**Catalan Banks Owing ECB $77 Billion May Stall Independenc**

By Charles Penty - Nov 22, 2012 2:44 PM GMT+0100

Catalan bank borrowings of about 60 billion euros ($77 billion) from the European Central Bank may prove an obstacle on the region’s path to possible independence.

CaixaBank SA, Spain’s third-biggest bank, took about 20 billion euros in central bank funding, according to the Barcelona-based [company](http://www.bloomberg.com/quote/CABK:SM)’s accounts. Banco Sabadell SA, a Catalan lender that became Spain’s [fifth-biggest](http://www.bloomberg.com/quote/SAB:SM) after a string of acquisitions, has borrowed about 27 billion euros.

The region’s President Artur Mas called early elections for Nov. 25 in a gambit that may trigger a drive for independence and risks stranding a new Catalan state outside the European Union as well as severing ties to Spain. The region’s banks, like other Spanish lenders, tapped the ECB’s low-cost [funding](http://www.bloomberg.com/quote/SPLBTOBO:IND" \o "Get Quote)when Spain’s economic crisis shut them out of debt markets.

“The Catalan financial system is still on life support from the ECB,” said Edward Hugh, an economist and board member of Catalunya Banc, a Barcelona-based lender [nationalized](https://www.catalunyacaixa.com/Portal/es/Comunes/SalaPrensaCX?subtipus=5) last year that has used about 19 billion euros of central bank funding. “People need to start facing up to the fact that Catalonia has to be in the euro.”

European officials, including Competition Commissioner Joaquin Almunia, a Spaniard, and European Commission President Jose Manuel Barroso have said that a new Catalan state would have to reapply for EU membership.

**Bank Assets**

Mas has said the question of Catalan independence would “still be posed,” even if the new country was excluded from the EU. Mas wants Catalonia to separate from Spain while remaining part of the EU and keeping the euro.

The combined [assets](http://www.bloomberg.com/quote/CABK:SM) of [CaixaBank (CABK)](http://www.bloomberg.com/quote/CABK:SM" \o "Get Quote), Sabadell and Catalunya Banc amount to 590 billion euros, or almost three times the size of a Catalan economy that’s similar in size to[Greece](http://topics.bloomberg.com/greece/). In Ireland, the assets of domestic banks amounted to 3.3 times the size of the country’s economy in 2008 when the state guaranteed most of their liabilities to prevent a collapse of the financial system, according to Bloomberg News calculations based on lenders’ annual reports and Irish Central Statistics Office GDP data for that year.

The process that could lead to independence is still in its early stages. Mas pledged to hold a referendum on the issue within four years of the elections. He may choose to hold the consultation in 2014 to coordinate it with a similar process due in [Scotland](http://topics.bloomberg.com/scotland/), [Antonio Barroso](http://topics.bloomberg.com/antonio-barroso/), an analyst at Eurasia Group in [London](http://topics.bloomberg.com/london/), said in a Nov. 20 research note.

“Many things still have to happen before someone starts asking the tough questions about what happens with the banks,” said Cesar Molinas, a consultant and former head of European fixed income at Merrill Lynch & Co.

**Legal Guarantees**

CaixaBank and Sabadell, based in the town of the same name near Barcelona, declined to comment on the impact of eventual Catalan independence. In a seminar in Barcelona last month, Sabadell Chairman Josep Oliu called on politicians to create conditions to allow business to continue with sufficient legal guarantees.

The aim is to meet international parameters in all that has to do with the separation of states, a spokesman for the Catalan government in [Barcelona](http://topics.bloomberg.com/barcelona/) said in an emailed statement, adding that the issue of the impact of independence on the banking system was still being examined.

CaixaBank Chairman Isidro Faine and “the rest of the representatives of big business in Catalonia are going to be very worried by all this,” said Barcelona-born Molinas in a phone interview. CaixaBank, the biggest lender in Catalonia, with 344 billion euros of assets, had available funds of 42 billion euros in June, according to its accounts.

**Customer Backlash**

The issue of ECB funding is only one of several issues facing banks, said Jose Garcia Montalvo, an economics professor at Pompeu Fabra University in Barcelona. An independent Catalonia outside the euro would have to set up its own body to oversee its banks at a time when Spain and other EU nations are pushing for a banking union with centralized regulation of its financial system, he said.

Another problem facing Catalan lenders is the threat of a backlash from customers in Spain who may withdraw [deposits](http://www.bloomberg.com/quote/CABK:SM) if the region won independence, he said. Jose Manuel Lara, chairman of Grupo Planeta, told ABC Punto Radio in September that the publishing group would shift its headquarters to Madrid or Zaragoza from Barcelona if the region became independent.

CaixaBank is the biggest bank by branch network in regions including Andalusia and Canary Islands as well as Catalonia, where its share is as high as 26 percent, and is the second- biggest in Madrid and [Valencia](http://topics.bloomberg.com/valencia/). The lender had about two-thirds of its branches outside Catalonia, according to data for the end of 2011.

“If you’re a customer in Badajoz, are you still going to keep your deposits in CaixaBank if Catalonia is independent?” said Montalvo.