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Mario DRAGHI  
President

Ms Paloma López Bermejo  
Member of the European Parliament  
European Parliament  
60, rue Wiertz  
B-1047 Brussels

Frankfurt am Main, 8 February 2018

L/MD/18/53

**Re: Your letter (QZ-114)**

Honourable Member of the European Parliament, dear Ms López Bermejo,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 4 December 2017.

Due to the global financial crisis and the ensuing sovereign debt crisis, three million jobs had been lost in Spain between late 2007 and early 2012, and over 24% of the labour force was unemployed. Moreover, by 2012, the Spanish economy contracted by more than 8% since its pre-crisis peak. As part of the response to the crisis, the Spanish government embarked upon a wide-ranging reform process, which included the labour market. As regards the latter, the Royal Decree Law 3/2012 of 10 February 2012 introduced several measures giving firms and their employees more flexibility to adjust wage and employment conditions in response to firms' specific circumstances. Furthermore, a number of market reforms were introduced to strengthen the financial sector and improve the functioning of product markets.

Spain's economic performance since then has testified to the benefits of these reforms. After returning to growth in the second half of 2013, the Spanish economy has expanded at rates in excess of 3% in each of the last three years. During this period, employment has increased by 1.8 million and, as a result, the unemployment rate has fallen by around 10 percentage points from its peak in 2013. This in turn helped to reduce income and wealth inequality. In fact, those who are able to find a job thanks to labour market and other reforms will normally see their income prospects improved – in both absolute and relative terms.

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As regards the wage growth mentioned in your letter, it has been subdued in both nominal and real (inflation-adjusted) terms since the second half of 2013. Such moderation in the growth of labour costs, together with other reforms, has enabled Spain to create jobs, generate growth through net exports, reduce its debt vis-à-vis the rest of the world and thereby strengthen the Spanish economy. Looking forward, one can expect real wages to gradually rise provided that Spain's economic expansion continues and unemployment falls further. It will remain important for wages to reflect developments in productivity and competitiveness, while taking into account differences across sectors and firms. Further reforms that increase productivity and competition in product markets, and improve the quality of education and training, would provide greater scope for higher wages and improved living standards.

Yours sincerely,

[signed]

Mario Draghi

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