises (SMEs) and to households for other than real-estate purposes, continues to grow, and supports economic activity.

([1]) The legal documents related to this can be found using the following link: http://ec.europa.eu/economy_finance/economic_governance/sgp/budgetary_plans

Restructuring of the Spanish banking sector has advanced well. The implementation of the restructuring plans of the Spanish banks that have received state aid is almost completed. Thorough restructuring went well beyond these banks, and the Spanish banking sector at large has very successfully trimmed its cost basis and adjusted its business models. However, there has been no progress in the re-privatisation of the two remaining state-owned banks since 2014. Completing the restructuring and privatisation of these state-owned banks is important in order to further strengthen the stability of the banking sector.

The divestment of SAREB's portfolio has been progressing. SAREB([2]), which continued to post negative financial results in the first half of 2016, still has to complete the valuation of its assets in line with its new accounting guidelines. This could entail changes to the realisation and reporting of potential losses on parts of its assets.

Ensuring a balanced, durable and inclusive growth path over the long term remains a challenge. While robust growth continues to support the rebalancing of the Spanish economy and the stabilisation of the financial sector, continued efforts are needed to further strengthen the resilience of the banking sector. The consolidation effort to ensure a durable reduction of the general government deficit and debt, in line with the new fiscal adjustment path set by the Council, needs to be stepped up. Importantly, the structural reform agenda needs to be resumed with a view to furthering the rebalancing of the economy, bringing the unemployed back to work and raising Spain's productivity and growth potential.

On the basis of the analysis in the report, repayment risks for the ESM loan appear very low. On 11 November 2016, Spain even made a fourth voluntary repayment of EUR 1 billion. The next post-programme surveillance mission will take place in spring 2017.

([2]) Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria S.A. (SAREB)

1. INTRODUCTION

1. Spain successfully exited the financial assistance programme for the recapitalisation of financial institutions in January 2014. The Programme had been agreed by the Eurogroup on 9 July 2012 for a period of 18 months([3]) and provided an external financing by the euro area Member States of up to EUR 100 billion. Eventually, Spain used EUR 38.8 billion for bank recapitalisation, under restructuring and resolution plans approved by the European Commission under State-aid rules, and around EUR 2.2 billion for capitalising SAREB, the Spanish asset management company. Both the bank-specific conditionality and the horizontal conditionality included in the Memorandum of Understanding were fulfilled as scheduled.([4]) In July 2014, Spain made a voluntary early repayment of EUR 1.3 billion and a scheduled repayment of EUR 0.3 billion that was not used for the subscription of capital instruments of SAREB. In March 2015 Spain made a second voluntary early repayment of EUR 1.5 billion. On 14 July 2015, Spain executed a third voluntary repayment of EUR 2.5 billion. On 11 November 2016, Spain made a fourth voluntary repayment of EUR 1 billion, following which the outstanding amount of the European Stability Mechanism (ESM) loan stands at EUR 34.7 billion.

2. Staff from the European Commission, in liaison with the European Central Bank, undertook the sixth post-programme review for Spain from 17 to 19 October 2016. The ESM participated in the meetings on aspects related to its own Early Warning System. Post-programme surveillance (PPS) aims at a broad monitoring of the repayment capacity of a country having received financial assistance.([5]) There is no policy conditionality under PPS, although the Council can issue recommendations for corrective actions if deemed necessary and appropriate. PPS is biannual in terms of reporting and missions. The previous PPS mission took place in April 2016.([6])

3. Spain is also subject to specific monitoring under the macroeconomic imbalances procedure (MIP), which in the case of Spain takes place in the context of post-programme surveillance (PPS). In February 2016, the Commission issued a Country Report([7]), in which it presented the in-depth review (IDR) on the prevention and correction of macroeconomic imbalances, and concluded that Spain continues experiencing macroeconomic imbalances.([8]) This PPS report covers the specific monitoring of the policies recommended to Spain by the Council in July 2016([9]) in relation to the adjustment of the imbalances. However, given the political situation in Spain at the time of the mission, with a caretaker government in place since the general elections of December 2015, followed by another round of elections in June 2016, the report only briefly discusses developments in structural policies in the box on specific monitoring.

4. Spain is subject to the corrective arm of the Stability and Growth Pact. The Council opened the Excessive Deficit Procedure for Spain on 27 April 2009. Last summer, the Council decided that Spain had not taken effective action in response to its recommendation to correct the excessive general government deficit, and set out a new fiscal adjustment path for Spain with an extended deadline for correction in 2018. It also required Spain to adopt measures to strengthen its fiscal framework and public procurement policy. In its assessment of action taken in response to the

([3]) However, the restructuring of the banks receiving public support under the State aid rules is expected to take up to five years.

([4]) For more details see the fifth review report: http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/op170_en.htm

([5]) PPS is foreseen by Art. 14 of the two-pack Regulation (EU) N°472/2013. It starts automatically after the expiry of the programme and lasts at least until 75% of the financial assistance has been repaid.

([6]) For more details see the fifth PPS report: http://ec.europa.eu/economy_finance/publications/eeip/ip027_en.htm

([7]) For more details see the 2016 Country Reports (staff working documents): http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

([8]) See Communication from the Commission to the European Parliament, the Council, the European Central Bank and the Eurogroup: "2016 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011" COM/2016/0095 final

([9]) On a proposal from the Commission, the Council adopted country-specific recommendations to Spain in July 2015: http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

Council decision, the Commission concluded that the excessive deficit procedure can be kept in abeyance at this stage, since the required headline deficit target in 2016 is projected to be achieved in the Commission 2016 autumn forecast. The Commission also concluded that Spain's Draft Budgetary Plan (DBP) for 2017, which does not include a budget for 2017 due to the caretaker nature of the government at the time of the DBP submission, is at risk of non-compliance with the provision of the Stability and Growth Pact. Finally, the Commission also expressed the opinion that Spain has made limited progress in responding to the Council requirements to strengthen its fiscal framework and public procurement policy.

2. RECENT MACROECONOMIC AND FINANCIAL SECTOR DEVELOPMENTS

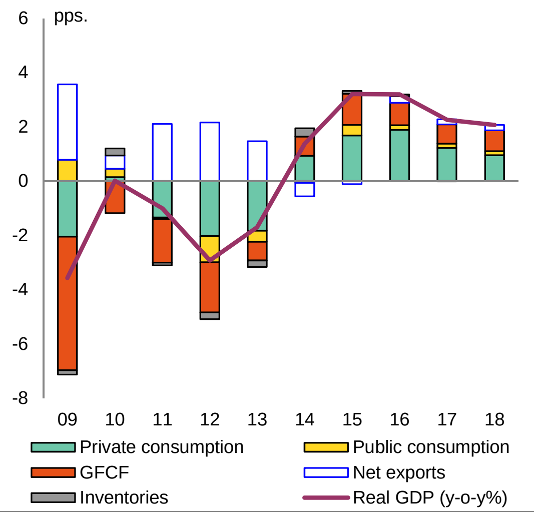
2.1. RECENT MACROECONOMIC DEVELOPMENTS

5. The pace of economic growth in the first three quarters of 2016 again exceeded expectations. Real GDP increased by 3.3% on average during 2016Q1-Q3, compared to the same period of last year. Growth was driven by private consumption, dynamic investment and exports. For 2016 as a whole, real GDP growth is expected at 3.2%, the same rate as last year. This is well above the euro area average.

6. The Commission 2016 autumn forecast expects economic growth to ease over the forecast horizon but remain robust. Real GDP growth is expected at 2.3% in 2017 and 2.1% in 2018, mainly thanks to the strength of domestic demand. Private consumption is expected to slow down as job creation decelerates and the tailwinds that supported growth of disposable income in recent years - i.e. declining oil prices, tax cuts and improving financial conditions - gradually abate. However, it is still projected to remain the main contributor to growth over the forecast horizon. Investment is expected to be affected by two opposing trends over the forecast period, with growth in residential and non-residential construction investment gradually recovering while equipment investment growth is expected to moderate in line with final demand. This is likely to lead total investment growth to ease somewhat in 2017, before picking up again in 2018.

7. The contribution of the external sector to growth is expected to be positive over the forecast horizon. A strong performance of exports in the first half of the year, especially for services, suggests that export growth is accelerating this year compared to 2015. It is expected to return to a more moderate growth rate in 2017 and 2018. However, despite declining in annual terms, export growth is expected to pick up again towards the end of the forecast period as Spain's main trading partners recover. At the same time, import growth is forecast to decelerate in line with slowing final demand and lag behind export growth throughout the forecast horizon. As a result, net exports are set to give a positive contribution to growth also in 2017 and 2018. However, after widening in 2016, Spain’s current account surplus is forecast to marginally decrease in 2017 and stabilise thereafter, under the impact of the expected swings in terms of trade. Net external lending is expected to remain at or above 2.4% of GDP throughout the forecast horizon.

Graph 2.1: **Composition of GDP growth**



GFCF: gross fixed capital formation
Source: INE, European Economic Forecast, autumn 2016

8. Short-term inflation dynamics continue to be dominated by changes in oil and energy prices, with their protracted fall since 2014 being followed by a pick-up in the second quarter of 2016 and a continued gradual recovery over the forecast horizon. Hence, whereas headline inflation (measured by the HICP) is projected to remain negative in 2016 as a whole, at −0.4%, it turned positive in October. It is then forecast to increase to 1.6% in 2017 and decrease slightly to 1.5% in 2018 as the recovery of oil prices loses strength. At the same time, core inflation is expected to gradually increase over the forecast horizon.

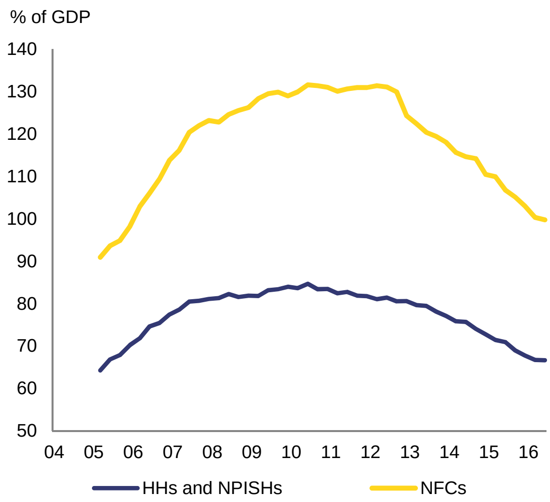
9. After growing rapidly in the first three quarters of 2016, employment growth is set to ease over the forecast horizon, but remain strong, allowing for further reductions in unemployment. Accordingly, the unemployment rate, which amounted to 18.9% of the labour force in the third quarter of 2016, is expected to fall to

16.5% by 2018. Continued wage moderation combined with low productivity gains is set to lead to moderate increases in nominal unit labour costs over the forecast horizon.

10. Despite strong economic growth, Spain's general government deficit barely changed in the first half of 2016. Available monthly data for August and September for some subsectors of general government confirmed this picture. Whereas expenditure has grown in line with expectations, revenues have been weighed down by significant shortfalls in income tax revenue. This is especially the case for the corporate income tax following the second leg of the tax reform and the abolition of the minimum advance payments, which came into effect in 2016. To limit the negative impact on the budget balance of the latter, the parliament adopted a Royal Decree Law in October reintroducing the minimum advance payments, with an extended coverage of firms and increased amounts. As a result, the general government deficit in 2016 is expected to decrease to 4.6% of GDP, from 5.0% excluding financial assistance in 2015. In the absence of additional measures to be adopted by the newly-formed government, the general government deficit is expected to narrow to 3.8% of GDP in 2017 and to reach 3.2% of GDP in 2018. The reduction of the deficit in both years relies to a large extent on the positive macroeconomic outlook, which is expected to continue supporting tax revenues and keeping social transfers in check. In particular, while pension expenditure is expected to continue rising, falling unemployment should reduce the growth of social transfers in the near future. Previous improvements in financing conditions and the stabilising public debt ratio imply that interest expenditure is likely to continue to fall. After deteriorating significantly in 2015, Spain's structural deficit is expected to increase further, by around 1% of GDP, in 2016, and broadly stabilise thereafter.

11. The debt ratio is set to remain broadly stable around 100% of GDP. Relatively strong nominal GDP growth largely offsets the still large, though declining, deficit expected over the forecast horizon. The voluntary early repayment of around €1 bn of the ESM loan by Spain, on 11 November 2016, is set to translate into a 0.1% of GDP reduction in the debt ratio in 2016.

Graph 2.2: **Private sector indebtedness**



HHs: households
NPISHs: Non-profit institutions serving households
NFCs: Non financial corporations
Source: BdE, own calculations

12. The household and corporate sectors continue reducing their debt overhang. The total stock of private sector debt amounted to 169% of GDP in non-consolidated terms in the second quarter of 2016 (66.7% of GDP by households and 102.3% of GDP by non-financial corporations), which is almost 50 percentage points of GDP lower than the peak recorded in the second quarter of 2010.([10]) A large part of the reduction, about 31 pps., is due to non-financial corporations but progress in households deleveraging was also quite remarkable. The progressive amortisation of the credit stock has been the main driver of private sector deleveraging (but debt write-offs have also played a role), with aggregate bank lending on a declining path since 2011. Recent data confirm previous evidence that behind this aggregate picture there are clear sectoral and company differences. Deleveraging is taking place especially in the construction and real estate sectors, with the financial sector ready to fund healthier corporations with positive growth and profitability prospects. Leverage is still high in historical terms, which still makes agents vulnerable to adverse shocks, but low interest rates reduce their financial burden.

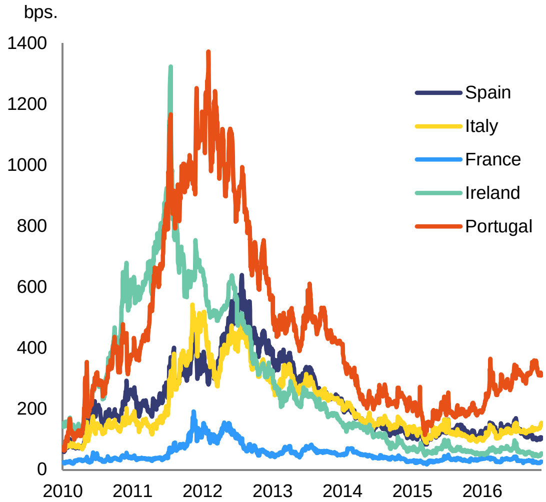
([10]) In consolidated terms, the NFC debt decreased from 117.7% in 2010 Q2 to 83.3% in 2016 Q2. Financial derivatives are excluded from debt calculations.

13. The housing market shows signs of stabilisation. After a sharp adjustment since the crisis, the housing market and the construction sector have bottomed out. The unsubsidised housing prices have been rising in nominal year-on-year terms for almost three years in a row, increasing by 3.9 % in the second quarter of 2016.([11]) Prices of new dwellings went up by 8.4 % year-on-year in the second quarter of 2016 and those of used dwellings by 3.2 %. Moreover, in the second quarter of 2016, the number of transactions on dwellings increased by 15.1% year-on-year, and was 34% higher than in the second quarter of 2014, according to provisional data by the Ministry of Public Works. Despite these positive signs, there is still a large stock of unsold houses, especially in some areas. The evolution of the real estate market remains important for banks' future profitability and the success of SAREB, the Spanish asset management company.

2.2. FINANCIAL SECTOR DEVELOPMENTS

14. The financial sector in Spain remained resilient during two main episodes of European or global financial market volatility in 2016. After both the bank share price slump in early 2016 and the volatility following the results of the UK referendum in June, Spanish share prices bounced back and government bond spreads and yields recovered to levels consistent with accommodative financial conditions. In November 2016, the Spanish 10-year government bond yield fluctuated in the 1.2-1.4 % range (among the lowest on record), and its spread over the German Bund was at about 100 basis points, also among the lowest levels since 2010; see Graph 2.3). These favourable funding conditions are partly due to the ECB's quantitative easing show an improvement in the perception of the Spanish sovereign debt. Although the 5-year Spanish CDS spreads spiked by around 30 basis points immediately after the UK referendum, they declined afterwards. IBEX 35, the main stock exchange index, mostly recovered the losses recorded in the first quarter of 2016 and by early November was again close to the level from end-2015. The share prices of major Spanish banks and the 5-year CDS spreads also recovered to a large extent the losses recorded after the UK referendum. The price-to-book values of Spanish banks still held out well compared to some of their European peers. The volatility that ensued the US Presidential and Congressional elections has had so far only limited impact on the IBEX 35 and government bond yields.

Graph 2.3: **Euro area sovereign spreads to the 10-year German bund**

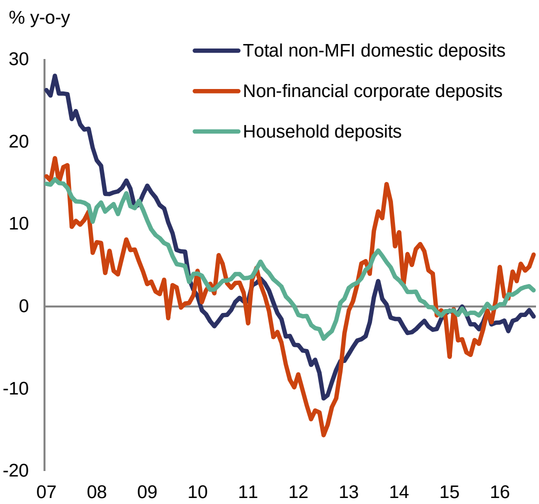


Source: IHS Markit, own calculations

15. Spanish banks consolidated further their access to stable and diversified funding sources. In the general context of balance sheet deleveraging, private deposits accelerated their growth trend. This allowed banks to further reduce reliance on wholesale funding. Total deposits of households increased by almost 2% y-o-y as of September 2016. Deposits of non-financial corporations (NFCs) advanced even faster at 6.3% y-o-y (see Graph 2.4). While the importance of wholesale and inter-bank funding continued to decline relative to deposits, their accessibility and costs improved further. In addition, the Spanish banks' total net borrowing from the Eurosystem decreased from its peak of EUR 389 billion in August 2012 to around EUR 135 in October 2016.

([11]) Source: INE. Other data sources might present different results, but also signal stabilisation of prices.

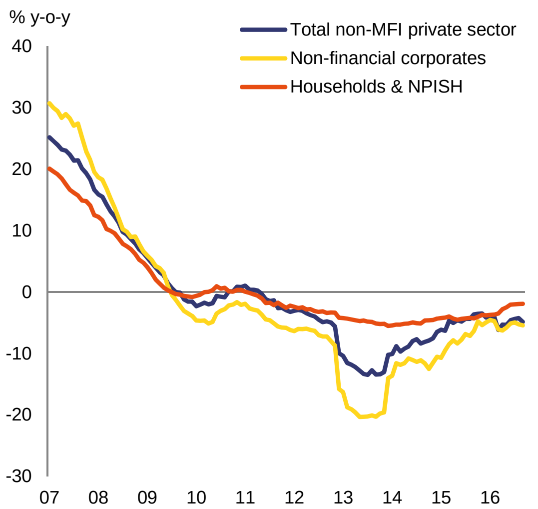
Graph 2.4: **Bank deposits**



Source: BDE.

16. Against the background of the deleveraging of the credit stock, bank lending stabilised further. The decline in the stock of private credit by banks to resident non-financial corporates and households flattened to about 3.5% y-o-y in September 2016. The stock of credit to households further decelerated its reduction to below 2% y-o-y, while the positive growth of the stock of consumer loans accelerated to almost 10% y-o-y. The stock of mortgage loans continued to shrink but at an annual slower pace of about 3.2%. Credit to NFCs was more volatile in the first half of 2016 and counterbalanced the positive trends in household lending. Nevertheless, the rate of decline in the stock of loans to NFCs decelerated to -5.5% y-o-y by September 2016 (see Graph 2.5). If including external borrowing and issuance of bonds, the contraction in loans to NFCs was below 2%. In the meantime, new lending to households continued to rise but decelerated to single-digit growth rates as of July 2016 after the surge in new lending which occurred in 2015. New lending to SMEs (proxied by loans under EUR 1 million) flattened but remained robust at a monthly average above EUR 15 billion (a value last observed in 2011). New lending of loans over EUR 1 million has been falling for several months in a row, reflecting weakening demand due to an increased capacity of large enterprises to generate internal financing and improved access to capital markets. In the first half of 2016, total new bank credit to the economy stagnated relative to the corresponding period of 2015.

Graph 2.5: **Bank loans to the private sector**

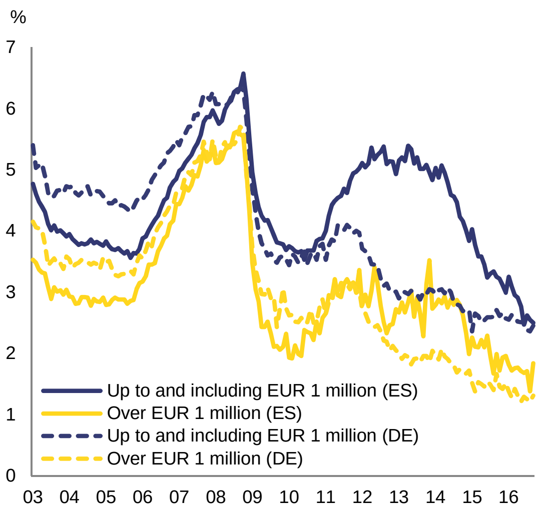


The decrease in the stock of loans observed in late 2012 and early 2013 was due to the transfer of assets to SAREB.
Source: BdE, own calculations.

17. Access by companies and households to bank finance has eased further in the first half of 2016. According to the BdE's latest Bank Lending Survey ([12]) credit standards for approving loans were relaxed further only for households, but the average terms and conditions for loans continued to ease for both households and NFCs. Margins on loans for both households and companies dropped further significantly, but margins on riskier loans for NFCs tightened somewhat. Lower cost of bank funding and pressure from competitors drove this process, while the risk perception and risk tolerance by some banks started to increase again, in particular for NFC loans. The very optimistic expectations of banks as regards a pick-up in the demand for loans materialised only partially over the past quarters. Moreover, the last two quarters witnessed a stagnation or decline in demand for credit from large enterprises and households and only a slight increase from SMEs. This is consistent with the relative stagnation in new lending in the first half of 2016.

([12]) See the report at: http://www.bde.es/webbde/en/estadis/infoest/epb.html

Graph 2.6: **Cost of borrowing for NFCs**



Source: ECB

18. The challenge of access to finance and availability of bank loans for SMEs has dwindled both in Spain, in line with trends in the rest of the euro area. In the latest round of the SAFE survey ([13]) (October-March 2016), the share of respondents in the euro area considering access to finance their most pressing problem declined significantly to only 10% from a maximum of 32% in the second half of 2009. Access to finance represents now the least important problem for the surveyed Spanish SMEs with a percentage that is matching the euro area average. Euro area SMEs confirmed, on balance, an increase in the availability of bank financing and in the willingness of banks to provide credit at lower interest rates. Spain was among the countries where SMEs reported again the most significant improvements in the availability of bank credit. The improved access to finance was also due to a lower cost of new credit. The average interest rate for new loans to NFCs of below EUR 1 million (a proxy for SME finance) dropped from end-2015 to August 2016 by further 28 bps to 3.0%, reducing further the spread over interest rates for loans to German NFCs (see Graph 2.6).

19. The reduction of non-performing loans by Spanish banks continued in the first half of 2016. Following continued work-out of such loans by banks, against positive economic growth over the past year, the stock of NPLs had fallen by approximately EUR 14 billion by August 2016. This was due both to disposals as well as to cured loans. Meanwhile, the total loan portfolio to NFCs and households contracted by EUR 50 billion during the same period. As a result, share of NPLs in total loans (overall NPL ratio) went down from 10.1% at end of 2015 to 9.4% as of August 2016 (see Graph 2.7). Despite these positive developments, there has been no significant recovery in the construction sector and real-estate activities. According to the latest data by the EBA for the first quarter of 2016([14]), the aggregate NPL ratio ([15]) of Spanish banks remains close to the euro area average. The coverage ratio of Spanish banks has not changed much over the past two years and is above the EU average.

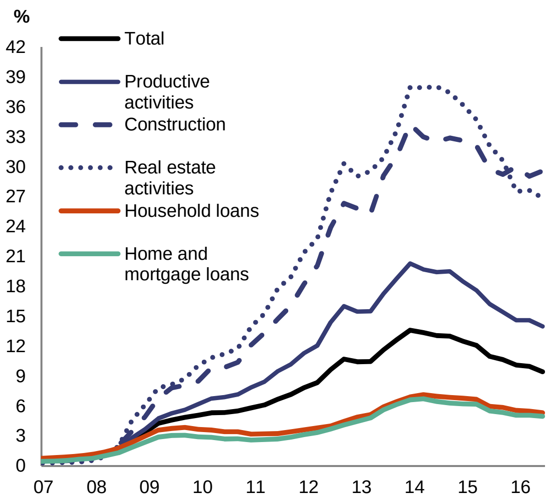
20. Restructured/refinanced loans declined further by end-2015. These loans accounted for about EUR 143.9 billion or 11.5% of the total loans to the private sector in the second quarter of 2016, down by 12.1% from a year earlier. Based on the classification criteria of the BdE, nearly half (48%) of the restructured/refinanced loans were non-performing (down 1.2 percentage points year-on-year as of end-2Q2016), 15.4% substandard (down 2.3 percentage points year-on-year as of end-2Q2016) and 36.6% performing (up 3.4 percentage points year-on-year as of end-2Q2016). Similar to the case of NPLs, refinanced and restructured loans still show, as a legacy of the real-estate crisis, a high degree of concentration in real estate (26%).

([13]) Survey on the access to finance of small and medium-sized enterprise in the Euro Area at: https://www.ecb.europa.eu/stats/money/surveys/sme/html/index.en.html

([14]) EBA (2016), Report on the Dynamics and Drivers of Non-performing Exposures in the Banking Sector, July.

([15]) The EBA (2016) study relies on the harmonised European definition of NPLs for supervisory purposes (under FINREP) at the highest level of consolidation. The denominator of the ratio only covers exposures qualifying as loans, thus excluding debt securities or off-balance sheet exposures. Due to differences in scope and definition, the EBA figures do not often overlap with the figures provided by BdE.

Graph 2.7: **Non-performing loans**

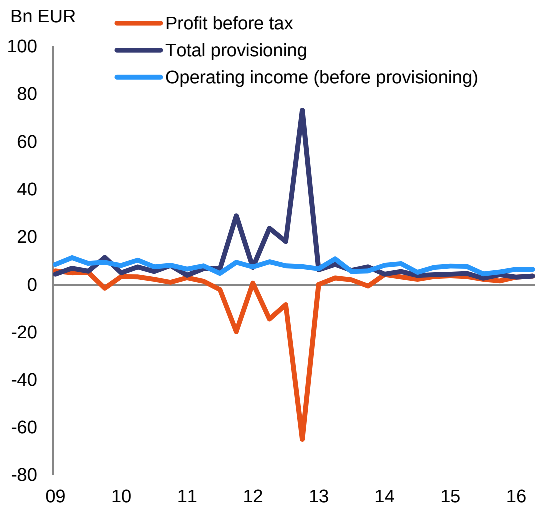


(1) The scope of non-performing loans covered in these figures overlap with BdE's definition of doubtful loans.
(2) Home loans comprise also loans that are not mortgages
Source: BdE, own calculations.

21. In the first two quarters of 2016, Spanish banks remained profitable, helped by declining provisioning. In a challenging environment of negative or very low interest rates in the euro area and sluggish (although improving) lending activity, banks' profits from their domestic activity retrenched further from the 2015 level. This, in turn, was somewhat lower than in 2014. Gross consolidated profits, including foreign operations, were about EUR 17 billion, i.e. around 10% lower than in 2014 (see Graph 2.8). In the first two quarters of 2016 Spanish banks' gross consolidated profits reached 7.6bn€, 30% lower compared to the figure for the first two quarters of 2015. Both net interest income and non-interest income declined by a combined EUR 2.6 billion in the two first quarters of 2016 from the same period of 2015. The operating expenses of the banks remained almost constant and the decline in gross operating income was partly compensated by lower provisioning needs. As a result, the profit before tax was only about EUR 0.255 billion lower in in the first two quarters of 2016 relative to the same period of 2015.

22. Capital ratios of Spanish banks increased in 2015 and the first half of 2016. The average common equity tier 1 ratio rose by more than 80 bps to 12.6% as of December 2015, well above the regulatory and supervisory minima. It subsequently declined modestly to 12.4% as of June 2016. The total solvency ratio exceeds 14% (14.4% with a year-on-year increase of 20 basis points at end-2Q2016). The main driver of the increased capital levels was the internal generation of capital through profits, the issuance of equity and non-core capital instruments, such as contingent capital or subordinated debt instruments that qualify as own funds. The deleveraging of credit portfolios has also contributed to the increase in capital ratios.

Graph 2.8: **Bank sector profitability**



Source: BdE, own calculations.

23. The six largest Spanish banking groups (Santander, BBVA, BFA-Bankia, Criteria-Caixa, Popular and Sabadell) showed a high degree of resilience and sufficient capitalisation in EBA's EU-wide stress test conducted in the Summer of 2016. Under the adverse scenario of the exercise, the average CET1 ratio of the 51 EU participating banks falls by 3.8% points from 13.2% at end-2015 to 9.4% at end-2018. For five of the participating Spanish banks the equivalent decline of the transitional CET1 ratio was close to, or lower than, the EU average. Nevertheless, their end-2018 transitional CET1 ratios were lower than the EU average, because of a lower starting point, but high enough to ensure comfortable compliance with the capital requirements used in previous stress tests([16]). The sixth Spanish bank, Popular,

([16]) The 2016 EU-wide stress test was not a "pass or fail" exercise and capital thresholds had not been defined. The recorded a higher than average negative impact on its CET1 ratio of 6.1% points ending the exercise with a lower CET1 ratio of 7%.

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results are used by supervisors when determining capital requirements within the framework of the Supervisory Review and Evaluation Processes (SREP) and, in particular, when the Pillar 2 Capital Guidelines are set for each bank

Box 2.1: Specific monitoring report on policy implementation to address macroeconomic imbalances

In February 2016, Spain was found to experience macroeconomic imbalances.([1]) In July 2016, the Council adopted country specific recommendations (CSRs) including policies relevant to address the imbalances. In the context of the specific monitoring of policy progress to address imbalances, this box summarises the state of play. However, it is important to bear in mind that, due to the political situation in Spain, with a caretaker government in place from the general elections of December 2015 and until the beginning of November, there has been no substantial progress in implementing reforms, including in response to the CSRs.
All the Council CSRs are considered as relevant under the macroeconomic imbalances procedure. They concern the following policy areas:

Ensuring sound public finances. In the summer 2016, the Council decided that Spain had not taken effective action in response to its recommendation to correct the excessive general government deficit, and set out a new fiscal adjustment path for Spain with an extended deadline for the correction in 2018. It also required Spain to adopt measures to strengthen its fiscal framework and public procurement policy. This Council decision, which was adopted under article 126(9) of the Treaty on the Functioning of the EU, superseded the Council CSR in the fiscal area. In order to avoid an overlap with the excessive deficit procedure, this report does not provide an in-depth assessment of compliance of Spain's fiscal policy with the Stability and Growth Pact.[1]

Further improving the functioning of the labour market. The Council recommended to Spain to improve labour market integration, enhance the capacity of regional employment services and address gaps in minimum income schemes. There have been no significant initiatives in this area since July 2016. In August 2016 the Government adopted the Annual Plan on Employment Policy for 2016, serving as framework for the coordination and implementation of active labour market policies by the Autonomous Communities. The Commission will follow up on its translation into concrete plans and subsequent implementation in the coming months.

Enhancing research and innovation capacity. No major action has been taken in the area of education, research and innovation. The Council recommended to Spain to improve the labour market relevance of tertiary education; incentivise cooperation between universities, firms and research institutions; increase performance-based funding for public research bodies and universities; and foster private R&I investment.

Enhancing competitiveness and improving the business environment. The Council recommended to Spain to accelerate the implementation of the law on market unity; implement retail sector reforms; and adopt the reform on professional services and associations. No new significant measures have been taken in these areas either.

Overall, Spain has yet to make progress in addressing the 2016 country-specific recommendations. Besides the progress achieved in the financial sector and fiscal areas, there has been no progress in other policy areas. This was largely due to the absence of a government with full legislative powers during much of the period covered by this assessment.

([1]) European Commission (2016), Country Report Spain 2016, including an in-depth review on the prevention and correction of macroeconomic imbalances, February 2016 .
http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_spain_en.pdf

[1] See the Commission's assessment of action taken by Spain at http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/dbp/2016/assessement_pt_es_en.pdf and the Commission's opinion on Spain's Draft Budgetary Plan for 2017 at http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/dbp/2016/be_2016-11-16_co_en.pdf

3. FINANCIAL SECTOR RESTRUCTURING AND REFORM

3.1. PROGRESS WITH BANK RESTRUCTURING

24. The implementation of the restructuring plans of state-aided banks is well advanced. The burden-sharing exercises of banks have been completed. In terms of capacity, some banks have already reached their operational targets, while others continue reducing the number of branches and cutting their workforce. They are also reducing their balance sheet size in line with their restructuring objectives. As regards the required divestments of subsidiaries, banks are mostly on track, although some specific sales are facing difficulties due to the complexities of selling real estate companies or selling/liquidating non-fully-owned subsidiaries. The monitoring of restructuring plans will continue in the coming years. The main future challenges relate to the disposal of the two remaining FROB([17])-owned banks, Bankia and Banco Mare Nostrum (BMN).).

25. Banks continue adjusting their balance sheets and credit portfolios at a good pace in order to reach a balanced and sustainable business structure. Banks' liquidity and funding positions have been further strengthened. In particular, the loans-to-deposits (LTD) ratio and recourse to ECB funding are further receding for most of the entities. As far as solvency is concerned, all the restructured banks retained similar capital levels in 2016, compared to 2015. Those capital levels are comfortable, given that they have been increasing in previous years.

26. Restructuring of the banking sector has gone well beyond state-aided banks. The entire Spanish banking sector has since the crisis significantly adjusted its business model and reduced the cost basis, especially by reducing the branch network and the number of staff by around one third.

27. Bank re-privatisation started in 2014 but has stalled since then. In 2014, the FROB sold its stakes in NCG Banco (now ABANCA) and Catalunya Banc to Banesco Group and BBVA respectively. It also started the re-privatisation of Bankia, by selling on the market 7.5% of the shares held in Bankia by BFA. Since then, no further privatisation of parts of Bankia has been carried out or announced due to market conditions and political uncertainty. Spain is also committed to list and sell the other remaining FROB-owned bank, BMN and different options are being analysed.

28. Bankia's legal contingencies regarding an initial public offering (IPO) in 2011 and the sale of hybrid instruments are contained. Following recent adverse rulings by the Spanish Supreme Court on the existence of accounting errors for its 2011 IPO, Bankia decided to compensate all retail investors that bought shares into it. Bankia and its holding company, BFA, have agreed to share any losses from civil lawsuits or the voluntary compensations provided that it does not result in further State aid. The full amount of the retail tranche of the IPO (EUR 1.84 billion) is already fully provisioned by BFA/Bankia. Similarly, Bankia has sufficient provisions for losses regarding hybrid instruments to retail investors, which may be increased if necessary.

3.2. SAREB – RECENT DEVELOPMENTS AND OUTLOOK

29. SAREB's provisional results for the first half of 2016 do not point to an improvement in its financial situation. SAREB posted continued negative financial results since the start of its operations, i.e. over 2013 – 2015, even if losses before tax were gradually reduced over the period. Additional provisions of about EUR 2 billion booked at end-2105 contributed significantly to the negative results. These provisions were driven by the new requirements by the BdE([18]) to mark-to-market SAREB's portfolio. This brought the total provisioning to around EUR 3 billion during 2013-2015. Nevertheless, the 2015 financial results also showed lower revenues than in 2014, due to the impact of the protracted migration to new servicers, which affected the volume of divestments. This situation continued into the first half of 2016. SAREB's post provision net margin was lower, together with its revenues, and the cash

([17]) FROB, stands for Spanish Executive Resolution Authority, http://www.frob.es

([18]) Circular 5/2015

redemptions of bonds declined relative to the same period of 2015. In addition, SAREB's operating expenses have been growing in relative terms in 2015 and the first half of 2016. Last but not least, due to the long-term hedging of its debt servicing costs, SAREB could not benefit fully from the very low interest rate environment.

30. The divestment of SAREB's portfolio has been progressing more slowly than in 2014 and 2015. This requires a more effective management of its portfolio. SAREB has now in place the policies and procedures to manage its portfolio, but needs to fully and quickly implement them. The migration of SAREB's portfolio to the new servicers is almost completed, but with delay. The automated system for monitoring SAREB's servicers was delayed to 2017 and also needs to be finalised.

31. Despite the increase in provisions, the new accounting framework introduced by the BdE should improve the transparency of the company. Last year, about half of SAREB's portfolio was directly revalued and the results were extrapolated via modelling to the other half. This year the remaining half will also be valued directly. The Circular thereby increased the transparency of the market value of assets, facilitating SAREB's task to sell them once they are better provisioned and furthermore prevents dividend pay-outs based on unrealistic profits. The direct valuation of the remaining portfolio could lead to net profits if the new accounting regime uncovers an increase in the price of SAREB’s assets.

32. The ongoing recovery of the Spanish real estate market may improve SAREB's financial situation. The overarching challenge remains the evolution of the real estate market. From peak to bottom real estate prices declined by about one third, but now they stabilised and started to grow slowly again. However, SAREB's portfolio is not fully representative of the average price indices of the real estate market because most of it is located in areas with plentiful stock and lower demand.

3.3. PROGRESS WITH FINANCIAL SECTOR REFORMS

33. The BdE approved in April a new accounting regime on the classification of credit risk assets and on the calculation of provisioning requirements by Spanish credit institutions. Circular 4/2016 entered into force in October 2016, and the credit institutions will start reporting under the new framework by the end of the year. Significant changes have been introduced in the accounting framework, including the elimination of the instrument of dynamic countercyclical provisions, which has been replaced by a collective provision. In addition, credit institutions will be allowed to develop internal models to calculate the amount of required provisions. According to the BdE, banks are well on track in the implementation of the new rules. The exact impact of the new regime is now being assessed by the BdE.

34. The BdE has activated some macro-prudential instruments consistent with the new legal framework. According to the G-SII identification methodology set by the Basel Committee on Banking Supervision (BCBS), the Capital Requirement Directive (CRDIV) and in Law 10/2014, the two largest banks, Santander and BBVA, were identified as Global Systemically Important Banks([19]), the latter on the basis of the supervisory judgement of the BdE. However, as of the 1st of January 2017 BBVA will lose its consideration as G-SII. Santander needs to meet a 0.25% buffer in 2016 and a 1% one at the end of the four-year phase-in period, conditional on future annual reviews. In addition, and to address structural systemic risks in its domestic banking sector, the BdE introduced an O-SII buffer for the four largest domestic banks([20]) in January 2016

([19]) Based on (a) group size; (b) the interconnectedness of the group with the financial system; (c) the possibility of replacing the services or the financial infrastructure that the group provides; (d) the complexity of the group; and (e) the group’s cross-border activity

([20]) Apart from the two biggest banks, Santander and BBVA, for which the higher of the two systemically-important institution buffers (G-SIIs and O-SIIs) is applied, in accordance with CRDIV provisions.
Those O-SIIs are Bankia, Caixabank, Sabadell and Popular, which are requested to maintain a 0.125% buffer in 2017 and a 0.25% buffer at the end of the four-year phase-in period.

(Art. 131 CRDIV), with a gradual phase-in period. BBVA has recently been included in the latter group, after losing its consideration as a G-SII. Finally, the BdE introduced the counter-cyclical buffer (CCyB; Art. 136 CRDIV) in December 2016 to be applied from January 2016 onwards. However, given the credit dynamics, it set the first quarterly buffer rate at 0%.

35. During the financial crisis, the Instituto de Crédito Official (ICO) played an important countercyclical role in supporting SME financing in Spain. As the economic conditions improved and the flow of loans by credit institutions have picked up, ICO's provision of new credit to the economy decreased significantly. The new credits through the so-called second-floor facilities declined from a peak of over EUR 21.5 billion in 2014 to EUR 3.5 billion for the first nine months of 2016. In response to these conditions, ICO is now changing its business model to specialise in export-oriented and on the internationalisation of Spanish firms. In addition to the second-floor facilities, ICO is boosting its subsidiary "Axis" that manages several private equity funds that aim to promote venture capital industry in Spain, support the expansion of start-ups and mid-caps, and finance infrastructure projects. The largest of these funds – the Fond-ICO Global – is a fund of funds, which has been granting funding to private funds that are selected through a recurrent public tendering process since 2013, with a total commitments target of EUR 1.5 billion. A seventh tender has been launched in July 2016, bringing the total approved funds to 39, with financing commitments of up to EUR 950 million.

36. ICO is also aiming to enlarge its partnership with the EU to enhance its cost-effectiveness and risk-sharing. The EIB provided a loan of EUR 50 million to Fond-ICO Infraestructuras in May 2016, which aims to provide financing for infrastructure projects. In July 2016, the EIB granted loans of EUR 250 million to the Fond-ICO Global fund. Both investments are covered under the European Fund for Strategic Investments (EFSI) whereby the EIB will share with ICO the risk on eligible projects, making the loans eligible for guarantees from the Investment Plan for Europe.

37. Over the past few years, ICO's efforts have been complemented by other measures to strengthen non-bank financial intermediation. The Spanish Ministry of Finance's Compañía Española de Reafianzamiento (CERSA) vehicle, which acts as a guarantor of Spain's regional public guarantees offered to Spanish SMEs, has grown substantially in recent years. In February 2016, the European Investment Fund (EIF) has entered into a new agreement to provide CERSA counter-guarantees, benefiting from support of the EFSI as part of the Investment Plan for Europe. The new agreement aims at leveraging additional loans of up to EUR 1.8 billion, more than doubling the current guaranteed loan portfolio of CERSA. Another initiative is the Spanish Alternative Mercado Alternativo de Renta Fija (MARF), which was founded in 2013 as an alternative market for SME fixed income securities. MARF has grown substantially in the first nine months of 2016, with the total outstanding balances of the listed instruments growing from EUR 1 billion in end-December 2015 to reaching over EUR 1.7 billion in end-September 2016.

38. The entire new legal framework for the Spanish savings banks and banking foundations is now in place and it is being progressively implemented. The last legal step of the reform of the saving banks and on banking foundations was already approved in November 2015, i.e. BdE Circular 6/2015. As stated in the legal framework, all banking foundations that hold a controlling stake in a bank were requested to submit the necessary management protocols and financial programmes. In the meantime, the BdE approved both sets of documents of all covered banking foundation.

39. Progress continues as regards the participation of Spain to the Single Resolution Board (SRB). The BdE has developed internal resolution teams for the home Spanish banking groups and additional ones for credit institutions from other Member States. During the last two years, the BdE has been discussing with the banks under the SSM/SRB the structure and the concrete content of the required resolution plans. In October 2016, the SRB approved some of these resolution plans, and is expected to approve further resolution plans for other significant institutions in December 2016. Some resolution pilot tests have been carried out for some credit institutions. In addition, three resolution colleges will be held until the end of the year as requested by the Bank Recovery and Resolution Directive (BRRD).

3.4. CHALLENGES AHEAD

40. Ensuring adequate profitability remains the main challenge for Spanish banks. Low interest rates contribute to reducing loan losses and indirectly support banks' profitability because they imply a lower debt-servicing burden for borrowers, and in particular for mortgage loans debtors, where the vast majority are floating-rate loans. However, persistent downward pressure on banks' interest margins, together with sluggish (although improving) lending activity, as the revival of credit demand continues to be modest and outstanding stocks of loans are still contracting (although at a decelerating pace), affects the profitability of credit institutions. These challenges might also weigh on banks' capacity to comply with the upcoming new regulatory standards, such as TLAC/MREL ([21]) [(22)]. Furthermore, credit standards and quality screening of new loans might be at risk, as strong competition may entice credit misallocation and a mispricing of risk on some credit portfolios. In this regard, supervisors need to remain vigilant.

41. In the broader context of over-capacity in the euro area banking sector and taking advantage of the available technological innovation, Spanish banks could benefit from improving further their business models in order to bolster profitability. In the aftermath of the crisis, the Spanish banking sector underwent a serious restructuring process and many banks reduced significantly their administrative costs. Nevertheless, faced with new challenges in terms of economic growth, regulatory changes and EU wide bank restructuring, some banks may need to review their business models and find new innovative ways for saving on their administrative expenses, as is the case with their European peers.

42. The global economic recovery is still weak, with a recent downturn in some emerging markets to which Spanish larger banks are particularly exposed. The two largest Spanish banks have a significant direct exposure to certain emerging markets (notably Brazil and Mexico) with a currently muted economic outlook. As a big part of their profit and loss account is driven by business lines in these countries, this could put more pressure on certain banks' margins, notwithstanding the positive effects from the diversification of their risks and asset portfolios, as, for example, NPL ratios in these markets are lower than in Spain.

43. The newly formed government would need to pursue a well framed strategy towards the privatisation of the two remaining state-owned banks. The sale of the state-owned banks Bankia and BMN remains to be completed. While challenging market conditions should be factored in any action in this regard, the privatisation of these institutions is important to accomplish the restructuring of the Spanish banking sector. The FROB decided in September to task an external consultant to explore the option of merging Bankia and BMN as well as other solutions for divesting its participations in the two banks. Any decision in this regard should respect the principle of maximising the recovery of public funds and be consistent with the Single Market requirements.

44. SAREB faces a number of challenges, which may put further pressure on its profitability. The main operational challenge relates to the swift implementation of the policies and procedures to manage SAREB's portfolio, in particular the integration of the uniform IT tools, internal control systems, and the organisation of the information and borrower analyses. The relatively slow progress on IT systems has been responsible for the delay in the migration of its portfolio to the new servicers. Equally important will be the finalisation of the automated monitoring system of SAREB's servicers. Another challenge is SAREB's obligation to re-appraise its assets by early 2017, as required under the new accounting rules issued by the BdE on 30 September 2015([23]). This revaluation exercise may lead to further provisioning needs, in excess of the EUR 2 billion of additional provisions already booked at the end of 2015, and introduces

([21]) Total Loss-Absorbing Capacity (TLAC)
([22]) Minimum Requirement for own funds and Eligible Liabilities (MREL)

([23]) Circular 5/2015.

substantial volatility into the vehicle's capital position. Now that SAREB' capital has dropped to about half of its initial endowment, after the conversion of subordinated debt into equity, the added volatility can be particularly troublesome. Additional challenges relate to optimising SAREB's costs of managing, marketing and maintaining its portfolio and benefitting from the low interest environment to fund its portfolio of legacy assets. SAREB faces a number of challenges, which may put further pressure on its profitability. A call for new rounds of recapitalisation could emerge depending on the evolution of several factors (mainly the evolution of the Real Estate Market). Nevertheless, according to the Business Plan updated April 2016, SAREB would generate enough cash to service and pay off its senior debt in whole, and additional capital needs or additional conversion of subordinated debt would not be required.

ANNEX A

Main macroeconomic and financial indicators

Table A.1: **Main macroeconomic and financial indicators**

	1995 -1999	2000 -2004	2005 -2008	2009	2010	2011	2012	2013	2014	2015	2016 (e)	2017 (f)
Core indicators												
GDP growth rate	3.6	3.7	3.2	- 3.6	0.0	- 1.0	- 2.9	- 1.7	1.4	3.2	3.2	2.3
of which domestic demand incl. stocks	4.1	4.3	3.7	- 6.4	- 0.5	- 3.1	- 5.1	- 3.2	1.9	3.3	3.0	2.1
Private consumption (annual % change)	3.3	3.5	2.6	- 3.6	0.3	- 2.4	- 3.5	- 3.1	1.6	2.9	3.2	2.1
Public consumption (annual % change)	2.7	4.7	5.7	4.1	1.5	- 0.3	- 4.7	- 2.1	- 0.3	2.0	0.9	0.8
HICP (annual % change)	2.8	3.2	3.5	- 0.2	2.0	3.0	2.4	1.5	- 0.2	- 0.6	- 0.4	1.6
Unemployment rate (% of labour force)	17.8	11.3	9.3	17.9	19.9	21.4	24.8	26.1	24.5	22.1	19.7	18.0
Gross fixed capital formation (% of GDP)	22.9	27.0	30.3	24.3	23.0	21.5	19.8	18.8	19.1	19.7	20.0	20.4
Gross national saving (% of GDP)	21.9	23.0	21.7	20.3	19.7	18.6	19.5	20.2	20.4	21.4	22.1	22.3
General Government (% of GDP)												
Balance (g)	- 4.1	- 0.5	0.2	- 11.0	- 9.4	- 9.6	- 10.5	- 7.0	- 6.0	- 5.1	- 4.6	- 3.8
Gross debt	63.0	51.3	39.0	52.7	60.1	69.5	85.7	95.4	100.4	99.8	99.5	99.9
Interest expenditure	4.4	2.6	1.6	1.7	1.9	2.5	3.0	3.5	3.5	3.1	2.8	2.6
Households												
Households saving rate	12.8	10.8	7.8	13.4	10.1	10.8	8.6	9.6	9.0	8.2	8.4	8.4
Rest of the world (% of GDP)												
Trade balance	- 0.7	- 2.7	- 5.5	- 1.2	- 1.3	- 0.2	1.5	3.3	2.4	2.4	2.8	2.7
Trade balance, goods	- 3.6	- 5.8	- 8.2	- 3.8	- 4.4	- 4.2	- 2.8	- 1.4	- 2.2	- 2.0	- 1.9	- 2.1
Trade balance, services	2.9	3.1	2.7	2.7	3.1	3.9	4.3	4.6	4.6	4.5	4.7	4.8
Current account balance	- 1.4	- 4.3	- 8.9	- 4.3	- 3.9	- 3.3	- 0.4	1.5	1.0	1.3	1.7	1.5
Net financial assets	- 27.7	- 42.0	- 70.2	- 90.2	- 85.4	- 90.2	- 91.9	- 94.7	- 95.2	- 89.3	- 86.8	n.a.
Net international investment position (h)	- 28.8	- 44.3	- 71.6	- 93.5	- 88.6	- 91.9	- 89.9	- 94.3	- 97.5	- 89.9	- 88.5	n.a.
Competitiveness (index, 2005=100)												
Real effective exchange rate relative to the rest of the euro area	87.3	91.7	100.3	101.1	100.0	98.4	93.8	92.2	91.3	91.4	91.3	91.2
Real effective exchange rate relative to the rest of the European Union	88.6	90.1	98.4	102.3	100.0	98.5	93.4	92.3	91.2	90.2	91.3	92.0
Real effective exchange rate relative to the rest of 37 industrialised countries	87.2	87.8	99.6	104.0	100.0	98.8	92.6	93.0	92.2	89.0	89.8	89.9
Banking sector												
Assets (% of GDP)	170.8	189.9	267.9	319.4	321.1	338.3	344.4	307.3	286.7	263.0	248.3	n.a.
Private domestic credit (y-o-y %)	11.8	14.7	18.9	- 1.6	0.8	- 3.2	- 9.9	- 10.2	- 6.5	- 4.2	- 4.9	n.a.
Non-performing loans (NPLs), total (%) (i)	3.3	1.1	1.5	5.1	5.8	7.8	10.4	13.6	12.5	10.1	9.4	n.a.
NPLs, productive activities (%)	n.a.	1.2	1.5	6.2	7.9	11.3	15.5	20.3	18.5	14.6	14.0	n.a.
" of which, construction, and (%)	n.a.	1.0	1.7	8.5	12.1	18.2	25.8	34.3	32.6	30.0	29.6	n.a.
" real estate activities (%)	n.a.	0.6	1.8	10.1	14.0	21.4	29.1	38.0	36.2	27.5	26.9	n.a.
NPLs, residential mortgages (%)	n.a.	0.4	1.0	2.9	2.6	3.1	4.4	6.6	6.2	5.1	5.0	n.a.
Tier 1 ratio (%)	n.a.	n.a.	n.a.	9.3	9.6	10.2	9.7	11.7	11.7	12.4	n.a.	n.a.
Interest rates												
10 year spread vis-à-vis the Bund (%)	1.6	0.2	0.1	0.8	1.5	2.8	4.3	3.0	1.5	1.2	1.3	n.a.
CDS 5 year (basis points)	n.a.	n.a.	14.6	92.0	204.0	319.6	431.9	235.4	90.5	84.1	83.6	n.a.

Updated on 07 Nov 2016

(e) 2016: estimates or latest available data
(f) 2017: forecast or latest available data
(g) General government balances include capital transfers related to support of banks
(h) ESA2010 and BPM6
(i) NPLs: ratios, in % of total loans

Source: Ameco, BdE, Eurostat, IHS Markit

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