

Journal of Financial Crises

Volume 2 | Issue 3

2020

The Spanish Guarantee Scheme for Credit Institutions (Spain GFC)

Lily Engbith
Yale University

Follow this and additional works at: <https://elischolar.library.yale.edu/journal-of-financial-crises>



Part of the [Economic History Commons](#), [Economic Policy Commons](#), [Finance Commons](#), [International Economics Commons](#), [Public Administration Commons](#), and the [Public Policy Commons](#)

Recommended Citation

Engbith, Lily (2020) "The Spanish Guarantee Scheme for Credit Institutions (Spain GFC)," *Journal of Financial Crises*: Vol. 2 : Iss. 3, 892-910.

Available at: <https://elischolar.library.yale.edu/journal-of-financial-crises/vol2/iss3/46>

This Case Studies is brought to you for free and open access by EliScholar – A Digital Platform for Scholarly Publishing at Yale. It has been accepted for inclusion in Journal of Financial Crises by an authorized editor of EliScholar – A Digital Platform for Scholarly Publishing at Yale. For more information, please contact elischolar@yale.edu.

Spanish Guarantee Scheme for Credit Institutions¹

*Lily S. Engbith*²

Yale Program on Financial Stability Case Study
January 16, 2019; revised October 10, 2020

Abstract

Given Spanish banks' heavy investment in the housing and construction markets in the lead-up to the global financial crisis (GFC), the collapse of the subprime mortgage market and Lehman Brothers' bankruptcy on September 15, 2008, impelled the government to implement stabilization measures to calm, recapitalize, and restructure its domestic banking sector. The Spanish Guarantee Scheme for Credit Institutions (the Guarantee Scheme) was one of the first interventions to be enacted, announced by Spain's Ministry of Economy and Finance on October 13, 2008, by Royal Decree-Law 7/2008 on "Urgent Economic and Financial Measures in relation to the Concerted Action Plan of the Countries in the Euro Zone." The scheme entered into force upon the signing of Ministerial Order EHA/3364/2008 on November 21, 2008. The program, funded from Spain's annual budget, initially committed up to €100 billion for the state guarantee of new and senior unsecured debt instruments issued by credit institutions, consolidated groups of credit institutions, and pools of credit institutions registered in Spain. Later it was expanded to €164 billion. Per the terms of the original Ministerial Order, debt with maturities ranging from three months to three years—or between three years and five years under special circumstances—was covered under the Guarantee Scheme. Between November 21, 2008, and December 31, 2011, the Spanish government guaranteed €69.7 billion in debt issuances. No defaults occurred.

Keywords: Spain, government guarantee, credit institutions, short-term debt, medium-term debt, guarantee scheme

¹ This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering the responses to the global financial crisis that pertain to bank debt guarantee programs.

Cases are available from the *Journal of Financial Crises* at <https://elischolar.library.yale.edu/journal-of-financial-crises/>.

²Lily S. Engbith – Research Associate, YPFS, Yale School of Management.

Spanish Guarantee Scheme for Credit Institutions

At a Glance

Spain's economy was severely impacted by the collapse of the subprime mortgage market and the subsequent bankruptcy of Lehman Brothers. One of the first steps the government took to calm markets and restore confidence in lending institutions was to introduce the Guarantee Scheme for Credit Institutions.

Announced on October 13, 2008, the Guarantee Scheme committed up to €100 billion in funding for guaranteeing debt issued by participating credit institutions. Applicants to the program had to meet certain capitalization requirements, possess a share equal to at least 1/1000 of the domestic credit market, and have already issued debt similar to that covered by the Guarantee Scheme.

Initially, new and senior unsecured debt instruments, including promissory notes, bonds, and other obligations admitted to trade on the official secondary markets in Spain with maturities ranging from three months to three years were eligible for coverage under the program. Debt with maturities of up to five years could also be guaranteed if granted special permission from the Bank of Spain.

Although originally set to expire on June 30, 2009, the issuance window of the Guarantee Scheme was extended five times to conclude on December 31, 2011. Between December 29, 2008, and December 31, 2011, the Spanish government guaranteed a total of €69.7 billion in debt issued mainly by regional Spanish credit institutions.

Summary Evaluation

While there has not been much explicit evaluation of the Guarantee Scheme, the intervention was seen as having been an important and early step in the stabilization of the credit markets that later allowed for the vital restructuring and recapitalization of major Spanish financial institutions.

Summary of Key Terms	
Purpose: To restore confidence in the financing mechanism of credit institutions and to support increased lending to businesses and households	
Announcement Date	October 13, 2008
Operational Date	November 21, 2008
Date of First Guaranteed Loan Issuance	February 3, 2009
Issuance Window Expiration Date	Originally June 30, 2009; Extended to December 31, 2011
Program Size	€100 billion (initial); Increased to €164 billion in 2009
Usage	€69.7 billion; total of 229 issuances by 44 credit institutions
Outcomes	No defaults
Notable Features	High fees relative to value of guarantee given low sovereign credit rating

Spanish Guarantee Scheme for Credit Institutions: Spain Context	
GDP (SAAR, Nominal GDP in LCU converted to USD)	\$1.5 trillion in 2007 \$1.6 trillion in 2008 <i>Source: Bloomberg</i>
GDP per capita (SAAR, Nominal GDP in LCU converted to USD)	\$32,550 per capita in 2007 \$35,366 per capita in 2008 <i>Source: Bloomberg</i>
Sovereign credit rating (5-year senior debt)	As of Q4, 2007: Fitch: AAA Moody's: Aaa S&P: AAA As of Q4, 2008 Fitch: AAA Moody's: Aaa S&P: AAA <i>Source: Bloomberg</i>
Size of banking system	\$2.4 trillion in total assets in 2007 \$2.9 trillion in total assets in 2008 <i>Source: Bloomberg</i>
Size of banking system as a percentage of GDP	166.1% in 2007 179.5% in 2008 <i>Source: Bloomberg</i>
Size of banking system as a percentage of financial system	Data not available for 2007/2008 <i>Source: World Bank Global Financial Development Database</i>

<p>5-bank concentration of banking system</p>	<p>79.3% of total banking assets in 2007 77.8% of total banking assets in 2008</p> <p><i>Source: World Bank Global Financial Development Database</i></p>
<p>Foreign involvement in banking system</p>	<p>2.0% of total banking assets in 2007 2.0% of total banking assets in 2008</p> <p><i>Source: World Bank Global Financial Development Database</i></p>
<p>Government ownership of banking system</p>	<p>0.0% of banks owned by the state in 2008</p> <p><i>Source: World Bank Global Financial Development Database</i></p>
<p>Existence of deposit insurance</p>	<p>100% insurance on deposits up to \$14,285</p> <p><i>Source: Financial Crisis: Deposit Insurance and Related Financial Safety Net Aspects, OECD</i></p>

I. Overview

Background

Having been heavily reliant on the housing and construction markets in the lead-up to the height of the global financial crisis (GFC), Spain's economy began to decline rapidly in the third quarter of 2008 and GDP continued to fall for five consecutive quarters during the remainder of 2008 and throughout 2009 (Ortega and Peñalosa 2012). This contractionary cycle reflected that of other EU member states, but it was especially impactful given the nation's substantial exposure to the subprime loan crisis. Furthermore, a sharp increase in the external deficit, the widespread overvaluation of exports, soaring unemployment, and the inability of the Economic Monetary Union of the EU to adequately address Spain's deteriorating economic condition collectively contributed to the severity of the recession that would outlast that of most peers (Ortega and Peñalosa 2012).

In response to this severe market disruption, the Spanish government sought to enact stabilization measures that would safeguard its domestic economy and relieve the negative impacts of the international credit crunch. One of the first interventions to be put into effect was the Spanish Guarantee Scheme for Credit Institutions (the Guarantee Scheme), announced by the Spanish Ministry of Economy and Finance on October 13, 2008, and implemented upon the signing of Ministerial Order EHA/3364/2008 for the granting of State guarantees on December 29, 2008. Its dual purpose was to "[reestablish] confidence in the financing mechanism of credit institutions and to increase lending to businesses and households" (European Commission 2008b).

Program Description

Under the initial terms of the Guarantee Scheme, Spain committed up to €100 billion for the guarantee of new and senior unsecured debt issuances by credit institutions, consolidated groups of credit institutions, and pools of credit institutions registered in Spain. This funding was drawn down from the national government's annual budgets for 2008 and 2009 and could be increased to €200 billion if the Bank of Spain deemed it necessary given current market conditions. In 2009, the overall budget for the scheme was adjusted to €164 billion for 2008 and 2009 pursuant to Royal Decree Law 9/2009.

To participate in the program, credit institutions needed explicit approval from the Directorate General of the Treasury and Financial Policy. Subsidiaries of foreign credit institutions were eligible for participation but were subject to the same regulations as those registered in Spain. Branches of foreign credit institutions were not covered under the Guarantee Scheme.

All applicants, regardless of type or association, needed to be “sufficiently capitalized in line with the national legislation” to qualify for admission.³ Eligibility was further restricted to applicants that possessed at least 1/1000 of the domestic credit market and had issued, since October 13, 2003 (five years previous to the entry into force of Royal Decree-Law 7/2008), instruments “similar to the ones covered by the present Guarantee Scheme” (European Commission 2008b). For consolidated groups of credit institutions and pools of credit institutions, only one subsidiary had to meet the criteria.

Debt eligible under the Guarantee Scheme included new and senior unsecured debt instruments, including promissory notes, bonds, and other obligations admitted to trade on the official secondary markets in Spain, with maturities of between three months and three years. Under exceptional circumstances, the Bank of Spain reserved the right to guarantee debts with maturities of between three and five years. Securitization notes and subordinated debts were not eligible. Furthermore, although the original Royal Decree-Law 7/2008 initially provided for the possibility of covering such other financial instruments as interbank deposits, Ministerial Order EHA/3364/2008—which legally enforced the Royal Decree-Law and upon which the European Commission based its authorization—excluded interbank deposits, options, derivatives, and other instruments “for which the amount of risk might be difficult to assess by the guarantor” (European Commission 2008b).

Although there were no currency restrictions or limits on the issuance of non-guaranteed debt associated with the Guarantee Scheme, the original terms required that the notional value of each debt issuance covered be at least €10 million. Additionally, the Ministry of Economy and Finance imposed individual caps on participation based on the proportion of the participant’s domestic market share, but reserved the right to further limit the cap if deemed necessary to “reduce the risk involved with granting the guarantee” (European Commission 2008b).

Spain assessed individual participation fees according to the European Central Bank’s “Recommendations on government guarantees on bank debt” of October 20, 2008 (European Central Bank 2008). These fees would thus vary based on the soundness of the issuing institution—determined by five-year credit default swap (CDS) spreads between January 2007 and August 2008—and the maturity of the debt to be guaranteed. Credit institutions were required to pay the appropriate fees to the Spanish government upon each issuance of guaranteed debt.

As part of the terms of the Guarantee Scheme, the government agreed to waive the *beneficium excussionis* historically associated with Spanish guarantee programs.⁴ As such, in the case of a participating institution’s default on a covered debt issuance, the Bank of Spain was required to assume responsibility for the principal and interest through maturity. The

³ According to Law 36/2007, dated November 16, 2007, modifying Law 13/1985, dated May 25, 1985, and Royal Decree 216/2008, dated February 15, 2008.

⁴ Embodied in Article 1.830 of the Spanish Civil Code, the *beneficium excussionis* “refers to the right or benefit of the guarantor not to be compelled to pay as long as the principal has enough property” (European Commission 2008b).

associated interest rate could be either fixed or variable and had to “be placed within the market yield of emissions and issuers with similar characteristics” (European Commission 2008b). The principal amount had to be repaid to the Bank of Spain in a single payment.

Outcomes

Although the Guarantee Scheme was introduced as a temporary stabilization measure with an expiration date of June 30, 2009, the program’s issuance window was extended five times, each for a period of six months, until December 31, 2011 (see Appendix A).

While the government guaranteed debt issued throughout the three-year duration of the program, all issuances made were assigned to either the 2008 or 2009 annual budget according to Spain’s General Budget Law. Under the 2008 annual budget, 44 credit institutions issued €47.3 billion in guaranteed debt. Under the 2009 annual budget, 32 of the same 44 Spanish credit institutions issued €22.4 billion in guaranteed debt. A majority of these issuances were made by regional savings banks, while none of the Spanish Big Four—Bankia, BBVA, Caixabank, and Santander—took advantage of the Guarantee Scheme. All debts outstanding under the program were fully amortized by May 10, 2016.

The Guarantee Scheme was reintroduced, with slightly different terms, in February 2012, as part of a series of government stabilization measures designed to aid the domestic economy at the height of the eurozone crisis. The original terms of the Guarantee Scheme remained unchanged over the years, but amendments were included to reflect the ongoing consolidation of Spanish credit institutions and to facilitate a phasing-out of the program beginning in July 2010 (European Commission 2008c). The second iteration of the program concluded June 30, 2013 (see Appendix B).

II. Key Design Decisions

1. Spain implemented a Guarantee Scheme as one of the first of many independent stabilization measures announced in response to the global financial crisis.

Other interventions, implemented independently throughout an extended period spanning from late 2008 through 2014, included the creation of a fund for the acquisition of failing assets and a comprehensive recapitalization scheme for many major Spanish banks and credit institutions. A majority of the later actions were taken in response to deteriorating conditions exacerbated by the Eurozone crisis.

2. The Spanish Ministry of Economy and Finance implemented the Guarantee Scheme upon the signing of Ministerial Order EHA/3364/2008 on November 21, 2008.

On October 13, 2008, the Spanish Ministry of Economy and Finance proposed the Guarantee Scheme in its adoption of the Royal Decree-Law 7/2008 of October 13 on “Urgent Economic and Financial Measures in relation to the Concerted Action Plan in the Euro Zone.” The Ministerial Order EHA/3364/2008 for the granting of State guarantees was then adopted on

November 21, 2008, published on November 24, 2008, and amended and signed into force in its final form on December 29, 2008.

3. In accordance with State aid rules, European Commission approval was required for the implementation of the Guarantee Scheme.

The European Commission authorized the passage of Ministerial Order EHA/3364/2008 on December 23, 2008. As discussed in more detail below, the need to structure the Guarantee Scheme in such a way as to ensure EC approval significantly influenced the design of certain program features.

4. Initially, up to €100 billion could be guaranteed under the program.

This amount could be increased to €200 billion “if the Spanish authorities consider it necessary given market conditions” (European Commission 2008b). These funds were to be drawn down from and distributed equally over the Spanish government’s annual budget for 2008 and 2009, according to the General Budget Law. In 2009, the overall budget was adjusted to €164 billion for 2008 and 2009 pursuant to Royal Decree Law 9/2009.

5. Eligibility for the Guarantee Scheme was restricted to credit institutions, consolidated groups of credit institutions, and pools of credit institutions registered in Spain that met certain market share, previous issuance, and capitalization requirements.

Applicants to the program needed to receive explicit approval from the Directorate General of the Treasury and Financial Policy.

Subsidiaries of foreign credit institutions were also eligible for participation in the Guarantee Scheme but were subject to the same regulations as those registered in Spain. The Guarantee Scheme excluded branches of foreign credit institutions.

Credit institutions had to meet specific market share, issuance, and capitalization requirements in order to be fully eligible for the Guarantee Scheme. Each credit institution, or at least one subsidiary of a consolidated group or pool of credit institutions, had to meet the following criteria:

- Possess a share equal to at least 1/1000 of the domestic credit market;
- Have issued, since October 13, 2003 (five years before the entry into force of the Royal Decree-Law), instruments “similar to the ones covered by the present Guarantee Scheme” (European Commission 2008b).

Regardless of type, credit institutions needed to be “sufficiently capitalized in line with the national legislation.”⁵

6. New and senior unsecured debt instruments, including promissory notes, bonds, and other obligations admitted to trade on the official secondary markets in Spain were eligible for coverage under the Guarantee Scheme.

Securitization notes and subordinated debts were not eligible. The original Royal Decree-Law initially provided for the possibility of covering other financial instruments such as interbank deposits. However, Ministerial Order EHA/3364/2008—which held legal force and upon which the European Commission based its authorization—excluded interbank deposits, options, derivatives, and other instruments “for which the amount of risk might be difficult to assess by the guarantor” (European Commission 2008b). There was a minimum issuance requirement for all debt issuances of €10 million.

7. Initially, debt ranging in maturity from three months to three years could be issued under the Guarantee Scheme.

Initially, debt with a maturity of up to five years could be guaranteed by the government only subject to European Commission approval based on a specific request and report from the Bank of Spain.

In 2009, Spain requested that the European Commission extend guarantees for debt with maturities of up to five years. The Commission approved the measure but limited these issuances to a maximum of one-third of the overall budget.

8. All currencies appear to have been eligible.

Though not explicitly stated in the implementation documents, the original Ministerial Order stipulated that if the debt were to be denominated in foreign currency, “the order of granting the guarantee will establish mechanisms to minimize the foreign currency risk the State might take” (European Commission 2008b).

9. The Ministry of Economy and Finance imposed individual caps on participation based on the proportion of the participant’s domestic market share.⁶

This provision applied to participating credit institutions, consolidated groups, or pools. In accordance with Article 118 of Law 47/2003 of November 2003, the Ministry reserved the right to “limit the amount [of guaranteed debt] to reduce the risk involved with granting the guarantee,” particularly with regard to the capitalization requirements used to determine an institution’s eligibility (European Commission 2008b).

⁵ According to Law 36/2007, dated November 16, 2007, modifying Law 13/1985, dated May 25, 1985, and Royal Decree 216/2008, dated February 15, 2008.

⁶ As defined in epigraph 2.4 of the Statistic Bulletin from the Bank of Spain, September 2008.

10. The fee for issuing debt pursuant to the Guarantee Scheme varied based on the soundness of the issuing institution and the maturity of the debt guaranteed.

The guarantee fee was determined according to the guidelines presented in the European Central Bank's "Recommendations on government guarantees on bank debt" of October 20, 2008 (European Central Bank 2008). Fees were to be paid to the Spanish government by participating institutions upon each issuance of guaranteed debt. Debt issuances with a maturity of a year or less incurred a fixed annual guarantee premium of 50 basis points (bps) calculated on the nominal value. Those issuances with maturities of more than a year incurred a fixed annual fee of 50 bps "plus the variable fee corresponding to the relevant credit default swap," to be calculated as follows:

- a) For credit institutions with representative CDS, the fee was the lower of either:
 - i) The median value of the five-year CDS spread for the credit institution during the period between January 1, 2007, and August 31, 2008; or
 - ii) The median value of the five-year CDS spread during the same period, "depending on the relevant rating category of the bank concerned based on a representative sample of large banks in the eurozone" (European Commission 2008b). For a rating of double-A, the median was set at 36.5 bps; for a rating of single-A, the median was set at 44.8 bps.
- b) For credit institutions with a credit rating but no representative CDS spread, the debt issuance incurred a fee based on the median value of the five-year CDS spread for institutions with similar credit ratings during the period between January 1, 2007, and August 31, 2008, depending on the relevant rating category. For a rating of double-A, the median was set at 36.5 bps; for a rating of single-A, the median was set at 44.8 bps.
- c) For credit institutions with neither representative CDS nor a credit rating, the debt issuance incurred a fee based on the median value of the five-year CDS spread for the lowest rating category during the period between January 1, 2007, and August 31, 2008. The median for the lowest rating category of single-A was set to 44.8 bps, plus an annual add-on fee of 10 bps.

In 2010, these fees were increased pursuant to new guidance from the European Commission as follows:

- a) 20 bps for institutions with a rating of A-plus or single-A,
- b) 30 bps for institutions with a rating of A-minus,
- c) 40 bps for institutions with a rating of lower than A-minus .

This increase in fees aimed to incentivize beneficiaries to scale down their guarantees or exit the program.

11. There does not appear to have been any restrictions on executive compensation or dividend payments.

Program documents do not contain any such restrictions.

12. The Spanish government permitted a waiver of the *beneficium excussionis* historically associated with State guarantee programs.

Embodied in Article 1.830 of the Spanish Civil Code, the *beneficium excussionis* “refers to the right or benefit of the guarantor not to be compelled to pay as long as the principal has enough property” (European Commission 2008b). Had such a provision remained in effect, investors holding guaranteed debt may have been required to pursue a claim against a defaulting issuer prior to realizing the guarantee. The waiver of *beneficium excussionis* thus provided holders of guaranteed debt with confidence that they would be able to trigger the guarantee more quickly in the event of default.

13. The Guarantee Scheme issuance window was extended five times and expired on December 31, 2011, before it was reintroduced, with slightly different terms, in February 2012.

Although the original Ministerial Order EHA/3364/2008 specified an end date of June 30, 2009, the program was extended five times, each for a period of six months, to expire on December 31, 2011 (see Appendix A). This was due to the perceived weakness of the Spanish savings bank sector and the previous heavy investment in the failing housing market.

The Guarantee Scheme was reintroduced for a six-month period with slightly different terms in February 2012. This second iteration of the program was extended in June 2012 to February 2013 and ultimately concluded on June 30, 2013 (see Appendix B).

III. Evaluation

The implementation of the Guarantee Scheme was portrayed as an important initial step in restoring confidence in Spanish credit institutions and laying a foundation for other recapitalization and restructuring measures (European Commission 2008a).

Similarly, María González Fernández, Cecilia González Rodríguez, and Carmen Motellón García, the authors of a report in the *CNMV Bulletin*, assert that the Guarantee Scheme “allowed the financial institutions that availed themselves of this facility to face their financial commitments in 2009 more comfortably” (Comisión Nacional del Mercado de Valores 2010). They further conclude that “grant of the State guarantees succeeded in lowering the overall systemic risk, and the successive secured issues allowed the issuers to face 2009 more comfortably” (Comisión Nacional del Mercado de Valores 2010).

In contrast, José Caamaño Alegre and Mukhbira Komilova characterized the Guarantee Scheme as expensive and linked its high fees to the sovereign rather than to individual banks’

participation fees (Caamaño Alegre and Komilova 2013). Specifically, guidance from the European Central Bank called for a uniform fee structure across European countries with very different sovereign credit ratings meant that Spanish institutions had to pay the same guarantee fees as similarly rated institutions in other countries despite the guarantee they received being worth less. This may explain why larger banks, such as BBVA, used their foreign subsidiaries to issue debt guaranteed under US programs.

A Bank for International Settlements assessment (BIS 2009) found that the bonds issued under the Guarantee Scheme may have crowded out covered bonds on the national market, as the debt instruments eligible for guarantee were cheaper for banks to issue (180-200 bps in total cost versus a 260 bps spread for covered bonds) and were thus preferred by issuers.

IV. References

- Bank for International Settlements. 2009. "An Assessment of Financial Sector Rescue Programmes." *BIS Papers*. No. 48 (July). <https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/BIS%20-%20Assessment%20of%20Financial%20Sector%20Rescue%20Programs%20-%20CDS%20premia.pdf>.
- Caamaño Alegre, José, and Mukhbira Komilova. 2013. "El Otorgamiento de Aavales del Estado a las Emisiones de Deuda de las Entidades Financieras: Una Aproximación al Caso Español." *Dereito* (Santiago de Compostelo). Vol. 22 (November): 91-113. <https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/1224-Texto%20del%20art%C3%ADculo-5199-1-10-20131210.pdf>.
- Comisión Nacional del Mercado de Valores. 2010. *CNMV Bulletin*, Quarter 1. <https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/CNMV.pdf>.
- European Central Bank. 2008. "Recommendations of the Governing Council of the European Central Bank on Government Guarantees for Bank Debt." https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/recommendations_on_guarantees%20ecb.pdf.
- European Commission. 2008a. "State aid: Commission approves Spanish guarantee scheme for credit institutions." Press release 12/23/2008. https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/EC_State_Aid_Commission_Approves_Spanish_Guarantee_2008.pdf.
- . 2008b. "State Aid NN 54/B/2008 (ex-CP 277/2008) – Spain: Corrigendum to the Guarantee Scheme for Credit Institutions in Spain." https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/EC_State_Aid_Corrigendum_Guarantee_Scheme_2008.pdf.

———. 2008c. “State Aid SA. 34224 (2012/N) – Spain: Reintroduction of the Spanish Guarantee Scheme.”
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/EC_Reintroduction_Spanish_Guarantee_2012.pdf.

Ortega, Eloísa, and Juan Peñalosa. 2012. “The Spanish Economic Crisis: Key Factors and Growth Challenges in the Euro Area.” Banco de España Documentos Ocasionales No. 1201.
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Ortega_Spanish_Economic_Crisis_2012.pdf.

V. Key Program Documents

Summary of Program

Corrigendum to the Guarantee Scheme for Credit Institutions in Spain (European Commission 2008) – *State Aid document describing the design and terms of the credit guarantee scheme.*
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/EC_State_Aid_Corrigendum_Guarantee_Scheme_2008.pdf.

Reintroduction of the Spanish Guarantee Scheme (European Commission 2012) – *State Aid document describing the design and terms of the reintroduced credit guarantee scheme.*
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/EC_Reintroduction_Spanish_Guarantee_2012.pdf.

Implementation Documents

Recommendations of the Governing Council of the European Central Bank on Government Guarantees for Bank Debt (European Commission 2008) – *Official ECB document containing guidance for EU countries designing credit guarantee schemes.*
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/recommendations_on_guarantees%20ecb.pdf.

Ministerial Order EHA/3364/2008 of 21 November 2008 (Ministry of Economic Affairs and Digital Transformation 2008) – *Ministerial Order that brought the credit guarantee scheme into legal force.*
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/20081201_%20V%201_LM_%20Ministerial%20Order%203364_State%20Guarantees_SPAIN%20doc_eng.pdf.

Real Decreto-Ley 7/2008, de 13 de Octubre, de Medidas Urgentes en Materia Económico Financiera en relación con el Plan de Acción Concertada de los Países de la Zona Euro (Spanish Ministry of Economic Affairs and Digital Transformation 2008) – *Royal Decree-Law announcing the implementation of the credit guarantee scheme.*
<https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/RDLey.pdf>.

State Aid N336/2009: Prolongation of the Guarantee Scheme for Credit Institutions in Spain (European Commission 2009) – *State Aid document describing the terms of the first extension*

of the credit guarantee scheme.
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/231608_970157_23_1.pdf.

State Aid N588/2009: Prolongation of the Guarantee Scheme for Credit Institutions in Spain (European Commission 2009) – *State Aid document describing the terms of the second extension of the credit guarantee scheme.*
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/233627_1035947_31_2.pdf.

State Aid N 263/2010: Extension of the Guarantee Scheme for Credit Institutions in Spain (European Commission 2010) – *State aid document describing the terms of the third extension of the credit guarantee scheme.*
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/236696_1112760_16_2.pdf.

State Aid N 530/2010: Extension of the Guarantee Scheme for Credit Institutions in Spain (European Commission 2010) – *State aid document describing the terms of the fourth extension of the credit guarantee scheme.*
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/238359_1167256_48_2.pdf.

Press Releases/Announcements

State Aid: Commission Approves Spanish Guarantee Scheme for Credit Institutions (12/23/2008) – *State Aid press release on the Commission's granting approval to the Spanish government to implement the credit guarantee scheme.*
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/EC_State_Aid_Commission_Approves_Spanish_Guarantee_2008.pdf.

State Aid: Overview of Decisions and On-going In-depth Investigations of Financial Institutions in Difficulty (2/10/2016) – *State Aid press release regarding the retrospective investigation of program usage during the financial crisis.*
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/EC_State_Aid_Overview_Decisions_Financial_Institutions_2016.pdf.

Key Academic Papers

El Otorgamiento de Avaes del Estado a las Emisiones de Deuda de las Entidades Financieras: Una Aproximación al Caso Español (Caamaño Alegre and Komilova 2013) – *Academic paper retrospectively analyzing the design and usage of the credit guarantee scheme.*
<https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/1224-Texto%20del%20art%C3%ADculo-5199-1-10-20131210.pdf>.

The Design of Government Guarantees for Bank Bonds: Lessons from the Recent Financial Crisis (Levy and Schich 2010) – *Report comparing the various credit guarantee schemes implemented by governments around the world in response to the GFC.*
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Levy_and_Schich_2010_0.pdf.

The Pricing of Government-Guaranteed Bank Bonds (Levy and Zaghini 2010) – *Academic paper describing the evolution and pattern of bond issuance across countries to assess the effects of credit guarantee schemes.*
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Levy_Zaghini_Pricing_Govt_Guaranteed_Bank_Bonds_2010.pdf.

El Diluvio: The Spanish Banking Crisis, 2008–2012 (Tano 2017) – *Academic paper detailing the Spanish financial crisis from 2008–2012, with particular emphasis on Spanish authorities' responses.*
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Santos_The_Spanish_Banking_Crisis_2017.pdf.

Reports/Assessments

An Assessment of Financial Sector Rescue Programmes (Bank for International Settlements 2009) – *Report comparing the usage and effects of various international financial interventions.*
<https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/BIS%20-%20Assessment%20of%20Financial%20Sector%20Rescue%20Programs%20-%20CDS%20premia.pdf>.

Financial Stability Report (Bank of Spain 2008) – *Report assessing the soundness of Spain's financial system at the height of the GFC.*
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Bank_of_Spain_Financial_Stability_Report_2008.pdf.

Report on the Financial and Banking Crisis in Spain, 2008–2014 (Bank of Spain 2017) – *Report assessing the slate of financial interventions implemented by the Spanish government in response to the GFC.*
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/InformeCrisis_Completo_web_en.pdf.

CNMV Bulletin, Quarter 1, 2010 (Comisión Nacional del Mercado de Valores 2010) – *Report analyzing the outcomes of the Spanish credit guarantee scheme.*
<https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/CNMV.pdf>.

The Spanish Economic Crisis: Key Factors and Growth Challenges in the Euro Area (Ortega and Peñalosa 2012) – *Report by the Banco de España assessing the aftermath of the Spanish economic crisis within the context of the eurozone.*
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/Ortega_Spanish_Economic_Crisis_2012.pdf.

Spain: Financial Stability Assessment (International Monetary Fund 2012) – *IMF country report assessing the soundness of the Spanish economy following the GFC.*
<https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/cr12137.pdf>.

VI. Appendices

Appendix A: European Commission Prolongations of the Scheme

Spain Guarantee Scheme for Credit Institutions			
Status	State Aid Case	EC Decision	End of Extension
Initial Scheme	NN 54/B/2008 (ex-CP 277/2008)	Dec. 23, 2008	June 30, 2009
1 st Prolongation	N336/2009	June 25, 2009	Dec. 31, 2009
2 nd Prolongation	N588/2009	Dec. 01, 2009	June 30, 2010
3 rd Prolongation	N263/2010	June 28, 2010	Dec. 31, 2010
4 th Prolongation	SA. 31921 - N530/2010	Nov. 29, 2010	June 30, 2011
5 th Prolongation	SA.32990 (2011/N)	June 01, 2011	Dec. 31, 2011
Reintroduction	SA.34224 (2012/N)	Feb. 09, 2012	June 30, 2012

Source: European Commission.

Appendix B: The 2012 Reintroduction of the Guarantee Scheme

The Guarantee Scheme for Credit Institutions was reintroduced by the Spanish government in February 2012 as part of a new series of interventions intended to provide additional support to the domestic banking sector. The Spanish Ministry of Economy and Finance committed an additional €100 billion for the issuance of guaranteed debt by participating credit institutions.

The main terms and conditions governing participation remained the same as those stipulated in the original Ministerial Order EHA/3364/2008 of December 29, 2008. Under the terms of the reintroduced scheme, debt eligibility was restricted to maturities of between one year and five years. In addition, guarantee fees were calculated differently.

First, the total fee consisted of the following:

1. For banks with credit default spread (CDS) data: A base fee of 40 basis points (bps) plus a risk-based fee equal to the product of 40 bps and a risk metric composed of:
 - a. “50% of the ratio of the beneficiary’s five-year senior CDS spread over the three years ending one month before the date of issue of the guaranteed bond to the medial level of the iTraxx Europe Senior Financials five-year index over the same three-year period PLUS
 - b. “One-half of the ratio of the median five-year senior CDS spread of all Member States to the median five-year senior CDS spread of the Member State granting the guarantee over the same three-year period” (European Commission 2008c).
2. For banks without CDS data or without representative CDS data, but with a credit rating, an equivalent CDS spread would be “derived from the median value of five-year CDS spreads during the same sample period for the rating category of the bank concerned, based on a representative sample of large banks in the Member States” (European Commission 2008c). This determination was to be made by the European Banking Authority.
3. The guidelines listed under point (2) also applied to banks with neither CDS data nor a credit rating.

Second, the government charged an upfront fee of 0.5% of the total fee calculated in accordance with the guidelines. This fee, which was to be paid upon admission to the program rather than upon the first event of default, was introduced to increase efficiency and lessen demand for the Guarantee Scheme (European Commission 2008c).

The 2012 reintroduction of the Guarantee Scheme was originally set for a duration of six months, but was extended twice to conclude on June 30, 2013. Over the course of the program’s operation, 12 Spanish credit institutions issued a total of €41.2 billion of guaranteed debt. All debts outstanding under the program were fully amortized by March 14, 2017.

Copyright 2015, 2016, 2020 © Yale University. All rights reserved. To order copies of this material or to receive permission to reprint any or all of this document, please contact the Yale Program for Financial Stability at ypfs@yale.edu.