Statement on the Second Financial Sector Monitoring Mission to Spain

Press Release No. 13/34

February 4, 2013

A staff team from the International Monetary Fund (IMF) visited Madrid January 25-February 1 for the second independent monitoring mission of the financial sector in the context of the European financial assistance for bank recapitalization, as agreed with the Spanish authorities and the European Commission (EC) on July 20, 2012 (see Terms of Reference). The team met with official and private sector representatives and presented its preliminary findings to the Spanish authorities and their European partners at the end of the visit. A final report will be conveyed to the authorities and the EC in early March.

The main finding of the mission is that major progress has been made in implementing financial sector reforms. The program remains on track: the clean-up of undercapitalized banks has reached an advanced stage, and key reforms of Spain's financial sector framework have been either adopted or designed. Indeed, the bulk of all of the measures for the entire program have now been completed. Going forward, it will be important to maintain this momentum with strong completion of initiated reforms and continued vigilant oversight, as risks to the economy and hence to the financial sector remain elevated as Spain undergoes a difficult process of fiscal and external adjustment.

More specifically, the mission's preliminary findings include the following:

- On **bank recapitalization**: Action is being taken to address banks' capital shortfalls. This clean-up is a major achievement that should strengthen confidence in the system and improve its ability to support the real economy. Remaining elements of the recapitalization and burden sharing exercise should be completed in a timely manner and in ways that minimize taxpayer costs.
- On **SAREB**: Important progress has been made. Key achievements include the establishment of the company, the receipt of real estate-related assets from the weakest banks, and the adoption of strong servicing agreements with participating banks to manage the transferred assets. Going forward, policy priorities to address remaining challenges include the completion of an updated and comprehensive long-term business plan and robust implementation of servicing agreements to safeguard the value of SAREB's assets.
- On **monitoring and maintenance of financial stability**: To safeguard the program's gains, it will be important to continue closely monitoring the health of the financial system. To facilitate this as well as the forthcoming partial transfer of supervisory powers to the European Central Bank (ECB), specific timelines should be drawn up to implement the Bank of Spain's recent proposals to strengthen its supervisory procedures.
- On **savings bank reform**: The draft law to reform the savings bank system is a welcome step aimed at enhancing these banks' governance and reducing risks to financial stability. It will be important to ensure that the draft law sets effective incentives for former savings banks to gradually divest their controlling stakes in commercial banks.

- On **household indebtedness**: We welcome the government's plan to increase the protection of the most vulnerable mortgage debtors, while maintaining this sector's historically strong credit discipline.

The third financial sector monitoring mission is expected to take place in the second quarter of 2013.