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**Guindos Rules Out Aid as Spain’s Bank Plan Seen Failing**

*By Charles Penty and Angeline Benoit - May 15, 2012*

Spanish Economy Minister Luis de Guindos ruled out requesting aid from the European Union for the nation’s banks even as the fourth attempt in less than three years to clean them up failed to rebuild confidence.

“There is nothing to hide,” de Guindos told reporters in Brussels today. The government won’t need to tap EU rescue funds for banks and the planned audit of banks’ loans will give clarity on their solvency, he said.

Bank stocks extended their [decline](http://www.bloomberg.com/quote/BKIA%3ASM) in Madrid trading today and the yield on [Spain](http://topics.bloomberg.com/spain/)’s benchmark 10-year bond rose to the highest since Nov. 29 as lenders outlined the costs of the government’s requirements and analysts said even those provisions wouldn’t be enough.

Spain’s government said on May 11 it would require banks to set aside about 30 billion euros ($38.5 billion) to cover potential losses on real estate loans that are still performing. That’s on top of 53.8 billion euros of charges and capital ordered in February.

“I don’t know why they even bothered,” Olly Burrows, a credit analyst at Rabobank International in [London](http://topics.bloomberg.com/london/), said in a phone interview. “A lot of people were expecting a big announcement on a bad bank and all we really got was additional provisions to part of the real estate book.”

Disappointment centers on the latest plan’s failure to acknowledge the risk of greater losses on non-real estate assets as Spain’s recession deepens and [unemployment](http://www.bloomberg.com/quote/SPUNEMPR%3AIND) exceeds 24 percent, said Burrows. It’s also unclear how and when real estate assets can be removed from banks through the creation of subsidiaries ordered by the decree, Daragh Quinn, an analyst at Nomura International, said in a report. Spain will hire two auditors, as yet unidentified, to value banks’ assets.

“We expect cleanup number five,” said Burrows.

**Greek Concern**

[Bankia SA (BKIA)](http://www.bloomberg.com/quote/BKIA%3ASM), which was taken under state control last week and has the most Spanish assets of any of the nation’s banks, plunged 5.6 percent to 1.78 euros as of 3:38 p.m. in Madrid.[CaixaBank (CABK)](http://www.bloomberg.com/quote/CABK%3ASM) SA, set to overtake Bankia as the lender with the biggest Spanish asset base when it completes its purchase of[Banca Civica SA (BCIV)](http://www.bloomberg.com/quote/BCIV%3ASM), fell 2.9 percent, while [Banco Popular Espanol SA (POP)](http://www.bloomberg.com/quote/POP%3ASM) fell 2.8 percent.

“Even though their intentions were good, the way they have done this without a clear solution was bad,” said Jose Garcia Montalvo, an economics professor at Barcelona’s Pompeu Fabra University. “They’ve produced the opposite effect of what they wanted. Now nobody wants to buy Spanish banks.”

The country’s largest banks, [Banco Santander SA (SAN)](http://www.bloomberg.com/quote/SAN%3ASM) and Banco[Bilbao Vizcaya Argentaria SA (BBVA)](http://www.bloomberg.com/quote/BBVA%3ASM), which are partially sheltered from Spain’s woes by profitable businesses elsewhere, fell 1.5 percent and 1.6 percent, respectively.

**Bank Index Declines**

Most of Spain’s banks have been locked out of wholesale funding markets because investors are concerned their books don’t accurately reflect the deterioration in the quality of their real estate and other loans. That’s forced them to rely on the [European Central Bank](http://topics.bloomberg.com/european-central-bank/) for financing, as figures from the Bank of Spain show. Net average borrowing by Spanish banks from the ECB jumped 16 percent to a record 263.5 billion euros in April after lenders tapped three-year loans the central bank provided.

The government plans for the review of bank balance sheets to be completed within two months and will be conducted with the ECB’s participation, de Guindos said today. The independent valuation exercise announced by the government will be a [stress test](http://topics.bloomberg.com/stress-test/) and won’t include an asset-by-asset analysis, Economy Ministry officials said after the announcement.

Spain said May 11 it would raise the provisioning levels on real estate lending that hasn’t soured to 30 percent on average from 7 percent. Provisions on still-good land assets will be increased to 52 percent from 7 percent.

“Saying we have to clean up the clean loans makes no sense,” Montalvo said. “It shows not even they trust the balance sheets of the banks.”

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