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Effects of the transfer of assets to SAREB and of the recapitalisation of the "Group 1" institutions on bank balance sheets

The Banco de España publishes today the balance sheets of Monetary Financial Institutions (MFIs) as at 31 December 2012. These balance sheets show a reduction in the outstanding balance of loans which, in the main, does not correspond to any reduction in the flow of credit to Spanish households and firms, and solely reflects the accounting effect of transactions related to SAREB and the recapitalisation of the "Group 1" institutions, as detailed below.

In compliance with the provisions of the Memorandum of Understanding signed by the Spanish and European authorities on 20 July 2012, Spanish credit institutions classified in "Group 1" transferred to SAREB a series of real estate loans and assets last December. In exchange, they received securities issued by SAREB.

Also in December, and following a positive assessment by the European authorities of the degree of fulfilment of the commitments included in the Memorandum, the European Stability Mechanism (ESM) transferred to the FROB the funds it needed to recapitalise these same institutions. These funds and the subsequent public capital injection took the form of securities issued by the ESM.

Broadly, both types of operations have had no real, direct effect on the financing flows received by Spanish households and firms, which will be published this Friday on 1 February. However, these movements in loans, securities and real estate assets across the different institutions involved do have a significant impact on the MFI balance sheets disseminated today by the Banco de España.

More specifically, the outstanding balance of "loans to other resident sectors", which include Spanish households and firms, was affected in December by a decline of approximately €54 billion attributable exclusively to the transfer of loans to SAREB. As indicated, these loans have not been cancelled but merely shifted to another institution, namely SAREB, which for statistical purposes forms part of an institutional sector separate from MFIs.

In addition to the impact on the heading "loans to other resident sectors", the transfer of real estate assets and securities received from both SAREB and the FROB also gave rise to significant changes in other asset-side captions on credit institutions' balance sheets. Nonetheless, the net result of all these changes associated with the transfer of assets and with the recapitalisation of the "Group 1" institutions on the size of the MFI aggregate balance sheet was hardly appreciable (around €2 billion).