EU to Speed $123 Billion Aid for Spanish Banks
By James G. Neuger and Mark Deen - Jul 10, 2012

European governments will jump-start as much as 100 billion euros ($123 billion) in emergency loans to shore up Spain’s banks and may move the costs off the Spanish government’s balance sheet to shield the euro region’s fourth-largest economy from the debt crisis.

Spanish equities and bonds gained after finance chiefs agreed to make available 30 billion euros by the end of this month. The goal is to eventually use the euro-area bailout fund to recapitalize banks directly instead of saddling the government with the debts.

The initial cash will “be mobilized as a contingency in case of urgent needs in the Spanish banking sector,” Luxembourg Prime Minister Jean-Claude Juncker said early today in Brussels after chairing a nine-hour meeting of euro-region finance ministers. The program “will succeed in addressing the remaining weakness in the Spanish banking sector.”

European governments frontloaded the Spanish aid, held out the prospects of concessions to Ireland and promised to avert a cash crunch in Greece after last month’s summit-level pledge to calm markets failed to prevent a resurgence in the 2 1/2-year-old debt crisis.

Cash Injections
A four-day slump in Spanish and Italian bonds highlighted sagging confidence in the crisis response, especially after the European Central Bank showed no signs of restarting its bond-buying program. Spain’s 10-year bonds rose in early trading, sending the yield down as much as 6 basis points to 6.99 percent. The yields on Italy’s 10-year notes fell 6 basis points to 6.04 percent. That compares to 1.32 percent in Germany.

While the loans to Spain will go via the government’s bank-restructuring agency, the aim is to convert them into direct European cash injections once the setup of a single European bank supervisor makes that approach feasible, Juncker said.

“Then there will be no sovereign guarantee required,” said Thomas Wieser, in charge of the senior officials’ group that prepared the decisions.

Political hurdles remain to retrofitting the aid program, and how it will be organized was left unclear. “We’ll argue for the retroactivity,” French Finance Minister Pierre Moscovici said. German Finance Minister Wolfgang Schaeuble said the Spanish government would be liable initially and didn’t address the issue of eventually converting the loans into direct aid.

Single Bank Supervisor
Spain will set up a separate company to manage assets of banks tapping European support. Banks are sitting on about 180 billion euros of troubled assets linked to the real-estate industry as a property slump enters its fifth year.

The maturity of loans to Spain, starting from the European Financial Stability Facility, will average 12.5 years...
and run as long as 15 years. The program will be taken over by the permanent bailout fund, the European Stability Mechanism, set to go into operation in the coming weeks.

The terms are very positive, Spain’s Economy Minister Luis de Guindos said today in Brussels.

Euro officials continued to spar over the timetable for the setup of a single banking supervisor that would make a switch to direct recapitalization possible. The European Commission, which proposes European laws, expects to “have this in place by year-end,” Financial Services Commissioner Michel Barnier told a European Parliament committee.

Other officials have said the second half of 2013 is more likely. Germany’s Schaeuble said “it will take time, it’s complicated, it isn’t easy to do.”

**Stress Tests**

European banks that took part in last year’s capital stress tests have “largely raised” the 114.7 billion euros in fresh capital required by the European Banking Authority, according to a memorandum prepared for EU finance ministers.

The “capital shortfall identified” has “been largely raised from private sources and where necessary public backstops were activated,” according to the document. The detailed EBA report with the final endorsement of the individual results will be published in September.

In a concession to Spain that may hint at future leniency for Greece, the euro ministers gave Spanish Prime Minister Mariano Rajoy’s government an extra year, until 2014, to drive the budget deficit below the euro limit of 3 percent of gross domestic product.

Revised targets of 6.3 percent in 2012, 4.5 percent in 2013 and 2.8 percent in 2014 are “a challenging but achievable objective, but above all, it is a necessary objective,” EU Economic and Monetary Commissioner Olli Rehn said.

**‘Flexible and Efficient’**

Ireland responded by stepping up calls for what Finance Minister Michael Noonan called an “ambitious” renegotiation of the terms of its 67.5 billion-euro bailout. Juncker said tweaks to the program are conceivable by October.

Yesterday’s increase in Spanish and Italian borrowing costs relative to German levels nullified gains made in the wake of the June 29 euro summit commitment to intervene in bond markets “in a flexible and efficient manner.”

Those powers won’t be fully available until the permanent fund, the 500 billion-euro ESM, goes online. Plans to declare it operational yesterday were thwarted by a German constitutional challenge and ratification delays in Italy. Until the ESM gets going, Europe’s defenses will be limited to the 240 billion euros left in the temporary EFSF, set up in May 2010. It will be phased out once governments start pouring capital into the ESM.

**ECB Bond Purchases**

“This ESM today should be in action, and it is not and we do not know when it will be in action,” Ewald Nowotny, Austria’s representative on the ECB council, said at a panel discussion in Brussels. “This is of course...
something that tends to undermine the credibility of the decisions that we take at summits.”

Italian Prime Minister Mario Monti, who doubles as finance minister, pressed his case for steps to reduce Italy’s bond yields, whether using the euro bailout fund or the ECB.

The ECB went a 17th week without settling any government bond purchases, the bank said yesterday, keeping on hold a market-calming step used from May 2010 until February 2012 amid growing opposition from the Germans on its council.

The central bank is probing “all ideas” and “constantly studying and searching for actions that could attenuate the current crisis,” ECB President Mario Draghi told yesterday’s EU parliament committee hearing.

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