

Spain's Banking Crisis

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Recall that Bankia is the large Spanish bank that was partially nationalized' in 2012, and that received 18 billion euros in new equity funds at the end of 2012. At that time Bankia shares fell by 25% to 41 euro cents (41/100 of one euro). At that same time Bankia said it expected to report a 19 billion euro loss for 2012. See my January 3 commentary titled [Spain: Bankia and its parent!](#) where I said "My assumption with respect to Bankia and other large Spanish banks is that 'we have yet to hear the worst of it'".

On Monday, following a 'forced revaluation' by Regulators to 1 euro cent (1/100th of one euro) announced after the financial markets closed on March 22, Bankia shares closed at just under 15 euro cents (15/100 of one euro), down over 40% on the day. That 'forced revaluation' is said to have been a 'condition' of Bankia receiving a further capital injection of 10.7 billion euros from European rescue funds in circumstances where in February Bankia reported a 19.2 billion euro loss (as had been expected) for 2012. Standard & Poor's is reported as having lowered Bankia's rating by one notch to BB-.

In February Bankia reported that it expected a quick return to profitability following a 'clean-up' of its balance sheet.

Bankia strikes me as needing to be on every trader and investors radar screen going forward, given its size and what I think has to be its possible impact (positive or negative) on Spain, the eurozone, and perhaps the banks and banking systems of both Spain and other countries – the latter pursuant to possible contagion issues.

In other Spanish bank news, yesterday afternoon Banco CEISS, BMN and Caja 3, three comparatively small Spanish banks reported 2.5 billion euros, 3.7 billion euros, and 1.0 billion euros losses respectively for their latest fiscal years. These losses were all driven by previously unrecognized real estate exposure losses, or in the case of BMN writedowns on property holdings.

Concurrently, a second article published today (see [Small businesses spell big problems for Italy and Spain](#)) reports that many small businesses in both Spain and Italy are having difficulty repaying loans, and that:

- 1,000+ Spanish companies filed for creditor protection in February, up 80% year/year, and 10% of Spanish loans were in arrears;
- in 2012 1,000 companies per month failed in Italy, and by January 7.4% of loans were non-performing; and,

- unemployment in both Spain (now 26.0%) and Italy (now 11.7%) is expected to climb in both countries.

Also, see [Men in Black Headed for Spain](#), which reports (in some detail) that in May officials of the European Union, the European Central Bank, and the International Monetary Fund may audit (my word) the placement of the approximate 41 billion euros advanced against the Spanish bank bailout last year.

Finally, see [Spain faces prolonged depression](#), which suggests that Spain's economy will contract by a further 1.5% in 2013 (1.4% in 2012), and says "Spain's public finances are in disarray as the government is seeking to prevent the collapse of the country's banking sector in the wake of a huge mortgage crisis".

You may recall that early last October I expressed concerns with the Spanish bank stress tests – see [Consultancy says Spain's banks could need 60 billion euros](#). In particular I suggested that those stress tests were based on assumptions provided to the consultant and simply accepted by the consultant, where I wasn't convinced the consultant's conclusions were credible. I continue to be of the same mind – and expect more negative news to come from Spain in coming weeks and months.

Topical Reference: [Bankia Stock Value Is Nearly Wiped Out Under Recapitalization Plan](#), from [Dealbook](#), March 25, 2013 – reading time 2 minutes. Also see:

- [Spain faces prolonged depression](#), from [Deutsche Welle](#), March 26, 2013 – reading time 2 minutes;
- [Men in Black Headed for Spain](#), from [Financial Sense](#), Michael Shedlock, March 26, 2013 – reading time 3 minutes;
- [Update 1 – Three small Spanish banks post multi-billion euro losses](#), from [Reuters](#), March 27 – reading time 3 minutes; and,
- [Small businesses spell big problems for Italy and Spain](#), from [Reuters](#), Silvia Aloisi and Sarah White, March 28, 2013 – reading time 4 minutes.

Ian R. Campbell through the [Economic Straight Talk Newsletter](#) [Ian R. Campbell](#) shares his perspective on the world economy, the financial markets, and natural resources. A recognized business valuation authority, he founded Toronto based Campbell Valuation Partners (1976), [Stock Research Portal](#) (2007) a source of resource companies market data and analytic tools, and [Economic Straight Talk](#) (2012). Contact him at icampbell@srddi.com. [The Ian R. Campbell Research Initiative](#)

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