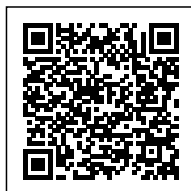


CAPITAL MARKETS CONFIDENCE RETURNING

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Restructuring of the Spanish banking sector, the 'banco malo' and the EU bank bailout are finally having a positive effect on the markets.

The decision of the Spanish stock market regulator, the Comisión Nacional del Mercado de Valores (CNMV), to lift its ban on the short-selling of stocks reflects growing confidence in Spain's capital markets, say finance lawyers. The prohibition came to an end on January 31st.

"The announcement was low key but reflects a belief that the restructuring of the Spanish banks and cajas, the creation of the state 'Bad Bank' and the deployment of EU funds to help stabilise financial institutions is having a positive effect on the markets as a whole," says Gabriel Núñez, Partner at Uría Menéndez in Madrid.

A ban was originally imposed in August 2011 at the height of uncertainty over Spain's banking sector, when a number of domestic institutions were becoming increasingly unstable as widening real estate liabilities emerged. The financial pressures increased further with the imposition of stricter

Bank of Spain capital adequacy and provisioning requirements.

The Spanish prohibition was briefly lifted in February 2012 but re-imposed last July following the €19bn nationalisation of Bankia, Spain's largest domestic bank, and the Government's request for up to €100bn in EU funds to stabilise the financial sector. A further effort to stabilise the sector came last autumn with the creation of a state-controlled 'Bad Bank', into which the most vulnerable institutions have begun to transfer their most volatile real estate liabilities – including €45bn worth from Bankia alone.

"With the consolidation of the banks well progressed and the commitment of EU funds to stabilise institutions' balance sheets, and the bad bank, there is a sense of significantly more certainty," says Núñez. "Spain's risk profile is down, the unknowns are now known, and we are not expecting any new significant regulation affecting credit institutions."

The lifting of the ban also reflects the enactment of EU rules anticipating many of the concerns addressed by the Spanish prohibition, say lawyers. Spanish banks have a risk pricing reflecting the European average and an upturn in confidence: 2013 has already seen some of Spain's leading companies launch successful bond offerings. The significance of the reopening of the debt markets best reflected by Telefónica's decision to pull its proposed Latin American IPO.

There remains a long way to go before one can say the economy has returned to health, say lawyers, but from a corporate finance perspective, the country seems to finally be heading in the right direction.

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