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# FOCUS ON: Economic Dialogue with Spain

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# The current government

- The current Spanish Prime Minister, Pedro Sanchez, was appointed on 1 June 2018 following a non-confidence vote held on the 31 of May and 1 of June that dismissed Mariano Rajoy (Partido Popular) government. With 84 out of 350 seats in the national parliament, the Sanchez Socialist Government relies on parliamentary support of various other parties. Scheduled elections are foreseen in 2020.

# The current government

Minister Calviño took office as *Ministra de Economía y Empresa* on 7 June 2018. The Ministry is responsible for executing the government economic, competitiveness, industrial development, telecommunications, media and communication policies, the Digital Agenda and support to companies.

# The current government

The Minister is in charge of a Government delegated committee (*Comisión Delegada de Asuntos Económicos*) comprising the Ministers dealing with policies affecting the Spanish economy or relevant sectors within it, namely, finance infrastructures, education, labour, migration, social security, industry, trade and tourism, agriculture, fisheries, territorial policy, ecological transition (including energy), education, science and innovation.

# The current government

By its breath, the committee enables the Minister to have an important coordinating role within the Government and facilitates tasks assigned to it, such as the preparation of the National Reform and Stability Programmes.

# The current government

The Ministry also oversees the agencies in charge of money laundering prevention (*Comisión de Prevención del Blanqueo de Capitales e Infracciones Monetarias*), securities markets (*Comisión Nacional del Mercado de Valores*), statistics (*Instituto Nacional de Estadísticas*) and the national promotional bank (*Instituto de Crédito Oficial*).

# The current government

The Ministry is responsible for insurance and pensions markets' oversight. The executive national resolution authority (FROB - *Fondo de Reestructuración Ordenada Bancaria*) is also under the remit of the Ministry, and in turn, is the main shareholder of SAREB (*Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, SA*), the so called Spanish *bad bank*.

# Budgetary state of play

Spain submitted on 15 October 2018 its 2019 Draft Budgetary Plan (DBP) to the Commission (COM) without submitting, in parallel, a Draft Budget Law to the national Parliament. The DBP planned a public deficit of 1.8%, based on an update in September of the existing macroeconomic forecasts and a new proposal for the **expenditure path** (*senda de gasto*) agreed by the previous Government. However, the Government was unable to pass through Senate the revision of the path, having then to come back to previously agreed targets, namely a deficit of 1.3% in 2019.



# Budgetary state of play

- The draft Budget Law for 2019 was agreed by the Council of Ministers on the 11 January 2019 and sent to Parliament on 14 January for approval. The draft budget law foresees an increase in social spending (which will represent around 57% of the total budget) on the back of tax increases aiming the wealthier individuals and larger companies.

# Budgetary state of play

- New taxes will be also introduced, namely a digital tax and a Financial Transaction Tax. The draft budget is designed so as to contribute to change the economic model and fight inequality whilst keeping the deficit under control. Based on the proposed measures, the Government is expecting deficit to reach 1.3% with public debt reaching 95.4% (down from 96.9%7).

# Budgetary state of play

- In its assessment of the Spanish DBP (where the expected deficit for 2019 was -1.8% of GDP), the COM (which expects the Spanish deficit to reach 2.1% of GDP in 2019) has requested Spanish authorities to submit a new version of the DBP if the budget law differs significantly from the DBP submitted on 15 October 2018 (see section 3 below).

# Current policy recommendations

- The Council adopted in July 2018 (presented in Annex 4) three country specific recommendations addressed to Spain, all underpinned by the macro imbalances procedure. The policy efforts required to Spain aim at ensuring a more durable growth path and achieving higher productivity growth.

# Current policy recommendations

More specifically:

- Spain should pursue fiscal consolidation, with a view to decisively reduce its high government debt ratio and re-build the fiscal buffers needed to overcome any possible adverse shocks, while preserving the long-term sustainability of its public finances.
- It should increase the efficiency of the employment and social services. Spain should also reduce regional disparities, and take actions against early school leaving.
- Spain should improve the business environment and enhance the innovation capacity of its economy.

# Current policy recommendations

- In the latest Article IV report the IMF (November 2018) recommends Spain to further enhance the resilience of the economy by:
  - (a) Improving the pace of debt reduction through a clear medium-term fiscal strategy aiming at lowering fiscal vulnerabilities while safeguarding the pension system's financial viability and enhancing its social acceptability;
  - (b) Preserving the thrust of the past labour market reforms aiming at making the labour market more inclusive by raising the attractiveness of open-ended contracts for employers, strengthening active labour market policies, and enhancing incentives for labour mobility across regions;

# Current policy recommendations

(c) Provide new impetus to productivity growth through policies that facilitate competition, foster innovation, address skills mismatches, and dismantle barriers for firms' growth, ensuring better regional coordination to lower regions' productivity disparities;

(d) Cleaning up legacy bank assets, continue improvement in bank profitability and capitalization, rigorous management of interest rate and liquidity risks, and reform of the institutional framework for financial oversight.

# Current policy recommendations



The representative of the Spanish Authorities issued a statement mentioning broad agreement with the Staff analysis and key policy objectives but pointing different views on some policy recommendations, particularly in the area of labour market. Spain refers that the government prioritises *“reducing the public debt-to-GDP ratio, further lowering unemployment—in particular, long-term and youth unemployment— improving the quality of jobs, reducing inequality and the risk of poverty, and fostering productivity.”* within the context of a policy agenda based on three axis - fiscal discipline, social inclusion and sustainable growth.



# Economic situation

## Situation in 2018

- In 2018, Spain's economy was in its fifth year of expansion. According to the latest COM forecast (autumn 2018), growth has been robust but lower than expected in the first half of 2018. Spain's economy started to show signs of a mild deceleration in the first half of the year.
- According to the OECD, Spain's economic growth outpaced during the last years most of the Euro area economies showing a net GDP expansion by 3% in 2017 and 2.5% in 2018, largely underpinned by a cluster of labour market and financial reforms kicked off under the EU financial assistance programme from which Spain successfully exited at the end of 2013.

# Economic situation

## Forecasts

- The 2019 draft budgetary plan (DBP) of Spain outlines an expected GDP growth for the current year of 2.3%, almost in line with the Commission's Autumn forecast of 2.2%. The draft budget law submitted to the national parliament in January 2019 includes a downward revision of the 2019 GDP growth forecast to 2.2%.

# Economic situation

- According to the 2018 COM's Autumn forecast, the deceleration in 2019 and 2020 is mainly driven by a slowdown in private consumption, as oil prices increase further and pent-up demand is absorbed. However, job expansion and accelerating wage growth continue to be robust, also due to the planned increase in the minimum wage, which will have a positive impact on disposable income growth over the forecast horizon.
- According to the Spanish Central Bank, **the cyclical upturn is expected to further endure** in the upcoming years. Yet, **growth is set to decelerate** as a result of the gradual easing of the positive effects of monetary policy measures on financing conditions in the economy.

# Economic situation

Also the OECD expects a **moderation of economic growth in 2019 and 2020**. Domestic demand is assessed to remain the main driver of growth, due to favourable financial conditions, strong employment gains and measures in the 2018 budget, such as wage and pension increases. The **current account** will remain in surplus, but lower than in the past two years, as export growth moderates with weaker export market growth. The OECD recommends that policy measures should **address remaining imbalances and low productivity growth**.

## Economic situation

The labour market remains segmented, with **high rates of youth and long-term unemployment and temporary contracts**. Continuing efforts to fight against the abuse of temporary contracts is key to reducing labour market duality. Improving co-ordination of social and employment services would lower unemployment and inequalities.

## Economic situation

Increasing the provision of early childhood education would boost labour participation of women and improve future skill formation, especially for children from disadvantaged backgrounds. Improved teacher training and further extensions of dual vocational education would also boost skills and enhance the labour market prospects of vulnerable groups.

# Economic situation

- The Spanish Central Bank stresses that the **risks to the baseline growth scenario are on the downside**. They are linked to the external environment, including to the impact of the economic policy mix in the United States and a possible escalation of protectionist measures that could affect global trade and economic activity. They are, among others, also linked to the uncertainty surrounding the Brexit process.

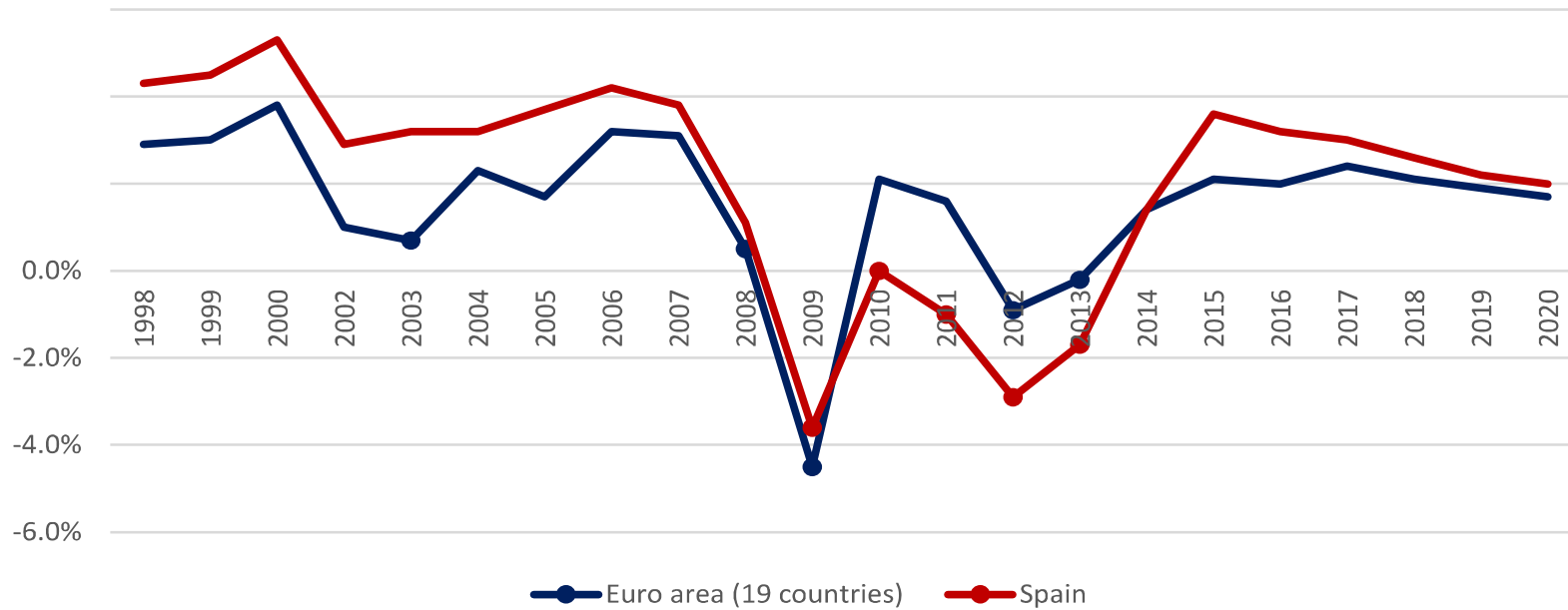
# Economic situation

- **Headline inflation**, as measured by the HICP index, according to COM Autumn 2018 forecast, is assessed to permanently remain below the value registered in 2017 of 2.0% (1.8%,1.7% and 1.5% in 2018, 2019 and 2020 respectively), mainly driven by the downturn in the energy component.



# Economic situation

**Graph 1: Spain GDP growth rate in the period 1998-2020**



Source: [Eurostat](#) (1998-2017), [European Economic Forecasts - Autumn 2018](#) (2018-2020)

See annex 1 for further figures on the economic situation of Spain.

# Public finances

According to COM autumn 2018 forecast, the public deficit has decreased from 4.5% of GDP in 2016 to 3.1% of GDP in 2017, 2.7% in 2018 and is projected to decrease to 2.1% in 2019, thanks to still robust economic growth. *“The somewhat slower pace of deficit reduction is due to measures included in the 2018 budget law, namely the higher revaluation of pensions, the pay hike for public employees and, to a lesser extent, the tax cut for low-income earners.”*

# Public finances

Higher expenditure on items such as pensions, long-term care and paternity leave are also included and partly offset the impact of revenue-raising measures. The Commission assessment of the 2019 DBP indicates that Spain's structural deficit is expected to deteriorate by 0.2% of GDP in 2018 to reach about 3% of GDP, before stabilising around that level in 2019. The debt to-GDP ratio is estimated to have decreased from 98.1% of GDP in 2017 to 96.9% in 2018 and is forecast to further decrease to 96.2% of GDP in 2019.

# Excessive Deficit Procedure

Spain has been since 2009 in an Excessive Deficit Procedure (EDP); the reference year triggering the procedure was 2008. It is the only EU Member State which is still under EDP. On the basis of validated data for 2018, the COM will assess Spain public finances in May 2019 and decide on abrogating the EDP.

## 2019 Draft Budgetary Plan (DBP) and Draft Budget Law

While Spain submitted to COM in October 2018 a Draft Budgetary Plan (DBP) for 2019 and while the COM assessed it and issued an opinion, like for all other euro zone Member States, Spain did not submit in parallel a draft budget law to the Spanish parliament. On 14 January 2019, the Government submitted the draft budget Law to the national Parliament, which is pending discussion and adoption.

## 2019 Draft Budgetary Plan (DBP) and Draft Budget Law

The DBP and the draft budget law foresee different growth and deficit levels. In particular, the DBP contained for 2019 a deficit target of 1.8% of GDP, while the draft law of January 2019 foresees a deficit objective of 1.3% of GDP. One may note that the COM requested in its opinion on the 2019 DBP of Spain: *“In light of the fact that the DBP was submitted without a draft Budget Law being submitted to the national parliament in parallel, the national authorities are invited to submit to the Commission and the Eurogroup an updated DBP in the event that the draft Budget Law that eventually is submitted to the parliament differs significantly from the DBP submitted on 15 October 2018.”*

## 2019 Draft Budgetary Plan (DBP) and Draft Budget Law

The COM overall assessment of the Spanish DBP is as follows: *“Overall, the COM is of the opinion that **the DBP of Spain is at risk of non-compliance with the provisions of the Stability and Growth Pact. In particular, the COM projects a risk of significant deviation from the required adjustment path to the MTO. Moreover, Spain is not expected to make sufficient progress towards compliance with the debt reduction benchmark in 2019. Therefore, the COM invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2019 budget will be compliant with the SGP and to use windfall gains to accelerate the reduction of the government debt-to-GDP ratio”*** .

## 2019 Draft Budgetary Plan (DBP) and Draft Budget Law

As regards 2018, the COM opinion included the following assessments:

- *“Both the DBP and the COM 2018 autumn forecast project that the **headline deficit target of 2.2 % of GDP for 2018** required by the Council Decision of 8 August 2016 **will not be achieved (...)** However, at **2.7 % of GDP**, the headline deficit is forecast to be below the Treaty reference value of **3.0% in 2018**, in line with the deadline set by the Council.”*
- *“In addition, the required fiscal effort is not expected to be met, according to all usual metrics.”*



## 2019 Draft Budgetary Plan (DBP) and Draft Budget Law

As regards 2019, the COM opinion included the following assessments:

- ***“The growth rate of net primary expenditure as recalculated by the COM on the basis of the DBP is 2.2%, which corresponds to a gap to the required growth rate of 0.6% of GDP”*** [remark by EGOV: please note that that the gap between the expected growth rate of net primary expenditure (2.2%) and the required maximum growth rate of net primary expenditure (0.6%) amounts to 1.6%].

## 2019 Draft Budgetary Plan (DBP) and Draft Budget Law

As regards 2019, the COM opinion included the following assessments:

- ***The improvement in the recalculated structural balance in the DBP amounts to 0.4% of GDP, implying a gap with the required adjustment of -0.3% of GDP. According to the COM 2018 autumn forecast, the gaps are even larger, at -1.1% of GDP for the expenditure benchmark and -0.6 % of GDP for the structural balance. It points to a risk of a significant deviation from the recommended adjustment path towards the MTO in 2019”.***

## 2019 Draft Budgetary Plan (DBP) and Draft Budget Law

On 4 December 2018, the Eurogroup issued a statement on the 2019 DBPs, in which it noted *inter alia* that current economic conditions call for the urgent need to rebuild fiscal buffers, notably in Member States that have not reached their MTO (which is the case for Spain) and that Belgium, France, Portugal and Spain are not expected to comply *prima facie* with the debt reduction benchmark in 2019. It invited all countries identified by the COM to be at “*risk of non-compliance*” to address in a timely manner the risks identified by the COM and to ensure that their 2019 budget will be compliant with SGP provisions.

# 2019 Draft Budgetary Plan (DBP) and Draft Budget Law

**Table 1: Overview of Spain's key fiscal indicators**

Year	Council requests				Actual or estimated data relating to compliance with Council requests COM forecast - autumn 2018 (under no policy change scenario)			
	Nominal budget balance targets as % of GDP	Medium Term Objective (MTO) structural balance as % of GDP	Fiscal effort in structural terms as % of GDP	Expenditure benchmark Requested % change of net primary government expenditure	Nominal budget balance as % of GDP	Structural budget balance as % of GDP		Net primary government expenditure % change
						level	y-o-y change	
<b>2016</b>	-4.6	MTO of a balanced budgetary position not planned to be reached within the horizon of the 2018 Stability Programme.	-0.4	-	-4.5	-3.3	-0.8	-
<b>2017</b>	-3.1		0.5	-	-3.1	-2.9	0.4	-
<b>2018</b>	-2.2		0.5	-	-2.7	-3.1	-0.2	-
<b>2019</b>	-		0.65 (if ES under preventive arm)	0.6 (if ES under preventive arm)	-2.1	-3.1	0.0	1.7

Sources: Council EDP [Decision \(EU\) 2017/984 \(August 2016\)](#), [Council 2018 CSRs \(July 2018\)](#), [COM analysis \(November 2018\) of the 2019 DBP of Spain](#) (for the net primary expenditure) and [COM autumn 2018 forecast](#) annex tables: 1 (GDP growth), 36 (nominal budget balance), 41 (structural budget balance) and 42 (gross debt).

## 2019 Draft Budgetary Plan (DBP) and Draft Budget Law

Table 1 shows that on the basis of the autumn 2018 forecast the nominal budget balance and the fiscal effort were significantly below the Council targets in 2016, 2017 and 2018.

Even though the budget balance is not expected to be excessive in 2018 and 2019, the fiscal effort and government expenditure targets are not expected to be met, neither in 2018 nor in 2019; furthermore, the structural balance remains in 2018 and 2019 far away from a MTO of a balanced structural position.

## 2019 Draft Budgetary Plan (DBP) and Draft Budget Law

On 15 October 2018, the independent fiscal body of Spain (*Independent Authority for Fiscal Responsibility, AIReF*) endorsed the Government's macroeconomic forecasts included in the 2019 DBP. AIReF considered the Government's macroeconomic scenario to be prudent overall, considering the exogenous assumptions and defined policies.

It considered that the basic assumptions underlying the macroeconomic scenario accompanying the 2019 DBP and that the macroeconomic impact of the fiscal measures advanced by the Government are feasible.

## 2019 Draft Budgetary Plan (DBP) and Draft Budget Law

This analysis is further confirmed by the opinion issued on 11 January 2019 on the macroeconomic forecasts underpinning the draft budget. AIReF maintains the forecasts are overall prudent although the increase of the growth rate of the Euro Area in 2018 and 2019 might be considered optimistic.

The growth composition is also deemed appropriate, noting the reduction in external contributions. Reference is also made, as before, to the need to increase transparency in information made available

# Macroeconomic imbalances

- Under the MIP framework, Spain has experienced macroeconomic imbalances since 2013, and as such it is submitted to specific monitoring by the COM.
- In the 2019 MIP scoreboard (with data referring to 2017, presented in Annex 2), the following indicators are beyond the indicative threshold: the net international investment position (NIIP), the private and government debt ratios, the unemployment rate, as well as the change in the activity rate.



# Macroeconomic imbalances

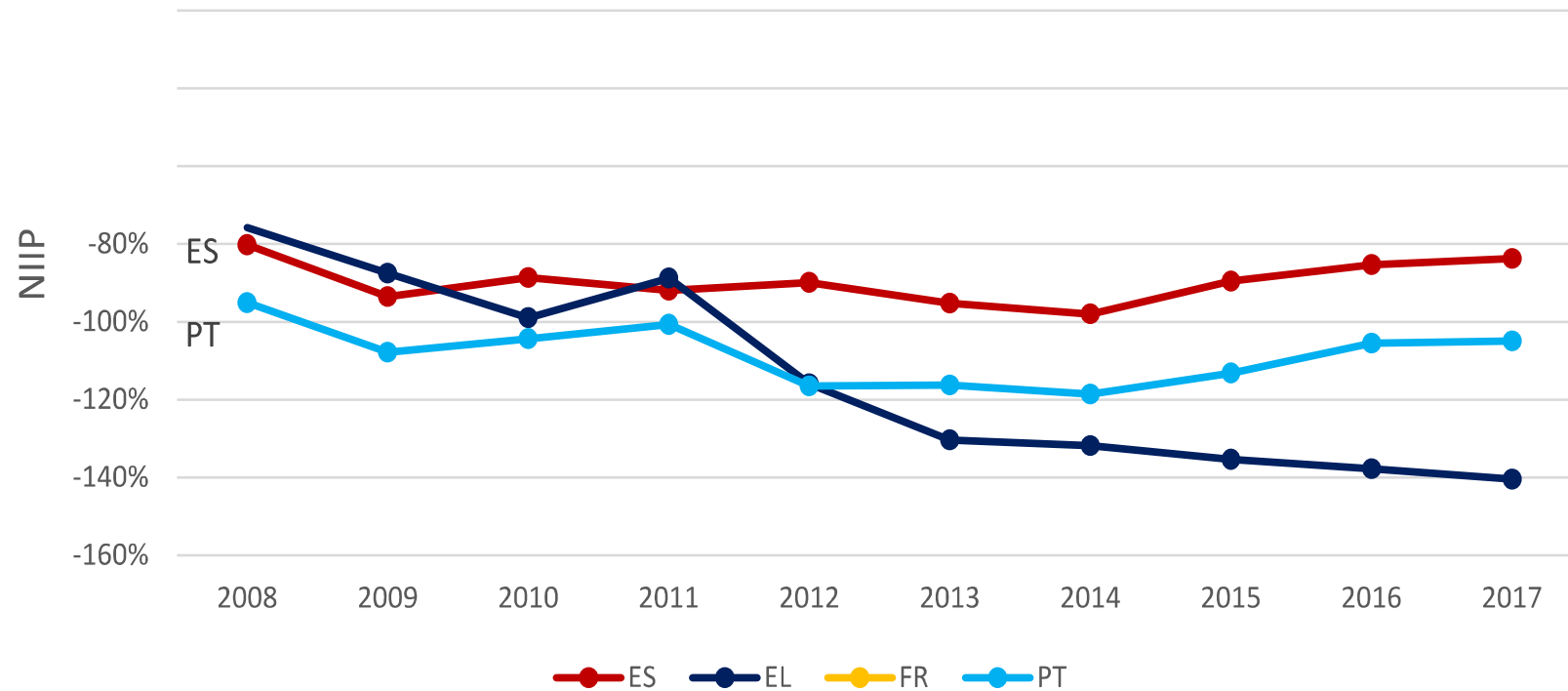
- In the Alert Mechanism Report published in November 2018, and on the basis of an economic reading of the scoreboard, the COM identifies critical issues relating to external sustainability, private and public debt, and labour market adjustment, in a context of weak productivity growth.

## Macroeconomic imbalances

- According to the COM, Spain's **external imbalances** are recovering, although relatively slowly, and while the NIIP, which measures the net stock of external assets and liabilities, has improved since 2014, it remains highly negative (see graph 2). The share of exports (as a percentage of world exports) is growing, despite the slight appreciation of the real effective exchange rate in 2017.
- Therefore, the COM decided in November 2018, also taking into account the identification of macroeconomic imbalances in March 2018 and their cross-border relevance, to subject Spain to an **in- depth-review**, aimed at examining the persistence of imbalances or their unwinding.

# Macroeconomic imbalances

Graph 2: Net International Investment position: Spain, Greece, Portugal, France (2008-17) % of GDP



Source: [Eurostat](#)

# Macroeconomic imbalances

- **Private sector consolidated debt** has continued to decline throughout 2017 (at 138.8% of GDP, compared to its peak of 201.6% in 2019), especially for business corporations. Even if deleveraging seems to have continued in 2018 (with estimates for 3rd quarter 2018 at 134.6% of GDP), deleveraging needs remain. New credit has started flowing to business, supporting investments. For households, the pace of debt decline is limited by a strong increase in consumer credit.
- **House prices** have been recovering in recent years, after previous undervaluation following continuous decreases from 2008 to 2013 (in 2012 house price decrease 16.8pp respect to the previous year).

# Macroeconomic imbalances

- The decrease in the **government debt ratio** is mainly due to the strong economic growth. Since 2014, public debt in absolute terms increased, with GDP increasing even more (according to the latest Eurostat data, available [here](#)).

## Macroeconomic imbalances

- **Unemployment** has been declining rapidly, but remains very high, especially among youth. The low productivity growth makes competitiveness gains dependent on cost advantages.
- All the three CSR adopted by the Council in July 2018 (presented in Annex 4) are underpinned by the MIP.

## Employment and social situation

The economic recovery of recent years has been particularly job intensive. The labour market in Spain has experienced high job creation and a continued decline in unemployment. The policy of the Spanish authorities has focused on enhanced job creation and on making the labour market more inclusive.

These efforts in combination with robust economic growth strongly supported net job creation, however unemployment and labour market segmentation still remain high.

## Employment and social situation

- According to the recent OECD economic survey and the IMF Article IV report it is essential to preserve the thrust of past reforms, including continuing to address labour market duality, strengthen active labour market policies, enhance incentives for greater labour mobility across regions, as well as increase wage flexibility. Improving employability of the low-skilled unemployed to decrease regional disparities remains a high priority.
- Since the policy objectives are formulated by the central government, while the responsibility of implementation is in the hands of the regions, enhanced regional cooperation remains important to further strengthen the employment strategy.



# Employment and social situation

- The European Commission country report 2018 noted that the employment rate reached 66.9% in Q2-2018 and the unemployment rate continued to steadily decrease to 16.6% in Q3-2018. The indicators remain nevertheless far from the pre-crisis levels of 2007 (70% employment rate and 8% unemployment rate in Q3- 2007). The unemployment rate has been particularly high among the young population (33.0% for 15-24 year olds in Q3-2018) and third countries nationals (20.6 % in Q3-2018).

# Employment and social situation

- The trend of long-term unemployment is on decline (43.4% in Q2-2018), although still 1.5 million people in Spain are outside of the labour market. Although the temporary employment rate remains very high (26.9% in Q2-2018), the number of open-ended contracts in net employment growth has increased to 54% on average in 2017, down from an average of 39 % in 2015, pointing to a positive trend in breaching the gap between permanent and temporary employment contracts.

# Employment and social situation

- High labour market segmentation and qualification mismatches continue to pose challenges. According to the 2019 Joint Employment Report, the ratio between low-qualified adults and the number of jobs requiring low levels of qualification is on average 3 to 1 in the EU, whereas in Spain there are on average 4.4 low-skilled workers for every low-skilled job.

# Employment and social situation

- The draft Budget recently adopted by the Government contains measures addressing social issues, namely increased social benefits for unemployment, the raise of the minimum wage, additional funds to finance studies and reduced taxes to access university and further financing to limit youth unemployment.
- The budget also foresees an increase in the amount available to finance youth renting houses at affordable prices.

## Employment and social situation

Spain continued to strive towards its EU 2020-targets. Between 2008 and 2017, Spain reduced school drop-out rates by 13.4 percentage points, making substantial progress towards its national target of 15%. The share of 30 to 34 year olds with tertiary education was in 2017 broadly the same as in 2008, at 41.2% and below the national target of 44%.

## Employment and social situation

The number of people at risk of poverty and social exclusion, on the other hand, has risen. In spite of improvements in 2015 and 2016, Spain would still need to lift about 3.4 million people out of risk of poverty to meet its 2020 objective. Despite substantial improvements in employment levels, in 2017 Spain was behind its national target of 74% by 8.5 percentage points.

# Banking issues

## Most recent international reviews

- In their last post programme surveillance mission press release, Commission Staff pointed out to an “overall comfortable solvency and liquidity” position of the Spanish banking system, linked to the reduction in non-performing loans. The Staff mentioned adequate progress in implementation of the January 2018 merger of Banco Mare Nostrum with Bankia and the prospects of a new management strategy for SAREB assets. It further recommended completing the privatisation of Bankia and encouraging further divestment of banking foundations in savings banks to further reinforce the sector. The Government decided in December to postpone divestment in Bankia for two years.

# Banking issues

## Most recent international reviews

The last IMF Article IV Staff report on Spain recommended further cleaning up of *“legacy bank assets, continued improvement in bank profitability and capitalization, rigorous management of interest rate and liquidity risks, and reform of the institutional framework for financial oversight”* along the lines of the 2017 IMF FSAP. The IMF Staff concluded that the banking sector has been strengthening (albeit CT1 levels remain below European peers) and NPLs reducing, although still above EU average on business (real estate, construction and SME loans among the highest). Banks’ profitability turned negative in 2017 due to the resolution of Banco Popular.



# Banking issues

## Spanish Banking sector: selected issues

- Sareb (*Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria*) is the asset management company to which the Spanish banks transferred their troubled loans and real estate assets. The company was set up in November 2012 as part of the Memorandum of Understanding, in order to assist the restructuring and recapitalisation of the Spanish banking sector. Sareb took over a portfolio of EUR 50.8 billion, approximately 80% thereof were loans to property developers, the other 20% real estate property assets.

# Banking issues

## Spanish Banking sector: selected issues

- Sareb's overall objective is to liquidate the assigned portfolio of assets in an orderly manner over a period of 15-year at maximum (until November 2027), trying to maximise the returns from the orderly liquidation.
- The majority of Sareb's share capital is privately owned (55% in total held by Spanish banks, i.e. Banco Santander, Caixabank, Banco de Sabadell, and others), the other 45% are in the hands of FROB, the publicly owned Spanish Fund for Orderly Bank Restructuring.

# Banking issues

## Spanish Banking sector: selected issues

Sareb is subject to the supervision of the Bank of Spain and the Monitoring Committee. The Monitoring Committee is chaired by the Ministry of Economy and Business (currently Minister Calviño), and comprised of the Bank of Spain, the Ministry of Finance, and the National Securities Markets Commission (CNMV). The Monitoring Committee's role is to check Sareb's compliance with its general objectives, to analyse the company's business plan, plan for the disinvestment and plan for the amortisation of the underwritten debt, and to look for any potential deviations.

# Banking issues

## Spanish Banking sector: selected issues

DG ECFIN's post-programme surveillance report of November 2018 notices (p. 14) that:

- *“The liquidation of SAREB’s assets - both loans and real estate - in H1 2018 was slower than planned **and the company continued to post net losses. [...] The company continued to miss its annual budgetary objectives set in the business plan. [...] Furthermore, the legal and administrative proceedings to convert loans into foreclosed assets were delayed.**” (own emphasis)*

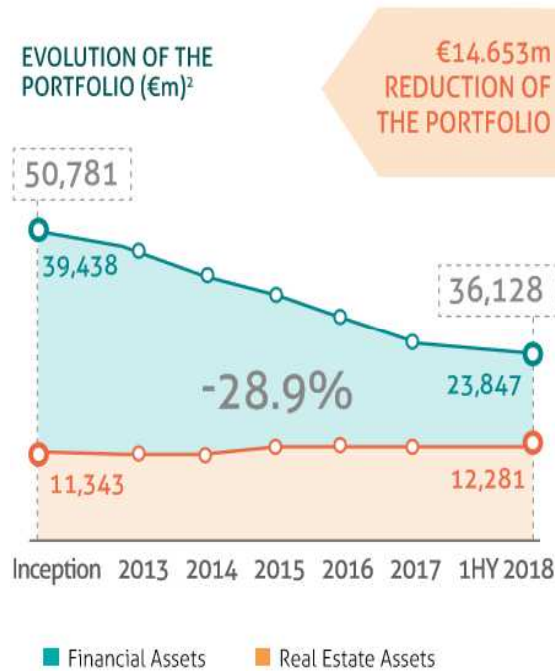
# Banking issues

## Spanish Banking sector: selected issues

- We also note that, while the total portfolio at aggregate level has been reduced by 29% over the five-year plus period, the nominal value of the real estate sub-portfolio has not been reduced but has increased, in relative and even in absolute terms. That increase is due to the fact that the portfolio reduction achieved by the disposal of real estate units (approximately 80.000 over the whole period) is more than offset by incoming new properties that Sareb took possession of as collateral.

# Banking issues

**Graph 5: The evolution of Sareb's portfolio since inception**



Source: [Sareb's Activity Report / First Half 2018](#), p. 12

## Banking issues

Sareb's debt (funding) is guaranteed by the State; if Sareb hence failed to meet its divestment targets in the long-time horizon, a payment burden could fall to the taxpayer.

The **2019 Draft Budget proposes** a number of measures that may impact the Spanish banking sector: (a) a minimum corporate tax rate of 18% for banks; (b) a financial transaction tax.

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**Thanks for your attention**

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