Spain's property crisis undermines domestic banks
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The prediction yesterday by Jose Luis Rodriguez Zapatero, the Spanish prime minister, of mergers among the country's weaker banks merely brought into the public domain a looming reality accepted months ago in private by Spanish bankers.

"When there's a time of grave crisis like this, it's likely that there will be merger situations and restructurings not only in Spain but in other countries as well," Mr Zapatero told parliament.

Although Mr Zapatero blamed the international financial crisis, and although the resultant seizing up of the interbank lending market has indeed worsened the difficulties of Spanish banks, the underlying reason for Spain's domestic banking problems is the spectacular collapse of the local housing market.

Many of the 45 unlisted cajas, as Spanish savings and loans institutions are known, are heavily exposed on two fronts: first to property developers unable to sell new apartments and houses, and secondly to individual mortgage holders who find it hard to repay their debts as the economy falls into recession and unemployment rises.

According to Tinsa, the Spanish property appraiser, Spain's stock of new, unsold residential properties is likely to reach 920,000 by the end of this year. Property developers and cajas focused on the Mediterranean coast in eastern and southern Spain are particularly exposed.

The strongest financial groups - including BBVA and Santander, the two biggest and most international banks, and Caja Madrid and La Caixa, the two largest cajas - are expected to weather the storm with minor damage at worst.

Some of the other listed banks may not be so fortunate, although an executive of Banco Popular, which had been targeted this year by short-sellers, said the decimation of hedge funds as a result of the international crisis had helped to relieve the downward pressure on the bank's share price.

As for the cajas, bankers and regulators are almost unanimous in predicting that the Bank of Spain will push for mergers or takeovers of the weakest as the ratio of bad loans in their real estate lending portfolios continues to rise.

"The cajas don't have enough capital in general terms to deal with NPLs (non-performing loans) over the next two years," says a senior bank executive in Madrid.

"You will see first consolidation among them and then public money... The problem is to find cajas with enough capital and enough liquidity to buy up the other cajas."

Credit ratings agencies have announced a wave of downgrades for Spanish institutions. Three days ago, Standard & Poor's lowered its long- and short-term counterparty credit ratings for Caja de Ahorros del Mediterraneo, noting "a fairly fast deterioration" in asset quality as a result of the "drastic adjustment of the Spanish real estate sector".

Last month, Fitch cut its ratings for Caixa Sabadell, Caja de Ahorros de Castilla la Mancha, Cajasur and Caixa Penedés.

The opaque ownership structure of the cajas and their political importance in the regions of Spain means they are hard to shut down or absorb into other banks. But when the crisis becomes too grave to ignore, the fact that the cajas are unlisted means that the authorities can perform the necessary operation quickly and discreetly.

"Everything is impossible until it becomes possible," says the Spanish banker, citing the UK example of the Lloyds TSB takeover of HBOS.

Spain's strongest banks today are the products of mergers and restructurings during banking crises in the 1980s and 1990s. As Mr Zapatero implied yesterday, it may be time for another round of consolidation.

Fonte: Financial Times, London, October 16 2008, Companies & Markets, p. 17.