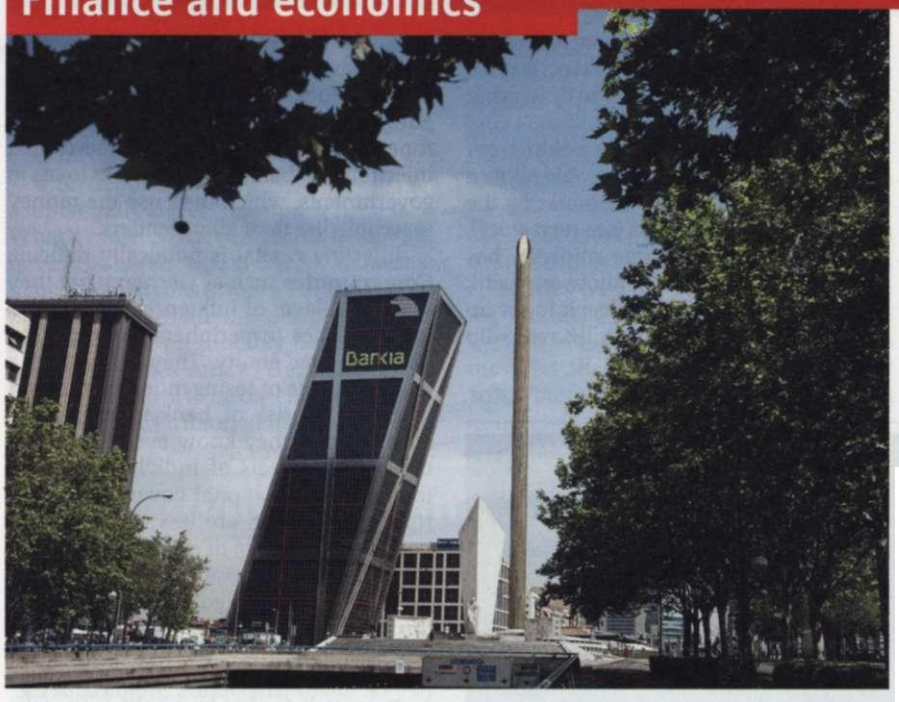


Also in this section

For daily analysis and debate on economics, visit
Economist.com/economics

Spain's banking system

Teetering

MADRID

Spain has avoided facing up to its banking problems. Now it has no choice

IN THE weeks before its listing last summer, Bankia inundated airwaves, bus stops and newspapers with an advertising campaign that invited viewers to buy shares and become a *bankero*. If the campaign was jarring back then, it now seems almost grotesque. On May 26th Spain's fourth-largest bank requested a €19 billion ($24 billion) bail-out from the state. Like it or not, every Spanish taxpayer is now a bankero. What's more, the scale of the cleanup at Bankia raises fears that other lenders will require more cash at a time when there is no obvious way of raising it.

The good news is that the larger-than-expected rescue means the government is at last serious about cleaning up Bankia. Its new chairman, José Ignacio Goirigolzarri, certainly has every incentive to flush out all the bank's problems so that the balance-sheet is purged of nasties. Bankia's recently nationalised parent, Banco Financiero y de Ahorros (**BFA**), will get €19 billion on top of the €4.5 billion it had already received from Spain's bail-out fund, the **FROB**. The new provisions go beyond recent state requirements and will cover nearly half of the group's real-estate exposure, and 13.1% of its entire loan book.

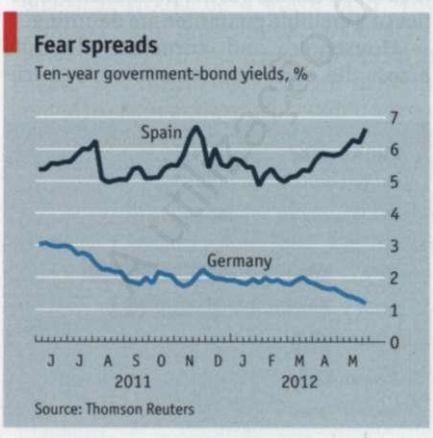
Existing shareholders will see their 55% stake in Bankia heavily diluted. Although they will have the right to participate in Bankia's €12 billion capital increase in October, which will be underwritten by **BFA**, it is pretty unlikely that anyone will take up those rights (Bankia's shares have fallen by more than 70% since it listed). The government might have reduced its bill by going after the holders of preference shares. Yet these complex and illiquid instruments were in some cases marketed as quasi-deposits to retail clients, many of whom also bought shares in Bankia. The risk of imposing pain on these retail investors is that it provokes a deposit flight. So the government will have to fill the gap.

The burning question is whether the scale of Bankia's hole provides clues about the state of other weak lenders. True, Bankia had the biggest property exposure in Spain, not least in Valencia on the Mediterranean coast. That region is home to **CAM**, a failed savings bank dubbed "the worst of the worst" by Miguel Angel Fernandez Ordonez, who this week brought forward his exit from the post of Spain's central-bank governor. Bankia also made risky loans to low-income immigrants. And at least €6.6 billion of the cleanup relates to industrial stakes and tax assets.

But Bankia's assumptions on the rate of non-performing loans in areas such as residential mortgages and corporate loans set a disturbing new benchmark for other lenders. It seems highly likely that an external review of Spanish banks by two consultancies, whose initial findings are due later this month, will find more holes.

Based on Bankia's assumptions on loan losses, the rest of the sector could need another €45 billion in provisions on top of what the government has already demanded, according to **UBS** estimates. Analysts at Nomura believe that all the Spanish banks, with the exceptions of **BBVA**, Banco Santander and Sabadell, would need to raise capital. (Most believe that **BBVA** and Santander in particular are strong enough to be able to handle provisions via earnings.)

The question is where all this money will come from. Private capital is a no-go. "Every single door is closed," says a senior banker, **BFA** is expected to receive the €19 billion rescue funds-equivalent to less ••



• than 2% of Spanish **GDP** - in early July. The obvious way to raise the money is for the **FROB** to issue bonds, but the government is clearly nervous about testing the markets when its borrowing costs are so high. Spreads between its ten-year bonds and German Bunds hit another euro-era high this week (see chart on previous page).

Hence talk this week of giving Bankia Spanish sovereign bonds in return for equity, which it could then swap for cash from the European Central Bank. Such a scheme would avoid tapping the markets but is unlikely to go down well at the **ECB**. Besides, manoeuvring to avoid the markets is not a great signal of Spain's ability to fund other borrowing requirements.

The government may be holding out for a change in the rules that would allow a direct recapitalisation of the banks by the euro zone's bail-out funds (see next story). Mariano Rajoy, the prime minister, has promised that he will not allow any bank to fail. To honour that pledge, it looks increasingly likely that Spain will have to dip into other countries' pockets.

Matéria

Fonte: The Economist, London, v. 403, n. 8787, p. 85-86, 2-8 Jun. 2012.