SCENARIOS FOR THE BAILOUT OF THE SPANISH FINANCIAL SYSTEM

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On June 10, 2012 the Spanish Prime Minister Mariano Rajoy announced the creation of a special line of credit from the European Union to tackle the difficult financial situation in which had incurred some of the most important financial institutions, especially Bankia.

In order to know the real financial needs of such institutions, two prestigious international consulting firms, the U.S. Oliver Wyman and the German Roland Berger, were contracted to carry out two separate independent reports about those needs. To do this, the Ministry of Economy made up a committee of experts to design two scenarios (baseline and adverse) in which different evolutions of specific economic indicators were estimated, as stated in figure 1.

The baseline scenario was considered the most probable and foresaw that the fall of the economy will last until 2013, with negative GDP's growth rates till that year. The adverse scenario lengthened the recession period until 2014. The unemployment rate would begin to decline, albeit slightly, from 2013 in the baseline scenario, whereas it would still rise in the adverse one. Other significant differences between the two scenarios are observed, especially during 2012, on the expected decreases of housing and land prices, as well as in the stock market index.

Figure 1: Macroeconomic scenarios (in %)

	BASELINE SCENARIO			ADVERSE SCENARIO		
	2012	2013	2014	2012	2013	2014
Real GDP	- 1,7	- 0,3	0,3	- 4,1	-2,1	-0,3
Unemployment rate	23,8	23,5	23,4	25,0	26,8	27,2
Housing prices	- 5,6	- 2,8	- 1,5	- 19,9	- 4,5	- 2,0
Land prices	- 25,0	- 12,5	- 5,0	- 50,0	-16,0	- 6,0
Stock market index	- 1,3	- 0,4	0,0	- 51,3	- 5,0	0.0
Loans to other domestic sectors						
- Families	- 3,8	- 3,1	- 2,7	- 6,8	- 6,8	- 4,0
- Enterprises	- 5,3	- 4,3	- 2,7	- 6,4	- 5,3	- 4,0

Based on these scenarios, both consultants estimated the expected losses for the financial system and, consequently, the capital requirements by the entities, as stated in figure 2. These losses could be mainly derived by defaults on the loan portfolio and falling property prices held by financial institutions. Cushions to absorb losses came from the capacity of the institutions to generate profits and provisioning. Capital requirements were estimated in 51.800 and 62.000 € billions by each consulting firm and emerge as a result of the difference between these cushions and the expected losses.

To carry out the reports, both firms relied on their best executives. Oliver Wyman moved Till Schuermann to Madrid, who was studies responsible of the Federal Reserve and contributed to the stress tests of U.S. banks. On the other hand, Roland Berger relied on the Portuguese Antonio Bernardo, number two in the firm worldwide and responsible for Spain, Portugal and Latin America. Together, both firms received two million Euros for their work.

Figure 2: Capital requirements (in € billions)

	OLIVER WYMAN		ROLAND BERGER	
	Expected losses (2012-14)		Expected losses (2012-14)	
	Baseline scenario	Adverse scenario	Baseline scenario	Adverse scenario
Promoters	65-70	100-110	37,7	55,5
Mortgages	11-15	22-25	23,9	45,4
Large firms	18-24	30-35	17,5	20,6
SMEs	22-30	35-40	21,0	24,9
Building sector	4-6	8-10	5,6	8,9
Other retailers	6-10	10-15	13,4	14,5
TOTAL	170-192	252-268	119,1	169,8
Cushion to absorb losses	n.d.	230-250	n.d.	118
Capital requirements	16-25	51-62	25,6	51,8