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NOTE

from:	General Secretariat of the Council
to:	Delegations
Subject:	Summary record of the meeting of the European Parliament **Committee on Economic and Monetary Affairs (ECON)** held in Brussels on 28 January 2014 Chair: Mr ZALBA BIDEGAIN (EPP, ES)

Half-day meeting solely dedicated to the economic dialogue with Spain.

Agenda Item 1

Adoption of the agenda

The agenda was adopted.

Agenda Item 2

Chair's announcements

There were no announcements.

Agenda Item 3

Economic Dialogue and exchange of views with Luis De Guindos, Spain's Minister for Economic Affairs and Competitiveness

ECON/7/14940

In his introductory statement, Minister DE GUINDOS summarized the latest developments in the Spanish economy and addressed the challenges that lay ahead in the European Union.

He considered the Banking Union to be the most important step taken by the EU since the creation of the euro and one of the cornerstones of the continuing recovery of the Eurozone. He viewed 2014 as the year of the recovery but conceded that there were still significant challenges ahead in order to recover the levels of prosperity in the EU before the crisis.

He underlined the noteworthy progress achieved by Spain in 2013 which had enabled it to leave the recession behind and to envisage continued growth for the first time in five years. He referred to the International Monetary Fund forecasts for Spain in 2014 and those of his government, which predicted 0.7 per cent GDP growth in 2014, and pointed out that the recovery was based on a range of actions undertaken by the Spanish State.

These included reforming the financial system in record time. The reform had restructured and recapitalised banks, enhanced transparency and strengthened supervision in the regulatory framework, and made the whole sector more politically independent. He also stressed the significant correction in the public deficit which had improved the external perception of – and boosted confidence in – the Spanish State and its economy. This was reflected in the increase in foreign direct investment and the reduction in the cost of public debt.

He also mentioned the labour reforms approved by the government in March 2012, which simplified contracts and made the labour market more flexible. He said that unemployment had stabilised and decreased for the first time since 2008, and that Spain would nevertheless continue its reform efforts in the labour market, which were and would continue to be complemented by a set of other important structural measures. These included liberalisation of the markets for goods and services, rationalisation of the public sector and reactivation of credit. He also told the Committee that Spain would pursue fiscal discipline and the reform and simplification of the tax regime to create the appropriate incentives for growth and job creation. The country would also work to revise the autonomous regions' financial systems, create alternative sources of finance for SMEs, continue reforming the energy and transport markets and improve professional associations. He said that Spain had recovered part of its competitiveness on a structural basis and that price moderation had been good for Spanish households.

Mr DE GUINDOS referred to the deleveraging process undergone by Spanish families and companies and the adjustment of prices in the housing sector, as well as the reduction of Spain's external debt and the improvement in Spain's exports and current account surplus. He said that the external sector would continue to be the motor of economic recovery and expected a recovery in internal demand in 2014. Finally, he noted that Spain had moved from being a focus of concern to contributing to the rebalancing of the EU economy and stressed that the model of European integration and solidarity was in the process of being reformed.

In the subsequent debate, while many MEPs praised the efforts undertaken by the Spanish government, others called into question the optimism expressed by the Minister.
Mr FEIO (EPP, PT) and Mr BALDINI (S&D, HR) asked Mr DE GUINDO for his opinion on the Intergovernmental Agreement (IGA) on the Single Resolution Mechanism (SRM), as well as on the prospects for an agreement between the Council and the European Parliament (EP). Mr SÁNCHEZ PRESEDO (S&D, ES) viewed the recession as self-inflicted and said that Spain was not yet out of the crisis. He enquired about the on-going reforms and the measures to correct macroeconomic imbalances and create jobs. Mr TREMOSA I BALCELLS (ALDE, ES) asked about ways to restore credit flow to the real economy and to improve the public deficit, while Mr TERHO (EFD, FI) questioned the robustness of the Spanish banking sector. Mr LAMBERT (Greens/EFA, BE) referred to a rise in inequality in Spanish society and claimed that those who had caused the crisis in Spain were not the ones who were paying the bill. Mr MEYER (GUE/NGL, ES) considered that the government's optimism did not match up reality. He criticised the Troika's actions and referred to the deterioration of the labour market and the welfare state. He did not see any cause for optimism, especially for the unemployed, and called for a change of course and an audit of the sovereign debt.

In response, Mr DE GUINDOS explained that Spain had made some mistakes in the past which had to be avoided in the future. It had permitted excessive credit growth and triggering a property bubble which had generated unsustainable tax revenues and a subsequent drop in tax revenues and competitiveness. In the future, he considered it indispensable to monitor credit flows, trends in real estate prices and the external deficit, and called for a new model of growth based on competitiveness, productivity and efficiency with a solvent banking system. He also referred to the problems in the banking industry and was convinced that the Single Supervisory Mechanism (SSM) would enable better supervision and economic governance. He considered the current IGA on the SRM to be a balanced and delicate compromise which was preferable to no agreement in which every Member State had to make concessions, and viewed it as a good basis for an agreement with the EP.

Mr DE GUINDOS said that the government had not bailed out banks but rather depositors. Shareholders had incurred substantial losses, management teams had been modified, caps had been imposed on the remuneration of bankers, and the corporate governance of savings banks had been improved. He added that the alternative to recapitalising the savings banks would have been much more costly. He expressed his confidence that the Spanish banking sector would overcome comfortably the upcoming asset quality review and stress tests.

He explained that Spain was trying to create the right incentives for savings and labour creation and to reduce both income and corporate taxes and that fiscal reform also had to guarantee efficient tax collection, be based on fairness, appropriate tax breaks and to focus on consumption-based taxes.

He noted that the State was the main creditor of many autonomous regions, which was evidence of the existing concept of solidarity in Spain and that the on-going deleveraging process would also improve the health of the economy and restore credit flows.

He admitted that the labour market situation remained serious but believed that there was cause for moderate optimism, as recent positive data had showed, and noted that despite the difficulties, the welfare system and public services had been preserved. He explained that the deficit had been reduced by simultaneously maintaining unemployment benefits and decreasing public spending in other areas. He then paid tribute to the maturity of the Spanish people, who had endured many sacrifices and contributed decisively to the recovery.

He concluded that monetary and/or fiscal policies were not sufficient in themselves to address macroeconomic imbalances; that the combination of a balanced consolidation programme and structural reforms had successfully addressed the main macroeconomic imbalances in the economy and that Portugal would be the next EU success story.

Agenda Item 4

Any other business

There was no other business.

Agenda Item 5

Date of next meeting

The next meeting will be held in Brussels on 30 January 2014.