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Spain says help not needed to save banks

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Spain's prime minister has insisted his country will not need an international rescue for its banks as investors recoiled at a €19bn rescue of Bankia, sending the country's borrowing costs over Germany's to the highest level since the start of the euro.

Bankia, Spain's second-biggest bank by local deposits, would have collapsed if Madrid had not agreed to the rescue last week, Mariano Rajoy warned, adding that this would have risked bringing down Spain itself.

"We are not going to let any regional government fall, or any bank fall, because they can't... if that happens the country will fall," Mr Rajoy said at an unscheduled news conference, calling again on Brussels to restore confidence in the currency union.

The yield on Spain's 10-year government bonds spiked above 6.5 per cent, closer to the 7 per cent level that prompted bailouts for Greece, Portugal and Ireland, while spreads on Spanish 10-year bonds over German Bunds hit new euro-era highs, climbing to 511 basis points.

Bankia shares fell by 13 per cent in its first trading session since the rescue was announced on Friday, while Banco Popular dropped by 7.5 per cent, and Banco Santander, the country's largest, lost 3.2 per cent.

Over the weekend Spain had suggested it could sidestep the rising cost of borrowing in the bond markets by swapping €19bn in government bonds directly for equity in BFA, Bankia's parent. The bank could then deposit the bonds with the European Central Bank in exchange for cash – a suggestion that unsettled investors.

"Telling people you're worried about raising €19bn in the market is idiotic," said one senior financier in Madrid. "Basically it's saying: 'We're going to need a €400bn bailout from the IMF'."

- Spanish officials said on Monday that its plan to raise money for the Bankia rescue was still based on borrowing in the bond markets, to which Spain still had access. Madrid had not contacted the ECB about the Bankia situation, Mr Rajoy said.

European officials are torn over the merits of the Spanish proposal, which would set an important crisis-fighting precedent in the eurozone that would underline the acute concerns over the fallout from a big bailout for the euro area's fourth-biggest economy.

Madrid has been left battling to convince international investors that it can contain the mounting problems in a banking sector saddled with €180bn of bad property loans, and which some analysts now fear needs more money than Madrid can realistically provide.

"It creates a lot of uncertainty around the way Spain feels about its ability to raise debt in the markets," said Daragh Quinn, analyst at Nomura in Madrid, pointing out that Spain has about €400bn of sovereign debt that falls due over the coming few years.

So far there has been little sympathy and plenty of scepticism over Madrid's insistence that it will rescue its faltering banking sector without outside support.

Some senior officials and EU ministers see Spain's reluctance to tap EU funds as mainly a political obstacle, generated by the Rajoy government unnecessarily staking its reputation on avoiding a bailout.

BFA, Bankia's parent group, on Monday night announced that it had restated its 2011 results to reflect a €3.3bn loss at Bankia, rather than a €41m profit, following its bailout.

"We do not believe that Bankia is unique in the extent of new losses identified," analysts at Rabobank said. "We assume that all Spanish banks would have to report further writedowns and fresh capital needs, should their books be scrutinised by third parties."