

Announcement by the President of Spain to set up a fund to support the financial system

On 7 October 2008, the President of Spain announced the establishment of a Fund to support funding of the financial system. You will find an extract of the announcement below (please note that this is an unofficial translation). The detail has yet to be finalised.

The President also announced that the Spanish deposit guarantee would be raised to €100,000 per account holder and entity.

* * *

“The government has taken a...major decision: to set up a Fund, charged to the Treasury, to support funding of the financial system with a contribution of €30,000 million, which can be extended to €50,000 million.

The Fund will acquire high-quality Spanish assets from financial institutions - on a voluntary basis as far as the institutions are concerned, and in accordance with market criteria - to ensure that, through these institutions, and over a sufficient time-span, funds reach companies and individuals, in order to maintain economic activity and employment.

The operation of the Fund will be underpinned by the following principles:

- The Fund will only acquire high-quality assets, with fully risk-adjusted prices and returns. This will serve to meet two objectives: first, to minimise the cost to public finances; and second, to avoid subsidising credit institutions.
- The fundamental aim is to provide for the proper functioning of Spanish credit markets on the basis of sound and prudent practices, lessening the hazards of undue credit rationing.
- The Fund's operations will be strictly temporary until the markets are operating as normal, and operations will conform to best regular market practices and be conducive to restoring normal market functioning.
- The Fund's operations will be compatible with Single European Market rules, offering the facilities to all institutions resident in Spain, under the same conditions and with no limitation other than that the assets being refinanced should be Spanish.
- The Fund will be wound down naturally as market conditions return to normal, with the volume of operations being modulated by means of the terms offered to institutions.”