Conclusion of ESM financial assistance programme for Spain: an overview

31 December 2013
The situation of Spanish banks has improved

- Process of **bank restructuring** is well underway

- **Transfer of impaired assets** to SAREB (asset management company) has been completed

- Steady **reduction of Eurosyste...**

- Overall **positive earnings results** of Spanish banks over 2013

- Markets acknowledge **Spain’s progress**; sovereign and corporate yields have dropped
The origins of Spain’s banking crisis

- **Significant housing bubble** (house prices nearly tripled between 1997 and 2008)
- Construction boom fuelled by **excessive credit expansion**
- **External competitiveness** deteriorated during credit boom
- **Credit crunch** in the US markets precipitated the bursting of the bubble

**Features** of crisis in Spain:
- Sharp fall in property prices; loan losses for banks
- Decline of aggregate demand and GDP, very high unemployment
- High level of private debt (businesses and households)
Financial assistance granted

- Spanish authorities requested financial assistance for the **recapitalisation** of the banking sector on 25 June 2012
- **Assistance was approved**, along with bank and financial sector policy conditions, by the Eurogroup on 20 July 2012
- Financial assistance was granted to Spain for **up to €100 billion**
- This was designed to cover the **capital shortfall** of Spanish banks, with a safety margin
- The facility was transferred from the EFSF to the ESM in November 2012
Financial assistance provided by ESM

- First disbursement of over €39 billion was requested by Spain in December 2012 and carried out by the ESM; second disbursement of over €1.8 billion in February 2013.

- Funds were disbursed in the form of ESM bills and floating rate notes with maturities ranging from 10 months to 3 years.

- No further disbursement was requested by Spain, thus, total amount of financial assistance was €41.3 billion.

<table>
<thead>
<tr>
<th>Date of disbursement</th>
<th>Amount (€ billion)</th>
</tr>
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<tbody>
<tr>
<td>11/12/2013</td>
<td>39.47</td>
</tr>
<tr>
<td>05/02/2013</td>
<td>1.86</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>41.33</strong></td>
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Loan repayment

- **Repayment** of loan principal by Spain starts in 2022 and ends in 2027
- **Average maturity** of loan tranches is 12.5 years

Spain’s loan repayment profile

Unit: billion EUR
Source: ESM
Conditionality of financial assistance

- **Bank-specific** conditionality
  - Identifying bank capital needs through asset quality review and stress-test
  - Recapitalisation and restructuring of weak banks
  - Segregation and transfer of impaired assets to SAREB

- **Sector-wide** conditionality to strengthen banking sector as a whole, including:
  - Regulatory capital targets
  - Improved bank governance rules
  - Upgrade of reporting requirements
  - More effective supervisory procedures
Programme success: exit without further external financial assistance

- Five successful reviews by European Commission and ECB with no delays or setbacks
- Findings during 5th review (Dec. 2013) confirm achievements:
  - Bank **restructuring is progressing well**
  - Banks are **refocusing their business models** on retail and SME lending
  - Banks’ **financing structure has improved**: access to private funding markets is comfortable and bank deposits are rising
  - 10-year sovereign **bond yields down about 350 bp** since start of the programme
- Economic recovery is starting to gain momentum; **GDP is expected to grow in 2014**
- Spanish decision of a exit **without further financial assistance** supported by EC and ECB
The housing market is correcting: prices have fallen substantially since their peak

Unit: 2005Q1=100
Source: Ministerio de Fomento
Note: House Price index
Net exports are contributing positively to GDP growth

Unit: annual % changes
Source: INE
Note: The figures for internal demand and net exports are contributions to growth in percentage points
Latest observation: Q2 2013
The restructuring of the banking sector

- From 2011, the Spanish banking sector started its **restructuring** through a deleveraging of its assets (-13%), loans (-24%) and deposits (-13%)

Unit: Upper chart: Trillion EUR. Lower chart: Billion EUR
G1 and G2 are Group 1 and 2 recapitalised banks
Source: Banco de España
Banks’ capital has strengthened

- At end-September 2013, all major banks exceeded the minimum Core Tier 1 capital ratio (EBA Definition) level of 9%.

*Unit: %
G1 and G2 are Group 1 and 2 recapitalised banks
Source: Banco de España*
The risk premium of the Spanish banking sector, measured by CDS spreads, has decreased more than 230 basis points since the second half of 2012.

Unit: Basis points
Source: Bloomberg
Note: Average CDS spread of Banco Santander, BBVA, Banco Popular, Banco de Sabadell, Bankinter,
Summary: successful bank restructuring paves the way for real economy rebound

- ESM support has allowed Spain to **recapitalise and restructure** troubled banks
- Advances in **structural reforms and fiscal consolidation** have been made
- Unemployment is still high, but the **trend** seems to have finally reversed
- Spain has regained international competitiveness; **net exports** are overperforming
- **GDP is projected to grow** by 0.5% in 2014 and 1.7% in 2015
- Spain has the potential to become a **real growth engine** in Europe in the medium term
Next steps: Post-programme monitoring

- ESM is required by its Treaty to establish an “early warning system” to assess the repayment capacity of a beneficiary country.

- Therefore the **ESM will monitor Spain** until the loan has been fully repaid in 2027.

- This does **not entail any new conditionality** for Spain.

- The ESM will closely collaborate with the **European Commission** in liaison with and the ECB, as they conduct their own monitoring process.
Media Enquiries

Wolfgang Proissl
Chief Spokesperson
Phone: +352 260 962 230
Mobile: +352 621 239 454
w.proissl@esm.europa.eu

Luis Rego
Deputy Spokesperson
Phone: +352 260 962 235
Mobile: +352 621 136 935
l.rego@esm.europa.eu

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