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Post-Programme Surveillance Report

Spain, Spring 2016

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European Commission

Directorate-General for Economic and Financial Affairs

Post-Programme Surveillance Report

Spain, Spring 2016

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ABBREVIATIONS

BdE: Banco de España, Bank of Spain

CDS: Credit Default Swap

EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortisation

EC: European Commission

ECB: European Central Bank

ESM: European Stability Mechanism

FROB: Fondo de Reestructuración Ordenada Bancaria, Fund for Orderly Bank Restructuring

ICO: Instituto de Crédito Oficial

IPO: Initial Public Offering

LTD: Loans-to-Deposits

MIP: Macroeconomic Imbalances Procedure

NFCs: Non-Financial Corporations

NIIP: Net International Investment Position

NPLs: Non-Performing Loans

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

ULC: Unit Labour Cost

y-o-y: year on year

EXECUTIVE SUMMARY

This fifth 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 fifth post-programme surveillance visit to Spain on 11-13 April 2016. The European Stability Mechanism (ESM) participated in the meetings on aspects relating to its own Early Warning System. The report also covers the specific monitoring of policy progress by the Commission in the context of the Macroeconomic Imbalances Procedure (MIP).

In 2015, the Spanish economy expanded by a robust 3.2%, significantly above the euro area average. Growth was driven by domestic demand and underpinned by strong job creation, improved access to credit and enhanced confidence, together with declining oil prices and an expansionary fiscal policy. The current account balance has recorded a surplus during the past three years and private sector deleveraging is on track, supported by favourable growth conditions.

Strong job creation was supported by continued wage moderation and the impact of labour market reforms. The reforms have increased the responsiveness of employment to growth. Although unemployment decreased at a very strong pace in 2015, at above 20% of the labour force it remains among the highest in the EU. A high share of the unemployed population has been without a job for more than two years, highlighting that unemployment risks becoming entrenched. Moreover, while job creation on permanent contracts has resumed, the proportion of temporary workers remains one of the highest in the EU, and the chances for temporary workers to move to a permanent contract remain low.

Robust growth has accelerated the rebalancing of the economy, but imbalances remain. Despite sizeable progress in private deleveraging and current account adjustment, still high private and public debt, reflected in the very high level of net external liabilities, exposes the country to risks stemming from shifts in market sentiment and is a burden for the economy.

The government debt to GDP ratio decreased slightly in 2015 but its high level remains a burden for the economy. Following a sizeable structural adjustment in 2012-2013, the fiscal consolidation effort was relaxed. In 2015, Spain implemented an expansionary fiscal policy, with part of the structural adjustment implemented in earlier years being reversed. Most regions as well as the social security sector fell significantly short of meeting their deficit targets, and windfall gains stemming from dynamic growth and a low interest rate environment have not been used to accelerate deficit reduction. As a result, the 2015 general government deficit was the second-highest in the EU. The debt ratio only marginally declined as a result of high nominal growth and the sale of financial assets but is expected to peak at a level slightly above nominal GDP in 2016. In response to the autonomous Commission recommendation of 9 March 2016, the government adopted budget cuts at central government level and intends to enforce expenditure restraint at regional level. If fully implemented, the planned savings could contribute to reduce the general government deficit.

The strengthening of the financial sector continues, favoured by low funding costs and the economic recovery. Despite the recent increase in global financial markets volatility, the financial sector in Spain remained relatively stable. Banks have ample access to liquidity, and their solvency and the quality of their assets have further strengthened. The reduction in non-performing loans by Spanish banks accelerated in 2015 and coverage ratios continue to be relatively high. As for other European banking sectors, sustaining profitability over the medium term remains the main challenge, even if in 2015 Spanish banks managed to preserve their profitability. The outstanding volume of credit is still decreasing, reflecting the continuation of the healthy deleveraging process by households and enterprises. Nevertheless, new bank lending to households and to less indebted firms, mainly in the tradable sector and also to SMEs, continues to grow, and supports economic activity.

The implementation of the restructuring plans of the Spanish banks that have received state aid is almost completed. Although FROB has worked towards fully privatising the two remaining state-owned

banks, no new sales have been made since 2014, also given the current levels of market valuation that FROB considers not sufficient for engaging in selling their stakes. Completing the restructuring and privatisation of these state-owned banks is necessary to put the banking sector on a sound long-term footing.

The divestment of SAREB's portfolio has been progressing, albeit at a slower pace. SAREB's revenues were lower in 2015 than in 2014. The new accounting regime for SAREB, adopted in September 2015, required higher loan provisions, which negatively impacted SAREB's capital. Consequently part of its subordinated debt was swapped to equity in order to reinforce its capital.

There has been progress with other financial sector reforms. The new capital requirements framework has been completely transposed in Spain. The legislative framework for the Spanish saving banks and the banking foundations is now fully in place and the institutions should complete its implementation. Different measures to strengthen non-bank financial intermediation adopted in recent years have started to yield tangible results. Finally, the Bank of Spain has amended the existing accounting regime for credit institutions.

Findings on the specific monitoring under the macroeconomic imbalances procedure broadly confirm those of the autumn 2015 post-programme surveillance report and the 2016 country report. Since the publication of the autumn report, additional progress has been made regarding the reform of the financial sector. Private sector indebtedness has continued to decline and further reductions in the level of net external liabilities have been recorded, helped by nominal growth. Unemployment has also continued to decline, but it remains very high. However, the favourable economic environment has not been used to put the public finances onto a sounder path and, given the political situation, recently there has been little or no progress in the structural reform agenda, including measures to improve innovation and skills in order to boost non-cost competitiveness and improving the business environment.

On the basis of the analysis in the report, repayment risks for the ESM loan appear very low. Overall, past structural reforms, bank recapitalisation and supportive financial conditions are reflected in the further stabilisation of the financial sector, a strong economic recovery and low sovereign risk premia. Nonetheless, significant challenges remain. Additional consolidation efforts to ensure a durable reduction of the general government deficit and debt and strong reform efforts remain paramount to further rebalance the economy.

1. INTRODUCTION

1. Spain exited successfully 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⁽¹⁾ 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.⁽²⁾ 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. As of end-April 2016, the outstanding amount of the European Stability Mechanism (ESM) loan is EUR 35.7 billion.

2. Staff from the European Commission, in liaison with the European Central Bank, undertook the fifth post-programme review for Spain from 11 to 13 April 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.⁽³⁾ There is no policy conditionality under PPS, although the Council can issue recommendations for corrective actions if necessary and where appropriate. PPS is biannual

in terms of reporting and missions. The previous PPS mission took place in October 2015.⁽⁴⁾

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). This PPS report concludes the 2015 specific monitoring cycle, and covers the policies recommended to Spain by the Council in July 2015⁽⁵⁾ in relation to the adjustment of the imbalances (see the box on specific monitoring). It complements the specific monitoring in the autumn 2015 PPS report and builds on the findings of the February 2016 country report,⁽⁶⁾ on the basis of which, on 8 March 2016, the Commission concluded that Spain continues experiencing macroeconomic imbalances.⁽⁷⁾ In order to avoid an overlap with the excessive deficit procedure, this report does not provide an assessment of compliance of Spain's fiscal policy with the Stability and Growth Pact. Also, given the current political situation in Spain, with a caretaker government since the elections of December 2015, it exceptionally does not discuss developments in structural policies.

⁽¹⁾ However, the restructuring of the banks receiving public support under the State aid rules is expected to take up to five years.

⁽²⁾ For more details see the fifth review report: http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/op170_en.htm

⁽³⁾ PPS is foreseen by Art. 14 of the two-pack [Regulation \(EU\) N°472/2013](http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/op170_en.htm). It starts automatically after the expiry of the programme and lasts at least until 75% of the financial assistance has been repaid.

⁽⁴⁾ For more details see the fourth PPS report: http://ec.europa.eu/economy_finance/publications/ceip/ip013_en.htm

⁽⁵⁾ 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/2015/index_en.htm

⁽⁶⁾ 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

⁽⁷⁾ 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](http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/op170_en.htm)" [COM/2016/0095 final](http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/op170_en.htm)

2. RECENT MACROECONOMIC AND FINANCIAL SECTOR DEVELOPMENTS

2.1. MACROECONOMIC DEVELOPMENTS

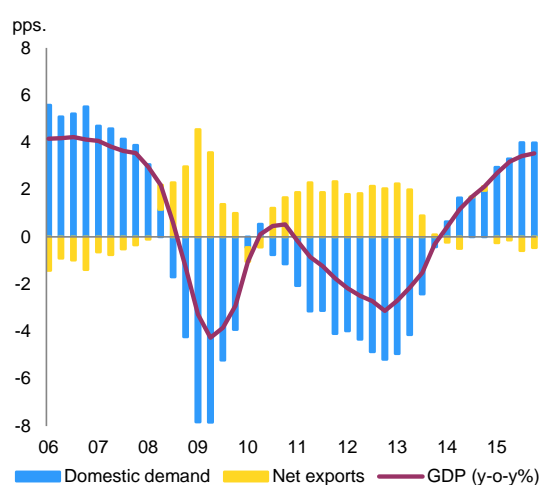
4. Spain recorded robust growth in 2015, at 3.2%. Improved access to credit for both firms and households and enhanced confidence, together with declining oil prices and an expansionary fiscal stance, supported domestic demand. Specifically, private consumption expanded at a rapid pace favoured by an easing debt burden, rising gross disposable income in real terms as a result of falling prices, lower taxes and fast employment growth. Investment also picked up strongly, thanks to the recovery in construction while investment in equipment remained very dynamic, with growth rates above 10% reflecting enhanced confidence and improving financial conditions. Favourable external developments and enhanced competitiveness have contributed to sustaining exports in spite of the slowdown in some emerging markets.

5. Going forward, growth is expected to ease but remain robust. According to the INE flash release, real GDP growth in the first quarter of 2016 was 0.8%, the same pace as in the second half of 2015. While growth is expected to lose some momentum over this year and the next, it is forecast to maintain a robust pace, on the back of positive labour market developments, improved access to credit for firms and households and low oil prices. As a consequence, the Commission 2016 spring forecast expects growth in Spain to reach 2.6% in 2016 as a whole and 2.5% in 2017. Compared to the Commission winter forecast, growth for 2016 has been revised downwards by 0.2 pp. due to the slowdown in some of the emerging economies and the inclusion of additional fiscal measures to contain public expenditure growth.

6. Job creation continues to be strong. In 2015, employment increased by 3%. This robust growth path was maintained in the first quarter of 2016 according to both the social security registries and the Labour Force Survey (which reported a growth rate of 3.3%). The unemployment rate decreased substantially in 2015, by 2.8 pp, but remains very high, at 21% in the first quarter of 2016. In 2015, robust job

creation was underpinned by wage moderation, while productivity growth slowed down and recorded only a slight improvement. Accordingly, unit labour costs (ULCs) registered modest increases. The labour market is still characterised by a large share of temporary workers, although the number of newly signed open-ended contracts is slowly rising. Nearly 60% of the long-term unemployed are low-skilled, and there has been an increase in skill mismatch between labour supply and demand since the crisis. Persistently high long-term unemployment implies that unemployment may have become entrenched, leading to skill depreciation and negatively affecting working and social conditions.

Graph 2.1: Real GDP growth and contributions



Source: INE, own calculations.

7. Investment remained robust last year. In 2015, the expansion registered in investment in equipment was especially remarkable, with an annual growth rate above 10%. Non-residential construction also rose strongly, while growth in residential construction resumed for the first time since 2007, though still at modest rates. In 2015 as a whole, overall investment in real terms grew by 6.4%. It is expected to grow more moderately, by around 5% per year, in 2016 and 2017. Equipment investment is also forecast to maintain healthy growth rates over the forecast horizon, underpinned by positive demand prospects, supportive financing conditions and a projected

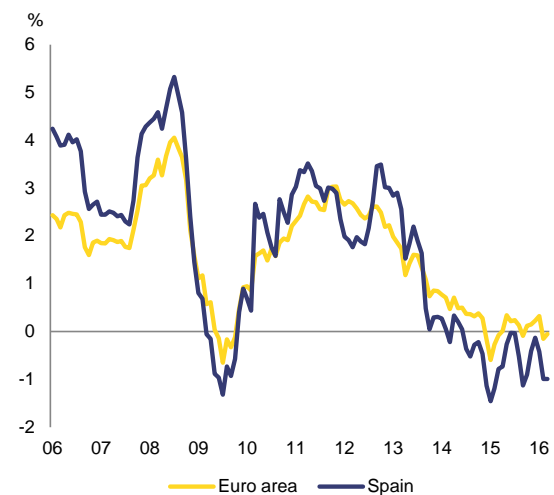
rebound in exports in 2017. Construction investment is forecast to lose momentum in 2016 but to accelerate in 2017.

8. The external balance has continued to improve. The current account registered a surplus of 1.4% of GDP in 2015. Export growth improved, mainly thanks to the recovery of euro area markets, where most of the Spanish exports are directed to. However, the volume of imports outpaced that of exports, and net exports proved more negative for growth than in 2014. Hence, the improvement of the current account in 2015 has been largely due to the decline in oil prices and a lower deficit in the balance of incomes. The current account surplus is expected to widen to 1.5% of GDP in 2016, mainly due to a more pronounced deceleration of imports than of exports, combined with a further decline in oil prices. In cyclically adjusted terms, the Spanish current account in 2015 was in surplus for the first time in decades. However, the import propensity remains high. The net international investment position (NIIP) improved by 5.1 pps. in 2015, but at -90.5% of GDP remains very large. The bulk of the NIIP is made up of debt, which makes the country vulnerable to external shocks. A difficult combination of sustained sizeable current account surpluses and high nominal growth would be needed to bring down decisively the very negative NIIP and alleviate concerns about external sustainability.

9. The general government deficit remains among the highest in the EU. Following a sizeable structural adjustment in 2012-2013, the fiscal consolidation effort was relaxed and in 2015 fiscal policy turned clearly expansionary. In 2015, most regions as well as the social security sector fell significantly short of meeting their domestic fiscal targets, and windfall gains stemming from dynamic growth and a low interest rate environment have not been used to accelerate the deficit reduction. As a result, the deficit target of 4.2% has been missed by a large margin and, at 5.1% of GDP in 2015,⁽⁸⁾ the general government deficit was among the highest in the euro area. In response to the autonomous Commission recommendation of 9 March 2016, the government adopted budget cuts by EUR 2 billion at central

government level and announced the intention to enforce expenditure restraint at regional level. If fully implemented, the planned savings could contribute to reduce the general government deficit. The public debt ratio only marginally declined in 2015, to 99.2% of GDP, as the stock-flow adjustment and the contribution of nominal GDP growth offset the impact of a still high nominal government deficit, but is expected to peak in 2016, at slightly above 100% of GDP.

Graph 2.2: HICP inflation



Source: Eurostat, INE, own calculations.

10. The household and corporate sectors continue reducing their debt overhang. The total stock of private sector debt amounted to 172.1% of GDP in non-consolidated terms at the end of 2015 (67.5% of GDP is accounted for by households and 104.6% of GDP by non-financial corporations), which is about 45.4% of GDP lower than the peak in the second quarter of 2010.⁽⁹⁾ A large part of the reduction, or 28.2 pp, is due to the fall in debt of non-financial corporations. 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 show some deceleration in this contraction and confirm previous evidence that aggregate deleveraging is to

⁽⁸⁾ The deficit reached 5% of GDP when the financial sector assistance is excluded.

⁽⁹⁾ In consolidated terms, the NFC debt decreased from 117.7% in 2010 Q2 to 86% in 2015 Q4. Financial derivatives are excluded from debt calculations.

some extent taking place selectively, especially in the construction and real estate sectors, with the financial sector ready to fund healthier corporations with positive growth prospects. Leverage is still high in historical terms, which makes agents more vulnerable to adverse shocks, but low interest rates reduce their financial burden.

11. The housing market shows signs of stabilisation. After a sharp adjustment since the crisis, the housing market and the construction sector seem to have experienced a turnaround. The unsubsidised housing prices rose in nominal terms for the second year in a row, increasing by 4.2 % in the fourth quarter of 2015.⁽¹⁰⁾ Prices of new dwellings went up by 5.8 % in 2015 and those of used dwellings by 4 %. Moreover, in 2015, the number of transactions on dwellings increased by 9.8 % year-on-year, and was 33.5 % higher than in 2013, according to data by the Ministry of Public Works. Despite these positive signs, there is still a large stock of unsold houses. The evolution of the housing market remains important for banks' future profitability and the success of SAREB, the Spanish asset management company.

12. Inflation remains negative. HICP inflation was -1.0% y-o-y in March 2016 (+2.0% m-o-m), unchanged from February. Inflation is expected to remain negative in the coming months. While low inflation hinders faster private deleveraging, it keeps providing some support to households' disposable income and thus private consumption in the prevailing context of wage moderation.

⁽¹⁰⁾ Source: INE. Other data sources might present different results, but also signal stabilisation of prices.

Box 2.1: Specific monitoring report

This box concludes the 2015 specific monitoring cycle. It summarises the findings on progress in reforms adopted or implemented in response to the 2015 country-specific recommendations (CSRs), and which are relevant for addressing Spain's macroeconomic imbalances. This box complements the findings of the country report with the latest policy developments. Since then, additional progress has been made only regarding the reform of the financial sector and some measures have been adopted in the area of the labour market. In the 2016 European semester cycle, Spain was found to experience macroeconomic imbalances. In February 2016, the Commission published the country report⁽¹⁾ including an in-depth review monitoring the evolution of imbalances.

All the Council CSRs addressed to Spain on 14 July 2015 are considered as relevant under the macroeconomic imbalances procedure.⁽²⁾ These CSRs concern the following policy areas:

Ensuring sound public finances. Some progress has been made to strengthen transparency and accountability of regional public finances. In early 2016, the Ministry of Finance started publishing data on regional governments' spending on health and pharmaceutical products. A rule for application at regional level was approved in mid-2015 to limit growth in expenditure on healthcare and pharmaceutical products, and an agreement between the government and the pharmaceutical industry was signed in November 2015 to help rationalise spending on pharmaceuticals. Despite this progress, fiscal consolidation has come to a halt, with part of the structural adjustment implemented in earlier years being reversed. In 2015, the general government deficit turned out to be among the highest in the euro area and the target of 4.2 % of GDP was missed by a large margin. Most regions as well as the social security sector fell significantly short of meeting their domestic fiscal targets. The stability law's expenditure rule was not observed by the central, regional and local government subsectors and growth in expenditure of pharmaceutical products, namely in hospitals, strengthened further, even excluding the impact of new anti-hepatitis C treatments.

Finalising the restructuring of the financial sector. The implementation of the savings bank reform is well advanced. The law on savings banks and banking foundations (Law 26/2013) to reduce controlling stakes of banking foundations in the banks was finally implemented with Royal Decree 877/2015 and Circular 6/2015. There was no further progress on privatisation of state-owned banks. BdE has amended the existing accounting regime for credit institutions and adopted a new framework for SAREB, the Spanish asset management company. The new framework might affect SAREB's sales strategy, but will allow SAREB a proper treatment of impairments and help in adapting its deleveraging policies to credible market assumptions.

Further improvements to the functioning of the labour market. Some progress has been reached in wage setting, owing in particular to the latest collective bargaining agreement for 2015-2017 signed by social partners in June 2015, which has been conducive to wage moderation and supported job creation. Some progress has been made to increase the quality and effectiveness of job search assistance and counselling, including with a view to tackling youth unemployment. In April 2016, the government adopted a new programme aiming at improving the capacity of the public employment services to provide individualised support to long-term unemployed, extended the employment activation programme by one year and the PREPARA programme up to a moment when unemployment rate is below 18%, and adopted the 2016 annual employment plan. Nevertheless, the implementation of the common employment services portfolio is progressing slowly, and the capacity of the employment services to provide effective, individualised counselling and job search assistance is still limited. The national Youth Guarantee was set in motion. However, participation of youth in initiatives to increase labour market participation, entrepreneurship, and

⁽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

⁽²⁾ European Council (2015), Council recommendation of 14 July 2015 on the 2015 National Reform Programme of Spain and delivering a Council opinion on the 2015 Stability Programme of Spain (2015/C 272/13).
http://ec.europa.eu/europe2020/pdf/csr2015/csr2015_council_spain_en.pdf

(Continued on the next page)

Box (continued)

employability is still much lower than expected. Limited progress has been registered in ensuring effective minimum income support schemes that would allow a smooth transition to the labour market. Income support schemes and social services are scattered across many institutions and levels of government, limiting the portability of rights and the mobility of the beneficiaries. The delivery of family support schemes (notably affordable early childhood education and care, and long term care) remains weak and regional mobility has not improved.

Enhancing competitiveness and improving the business environment. Some progress has been made in removing the barriers preventing businesses from growing. The April 2015 law on corporate finance aims to improve SME's access to bank credit and non-bank financing. The October 2015 law on the legal framework of public administration sets out the obligation to assess the impact of new legislation on SMEs. No progress has been made in adopting the planned reform of professional services, even though technical work to prepare the reform has been completed. Some progress has been made in the implementation of the law on market unity. Until early 2016, the central government had completed around 60% of the planned amendments to sector specific legislation. The rate of completed amendments at regional level was around 17%, thus showing little progress since the publication of the 2015 country report for Spain. At the time of writing, only one agreement had been reached at sectoral conference level on gambling. However, agreements in the areas of industry, tourism, urban and environmental regulations are in preparation. Cooperation mechanisms among the different administrations set out in the Law, such as the electronic application to share information among central, regional and local authorities, are operational. Lastly, the law also introduces a complaint mechanism offering the possibility for economic agents to seek redress on barriers to market unity within shorter deadlines than ordinary administrative appeals. Until early 2016, 150 complaints had been submitted.

Overall, Spain has made some progress in addressing the 2015 country-specific recommendations. During the past year, Spain has made substantial progress to finalise the reform of its financial sector. The implementing legislation of the savings bank reform has been adopted and insolvency reforms recently introduced in Spain should support an improvement in the quality of bank assets. Spain has also made some progress in the labour market area. The latest collective bargaining agreement has been a step forward in wage setting. Also some positive steps have been taken in the area of active labour market policies. However, no decisive measures have been taken to promote labour market participation, regional mobility, or to streamline minimum income schemes. Spain has also made some progress to improve the business environment. In particular, some measures have been adopted to remove barriers preventing companies from growing, and the implementation of the law on market unity has continued. However, the planned reform of professional services has not yet been adopted. Finally, progress in the area of public finances has been limited. Although some measures have been taken to increase transparency in regions' finances, the needed progress on fiscal consolidation has come to a halt and the general government deficit turned out to be among the highest in the euro area.

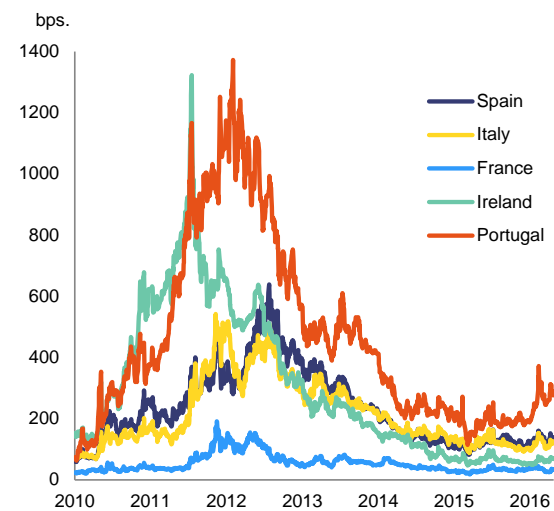
2.2. FINANCIAL SECTOR DEVELOPMENTS

13. In face of the recent increase in global financial markets volatility, the financial sector in Spain remained relatively strong. Markets reassessed macrofinancial risks Europe-wide at the beginning of 2016. This sent share prices lower and drove up government bond spreads and yields, but the situation gradually normalised. By mid-April 2016, the Spanish 10-year government bond yield stood at about 1.6% and its spread over the German Bund at 130 basis points (see Graph 2.3). These levels are slightly higher than the post-2010 record lows from April 2015, i.e. at 1.2% and just below 100 basis points, respectively. However, they still reflect market confidence in a stable macroeconomic environment, underpinned by a healthy financial sector, against further quantitative easing measures undertaken by the central bank. The 5-year Spanish CDS spreads returned to around 90 basis points, after the marginal increase recorded at the beginning of the year. IBEX 35, the main stock exchange index, recovered the losses recorded in the first quarter of 2016 and reached again the level from end-2015. The share prices of major Spanish banks recovered about one third of the loss recorded since April 2015 and also returned to the level last seen at end-2015. Nevertheless, the price-to-book values of Spanish banks are in a high position compared to their European peers.

14. The Spanish banking sector continued to enjoy ample liquidity and an improved funding structure. Private deposits started to grow again and banks were therefore able to further reduce reliance on wholesale funding and the Eurosystem. Total deposits of households and non-financial corporations (NFCs) increased by 0.5% y-o-y as of February 2016. In particular NFC deposits' growth exceeded 1% y-o-y (see Graph 2.4). Wholesale market and inter-bank funding improved further in terms of cost and accessibility, but their importance in the funding structure of the banks declined in favour of deposits. Over 2015, banks' funding by debt securities and by inter-bank borrowing declined by about 11% and 10% respectively. In addition, the Spanish banks' total net borrowing from the Eurosystem decreased even more from its peak of EUR 389 billion in August 2012 to around EUR 130 billion in February 2016. The maximum amount that

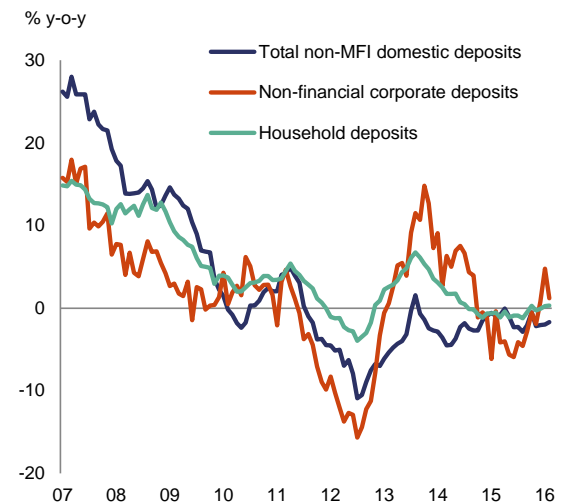
Spanish banks can borrow in TLTRO II is EUR 168.5 billion. At the moment the outstanding amount in TLTRO I.1-7 is EUR 121.8 billion, at an average cost of 0.0845%.

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



Source: IHS Global Insight, own calculations.

Graph 2.4: Bank deposits



Source: BdE.

15. After several years of contraction, bank lending started to stabilise, helped by the increase in new lending. The decline in the stock of private credit by domestic banks decelerated to 4% y-o-y in February 2016, compared to more than 6% a year before. The rate of contraction in

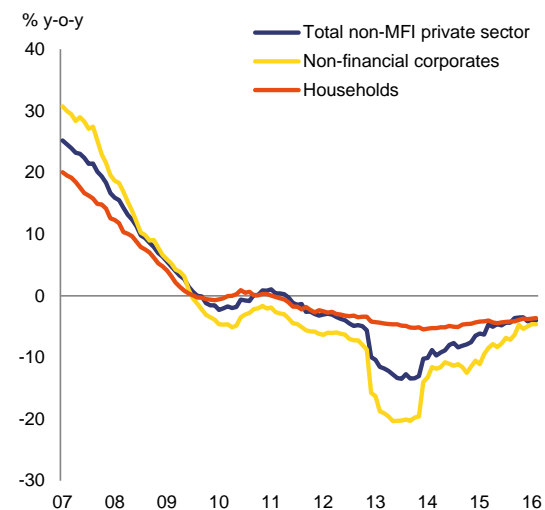
credit to households fell below 4% y-o-y, while the stock of consumer lending turned positive and grew at annual rates close to 7%. The stock of mortgage loans continued to shrink reflecting the over-investment in construction from the boom years. Credit to non-financial corporations (NFCs) stabilised further as its contraction more than halved to 4.6% y-o-y as of February 2016 from a year before (see Graph 2.5). If the external borrowing and issuance of bonds are also taken into account, the contraction in lending to NFCs was below 4%. Moreover, the fall in credit is significantly lower for SMEs than for larger firms, and, leaving aside construction and real estate activities, credit to NFCs active in other sectors of the economy is flat now. New lending to SMEs continued to rise in the last quarter of 2015, and average monthly new lending of loans under EUR 1 million was close to EUR 15 billion (the value last time observed in 2011). Average monthly new lending of loans over EUR 1 million fell for a second quarter in a row to EUR 17.9 billion, but was still higher than on average in 2014, when new lending reached a through (EUR 17.6 billion). In the second half of 2015, the total new credit granted in the economy was about 10% higher than in the corresponding period of 2014.

16. Access by companies and households to bank finance has become again easier in the last quarter of 2015. According to the BdE's latest Bank Lending Survey ⁽¹¹⁾ credit standards for approving loans remained broadly unchanged, while the average terms and conditions for loans to NFCs and households were relaxed further. Banks reported a significant decrease in their margins on loans for both households and companies and in particular for SMEs. The non-interest rate charges were also reduced for all types of loans to NFCs. Pressure from competitors and the declining cost of bank funding led to this favourable pricing of loans. While the terms and conditions of new lending are improving, the demand for credit is also increasing strongly, in particular from SMEs and households in both the housing and consumer loan segments. This explains the recent recovery in credit activity and points to a further normalisation of access to finance. The fact that banks are not relaxing their lending standards further and take a

⁽¹¹⁾ See the report at:
<http://www.bde.es/webbde/en/estadis/infoest/epb.html>

prudent stance in the current context of low interest rates provides some reassurance that a misallocation of credit similar to the one from the boom years will be avoided.

Graph 2.5: Bank loans to the private sector



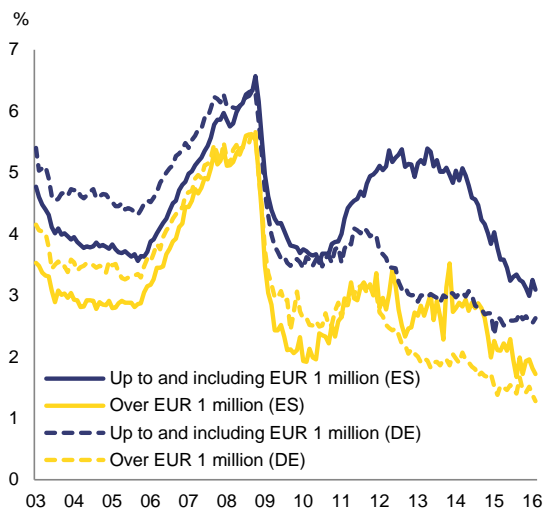
The decrease in the stock of loans observed in late 2012 and early 2013 was due to the transfer of assets to SAREB.
Source: BdE, own calculations.

17. Access to finance has become a relatively minor problem for SMEs not only in Spain, but in the entire euro area. In the latest round of the SAFE survey ⁽¹²⁾ (April-September 2015), the share of respondents in the euro area considering access to finance their most pressing problem declined significantly to only 11% from a maximum of 32% in the second half of 2009. Spain followed a similar trend and is matching the euro area average. Access to finance became the least important concern for SMEs in Spain except for regulation, behind other concerns such as finding customers, competition, costs of production or labour and availability of skilled staff. SMEs continue to report an increase in their need for bank loans and overdrafts, although at a lower percentage than before. Moreover, the perceived improvement in the availability of bank loans is most significant in Spain among the largest euro area countries. The significant decline in the cost of new credit contributed to the easing of access to finance. The average interest rate for

⁽¹²⁾ 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>

new loans to NFCs of below EUR 1 million (the proxy for SME finance) dropped from end-2014 to end-2015 by further 60 bps to 3.24%, reducing further the spread over interest rates for loans to German NFCs (see Graph 2.6)

Graph 2.6: Cost of borrowing for NFCs



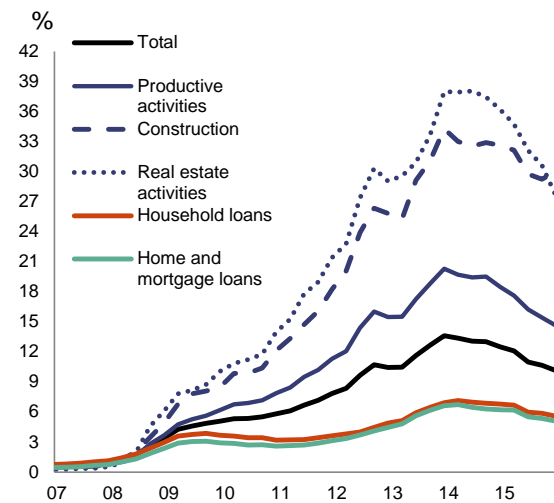
Source: ECB.

18. The reduction in non-performing loans by Spanish banks accelerated in the second part of 2015. Following the pick-up in economic growth and the moderation in the decline of the credit stock, non-performing loans (NPLs) accelerated their downward trend in the second part of 2015, after negative month-on-month changes had been recorded every month since the beginning of 2014. In addition, banks continued to dispose of impaired assets with the stock of impaired assets down by more than EUR 38 billion in 2015, whereas the total loan portfolio to NFCs and households still contracted by EUR 53 billion during the same period. As a result, the total NPL ratio, comprising impaired assets from the NFCs and households, went down by almost 20% y-o-y and reached 10.1% by year end (see Graph 2.7). At the same time, the coverage ratio remains relatively high at 47%. The decline in NPLs is quite homogeneous for both institutional segments, and for households similar in credit for house purchase as well as for other lending. Impaired assets from the NFCs have been decreasing faster in the real estate segment than in construction. However, non-performing loans for construction activities, which account for the highest share in the total non-performing loans,

accelerated their downward trend compared to the previous quarters and declined by 8% y-o-y by end-2015. It can be noted that in consolidated terms, i.e. taking into account also their activities abroad, the Spanish institutions' NPLs ratio is already below the euro area average.

19. Restructured/refinanced loans declined further by end-2015. These loans accounted for about EUR 150 billion or 12% of the total loans to the private sector at the end-2015, down by almost 16% from a year earlier. Based on the classification criteria of the BdE, nearly half of the restructured/refinanced loans were non-performing, 16% were substandard and 35% were performing. Similar to the case of non-performing loans, refinanced and restructured loans still show, as a legacy of the real-estate crisis, a high degree of concentration in real estate (26%).

Graph 2.7: Non-performing loans

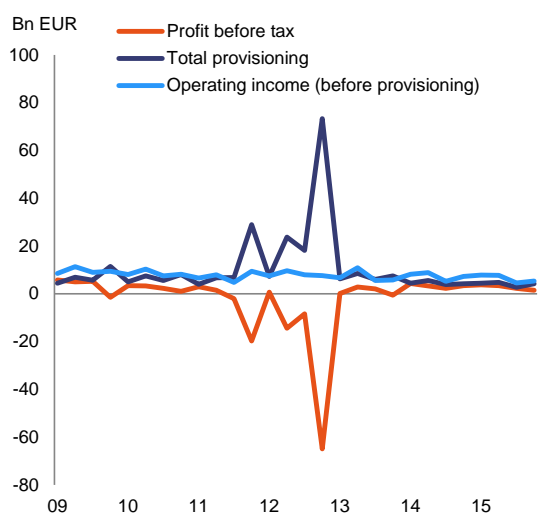


(1) Home loans comprise also loans that are not mortgages
Source: BdE, own calculations.

20. In a challenging environment of historically low interest rates in the euro area, Spanish banks managed in 2015 to retain a profitability level comparable to the previous year. Banks' profits before tax were in 2015 about EUR 11 billion, 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). The rather modest decline in profitability, given the challenging operating environment, was mainly due to the fact that lower gross operating income

was partly compensated by lower provisioning needs. Net interest income held up very well and was almost flat y-o-y, despite a very large but almost equal decline in both interest income and expenses. At the same time, non-interest income shrunk by around EUR 3 billion in 2015. The operating expenses of the banks were almost constant over the period. There are rising difficulties for banks to preserve their interest margin given prevailing low level of remuneration of deposits, however, the shift from TLTRO I to TLTRO II is offering some room for further downward movement in the average cost of liabilities. This puts some pressure on preserving future profitability due to the fact that a potential increase in the cost of funding of the new lending could damage the incipient stabilisation of the credit activity.

Graph 2.8: Bank sector profitability



Source: BdE, own calculations.

21. Capital ratios of Spanish banks increased in 2015. 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. The total solvency ratio exceeds 14%. 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.

3. FINANCIAL SECTOR RESTRUCTURING AND REFORM

3.1. PROGRESS WITH BANK RESTRUCTURING

22. The effective 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 to sell/liquidate not 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⁽¹³⁾-owned banks, Bankia and BMN.

23. Banks continue adjusting their balance sheets and credit portfolios at a good pace in order to reach a balanced and sustainable business structure. 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 improved their capital levels in 2015, after having passed with a comfortable buffer the 2014 comprehensive assessment exercise performed by the ECB.

24. Bank re-privatisation started in 2014 but has stalled more recently. 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.

25. The other remaining FROB-owned bank, BMN, had been planning to tap capital markets in 2015, but this did not materialise. BMN's

plans to tap the market are on stand-by due to current financial market conditions and the political uncertainty as regards the formation of the new government in Spain. FROB has committed to sell its equity stake in the bank, but it is yet not clear what form the divestment will take.

26. Bankia is under judicial investigation relating to an initial public offering (IPO) in 2011. It is accused of accounting errors underlying this IPO. Following recent adverse rulings by the Spanish Supreme Court, Bankia decided to compensate all retail investors that bought shares in the 2011 IPO. Bankia and its holding company, BFA, have agreed to share any losses from civil lawsuits or the voluntary compensations on the basis that it would 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.

3.2. SAREB – RECENT DEVELOPMENTS AND OUTLOOK

27. Losses since the beginning of SAREB's operation and a new accounting regime required a partial swap of subordinated debt into equity. The BdE issued new accounting rules for SAREB on 30 September 2015⁽¹⁴⁾. By end-2015 SAREB had to revalue its assets – using the new more stringent criteria of the Circular – for at least 50% of its remaining assets. The other half of the balance sheet needs to be revalued, asset by asset, by end-2016, even if an estimation of all possible gains and losses due to the revaluation of the entire portfolio has already been established. The new rules require in particular the mark-to-market valuation of assets, rather than the previous, lifetime, valuation, as done when the transfer of assets occurred back in 2012. According to the Circular, the revalued assets must be sufficiently representative of the various types and locations and net-offs are allowed only within the same class of assets. The amount of losses recognised following the revaluation amounted to EUR 3.012 billion, spread over the past three years. The amount of new provisions was lower, due to impairments already registered in previous years and some tax benefits, but the financial

⁽¹³⁾ *Fondo de Reestructuración Ordenada Bancaria* (Fund for orderly bank restructuring), Spanish Executive Resolution Authority, <http://www.frob.es>

⁽¹⁴⁾ Via Circular 5/2015.

impact was substantial and led to the conversion of EUR 2.2 billion of subordinated debt into capital, in order to keep the minimum required equity ratio of 2% of total assets, i.e. EUR 953 million at end-2015. During the first three years of activity, SAREB's capital (equity and subordinated debt) has declined by about half.

28. In 2015, SAREB's revenues were lower than in 2014. The main reason for this outturn (according to preliminary estimates) was the migration to new servicers that impacted negatively the volume of divestments, in particular in the first half 2015. The main source of revenue has been income from financial assets. As regards real estate sales, revenues from plot sales exceeded revenues from house sales in 2015. The recovery of the real estate transactions, mainly the plot sales, improved the net margin but the pre-tax result was slightly worse. According to preliminary estimates, earnings before interest, taxes, depreciation and amortisation (EBITDA-excluding impairment) amounted to EUR 673 million, which is almost 40% lower than in 2014. The total pre-tax result for 2015 was a loss of EUR 472 million.

29. The divestment of SAREB's portfolio has been progressing, albeit at a slower pace. In 2015, total sales of SAREB amounted to EUR 3.9 billion, out of which 79% corresponded to loans and 21% to real estate assets. As far as sales of own real estate assets are concerned, the divestment has been concentrated in areas where the recovery of the real estate market is the strongest, i.e. in the transactions with plots of land. About 44% of SAREB's own real estate sales proceeds came from plots (EUR 335 million, or 9% of total company revenue), compared to 26% in 2014. The disposal of residential property has been slowed by the changeover to new servicers as well as by the new accounting regime for SAREB.

30. The recovery of the real estate market has proceeded, which bodes well for future sales. The upward trend in residential property sales continues, though with regional differences. The prices have been increasing in y-o-y terms since the second quarter of 2014 and by end-2015 recorded a 4.2% y-o-y growth. In the land market the recovery is even faster, both sales and prices continue the upward trends started in first quarter of 2014 and by end 2015 increased by 7.4% y-o-y.

The improvement of sales is concentrated around the two large centres of Madrid and Barcelona, where most of SAREB's real estate divestments have taken place.

31. The accounting framework provides updated knowledge of the recoverable value of each of the SAREB's assets, which is critical to maximise the long-term operational benefit of the company. At the same time, the abrupt recognition of the unrealised losses from the marking-to-market erodes substantially SAREB's capital base in its first year of operation. In this regard, it is important to monitor the deleveraging speed of SAREB in order to avoid backloading of the deleveraging process in the last years.

3.3. PROGRESS WITH FINANCIAL SECTOR REFORMS

32. BdE has amended the existing accounting regime on credit institutions. BdE's Circular 4/2016 amends Annex IX of Circular 4/2004 on the classification of credit risk assets and on the calculation of provisioning requirements by Spanish credit institutions. The aim of the reform is to align the Spanish banks' accounting system with that of other European countries and the European Banking Authority (EBA) criteria, and therefore foster comparability. One of the main novelties is the possibility for the banks to use internal models for the calculation of provisioning requirements. For those banks not using internal models alternative solutions are provided. The dynamic provisioning will no longer be in place. The new Circular enters into force in October 2016, with a view of banks starting reporting under the new regime by the end of the year. The implementation, and impact, of this significant change will need to be closely monitored by supervisors.

33. During the crisis, the Instituto de Crédito Oficial (ICO) played a significant counter-cyclical role in supporting the financing of SMEs in Spain. As bank lending is picking up and credit conditions have been eased substantially, ICO has reduced the provision of new credit through the so-called second-floor facilities with banks' intermediation. Compared to the previous year, ICO's lending activity halved in 2015 to about EUR 11 billion. Although reduced in

volume, ICO's second floor lending improved structurally and was concentrated in tenors beyond three years, thereby supporting longer-term investment financing needs of SMEs. Moreover, the connected activity of Fond-ICO Global to support the creation of venture capital and private equity funds advanced further. In order to attract further private funds into the Spanish risk capital area, a sixth tender has been launched, and the number of approved funds increased to 35, with commitments of about EUR 0.9 billion. The size of Fond-ICO Global was increased by EUR 300 million to contribute to the European Investment Plan.

34. Since 2012 Spain has adopted a vast array of measures to strengthen non-bank financial intermediation, which brought tangible results.

These measures serve to facilitate the SMEs' access to bank financing, strengthen the CERSA regime of mutual guarantee funds, kick-start an alternative fixed-income securities market (MARF), improve the securitisation regime, better regulate venture capital companies and closed end collective investment schemes, and regulate investment-based crowd-funding platforms. As a recent initiative in this area, BdE is working on a Circular requiring the banks to fill in an information template about the SMEs credit record that will help overcome information asymmetries.

35. The new capital requirements regime is now completely transposed into the Spanish regulation. The CRR/CRD IV framework has been fully implemented through several legislative initiatives including the recently adopted Circular 2/2016 on supervision and solvency of credit institutions. The ECB carried out a complete assessment of the options and discretions to be exercised by the competent authorities and approved an ECB Regulation on them that will enter into force on 1 October 2016. This regulation is only applicable to significant institutions under the Single Supervisory Mechanism (SSM). Hence, in order to apply the same measures to non-significant institutions, BdE plans to amend Circular 2/2014 on options and national discretions of CRR, to align it with the ECB Regulation.

36. The legislative framework for the Spanish savings banks and banking foundations is now fully in place, and these entities should complete its implementation. BdE adopted in November

2015 the last legislative step of the new regime for saving banks and banking foundations through the Circular 6/2015. This framework has now to be implemented by banking foundations that would lead to either a divestment plan for relevant credit institutions or the set-up of a reserve fund under the conditions stipulated by the Circular.

37. Progress continues as regards the participation of Spain to the Single Resolution Board (SRB).

According to Law 11/2015 on recovery and resolution of credit institutions and investment firms, BdE has to implement measures related to the pre-emptive resolution and to the discussion of resolution plans of credit institutions. In 2015, the newly created Resolution Department was mandated in line with the Single Resolution Mechanism Regulation to draft transitional resolution plans for the largest Spanish banks and to finalise the drafting of BRRD compliant resolution plans for almost 90 per cent of the significant Spanish banks during 2016. BdE is also participating in the Internal Resolution Teams (IRT) of Spanish institutions as well as in the other IRTs of foreign banks with activities in Spain.

3.4. CHALLENGES AHEAD

38. Profitability remains a medium-term challenge for Spanish banks.

While supporting the economic recovery, debt sustainability and inflation expectations, and thus credit growth and reduction in non-performing loans, a prolonged low interest rate environment in the euro area might constitute a challenge for bank profitability, especially for domestic banks heavily exposed to floating rate mortgage loans and the euro area economy. The positive trends as regards non-performing loans and relatively shrinking administrative costs, due to the restructuring efforts during the last years, allow banks to off-set to a certain extent lower net interest incomes. However, these resources could be exhausted at a certain point in time.

39. Weaker growth outlook in some emerging markets could put more pressure on certain banks' profit and loss accounts.

Some big Spanish banks have a relevant direct exposure to certain emerging markets (notably Brazil and Mexico). On one hand, it allows these banking groups to diversify their risks and asset portfolios.

On the other hand, growth forecasts have worsened for some of these countries in recent months. This could impair profitability both on narrower margins in the short-term and lower asset quality in the medium-term, requiring the banks to change their business mix in these countries and to continue with cost-cutting strategies.

40. Narrow interest margins could potentially lead to detrimental competition and mispricing of risk amongst credit institutions. Although solvent demand for credit seems to gradually recover, it is still not sufficiently strong and some banks could be tempted to loosen their credit standards to increase loan volumes. This search for new lending fuelled by the low interest rate environment may lead to credit misallocation and a mispricing of risk. Supervisors should carefully monitor banks' credit policy in order to avoid a worsening of asset quality in the future.

41. The privatisation of the two remaining state-owned banks has been stalling. Although the FROB started in 2014 with the sale of a small part of its stake in Bankia, Bankia and BMN are still in majority state ownership. A more structured plan to privatise these two institutions within a concrete time framework would help advancing in this regard, even if the current absence of an elected government and somewhat more challenging market conditions than a few months back do not facilitate this task. Returning the former saving banks to private ownership is necessary to complete the restructuring of the Spanish banking sector and put it on a sound long-term footing.

42. Some legal uncertainties still remain. Beyond particular legal contingencies that materialised over 2015 (i.e. the 2011 Bankia IPO, and claims on hybrid instruments) there are still others that could potentially have a significant impact on the banking sector as a whole and for which credit institutions needs to be prepared to deal with (i.e. floor clauses).

43. Due to a slow start, difficult market conditions and the recent change in accounting rules, SAREB's financial results have been below expectations so far. During the first three years of operation, SAREB reduced its portfolio by more than 15%. The sale of assets is expected to accelerate in particular as the real estate market

continues to recover. Nevertheless, sustained efforts are necessary to optimise SAREB's activity, and thereby generate positive profits. This would in particular benefit all those banks being shareholders of SAREB, and reinforce the general confidence in the Spanish financial sector.

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 (e)	2016 (f)
Core indicators											
GDP growth rate	3.6	3.7	3.2	-3.6	0.0	-1.0	-2.6	-1.7	1.4	3.2	2.6
of which domestic demand incl. stocks	4.1	4.3	3.7	-6.4	-0.5	-3.1	-4.7	-3.1	1.6	3.7	2.9
Private consumption (annual % change)	3.3	3.5	2.6	-3.6	0.3	-2.4	-3.5	-3.1	1.2	3.1	3.0
Public consumption (annual % change)	2.7	4.7	5.7	4.1	1.5	-0.3	-4.5	-2.8	-0.0	2.7	1.0
HICP (annual % change)	2.8	3.2	3.5	-0.2	2.0	3.0	2.4	1.5	-0.2	-0.6	-0.1
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	20.0
Gross fixed capital formation (% of GDP)	22.9	27.0	30.3	24.3	23.0	21.5	20.1	19.2	19.6	20.4	21.0
Gross national saving (% of GDP)	21.9	23.0	21.7	20.3	19.7	18.6	19.8	20.6	20.8	22.1	22.8
General Government (% of GDP)											
Balance (g)	-4.1	-0.5	0.2	-11.0	-9.4	-9.6	-10.4	-6.9	-5.9	-5.1	-3.9
Gross debt	63.0	51.3	39.0	52.7	60.1	69.5	85.4	93.7	99.3	99.2	100.3
Interest expenditure	4.4	2.6	1.6	1.7	1.9	2.5	3.0	3.4	3.4	3.1	2.9
Households											
Households saving rate	12.8	10.8	7.8	13.4	10.1	10.8	8.8	10.0	9.6	9.4	9.5
Rest of the world (% of GDP)											
Trade balance	-0.7	-2.7	-5.5	-1.2	-1.3	-0.2	1.5	3.2	2.5	2.5	2.6
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
Trade balance, services	2.9	3.1	2.7	2.7	3.1	3.9	4.3	4.6	4.7	4.5	4.6
Current account balance	-1.4	-4.3	-8.9	-4.3	-3.9	-3.3	-0.4	1.5	1.0	1.4	1.5
Net financial assets	-27.7	-42.0	-70.2	-90.2	-85.4	-90.2	-91.6	-94.0	-94.6	-88.4	n.a.
Net international investment position (h)	-28.8	-44.3	-71.6	-93.5	-88.6	-91.9	-90.0	-96.2	-95.6	-90.5	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	93.6	92.2	90.5	90.3	90.2
Real effective exchange rate relative to the rest of the European Union	88.6	90.1	98.4	102.4	100.0	98.6	93.2	92.4	90.6	89.4	90.0
Real effective exchange rate relative to the rest of 37 industrialised countries	87.2	87.8	99.6	104.1	100.0	98.9	92.3	93.0	91.8	88.5	88.9
Banking sector											
Assets (% of GDP)	170.8	189.9	267.9	319.4	321.1	338.3	343.4	305.6	285.6	261.6	252.0
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	-5.9
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	10.1
NPLs, productive activities (%)	n.a.	1.2	1.5	6.2	7.9	11.3	15.5	20.3	18.5	14.6	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	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	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	n.a.
Tier 1 ratio (%)	n.a.	n.a.	n.a.	9.3	9.6	10.2	9.7	11.7	11.7	12.2	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
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	90.7

Updated on 03 May 2016

(e) 2015: estimates or latest available data

(f) 2016: 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 Global Insight

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