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Congressional Hearing of the Governor of the Banco de España before the Commission investigating the financial crisis in Spain and the financial assistance programme

Luis M. Linde
Governor

Thank you Madam Chair, Ladies and Gentlemen.

I appear before this Commission following the summons received from the President of the Congress of Deputies in connection with the publication drafted and released by the Banco de España on 16 June entitled “Report on the Financial and Banking Crisis in Spain, 2008-2014”.

The plans to draft a report on the economic and financial crisis that first broke in Spain in 2007-2008 were considered some time ago in the Banco de España, justifiably so given that this crisis has been the worst the Spanish economy and financial system has undergone in recent decades.

The Parliament’s decision last February to set up this Commission confirmed for us the advisability of drafting the Report, understanding that it could be a suitable contribution by the Banco de España to the Commission’s work.

Although some of its effects have continued to the present day, the crisis may be deemed to have ended or been brought under control, in general terms, in 2015. By then, the financial conditions for households and firms had normalised to a significant extent, our economy had resumed a growth rate above 3%, significant increases in employment were posted, the recapitalisation and restructuring of our credit institutions ceased to exert any further significant impact on the increase in the deficit and public debt, and the Single Supervisory Mechanism – incorporated into the ECB – commenced operating.

The Report, in which several directorates general of the Bank participated and which was coordinated by the council member Fernando Eguidazu, covers the span of the crisis in the macroeconomic, financial, regulatory and supervisory areas, including national and European reforms.

I shall address, first, the aims behind the drafting of the Report; second, the macroeconomic environment in which the crisis unfolded, with the build-up of strong imbalances linked to private-sector debt; third, the restructuring and recapitalisation strategy for a series of credit institutions, essentially savings banks; and, finally, I shall take stock of this process, as far as we can currently consider it.

The aim of the Report

Firstly, I would like to set out our aims in drafting the Report.

On 21 February, the Executive Commission of the Banco de España adopted the resolution to prepare, and I quote, “a detailed report on the financial and banking crisis that broke in Spain as from 2008, addressing its causes, unfolding and resolution, with particular attention to the Bank’s conduct in the crisis”.

The drafting of the Report took into account several constraints, two of which I would like to mention.

On one hand, the obligation to maintain the confidentiality of individual banks' data. The Report contains ample information on credit institutions, including intervention processes and the public aid granted, but it cannot go into details linked to the supervision of individual institutions whose confidentiality is legally protected, or assess those matters that are currently the subject of proceedings initiated in the courts.

As to the period studied, although 2008 is the year the crisis started, the analysis is from 2000, on the understanding that it is impossible to explain the crisis without reviewing its sources and causes, which go back to the previous decade. Moreover, the year 2014 has been chosen as the date to close off the period considered, bearing in mind that it was the end of this year that saw the start-up of the Single Supervisory Mechanism, and that the measures envisaged in the Memorandum of Understanding entered into with the European Commission in July 2012 may be deemed to be concluded. In short, the seven years from 2008 to 2014 match quite closely the period which saw the emergence and development of the crisis, its treatment and the start of the recovery.

The Report explains the measures applied, which should be considered in their macroeconomic and financial setting, one which progressively changed over the period in question. Indeed, from 2008 to 2014 the Banco de España prepared a considerable number of releases, articles and reports on the crisis and the measures adopted, which were available in print or on our website no sooner were they drafted. That is to say, the Bank had already prepared and published extensive information on and various analyses of the crisis; but what was missing was an orderly overview, in terms of both the timeline and the different themes, addressing the key macroeconomic, financial, regulatory and supervisory aspects.

The imbalances built up in the Spanish economy in the expansion prior to 2008

Allow me first to refer to the build-up of macroeconomic and financial imbalances in the expansion years prior to the crisis, linked most significantly to private-sector debt.

In its opening chapter, the Report indicates that an intense process of indebtedness unfolded in Spain from 2001 up to 2007, as reflected in Table 1.1 (p. 66).

The figures for the period 2001-2007 are as follows: set against nominal GDP growth of 67%, credit to the private sector increased by 221%, concentrated especially in the real estate sector, where growth of 250% in house purchase loans and of 513% in the case of credit to construction and real estate services companies was recorded. Peak growth in credit was in 2005 and 2006. In those two years, credit to the private sector grew by 60%, that earmarked for house purchases by 65% and that to construction and real estate services firms by almost 100%, i.e. it practically doubled in two years.

Over the same period 2001-2007, 570,000 new houses per year on average were built, house prices increased twofold in real terms, and by 2.5 times in nominal terms. As the Report notes, this process adjusted to a dynamic consistent with what may be considered to be a speculative real estate bubble, meaning that the attendant prices stood far above what the fundamentals in the respective markets – and naturally the housing market – would have warranted.

The increase in credit and its concentration in the real estate sector came about at a time at which the Spanish economy was undergoing deep-seated changes, on two fronts in particular: the adoption of the euro and rapid demographic growth, which made it difficult to assess the scale of the imbalances.

The adoption of the euro as from 1999 entailed the disappearance of the adjustment mechanism for the exchange rate against the rest of the euro area countries and the adoption of the common monetary policy, which maintained an expansionary stance during those years, with an appreciable reduction in the interest rates prevailing for the Spanish economy. The monetary policy stance was appropriate for the area as a whole, but was no doubt overly expansionary for Spain.

The build-up of imbalances also occurred in other euro area countries, in a setting in which different institutions, analysts and economic policymakers confided excessively in the stabilising effect of the euro. This meant that, for example, the differences in the risk premia applied to the various issuers of government debt disappeared. It was thought – and this was a widely held viewpoint – that membership of the Monetary Union would reduce the risk linked to current account deficits, because they could be financed within the Union in light of the free movement of capital. This approach, which would be proven to be mistaken with the crisis, led, among other things, to the risk associated with our economy's growing external debt not being properly estimated.

As regards demographic growth, the population rose by around 5,000,000 between 2000 and 2007, an unprecedented increase in such a short period since population series have existed in Spain, i.e. since the mid-18th century. Almost 90% of this population increase was attributable to net immigrant inflows, most of whom adults, which fuelled the growth of the real estate sector by means of both a permanent increase in the demand for housing and, on the supply side, by providing the labour that helped the construction sector expand.

During those years, in its analyses on the Spanish economy and in its supervisory tasks, the Banco de España identified the main problems that were building up and signalled aspects such as the growing vulnerability of households' and non-financial corporations' financial position, associated with their growing and sizeable debt; the big increase in house prices; the excessive concentration of credit in the real estate sector; the excessive dependency on external funding; and the accumulation of losses in competitiveness in the Spanish economy. That said, as the Report states, they were considered to be downside risks, in a scenario that foresaw a move towards lower growth rates and a gradual correction of the imbalances. The Bank did not anticipate such an acute recession as that which took hold from late 2008, which would reveal the scale and gravity of the imbalances that had built up in our economy.

The Bank adopted regulatory and supervisory measures which, over time, have been acknowledged internationally as advanced and innovative, even though they were questioned at the time by various national and international institutions, and by the Spanish banking sector, the latter understanding that they placed our banks at a competitive disadvantage. The two instruments in question were the countercyclical provisions, which were established by equipping the general provisions already in place with a component linked not to non-performance but to credit growth; and the requirement that structured investment vehicles be included within the scope of prudential consolidation of the credit institutions creating them, thereby preventing the transformation and securitisation of poor-quality loans from proliferating, which was one of the sources of the international banking crisis.

In 2008 the countercyclical provisions accounted for a sizeable volume of funds, of over €26 billion; the stricter treatment in Spain than in other countries of special-purpose investment vehicles deterred our banks from using this artificial risk-reduction mechanism, which contributed to the impact of the first crisis on our banks being relatively lighter.

The main lesson of this process has been the importance of what we call "macroprudential" instruments, which did not exist at the time and which have now been set in place in all developed countries following the work of the Financial Stability Board created by the G20 in 2009, and of the European Systemic Risk Board, linked to the European System of Central Banks, created in 2011.

As highlighted in the Report (pp. 64-65), while the appropriate compulsory rules for banks did not then exist, the Bank could have promoted the application of ceilings on the expansion of credit along three different avenues: containing or limiting risk concentration in the real estate development and construction sector; controlling or limiting leverage (the relationship between assets and liabilities, between exposures and their financing); and controlling or limiting the mortgage loan amount as a proportion of the value of the collateral (LTV). But these instruments were not at that time those habitually used by supervision, given that a microprudential approach was followed, focusing on ensuring the solvency of individual institutions.

The restructuring and recapitalisation strategy

Secondly, I am going to address the strategy adopted as from late 2008, which is analysed in detail in the second and third chapters of the Report. I shall review the main developments using, as the Report does, a timeline that helps better explain the measures adopted in their context at each point in time. I shall later also refer to some of the most frequent or significant questions posed about the strategy that was adopted.

From late 2008, at a time marked by the serious downturn in international financial markets following the collapse of Lehman Brothers in September that year, liquidity support mechanisms for the financial system were set in place through the establishment of the Fund for the acquisition of high-quality financial assets and the development of a system for the granting of State guarantees for specific issues. In line with the reforms being rolled out in various European countries, it was moreover decided to extend deposit guarantee coverage from €20,000 to €100,000.

As from 2009, the difficulties in the financial system intensified. In March that year the case of Caja Castilla la Mancha marked a turning point, as it highlighted how necessary new arrangements were to address the restructuring of ailing institutions. Given the constraints on savings banks (duly detailed in the Report), a strategy was adopted between 2009 and 2011 turning on two pillars: to assist the restructuring of the system through voluntary mergers and the resolution of less viable institutions; and the strengthening of solvency through the clean-up of institutions' balance sheets and the shoring up of their capital.

As regards the first of these pillars, two measures are worth noting: the creation of the Fund for the Orderly Restructuring of the Banking Sector (FROB), and the reform of the institutional protection scheme (IPS).

The FROB was created in June 2009 to support restructuring and voluntary integration processes, including financial support, in the main, through the acquisition of "*participaciones preferentes*" (preference debt instruments) or, where appropriate, through managing bank interventions. Later, in February 2011, the FROB was reformed following the worsening of the sovereign debt crisis in Europe, which increasingly hampered access by banks from various countries, Spain among them, to the wholesale funding markets, and which had led to the Greek and Irish programmes in May and December 2010. The role of the FROB was adapted, enabling it to acquire ordinary shares temporarily (up to 5 years), which was known as FROB II.

The FROB covered shortcomings in the pre-existing arrangements on two main fronts: the insufficiency of the deposit guarantee schemes' funds, as their capacity was not calculated to tackle systemic crises, with potential contagion arising in the event of their members being demanded to make extraordinary contributions; and to provide swift capital contributions for ailing banks, obviating the problems posed by mercantile regulations and, in particular, the need to obtain the approval of banks' General Meetings. As detailed in Table 2.8 of the Report, the contributions from FROB I and FROB II totalled €15,617 million, assigned in their entirety to savings banks and conditional upon restructuring and the enhanced efficiency and governance of the recipient institutions.

In April 2010 the regulations governing IPSs – dating from 2007 –were amended to afford them greater stability, reinforcing banks' commitment to permanence, requiring that the central institution should take the form of a public limited company and that it should be at least 50%-held by the savings banks. The IPSs offered a flexible formula for integration analogous to mergers for practical purposes, but retaining the institutions' individual legal personality and thereby facilitating integration processes principally between savings banks which, given their nature, did not have the same flexibility as banks to conclude merger agreements.

As to reinforcing institutions' solvency, mention may be made of the July 2010 savings bank reform (Decree-Law 11/2010 of 9 July 2010) which, among other measures, sought to ease their access to capital markets through the issuance of equity units with voting rights, or the pursuit of activity through a bank, separating banking activity from the Foundations that could control the savings banks; and the February 2011 Royal Decree-Law to reinforce the financial system, which included new solvency requirements in line with the standards of the revised Basel II Accord, stealing a march on the European Directive. Among other aspects, the legislation introduced greater capital requirements and more demanding definitions for their various components, along with stricter definitions for risk-weighted assets.

Moreover, in June 2010, the Banco de España reinforced accounting requirements with a view to increasing coverage more swiftly through provisions for non-performing assets. As a result of these measures, deposit institutions' overall solvency ratio increased from December 2007 to December 2011 from 10.6% 212.2%. At end-2011, the volume of provisioning set aside by our banking system and savings banks as a whole exceeded €138 billion (13% of GDP).

This strategy was greatly affected and indeed interrupted in 2012, with the euro area crisis. The crisis saw various periods of tension, the result of the interaction between sovereign, banking and macroeconomic risks.

The first half of 2012 saw a stepping up of so-called "redenomination" risk, which was a euphemism for the doubts over certain countries, Spain among them, remaining in the euro area and, indeed, over the survival of the single currency. In March, a second bail-out was approved for Greece and, in May, with the inconclusive Greek elections, rumours were again unleashed about the country exiting the Monetary Union. In parallel, there was a fresh bout of tension centred on Spain and on Italy, where two-year risk premia relative to the German Bund climbed to over 700 and 500 basis points, respectively.

Fears intensified in Spain over the impact of the double-dip recession on the position of credit institutions and on the feedback loop between sovereign and banking risk. Funding conditions on the wholesale markets once again tightened and net fund outflows to the external sector stepped up, totalling €320 billion in cumulative 12-month terms, 29% of GDP. In mid-2012, Spain was facing what was practically a collapse in external funding, which it was able to offset with a substantial increase in Eurosystem funding, which came to account for €412 billion in August 2012, 34% of the liquidity injected by the Eurosystem into banks across the whole euro area.

In response to the worsening of the crisis, the Government approved two Decree-Laws in February and in May 2012 on the write-down of real estate risks on credit institutions' balance sheets; and in July 2012, a reinforced strategy for capital restructuring and strengthening was adopted through the Memorandum of Understanding (MoU) with the European Commission. This included an injection of funds, provided through the European Stability Mechanism, for more than €41 billion. That same summer, the European Union took further steps in the reform of the euro area's institutional architecture, which were crucial in dispelling redenomination risk. The measures included the approval of the plans for the Banking Union and the decision in September 2012 by the European Central Bank on possible direct purchases in the secondary market for government bonds subject to economic adjustment programmes or precautionary programmes.

Chapter III in the Report explains the strategy agreed upon in the MoU. The main features of the measures were as follows: a new recapitalisation and restructuring process with public aid via the FROB, including an external assessment of the Spanish financial system, all of which is detailed in Diagram 3.1 and Table 3.3 of the Report; the segregation of a substantial volume of impaired assets of the banks that received public aid, which were transferred to Sareb, as detailed in Table 3.5 of the Report; and compliance by all banks with a level of top-quality capital of 9 %.

Chapter III also describes the measures adopted to support the retail holders of shares and hybrid instruments affected by the restructuring exercises at the banks which moved into the FROB's orbit (pp. 180-181). The two measures adopted were: 1) to enable the Deposit Guarantee Scheme (DGS) to purchase the shares that retail holders of preference debt instruments and subordinated debt had received in exchange for their securities when the shares were not listed (this was the case of Novacaixagalicia and Caixa Catalunya); and 2) to create a committee to establish the criteria that would govern the arbitration to be offered by FROB investee banks to the retail holders of these instruments to resolve cases of mis-selling. Subsequently (Table 3.4, p. 194), the amount of the instruments issued by Bankia, Caixa Catalunya and Novacaixagalicia is given, along with the arbitration requests received and the awards favourable to customers: overall, arbitration with a favourable award amounted to €3,125M, relating to almost 300,000 customers.

Bearing in mind the doubts over the viability of the euro and over Spain continuing in the single currency, and given the serious crisis facing our financial system, I believe that the restructuring strategy and its financing as set out in the 2012 Memorandum of Understanding was proportionate and has managed to achieve the normalisation of our financial system, as explained in Chapter IV of the Report.

Options in the restructuring process

Allow me now to turn to two questions: the options other than the strategy that was adopted; and why the reform and restructuring process under way since 2009 had to be reinforced, through the 2012 Memorandum of Understanding.

As regards the options, I believe the debate mainly focuses on the early years of the crisis, between 2009 and 2011. The two scenarios usually mentioned are, first, not having bailed out non-solvent banks, facilitating their winding up; and second, as opposed to the gradual strategy launched, to have acted more aggressively from the outset, with an injection of public funds in the form of capital and the segregation of impaired assets into purpose-built companies, such as that which was finally created, namely Sareb.

With respect to the first scenario, and irrespective of political considerations, letting ailing banks go bankrupt was not a reasonable option in economic terms.

The winding up of banks would have meant the paralysis of banking services and losses for depositors in the institutions concerned of that portion not covered by the DGS (a portion that could be very high), accentuating the risk of contagion to other institutions. This type of strategy would have had a devastating impact on confidence and the stability of the financial system, on the real economy and on employment, and it would very likely have meant a higher cost for taxpayers insofar as the DGS would almost certainly not have been able to meet the coverage of deposits without further public aid.

Indeed, leaving aside the case of Lehman Brothers, which was not a commercial bank but an investment bank without retail depositors, and the most particular case of Cyprus in 2013, I know of no other instance during the crisis that began in 2008 of the authorities of a country having adopted a bank winding-up solution that entailed losses for depositors.

The strategy chosen sustained the viability of the banks that received aid, maintaining their regulatory capital and the continuity of their core functions, and thereby protecting their depositors. As Table 2.8 in the Report (p. 137) shows, at end-2011, the aid assigned to banks had already risen to €25.5 billion (€15.6 billion of which were in the form of public aid through the FROB, and the rest comprising private funds through the DGS). This aid enabled the banks that received it to sustain deposits, totalling around €487 billion, around one-third of credit institutions' total deposits, of which over €250 billion were guaranteed.

As regards the second scenario, the strategy of an early public bail-out for a significant portion of the system of credit institutions, which was at the time colloquially known as the "*manguerazo*" (liquidity dousing), was a means opted for in 2008-2009, with various formats, by countries such as Germany, the Netherlands, the United Kingdom and the United States. However, in those years in Spain, private solutions prevailed, with liquidity support measures in 2008 and, from 2009, with injections by the FROB, mainly through preference debt instruments, i.e. hybrid debt (not capital) instruments. It would not be until 2011 that, with the reform of the FROB, the way was paved for capital contributions with public funds and, into 2012, with the MoU, for further injections of public funds and for the creation of Sareb.

From a fiscal standpoint, the option of massive and early capital injections with public funds could, perhaps, have been viable in Spain until 2007, while public finances were still running a surplus and GDP growth stood above 3.5%; and there was still some leeway in 2008, despite the slowdown in growth and the increase in the fiscal deficit, which rose that year to 4.4% of GDP. Nonetheless, from 2009 it became very difficult, if not indeed impossible, against a background of recession, with a decline in GDP of 3.6% and a rapid deterioration in public finances. In 2009, the budget deficit climbed to 11% of GDP; and public debt increased in only two years by almost 20 pp of GDP to 52.8%, compared with 35.6% in 2007.

It should moreover be borne in mind that Spanish credit institutions generally had, in the initial years of the crisis, high levels of provisioning and profitability, which probably contributed to generating excessive confidence in their ability to finance, through exclusively private means, the restructuring and strengthening of their capital. The preference for seeking out private solutions was naturally governed by the aim to minimise the impact for taxpayers; but another determinant here was the objective to undertake the necessary reform of savings banks, which were by then subject to well-known problems of governance, it being considered that a strategy of widespread public aid could set back or make this reform more difficult.

The question hanging in the air is whether the alternative of strong public aid to credit institutions in the initial phases of the crisis would ultimately have entailed a lower fiscal cost than the gradual approach opted for. But this question is, as economists would say, counterfactual, i.e. attempting to imagine the consequences – desired and undesired alike – of something that did not happen. Whatever interest this question may have, naturally the Report does not go into it, and I do not believe it is for the Banco de España to respond to it.

A second question is why some of the savings bank IPSs did not withstand the double-dip recession and had to undertake further restructuring measures as from 2012.

With hindsight, the IPSs were in most cases clearly but a prior step to necessary and actual mergers, and several of these groups were evidently insufficient when faced with the second recession. Yet it should be recalled that the IPSs were an instrument that provided for the integration of savings banks and of credit cooperatives, which had less flexibility to undertake true mergers. The integration processes called for a voluntary agreement between the parties. In the midst of the crisis, these agreements were not easy and they required, moreover, the approval of the related regional government authorities.

But in 2011 nobody, or practically nobody foresaw the double-dip recession and less still how violently it would affect the Spanish economy.

In April 2011 most agencies, including the IMF, the OECD, the European Commission and the Banco de España, were forecasting growth for our economy of around 0.8%, which at the end of the year turned out to be a decline in GDP of 1.0%, the biggest forecasting error on record in recent times for these institutions. The European Central Bank was acting in response to what it saw as a recovery scenario for the euro area, as testified by the fact that it raised its benchmark interest rate by 25 bp on two occasions, in April and in July 2011, only to reverse these rises from November, in light of the worsening sovereign debt crisis. The forecasting error was also most significant in 2012: in their 2012 spring projections, most institutions estimated a decline in GDP of around 1.6%, and ultimately it was 2.9%.

Overview

As is addressed in the final chapter of the Report, I should now like to take an overall view of the crisis.

With regard to the regulatory and supervisory architecture of the financial system, we now have new arrangements underpinned by the European System of Financial Supervision and by the Banking Union in the euro area. New and more powerful regulatory and supervisory tools are at hand, including higher capital requirements, increased in the case of systemically important institutions, and the new instruments provided by macroprudential policy and resolution policy, also within the European framework. There is still work to be done with these arrangements, mainly the development of the third pillar of the Banking Union, comprising a common deposit guarantee scheme and the pooling of resources in the Single Resolution Mechanism.

The Spanish financial system, for its part, has undergone most significant restructuring. This is reflected in the reduction in the number of institutions, mainly among savings banks, whose number fell from 45 to 10 institutions, 8 of which are currently banks; and in the reform of the banking sector which, from 2008 to 2015, saw the number of offices fall by one-third and staff numbers by more than one-quarter.

Spanish banks are today better capitalised. Deposit institutions' overall solvency ratio rose, in terms of capital relative to risk-weighted assets, from 10.6% at end-2007 to 14.5% at end-2015. From 2008 to 2015 the sector undertook a major clean-up of its balance sheets through provisioning totalling almost €300 billion, close to 20% of the total credit to residents at the time the crisis broke and to 28% of GDP in 2015.

At this juncture I should point out that, on reading these paragraphs, I am not forgetting the case of Banco Popular Español.

The Report provides details on the results for this bank, and on the assessment made under the July 2012 Memorandum of Understanding with regard to our banks' capital needs. As is known, this assessment was conducted by the consultancy firm Oliver Wyman, and its outcome was that Banco Popular evidenced capital needs in excess of €3.2 billion. But in October 2012 it was concluded that both Banco Popular, and the other institution for which capital needs have been identified, namely Ibercaja, could cover these needs by their own means, without resort to public funds and, therefore, also without transferring assets to Sareb. I believe the resolution of Banco Popular, undertaken early in June in accordance with the provisions of the 2014 European Directive, is set in a different context to that of the analysis of the crisis from 2008 to 2014, even if it is considered that the still-distant source of the problems of Banco Popular can be found in the period covered by the Report. But here I shall naturally defer to what this Commission should decide.

Regarding public aid, the Report details in its various chapters the aid injected into the financial system during the crisis. This is summarised in Tables 5.5 and 5.6 (pp. 246-247).

At the close of 2015, recorded total net funds assigned to supporting the Spanish financial system were €60,613 million, €39,542 million of which relate to public funds provided by the FROB and €21,071 million to private funds provided by the DGS. Naturally, these figures will vary depending on the recoverable value of the assets currently owned by the FROB and the DGS.

In terms of the comparison with other developed countries, there are various metrics to evaluate the fiscal cost of public aid.

The most general one is the outstanding balance of accumulated public debt. In gross terms, Spain's public debt as a consequence of assistance to the financial sector was 4.7% of GDP in 2015 and 4.6% in 2016, in line with the average for the euro area. However, in terms of net debt assumed by the public sector (accumulated liabilities minus the value of publicly owned assets), the euro area average stood at end-2015 at 1.8% of GDP and at 1.9% in 2016. Greece and Ireland are the countries that have assumed most net public debt (around 20% of GDP), followed by Slovenia and Portugal (7-8% of GDP). In Spain's case, this figure in 2015 was 3.7% of GDP, and it had risen to 3.8% in 2016.

Conclusions

I should like to conclude by summarising the reflections contained in the Report on the conduct of the Banco de España.

Firstly, our Report indicates that the Banco de España did not adopt measures that could, perhaps, have checked the sizeable increase in credit to the private sector recorded between 2001 and 2007, in particular in the construction and real estate development sectors, and in mortgage lending for house purchases. But it should be pointed out that there were then no legal regulations that could have provided for such action and that other measures adopted in those years – the countercyclical provisions and the more severe treatment of the so-called “special-purpose vehicles” – were effective in helping withstand the first crisis, although they did not suffice to protect our banks from the double-dip recession that began in 2011.

Secondly, the treatment of the most characteristic problems of the savings banks through the risk-pooling schemes contained in the institutional protection systems (IPSs) did not suffice to resolve the solvency and governance problems of most savings banks; nor was there much success with certain innovations such as equity units with voting rights, with which it was sought to resolve, or at least alleviate, savings banks’ difficulties in raising resources equivalent to capital.

Thirdly, it seems clear that the Banco de España estimated that the 2009 recession would have what the economists call a “V” shape, and not a “W” shape, without anticipating the strong impact of the second recession on many credit institutions’ solvency. Here I should point out, as the Report does on different occasions, that acknowledging the impact of the second recession is crucial, because there is a tendency to ignore it, as though it were an incident without importance when actually it was fundamental to how events unfolded and in terms of its impact on our credit institutions.

Fourthly, there were errors of perception as to how the imbalances that built up with the real estate bubble – among others, the imbalances on bank balance sheets – could be corrected. It was thought they could be corrected mildly, in a gradual fashion. Circumstances showed that this expectation was overly optimistic because the correction was rapid, brutal and with consequences that have not yet been entirely overcome.

A further reflection – although I should say here that the opinion cannot be construed as forceful, or very certain – is that the attempt to minimise in the short term the cost of the resolution of the banking crisis for public finances by means of a gradual approach, facing problems as and when they emerged, might ultimately have involved committing a greater volume of public resources than, say, a more aggressive or more ambitious approach from the onset of the crisis. I insist, though, that this is a question for which there is no reply exempt from objections and counter-arguments. In any event, the Bank could obviously not act independently of the course of our public finances and of the decisions by other authorities.

Our Report has sought to explain what happened, to provide fundamental data, to set out the decisions adopted, along with their consequences and costs, avoiding pre-judgements and relatively unfounded conclusions; but it has not masked the failings or insufficiencies, placing them in their context. In short, our Report was drafted in an attempt to serve the general interest as best possible.

Thank you for your attention.