

Letter from the Editors

Further European integration towards a genuine banking union will be a necessary condition for economic growth, both for the EU and for Spain. As noted by Mario Draghi during a recent March conference on European financial integration, “effective financial integration is essential to make Europe stronger and the European Central Bank (ECB) is committed to making it happen, at a time when the fragmentation of the financial market has led to the improper transmission of the monetary policy.” It is in this context that the May issue of SEFO examines the fragmentation of the European financial market and the cost of bank financing.

The reversal of the financial integration process since the onset of the crisis has led to divergent interest rates across European countries for various types of financing, with distressed countries—those hardest hit by the sovereign debt crisis—facing much higher borrowing costs. This trend has been worrisome for European SMEs, and Spanish SMEs in particular, as they are paying on average 35% and 77% above Euro area and German SMEs, respectively.

We also examine the role of exports in the Spanish economic recovery and their limitations. Exports are expected to play a key role in the Spanish economic recovery. Indeed, the Spanish external sector has registered positive performance throughout the years of the economic crisis. While favorable export growth has helped to underpin the external sector’s positive contribution to GDP, the fall in imports as a result of falling domestic demand has had an even larger impact. Looking into the future, exports can be expected to maintain their positive performance. However, given the reduced relative size of the Spanish export sector, the high degree of re-exports resulting in modest value added, and the current economic environment in Europe and elsewhere, exports alone do not seem enough to drive a recovery in Spain. A significant pick up in domestic demand and further internal market reforms are also needed to foster growth.

Furthermore, we provide an update on developments in the financial sector, such as progress under the Memorandum of Understanding (MoU) with the EU for aid to the Spanish financial sector. We focus on the area of bank restructuring and recapitalizations, complete with burden-sharing requirements, where haircuts for Group 1 and Group 2 banks range from 13%-60%. On a related note, loans have also been reclassified, potentially resulting in additional provisions for doubtful loans.

Finally, we take a look at the Government's recently announced National Reform Program for 2013, which aims to strike a balance between stimulating growth and remaining on track with new, relaxed fiscal adjustment targets. One of the most outstanding elements of the new program is the more adverse scenario for the 2013-2016 period, aligning the Government's forecasts with those of the main international organizations. The overall guidelines of the program are understood to be in the context of an economic policy strategy defined by Europe. Nevertheless, delays in the implementation of some reforms, such as those related to rationalizing the public administration, and the need to further develop the details of other policies already in force, such as public pensions or labor reform, mean that the key elements of the 2013 Program are an extension of those from last year.