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Troika to supervise Spanish bank loan

By Gerrit Wiesmann in Berlin

Germany has said that outside inspectors will supervise the eurozone's €100bn emergency loans for Spanish banks, just like other financial bailouts over the past two years, despite Madrid's insistence that it would escape the onerous conditions imposed on Portugal, Ireland and Greece.

The loans will also carry preferred status to Madrid's existing sovereign debt, Germany's finance minister said, ensuring Berlin would get its money back in the event of a future default.

"There will be a troika [the team of outside inspectors from the European Union, European Central Bank and International Monetary Fund] and it will make sure the programme is being implemented," Wolfgang Schäuble said on Monday.

A spokesman later said the minister also believed it would be "more efficient" for the loans to be made by the European Stability Mechanism, the eurozone's permanent rescue facility. ESM loans are senior to other creditors, ensuring that Spain's debts to other eurozone members would take precedence over private lenders in the event of a default.

The remarks by Mr Schäuble appeared to put Berlin at odds with Madrid, which had signalled a preference for a less obtrusive rescue. Mariano Rajoy, Spain's prime minister, on Sunday called his decision to seek as much as €100bn in funds "the opening of a line of credit" for the country's banks, rather than a bailout with strict external monitoring of Spain's economy.

His government on Monday said owners of existing sovereign bonds would not be affected – suggesting Madrid would prefer assistance to come from the European Financial Stability Facility, the temporary eurozone rescue fund, which does not hold preferred creditor status.

Some eurozone policy makers worry that privileging emergency loans over existing sovereign debt, through use of the ESM, would spook the bond markets. Facing more risk of losing their investment in the case of a default, investors would demand higher premiums from Spain, driving interest rates up instead of down.

Worries about the effects of preferred-creditor status led the eurozone to leave out such a stipulation in the EFSF when it was established in 2010. But Germany insisted on the rule, inspired by the IMF, for its permanent successor.

While reports of Germany's insistence on Spain tapping the ESM sent Spanish bond yields higher, officials in Berlin said using the new rescue fund offered more advantages than disadvantages. For example, using the EFSF would require Spain to honour to Finland's standing demand for collateral to guarantee any loan portion.

Officials said the ESM's preferred-creditor status would make German parliamentary approval of the Spanish programme easier. Chancellor Angela Merkel's Christian Democrats and their Free Democrat coalition partners have been growing increasingly restive about Germany's rising exposure to the eurozone.

However, a spokesman for Ms Merkel conceded that it is not for Germany to decide whether the ESM or the EFSF is used. The timing and formulation of Spain's eventual request for assistance would determine which of the two rescue funds was tapped, he said.

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Some eurozone officials said loans agreed by the EFSF could be rolled into the ESM when it starts, without privileging them over existing bonds. However, other officials said Germany and France had expressed a clear preference for the ESM – and had already received a pledge that Madrid would tap only this fund.

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