

Statement on the First Financial Sector Monitoring Mission to Spain

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A staff team from the International Monetary Fund (IMF) visited Madrid October 15-26 for the first independent monitoring mission of the financial sector in the context of the European financial assistance for bank recapitalization, agreed with the Spanish authorities and the European partners on July 20, 2012 (see [Terms of Reference](#)). The team met with official and private sector representatives, and at the end of the visit presented a preliminary report to the Spanish authorities and the European Commission. The final report will be conveyed to the authorities and the Commission in early November.

The main finding of the preliminary report mission is that important progress has been made in reforming the financial sector. All deadlines established in the Memorandum of Understanding (MOU), agreed between the Spanish and European authorities, have been met. It will be important to maintain the momentum as challenging steps lie ahead. More specifically, the preliminary report finds that:

- On the **macrofinancial context**. Financial market conditions have improved since the announcement of the ECB's Outright Monetary Transactions program, though they remain fragile, and the economy and banks face headwinds.
- On **bank restructuring and resolution**. The bottom up stress test was technically robust and provides a sound basis for identifying undercapitalized banks. As already envisaged under the MOU, the capital shortfalls need to be quickly made up, recently-created burden-sharing tools applied, and non-viable banks promptly wound down. New mergers that do not clearly generate value or that place undue constraints on system-wide credit supply should be avoided.
- On the **Asset Management Company (AMC)**. Key design features and the general legal framework of the AMC have now been defined. However, strong efforts will be needed to make the AMC fully operational by the end-November deadline. It will be important to ensure the right incentive structures, especially for the independence of AMC management and the effective management of the transferred assets.
- On **burden-sharing and resolution framework**. The new law is a significant achievement. A governance model for nationalized banks that preserves their autonomy should also be considered.
- On **regulation and supervisory framework**. Significant progress has been made, including adoption of new consumer protection and securities legislation.

The second financial sector monitoring report is expected to be produced in the first quarter of 2013.