

FAQ – FINANCIAL ASSISTANCE FOR SPAIN

- 1 – Does the financial assistance provided to Spain for the recapitalisation of its banking sector mean that the ESM is now fully operational?

Yes, the ESM is fully prepared to provide financial assistance upon the request of an ESM Member State. As Klaus Regling, Managing Director of the ESM, noted with reference to the financial assistance for Spain during the Eurogroup press conference on 3 December 2012, “A little less than two months after the inauguration, the ESM – with these operations – is fully operational.”¹

- 2 – How much is the financial assistance for Spain?

On 25 June 2012, the Spanish government made an official request for financial assistance for its banking system to the Eurogroup for a loan of up to €100 billion. The results of the diagnostic exercise, commissioned by the Spanish authorities to external evaluators, indicated that the additional capitalisation needs of the Spanish banking sector as a whole could be estimated to be in a range of €51-62 billion. Including an additional safety margin, these capital needs would remain within the envelope approved by the Eurogroup of up to €100 billion in total.²

On 3 December 2012 the Spanish government formally requested the disbursement of close to €39.5 billion of funds for the recapitalisation of Spain’s banking sector. The funds will be transferred in the form of ESM notes by 12 December 2012 to the Fondo de Reestructuración Ordenada Bancaria (FROB), the bank recapitalisation fund of the Spanish government. The FROB will use these notes for the recapitalisation in an amount close to €37 billion of the following banks that have been categorised as Group 1: BFA-Bankia, Catalunya-Caixa, NCG Banco and Banco de Valencia. Additionally the FROB will provide up to €2.5 billion to SAREB, the asset management company for assets arising from bank restructuring.

- 3 – How was it determined whether the financial assistance would be provided by EFSF or the ESM?

It was stated at the press conference following the Eurogroup meeting on 21 June 2012³ and reaffirmed by the euro area summit of 29 June 2012⁴ that the financial assistance in the form of a Bank Recapitalisation Facility for Spain would be provided by the EFSF until the ESM becomes available, then it would be transferred to the ESM without gaining seniority status. As the ESM Treaty entered into force on 27 September 2012, the financial assistance for the recapitalisation of Spanish banks was transferred to the ESM. For this purpose, a financial assistance facility agreement between the ESM, Spain, FROB and the Bank of Spain was signed based on the new ESM lending documentation, replacing the EFSF financial agreement.

- 4 – What is the status of the EFSF’s contingent facility of €30 billion for the recapitalisation of Spanish banks?

Financial assistance granted to Spain included a contingent facility of €30 billion, set aside for unforeseen vulnerabilities of the Spanish banking sector that may threaten the financial sector as a whole and potentially give rise to contagion outside of Spain. EFSF notes were issued in July 2012 and held by the EFSF in order to be provided to the FROB upon request. Conditions improved for the Spanish banking sector after the announcement of the EFSF financial assistance, and the funds were

¹ For a video of the press conference, please see <http://www.esm.europa.eu/press/videos/index.htm>

² For the Eurogroup statement following Spain’s intention to seek financial assistance on 9 June, <http://estaticos.elmundo.es/documentos/2012/06/09/eurogrupo.pdf>

³ <http://video.consilium.europa.eu/webcast.aspx?ticket=775-983-11475>

⁴ http://consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/131359.pdf

not requested by the FROB. This facility was not transferred to the ESM facility for Spain. The EFSSF bonds will be cancelled when the first tranche is disbursed by the ESM in mid-December.

➤ 5 – Will the ESM provide loans directly to Spanish financial institutions?

No. The FROB, acting as agent of the Spanish government, will receive the funds and channel them to the financial institutions concerned. This is a loan to the sovereign and the Spanish government remains responsible for its repayment.

➤ 6 - What will be the maturity of the loans granted to Spain?

The maturity will be up to 15 years, with an average maturity of 12.5 years.

➤ 7 – Will there be conditions attached to the financial assistance?

Yes, the Commission in liaison with the ECB, European Banking Authority (EBA) and IMF, determined a set of measures specific to a set of individual banks necessary to restore the soundness of the Spanish banking system. Besides this bank-specific conditionality, reforms were also identified to help strengthen the framework for the banking sector as a whole. These represent the “horizontal conditionality” associated with the loan. Moreover, there is a close relationship between macroeconomic imbalances, public finances, and banking sector soundness. Hence, Spain remains committed to respecting its engagements under the Excessive Deficit Procedure and European Semester.

➤ 8 – Will EU state aid conditionality apply for the programme?

State aid conditionality will apply for the banks which receive financial assistance. The Commission will treat each capital injection or other financial assistance as state aid for the bank concerned, and will apply the same rules as for other European banks in the crisis.

➤ 9 – What were the conditions for the Commission to approve state aid for banks?

The approval process is linked to the existence of a credible restructuring plan, which demonstrates in a convincing manner how the bank will return to viability without needing further state aid. The plan has to show as well how the bank minimises the cost for the taxpayer and measures for mitigating competition concerns. The plan is submitted in the form of a legal commitment by Spain. In that context, the Commission has provided detailed guidance regarding the pricing of State guarantees, recapitalisations and asset relief measures respectively in the Banking Communication, the Recapitalisation Communication and the Impaired Assets Communication as well in the Communication of 1 December 2011.⁵

On 28 November 2012 the European Commission concluded⁶ that the restructuring plans of the four Spanish banks BFA/Bankia, NCG Banco, Catalunya Banc and Banco de Valencia were in line with EU state aid rules. The restructuring plans were submitted for Commission approval as foreseen by the Memorandum of Understanding (MoU) agreed between Spain and the Eurogroup in July 2012.

➤ 10 – How will the programme be monitored?

⁵For further information, please consult the respective Communication at the respective website of the European Commission's Directorate General for Competition

http://ec.europa.eu/competition/state_aid/legislation/temporary.html

⁶ For details of the Commission's decision, please consult http://europa.eu/rapid/press-release_IP-12-1277_en.htm

The European Commission, in liaison with the ECB and European Banking Authority, will verify at regular intervals that the policy conditions attached to the financial assistance are fulfilled, through missions and regular reporting by the Spanish authorities, on a quarterly basis. Monitoring of the FROB activities in the context of the programme will take place regularly, and the ESM has an observer status in the Board of the FROB. The European Commission in liaison with the ECB and EBA has been granted the right to conduct on-site inspections in any beneficiary financial institutions in order to monitor compliance with the conditions..

- 11 – Who determines which financial institutions receive funds and the amount that each will receive?

This has been decided following the assessment from the European Commission in liaison with the ECB, EBA and the IMF, in agreement with the Spanish authorities, and following a stress test of all banking groups.

- 12 – Will an asset management company be created to take over the distressed assets of Spanish banks?

Yes, an external asset management company (Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria – SAREB) will be fully established by year-end. It will manage the assets transferred from the restructured banks under the programme. Its lifetime has been set at a maximum of 15 years. Its management team was nominated at the start of December, and the priority is to finalise the AMC's business plans and strategy.

- 13 – How were the funds raised?

The ESM launched and priced two bills and three floating rate notes for the financial assistance to be provided for the Spanish banking sector via FROB.⁷

- 14 – Is the IMF involved in the financial assistance for Spain?

Yes, though only in an advisory and monitoring capacity. The IMF will not make a financial contribution because it does not have a sectoral financial assistance tool matching the one being used.

- 15 – What will be the financing cost for Spain?

ESM's financing cost for Spain will be the market rate of bonds issued plus a small operational service fee and margin. The cost will therefore be mainly determined by the maturity of the bonds issued and market conditions.

- 16 – What would be the impact of the bank rescue package on Spanish government deficit and debt?

According to a statement by Eurostat, issued on 12 June 2012, the loan taken by the Spanish government will directly increase the Spanish government debt. There will also be a direct deficit impact for Spain for the interest expenditure on the loan. As regards the impact of the recapitalisation, the deficit impact depends upon whether or not the capital injections are considered government expenditure. Because the AMC has a majority private ownership, it shall not be consolidated with the public sector in national statistics.

⁷ For more information on the notes issued by the ESM, please consult the ESM press release:
<http://www.esm.europa.eu/pdf/ESM%20press%20release%20ESM%20issues%20bonds%20for%20the%20recap%20of%20Spanish%20banks%2004122012.pdf>

➤ 17 – What is the remaining lending capacity for EFSF/ESM?

The macro-economic assistance programmes for Ireland, Portugal and Greece correspond to €192 billion in commitments from the EFSF. The EFSF has therefore €248 billion in remaining out of its maximum lending capacity of €440 billion.

The ESM has committed up to €100 billion for financial assistance for the recapitalisation of the Spanish banking sector. Therefore the ESM has €400 billion remaining out of its maximum lending capacity of €500 billion.

The current overall ceiling for ESM/EFSF lending, as specified in the Statement of the Eurogroup of 30 March 2012, is €700 billion.