

FAQ – FINANCIAL ASSISTANCE FOR SPAIN

➤ 1 – How much is the financial assistance for Spain?

On 25 June, the Spanish government made an official request for financial assistance to the Eurogroup. The loan amount will cover estimated capital requirements with an additional safety margin that may amount to a total of up to €100 billion.¹

➤ 2 – When will the actual amount be known?

Reviews carried out by independent consulting firms Oliver Wyman and Roland Berger concluded that the Spanish banking sector would require up to €62 billion in capital. The specific amount will be finally determined based on thorough bottom-up audits of the individual financial institutions.

➤ 3 – Will the financial assistance be provided by EFSF or the future ESM?

It was stated at the press conference following the Eurogroup meeting on 21 June² that financial assistance for Spain would initially be provided by the EFSF. The assistance would then be taken over by the ESM once the ESM has entered into force upon ratification of its treaty.

➤ 4 – Will EFSF/ESM provide loans directly to Spanish financial institutions?

The Eurogroup considers that the Fondo de Reestructuración Ordenada Bancaria (Fund for Orderly Bank Restructuring, F.R.O.B.), acting as agent of the Spanish government, could receive the funds and channel them to the financial institutions concerned. The Spanish government will retain the full responsibility of the financial assistance and will sign the Memorandum of Understanding.

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

Yes, the Commission in liaison with the ECB, EBA and IMF will define the conditions affecting individual financial institutions, but will also propose reforms targeting the financial sector as a whole, including restructuring plans in line with EU state-aid rules, and the overall supervisory structure.³

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

State aid conditionality will not apply for the whole programme, but only 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.

¹ 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>

² <http://video.consilium.europa.eu/webcast.aspx?ticket=775-983-11475>

³ For further information, please consult the European Commission's Directorate General for Competition http://ec.europa.eu/dgs/competition/index_en.htm

➤ 7 – What are 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 has to be 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 from December 2011⁴

➤ 8 – Will Spain be required to step out as a guarantor of EFSF?

According to the framework agreement it is expected that Spain will remain as a guarantor of the EFSF.

➤ 9 – When will the financial assistance start?

The Spanish government made an official request to the Eurogroup for financial assistance on 25 June. Necessary assessments will now be completed by the European Commission in liaison with the ECB, EBA and the IMF, and a Memorandum of Understanding (MoU) setting out the modalities of the assistance and policy conditionality will be signed by the Spanish government and the European Commission. In parallel a Financial Assistance Facility Agreement will be prepared by the EFSF. Once the Facility Agreement and the MoU have been signed, the financial assistance can then be provided rapidly.

➤ 10 – Who will determine which financial institutions receive funds and the amount that each will receive?

This will be decided following the assessment from the European Commission in liaison with the ECB, EBA and the IMF, in agreement with the Spanish authorities.

➤ 11 – How will the funds be raised?

EFSF and ESM once ratified stand ready to provide financial assistance to Spain. The funds may be raised through cash, bills or bonds. However, in a similar manner to the recapitalisation of the Greek banking sector supplied by EFSF in April, it is expected that EFSF/ESM mostly provide bonds, without raising the full extent of the funds in the market.

➤ 12 – Will the IMF be involved?

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.

⁴For 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

➤ 13 – What would be the difference between EFSF and ESM loans?

ESM support has no impact on the debt of ESM members, while the debt issued by the EFSF is rerouted onto the guarantors.

➤ 14 – Will ESM take over any EFSF issuances within the Spanish financial assistance?

The Framework Agreement and the ESM Treaty allow for the possibility to transfer EFSF Financial Assistance Facility Agreements to ESM. It is expected that the loan is transferred to the ESM once it is established.

➤ 15 – Would the use of ESM trigger CDS?

Though the decision belongs to ISDA, the use of ESM to grant financial support is not expected to have any impact on CDS.

➤ 16 – Will Finland want Spain to post collateral?

Finland has indicated that it will require collateral for its share of the loan should the money come from the EFSF.

➤ 17 – What would be the financing cost for Spain?

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

➤ 18 – 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.

A capital injection will be considered as a financial transaction, with no impact on government deficit, when the government is acting in the same manner as a private investor, by seeking a market rate of return. A capital injection is considered as government expenditure, with an impact on the government deficit, when it is de-facto covering the losses of a bank.

➤ 19 – What is the Basel risk weighting for EFSF and ESM loans?

The Basel risk weighting for EFSF and ESM loans is 0%.

➤ 20 – 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 capacity.

The ESM is expected to enter into force in July 2012. The ESM's maximum capacity will be €500 billion. The first two tranches of the capital – each tranche worth €16 billion – are expected to be paid in in July and October 2012.