

## EXECUTIVE SUMMARY

### SPANISH ACTIONS TO DEAL WITH THE FINANCIAL CRISIS WITHIN THE FRAMEWORK OF THE EUROPEAN CO-ORDINATED RESPONSE

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On Tuesday 7 October, right after the meeting on which ECOFIN Ministers agreed principles for a co-ordinated response to the financial crisis, the Prime Minister announced two measures to be immediately adopted:

- **To strengthen the Spanish Deposit Guarantee Scheme by raising the guarantee limit from 20.000 to 100.000 euro.** The Royal Decree enacting this measure was adopted on Friday, 10 October.
- **To set up a Fund financed by the Treasury (the *Fund for Purchase of Financial Assets*) to support the funding of the financial system with an initial endowment of 30 billion euro, extendable to 50 billion euro. The Fund will buy, from credit institutions established in Spain, high quality assets.** The purpose of the fund is to ease the banking system financing, and by doing so, to prevent a further tightening of credit to households and businesses. This Royal Decree Law establishing the Fund was passed on Friday 10 October.

The operation of this Fund will be based on the following principles:

- The Fund will only purchase top quality assets, at prices fully aligned to the underlying risks. This will minimise the cost (if any) to public finances and will avoid any subsidisation of financial institutions.
- It will be strictly temporary and it will last until markets are back to normal functioning. The transactions will need to replicate best practices in the market.
- It will be compatible with the rules of the EU Internal Market, giving the opportunity to participate in the transactions to all institutions operating in Spain and with no limitation other than the refinanced assets are Spanish.
- The Fund will operate until markets stabilise, its intensity will be adjusted by the conditions offered to the financial institutions.

On Monday 13 October, Spain's Government approved a Royal Decree-Law to implement two main actions stemming from the Declaration of the Paris Summit of Eurogroup Countries' Chiefs of Government:

- **A guarantee scheme for new senior debt issuance of credit institutions, with an initial ceiling for 2008 of 100 billion euro.** This would cover commercial paper and senior bonds with up to five year maturity. It could also include interbank deposits, but only in the event of a coordinated approach by Eurozone countries. The guarantees shall be granted until 31 December 2009. All credit institutions established in Spain, included - according to the Paris Declaration - subsidiaries of foreign companies with sufficient active operations in Spain, are eligible. The Ministry of Economy and Finance will set the requirements for those entities willing to benefit from the guarantee. It might be considered to include among them special solvency conditions proposed by the Bank of Spain. The guarantee will have a cost reflecting the risk born by the Government, according to market criteria.

- **An authorisation to the Ministry of Economy and Finance to purchase shares, preference shares or participation rights issued by credit institutions.** Spanish Government does not consider necessary to use public funds to capitalise Spanish credit institutions in the present circumstances. This authorisation is only preventive, giving the Government a legal instrument for eventual problems. This is why it has not been endowed with budgetary resources in the legal text.