

# Results of the independent evaluation of the Spanish banking sector

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# Outline

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- Governance of the exercise
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- Macroeconomic scenarios
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# Purpose of the exercise



- The purpose of the exercise is to perform an external top-down analysis to evaluate the Spanish banking sector resilience under adverse macroeconomic developments
  - The objective is to offer an estimate of the aggregate capital needs for the Spanish banking system as a whole under two different macroeconomic environments: one of them a baseline, considered most likely scenario, and an alternative severely stressed scenario
  - The exercise has been conducted by two renowned external consultants (Oliver Wyman and Roland Berger) which have worked independently from each other
  - At this stage, the objective is to provide aggregate results on the system capital needs and not at the individual institution level. This requires a thorough bottom-up approach
- Both consultants are publishing today their reports, including the results and detailed explanations on the methodology used

## STEERING COMMITTEE

### Composition:

- ✓ Chairman: Secretary of State for Economic Affairs and Support for Business, Ministry of Economy and Competitiveness
- ✓ Vice Chairman: Deputy Governor of the Banco de España
- ✓ Secretary: a representative from the Banco de España
- ✓ 2 representatives from the Banco de España
- ✓ 2 representatives from the Ministry of Economy and Competitiveness

### Scope:

- ✓ Monitoring the “Terms of Reference” for the work. Endorsing the selection and appointment of the independent consultancy and auditing firms selected
- ✓ Overseeing the design of the macroeconomic scenarios, coordinating the proper implementation of the work and facilitating the completion of the exercise
- ✓ Coordinating the communication terms

## ADVISORY PANEL

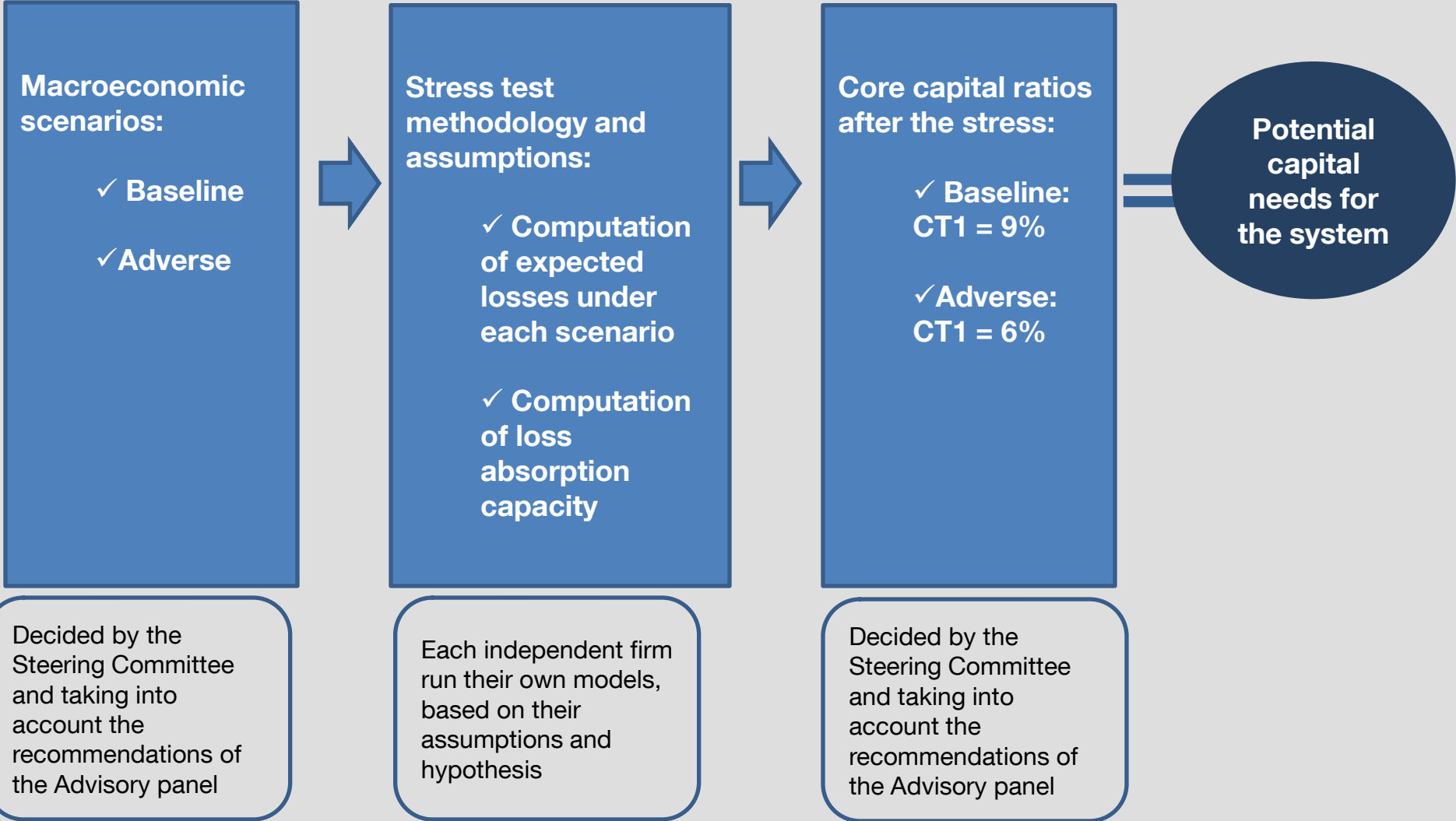
### Composition:

- ✓ 2 representatives from the ECB
- ✓ 1 representative from the Banque de France and 1 representative from the Nederlandsche Bank
- ✓ 1 representative from the IMF
- ✓ 2 representatives from the European Commission
- ✓ 1 representative from the EBA

### Scope:

- ✓ Assist the SC by giving independent and expert advice, guidance and recommendations with respects to its functions, especially in monitoring the “Terms of Reference”, overseeing the macroeconomic scenarios, coordinating the proper implementation of the work, reviewing the results to reach the objectives of the process, and coordinating the communication policy

# Characteristics of the exercise



# Scope of the exercise



- The exercise is applied to 14 Spanish banking groups, which represent almost 90% of the Spanish financial system
  - Santander, BBVA & Unnim, Popular & Pastor, Sabadell & CAM, Bankinter, Caixabank & Cívica, Bankia-BFA, KutxaBank, Ibercaja & Caja3 & Liberbank, Unicaja & CEISS, B. Mare Nostrum, CatalunyaBank, NCG Bank, B. Valencia
- The analysis is applied to loans to resident private sector, including real estate assets. Thus, the scope is not only to exposures to the real estate and construction sector (RDL 2 & 18/2012), but also to the rest of the loan portfolio, that is covering loans to households and the rest of non-financial corporations (e.g. SMEs and retail mortgages)
- The time horizon of the analysis spans three years: 2012, 2013 and 2014

# Macroeconomic scenarios

- The baseline macroeconomic scenario is the one used for the stress test exercise run for the IMF FSAP. Nevertheless, apart from other methodological differences, there are two essential ones. First, CT1 is now 9% under the base case (7% in the IMF base case) and the timeframe of the stress test is now 3 years (2 years in the IMF stress test)
- Additionally, the adverse scenario for the consultants is more severe than the one used by the IMF. The selected hurdle rate for the Core T1 capital ratio under this adverse scenario is 6%

**Table 1. Baseline scenarios**

<i>Annual growth rates</i>	IMF (FSAP)			External consultants		
	2012	2013	2014	2012	2013	2014
Real GDP	-1.7	-0.3		-1.7	-0.3	0.3
Unemployment Rate (1)	23.8	23.5		23.8	23.5	23.4
Housing Prices	-5.6	-2.8		-5.6	-2.8	-1.5
Madrid Stock Exchange Index	-1.3	-0.4		-1.3	-0.4	0.0
Credit to Other Resident Sectors						
- Households	-3.8	-3.1		-3.8	-3.1	-2.7
- Non-Financial Firms	-5.3	-4.3		-5.3	-4.3	-2.7

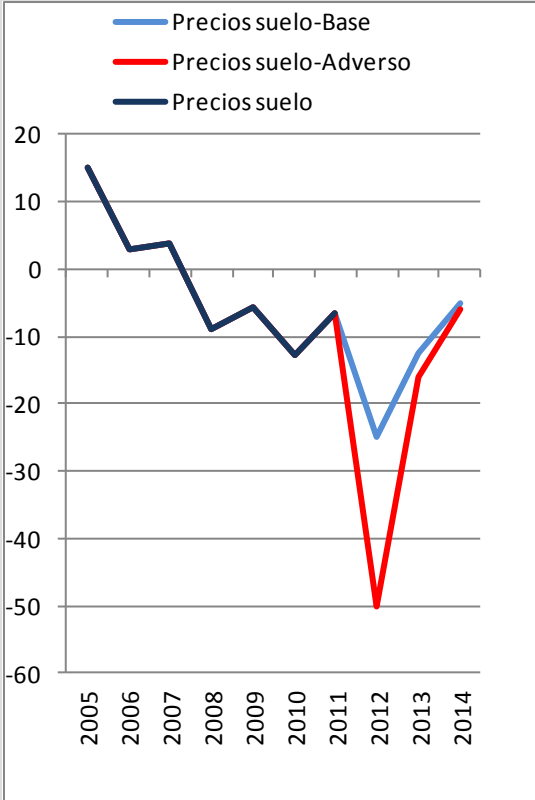
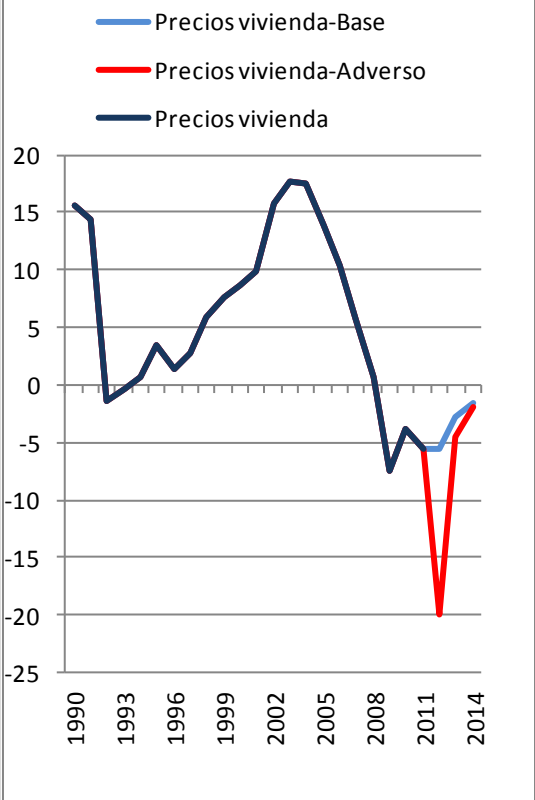
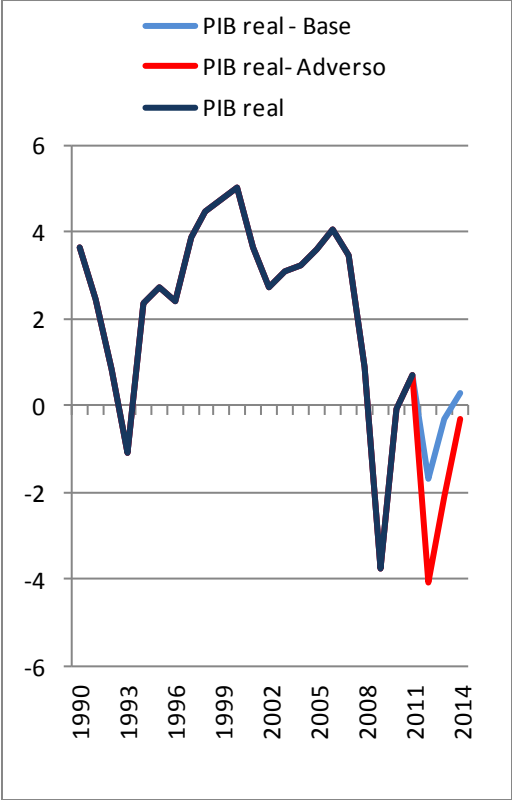
(1) % of labour force

**Table 2. Adverse scenarios**

<i>Annual growth rates</i>	IMF (FSAP)			External consultants		
	2012	2013	2014	2012	2013	2014
Real GDP	-4.1	-1.6		-4.1	-2.1	-0.3
Unemployment Rate	25.0	26.6		25.0	26.8	27.2
Housing Prices	-19.9	-3.6		-19.9	-4.5	-2.0
Madrid Stock Exchange Index	-51.3	-0.4		-51.3	-5.0	0.0
Credit to Other Resident Sectors						
- Households	-6.8	-10.5		-6.8	-6.8	-4.0
- Non-Financial Firms	-6.4	-3.0		-6.4	-5.3	-4.0

(1) % of labour force

# Macroeconomic scenarios







- Independent consultants have taken the macroeconomic scenarios as given. In their reports, they comment:

- Oliver Wyman:

“The adverse scenario appears reasonably conservative on two counts. Relative to 30 year Spanish history [and] relative to scenarios used in stress tests conducted in other jurisdictions (e.g. EBA Europe-wide stress tests and US CCAR)”

- Roland Berger:

“RBSC considers the adverse scenario as harsh”



- The reports published by the two consultant firms include the estimate of the capital needs for the Spanish banking sector under the two scenarios. Aggregate figures may suffer variations as a consequence of the forthcoming specific bottom up approach but, in any event, these aggregate estimates for the system are well below the backstop of €100bn initially agreed by the Spanish authorities and the Eurogroup

Estimated capital needs (in €bn) for the Spanish banking sector		
	Oliver Wyman	Roland Berger
Base case. CT1 = 9%	[16 - 25]	25.6
Adverse case. CT1 = 6%	[51 - 62]	51.8
Agreed backstop	€100bn	



- The results of the independent consultants broadly confirm the main conclusions of the recent IMF FSAP stress test exercise
- The core of the Spanish banking sector is resilient to highly adverse macroeconomic developments, while the problems are limited to a group of institutions for most of which actions from public authorities have already been taken
- However, there is a need to wait for the bottom-up analysis to assess precisely capital needs for specific institutions
- In any case, the capital needs even with conservative hypothesis and under a harsh macroeconomic scenario are significantly below the backstop (€100bn) agreed by the Spanish authorities and the Eurogroup
- A strategy to restructure the weakest institutions will be decided on a case-by-case basis in conformity with requirements established by European authorities and in particular with the EU state aid rules