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Guindos Defending ECB Credentials as Popular Investors Take Hit

Esteban Duarte and Maria Tadeo Monday, June 19, 2017 6:04:33 PM

(Bloomberg) -- Spanish Economy Minister Luis de Guindos is opening himself up to a beating at home as he seeks to further his ambitions for a big international job.

De Guindos, 57, has been promoting his record as a euro-zone technocrat and has won the favor of German Finance Minister Wolfgang Schaeuble with the vice presidency of the European Central Bank due to open up next year.

But one blot on De Guindos's CV is the crisis at Banco Popular Espanol SA, which came to a head last week. On Monday he'll face questions from lawmakers in the Spanish parliament over the collapse of the lender with 147 billion euros (\$164 billion) of assets that has tarnished his claim to have cleaned up the Spanish banking swiftly after he took office five years ago.

De Guindos is looking to finesse the problem.

The Italian government dragged its feet for months over Banca Monte dei Paschi di Siena SpA, trying to find a way around European rules preventing it from using public money to shield retail investors. De Guindos, by contrast, helped find a buyer for Popular, as last week it became the first European lender to suffer a forced sale under the EU's Single Resolution Board. Banco Santander SA bought the distressed lender for 1 euro while hundreds of thousands of retail investors and junior bondholders were wiped out.

'Personal Aspirations'

"Applying the European resolution mechanism shows the Spanish government's commitment to institutions such as the ECB and fits quite well with Guindos's personal aspirations for a significant position at the European level" said Arturo Bris, a professor of banking strategy at the Lausanne-based IMD business school. "The cost is that it creates a domestic political problem."

While De Guindos has never said that he's seeking the ECB job, he's been vocal about Spain's claim to the post and in Madrid he's considered the leading candidate. He already signaled his ambitions to move on from his Spanish government post, and Prime Minister Mariano Rajoy's backing for such an idea, when he mounted a failed challenge to Jeroen Dijsselbloem of the Netherlands for the leadership of the euro-area finance ministers' group in 2015.

An economy ministry press officer said the next seat at the ECB will go to a Spaniard, but insisted there isn't a candidate yet as the process hasn't reached that stage.

Learning Lessons

The economy chief had repeatedly insisted the bank was solvent and ruled out any liquidity problems, most recently on April 19. De Guindos's endorsements helped persuade investors to plow 5.5 billion euros of capital into the bank since 2012, all of which has been destroyed.

By June 5, hours before Santander would step in, Algebris Investments estimated that Popular was still as much as 4 billion euros short of capital and, according to ECB Vice President Vitor Constancio, the lender was in the grip of a bank run. Popular lost about a quarter of its 79 billion euros of deposits between the end of March and early June.

"There was no need for Guindos to claim and reiterate that Popular did not have a problem," Jose Garcia-Montalvo, an economics professor at Barcelona's Pompeu Fabra University, said in a telephone interview. "If there aren't any credible answers, it's probably better to keep quiet -- that is a lesson we can all learn from the Popular mess."

To be sure, Guindos led the banking cleanup in 2012 by imposing tighter provision requirements, a move that helped the country's banking industry to return to the wholesale funding markets and laid the foundations for 14 straight quarters of economic growth. And banking supervision isn't the economy ministry's responsibility, that's down to the Bank of Spain and the ECB. Indeed, Popular passed repeated stress tests, most recently in July last year, when the Bank of Spain said it "comfortably" met requirements.

Contagion

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FTSE 100	7.555,42	+0,42%
DAX 30	12.934,73	+0,36%
CAC 40	5.334,85	+0,45%
SWISS MARKET	9.052,39	+0,24%
DOW JONES	21.528,99	+0,68%
NASDAQ	6.239,01	+1,42%
HANG SENG	25.852,50	-0,28%

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That's little consolation, though, to the 300,000 Popular retail clients who were sold stock or junior debt, and three quarters of the bank's almost 11,000 staff, who were also shareholders. They've all seen their investments wiped out and Popular staff have asked their new managers for guidelines on how to deal with violent situations as they are confronted with angry customers.

With signs of contagion in the more vulnerable parts of the Spanish financial system, there may be a degree of schadenfreude among other European policy makers. De Guindos has lectured the Italian government for its handling of its banking problems, and he's frequently jabbed at Dijsselbloem since their contest for the Eurogroup chairman's job.

"This was an individual case with old problems which they did not handle on time," Dijsselbloem told reporters in The Hague Friday.

Meanwhile, Liberbank SA, Spain's smallest listed bank, has plunged 42 percent this month on concern that it may be sitting on the same kind of real estate losses that sank Popular. Non-listed lenders such as Ibercaja Banco SA and Banco de Credito Social Cooperativo SA saw their bond prices decline after Popular was intervened.

"This was supposed to be a neat example of how a resolution works in the eyes of regulators," said Alberto Gallo, head of macro strategies at Algebris Investments in London. "But pushing a profitable core franchise into an accelerated wind-down has created contagion on mid-tier lenders."

--With assistance from Sonia Sirletti

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