After a year of small adjustments and big denials, Europe's leaders are finally getting their heads together and preparing the bail-out of Spain that almost everybody knew was coming.
The form of the bailout, as described by Mario Draghi, the European Central Bank president, will be different from those for Greece, Portugal and Ireland. This time, the club of eurozone governments' bailout funds, the EFSF and ESM, will buy part of Spain's issuance of sovereign bonds, while the ECB buys the same on the secondary market.

The bailout could accomplish one of its goals: to persuade markets that the eurozone is not about to splinter. If the Spain bailout is followed up with a deal to cut Greece more slack, that could quell talk of an imminent eurozone breakup -- at least among people who move markets, at least for a while.

But Spain's problems, and the eurozone's crucial weakness, can't be fixed with a bailout.

Spain is no natural basket case, but not much is going well there now. The population is deep in debt. Almost one in six adults wants a job. The entire real estate sector is bust. Banks live on central bank aid and lend only to government. Industry has been dragged down by collapsing domestic demand and now a global slowdown. Farms are hit by drought.

The bailout will do little more than subsidize the interest Spain pays on its public debts. That's just not going to turn things around here.

Spain is a trillion-euro economy, big enough to matter globally. Its slide towards depression will make it tough for northern Europe to avoid recession, and will worsen recession for the rest of southern Europe. As long as Spain is slowing down Europe, Europe will be slowing down the world.

Here are six reasons why Spain is in even worse trouble than you might imagine. Read them and weep.

1. Spain is caught in a strengthening credit riptide

The source of really all Spain's problems is that it blew one of the biggest credit bubbles of modern history. Credit bubbles succumb to credit riptides. We've all seen what that looks like: shrinking credit supply, slowing demand, falling asset prices and rising defaults, all reinforcing each other and dragging the economy out to sea. In Spain, this process is more severe and will last longer.

This chart shows the relative sizes of credit bubbles in the five main crisis-hit European countries against the United States and late 1980s Japan. The measurement used is net credit supply to non-financial sectors, a lowball method of estimating total credit supply to the economy. Financial companies are excluded to avoid double-counting money they borrow and re-lend, although that misses some money they borrow and invest in other ways or consume.

(click images to enlarge)
Spain out-borrowed everybody except the Irish. In the peak bubble year of 2006, Spain's non-financial sectors borrowed 37% of GDP. The equivalent numbers for the United States and Japan were 18% and 27% in 2006 and 1989, respectively.

Most countries had a small bump up in credit supply in 2010, thanks to counter-recessionary borrowing by governments and a shallow recovery of credit to business as global trade recovered. (The big bulges in Portugal and Ireland in 2010-2012 are bail-out loans.) But the credit riptide returned with a vengeance in 2011. With its more fragmented public and financial sectors, bigger local bubbles to unwind and (except Ireland) less adaptable business cultures, Europe buckled.

The next chart looks at the same issue with less comprehensive but more up-to-date data. This time it's only net bank lending to private non-financial sectors. Unfortunately, the data for Greece and Italy includes write-offs as if they were repayments, which slightly distorts their recent numbers downward.
After a shallow recovery in 2010, Spain's banks have been cutting back on lending to the private sector since early 2011. In the 12 months through June 2012, the amount that Spanish banks collected in debt repayments from the private sector exceeded fresh lending by 4.4% of GDP.

Negative net bank lending rates would be more traumatic if not for government and central bank intervention. The national central banks of Europe's crisis-hit countries have been busily replacing shrinking bank deposits with refinancing loans to commercial banks (more on that later). Governments have increased public borrowing, which has kept the total credit supply positive, except recently in hard-up Greece.

A negative total credit supply is rare and indicates a genuine depression. In practice, it's very difficult for lenders as a whole to collect more from an economy in repayments than they supply in new credit. Doing so shrinks the supply of bank deposits, causing a general deflation and widespread defaults.

2. Austerity will bite hard

I don't want to wade into the debate over the pros and cons of fiscal stimulus versus fiscal austerity over the long run. Personally, I'm a stimulus skeptic. But I hope no one doubts that austerity reduces growth in the short term.

And, like it or not, austerity is inevitable for Spain. The best Spain can hope for in its situation is to be kept on a supply of low-interest loans from foreign governments led by Germany, attached to austerity conditions meant to wean Spain off the aid.

That trade-off is behind the austerity package Spain announced in July just after eurozone governments agreed to lend it €100 billion to recapitalize its banks. It's not clear how much austerity is really in the package, since most of the announced measures were described vaguely. But the announced target of a €65 billion reduction of the annual deficit, reducing it from 9% of GDP last year to 3% in 2014, is very aggressive.

Unfortunately, though, Spain's public deficit appears to have been growing in the first half of the year, especially at the regional government level where arrears have built up. The credit riptide and global slowdown is taking its toll on revenues.
Austerity will, of course, knock GDP and revenues down further, working against the goals it's meant to achieve. The rapid growth of Spain's public debt-to-GDP ratio will not slow.

Worse, for Spain austerity poses another problem, which is already wreaking havoc in Greece. With banks withdrawing credit from the private sector, reducing public borrowing brings total credit supply towards the dangerously deflationary zero threshold. Austerity will drive many more over-indebted Spanish companies into bankruptcy and liquidation. It will give Spain a push from recession towards depression.

3. Spaniards are trying too hard to keep up on their mortgages

This problem is difficult to explain without offending people. I sympathize with homeowners who paid bubble-era prices for homes that turned out to be more than they could afford with their post-bubble incomes. I see nothing good about widespread foreclosures and ejections of families from their homes.

But Spain's under-employed, over-indebted population badly needs some kind of path to debt forgiveness. If more Spaniards defaulted on their mortgages, that could force the government to deal with the problem in some way. I like programs that keep people in foreclosed primary homes as renters and, for secondary homes, American-style short sales.

The main reason Spaniards are so reluctant to default is that giving homes back to the bank doesn't fully clear off mortgage debts. If they owe more than the home can be sold for, the bank will pursue them for the difference and sue to seize their income and other assets. That rarely happens in the United States because of forgiving personal bankruptcy laws that allow full discharge of most debts.

Spain introduced personal bankruptcy only in 2003 and in a less forgiving form. At most, half of debts can be discharged, and that's not a sure thing. It's not enough to make bankruptcy an attractive option, even for the deeply indebted.

More debt forgiveness would help Spain unwind its credit bubble faster. Unlike corporate bankruptcies, personal bankruptcies usually don't result in the elimination of productive capacity. Of course, bankruptcies do inflict losses on banks and increase bail-out costs, which is why the government prefers as few as possible.

Spain's alternative to personal bankruptcy is for extended families to band together, straining their common resources to avoid defaults. It sounds romantic, but it's a huge burden on the finances of relatives of the unemployed. And most Spaniards have at least one unemployed relative. If Spaniards don't get some debt relief, they will need to be frugal for another decade.

This chart shows the amounts of bank loans outstanding to the main private non-financial sectors and the portions reported as doubtful. You can see that most of the doubtful loans are to construction and real estate businesses. Also, there's been a big shrinkage of loans to those sectors since 2008, which is largely due to write-offs. The €100 billion recapitalization of Spanish banks is meant mainly to replenish losses on loans to these sectors. I think those losses will be more like €200 billion.
Mortgage and renovation loans to households also exploded during the bubble, but relatively few have been written off or recognized as doubtful. These low rates of default on mortgages are not a sign of resilience. Spain is prioritizing mortgage repayment over economic recovery.

4. Capital flight from Spain is accelerating

The eurozone has a crucial systemic weakness, and it's not the one you've heard about.

Many commentators claim southern Europe and Ireland got into trouble because their national central banks or NCBs can't freely print money. That's not true. The eurozone's NCBs are indeed legally bound to obey ECB rules limiting how much money they can "print," in the important sense of issuing new euros by purchasing assets or making loans. But in practice, the ECB has repeatedly lifted restrictions and encouraged NCBs to issue more euros.

Most of this NCB issuance has been through refinancing loans to banks. These are the classic "lender of last resort" loans that central banks make to commercial banks that are short of money but have other, less liquid assets they can put up as collateral.

Besides, NCBs can issue euros independently through emergency liquidity assistance or ELA, without following the ECB's rules or receiving its prior approval. The ECB has the authority to limit use of ELA or even to order NCBs to recall ELA credit, but there's no evidence it has ever done so.

The ECB, after all, is controlled by the NCBs, whose governors hold 17 of the ECB governing council's 23 seats. The other six EU-appointed members are mostly former NCB governors and executives.

Greece, Ireland and Cyprus have all made liberal use of ELA. Spain appears to have issued about €400 million of ELA in July, a relatively small amount, but notable because it would be Spain's first use of ELA since 2010. I believe I am the first to report the news, which was half-hidden in a Spanish NCB balance sheet published earlier this month.

(NCBs generally don't confirm issuance of ELA, but it's easy to spot because it's included in a balance sheet line...
that rarely changes much for other reasons. In Spanish that line is "Otros activos en euros frente a entidades de crédito de la zona del euro." It jumped from less than two thousand euros at end-June to €402 million at end-July.)

Those four countries and Belgium, Italy, Portugal and Slovenia have all issued large amounts of refinancing loans. Cumulative issuance of refinancing and ELA by those eight countries' NCBs came to more than €1 trillion as of the end of June. Their refinancing issuance is the main cause of growing base money supply in the eurozone.

Other commentators claim eurozone countries are facing sell-offs of their sovereign bonds because their NCBs aren't allowed to buy them. That wouldn't save them. When central banks try to combat a sell-off of sovereign bonds by issuing currency to purchase them, the crisis shifts to one of currency devaluation, inflation and high interest rates. Recent U.S., U.K. and Japanese central bank purchases of domestic sovereign bonds are not comparable because they were not up against selling.

And then there are those who say southern Europe is suffering because it can't devalue its currency relative to northern Europe. They're right. Southern Europe's wages and asset prices were inflated by over-borrowing, lowering the average producer's competitiveness, and that must be reversed. That adjustment is much harder within a common currency zone.

But regional credit bubbles create similar problems within national currency zones. No currency area is ideal. Most of the people who think this is a good reason to abandon the euro are Englishmen who never liked the euro anyway. The eurozone has another, much more important weakness.

Because the eurozone has a common currency but separate national banking systems, it's uniquely vulnerable to an unusual kind of internal capital flight that leaves national banking systems short of funds and unable to lend. As quickly as the NCBs of crisis-hit countries have been issuing euros, those euros have been exported across national borders to other parts of the eurozone.

In standard capital flight, from a country with a national currency, people sell the country's assets and its currency. The asset sales push down nominal asset prices, while the currency sales push down the currency's exchange rate. The compounding effect makes big losses for sellers, but also helps bring in bargain-hunters and stabilizes the outflows.

Capital flight within the eurozone works very differently. People who want to reduce their exposure to a particular country sell its assets, but keep the euros and transfer them to a bank in a stronger eurozone country. Those exports of euros drain money out of the affected countries' banks, leaving the entire national banking system short of money.

That creates a stigma over the country's banks and makes it impossible for them to borrow on international interbank markets. So the flight-hit country's banks can only raise cash by applying to their NCB for refinancing loans or ELA, or by reducing lending to below what they can collect in repayments.

Countries with national currencies don't face that same threat. The only way it's even possible to export a national currency is to transport banknotes. Bank transfers of national currency to a foreign bank go to a correspondent account at a domestic bank, where the funds remain available to the domestic interbank market.

The eurozone's troubles with internal capital flight began back in 2007 and erupted with the Lehman Brothers bankruptcy in 2008. Many participants in the euro interbank market pulled away from lending to banks that appeared vulnerable. The ECB responded by allowing NCBs to offer commercial banks unlimited amounts of refinancing loans. The ECB also lowered the standards of collateral that NCBs could accept.
Then internal capital flight worsened as foreigners sold the sovereign bonds of Greece, Ireland and Portugal in 2010 and Italy, Spain and Cyprus in 2011. Meanwhile all but a handful of those countries' banks were cut off from international interbank lending.

Greece in 2010 and Spain in 2011 progressed to a third and worse stage of capital flight, in which local depositors withdraw funds from banks and send them elsewhere in the eurozone, or stash banknotes in proverbial cookie jars.

The next pair of charts shows the cumulative capital flight from the eight eurozone countries most affected, and below, the cumulative volumes of refinancing loans and ELA issued by their NCBs. Capital flight is represented by each country’s so-called Target deficit, a count of cumulative net outflows from a country that leave by bank transfer to other eurozone banks.
Notice how similar these two charts are. That's because NCB refinancing has been funding the capital flight -- or, if you prefer, because the capital flight has been forcing the NCBs to issue refinancing to replace the money that capital flight pulls out of banks. Some countries fund part of their Target deficits with inflows of banknotes from tourists.

Notice that all five countries that have requested foreign aid did so after they were suffering from severe capital flight and their NCBs had issued large amounts of refinancing loans. The marked data points are the last reported Target deficits and outstanding amounts of refinancing loans (including ELA) before the country applied for foreign aid.

In most of these countries, refinancing issuance has also been funding trade deficits.

Several eurozone countries have issued huge amounts of refinancing relative to their GDPs. For comparison, total central bank assets of all kinds in the U.S., U.K. and Japan were 19%, 25% and 31% of their respective annual GDPs as of early August.

So eurozone NCBs can and do "print" plenty of euros. Their problem is, they can't keep those euros within their national banking systems. Instead of boosting their own money supply, they boost the money supply of Germany and other, stronger eurozone countries that receive their fled capital.

If the eurozone's NCBs weren't able to issue such large amounts of euros, most of the eight countries featured in the charts above would have suffered systemic banking collapses. They would have followed the course of dollarized Argentina, which adopted a foreign currency that would be exported in a crisis and that it couldn't print. In 2001, Argentinian bank deposits were forcibly converted into new domestic currency at a fraction of their former value.

That's the grim outcome that much of Europe has been running in front of for the last four years. Like dollarized Argentina, eurozone members have a currency that is exported during crisis. Unlike dollarized Argentina,
Eurozone members can make more of their currency. No other countries have ever been in a predicament that's quite the same.

To avoid this kind of crisis in the future, Europe will need truly international banks that take deposits and lend throughout the eurozone. I think that's probably coming someday. But don't hold your breath.

5. Bail-out funds won't reach Spain's real economy

The bail-out that's being planned for Spain will work very similarly to the NCB refinancing issuance that Spain has relied on till now. It will supply enough money to fund the Spanish deficit, but that money will continue to leave Spain through its trade deficit and capital flight.

The bailout will also buy out most of the remaining foreigners who still own Spanish state bonds. That money will hardly get a glimpse of Spain.

The ECB, EFSF and ESM will apparently buy exclusively shorter-dated bonds, judging from Draghi's comments. That will limit the bailout's costs and the subsidy value for the Spanish government. Presumably, Spain will be required to include some percentage of longer-dated bonds in its issuance, for which it will have to find other buyers.

The bailout will also relieve the Spanish NCB and commercial banks from the responsibility of funding the Spanish state debt. Spanish banks borrowed an additional €227 billion from their NCB in the first half of this year, and took on an additional €73 billion of credit exposure to the Spanish public sector. That latter figure represents about 14% of first-half GDP.

Once the ECB and EFSF start buying, Spanish banks will shift into the role of bail-out intermediaries. They will buy the longer-dated bonds at primary auctions and sell shorter-dated bonds to the ECB, initially out of their existing stocks. They and others will try to profit from price appreciation of bonds approaching eligibility for sale to the ECB.

Foreigners will continue selling out. I estimate they already hold less than €140 billion, down from a peak of about €240 billion in 2010. In his comments, Draghi hinted that some effort will be made to reassure foreign investors that they wouldn't be obliterated in a restructuring, as happened to foreign investors in Greek state bonds. Whatever that reassurance turns out to be, I doubt many will want to miss the opportunity to sell into the ECB bid.

I estimate this program will cost about €400 billion through the end of 2014, assuming no big improvement or deterioration of the global economy. That includes €140 billion to take out foreign investors, €210 billion to fund the Spanish public deficit and €50 billion to take out some Spanish non-bank private investors.

My estimate assumes Spain will make no progress in reducing its public deficit, for three reasons: austerity implementation will fall short of the 6% of GDP target, the austerity that is implemented will partly undermine itself, and other underlying economic trends will be pushing against deficit reduction.

Of that €400 billion, I would count only the €50 billion to Spanish non-bank private investors as a new flow to the Spanish economy. Will it be re-invested locally? Hmm...maybe some.

In the U.S., U.K. and Japan, the main reason for central bank purchases of domestic sovereign bonds is to swell the domestic money supply. In Europe, ECB purchases of individual countries' sovereign bonds bring money to that country, but the money goes right back out again. It's a crucial difference.

6. Spanish exports are weakening
From 2009 through 2011, the savior of Spain's economy was its strong export sector. Despite the damage to Spanish competitiveness from bubble-era wage inflation, Spanish exports bounced back vigorously. By September 2011, monthly exports were 15% over their 2008 peak, not adjusted for inflation.

Older folks may remember that Spain used to be one of Europe's fastest-growing economies, led by its aggressive export sector. That was back before it took that fateful wrong turn and decided to refocus on building several times more houses for itself than it needs.

While Spain's domestic demand plunged in 2008 and stayed below, exports re-emerged as the one vital sector and turned what could have been a depression into merely a bad recession. The industrial goods and commodities that Spain exports were in strong demand as China's big stimulus filtered through via Germany. By 2010, Spain's GDP was recovering, although unemployment remained very high.

But global trade growth slowed during the second half of 2011. China and other emerging markets, reacting to wage and commodity inflation, tightened their credit supplies. Spain's exports stopped growing and this year have been slightly shrinking. Here's a quick chart.

No one knows how long this global trade weakness will last, or if it will get worse before it gets better. Some think China is heading towards a great unwind of its own real estate bubble that will hit global trade hard. Others think a big new stimulus to construction will be the first priority of the new Chinese leadership that will take over later this year. It seems fairly sure though that global trade will remain soft at least into 2013.

The Spanish export sector's reversal of fortune has been an important factor in this year's intensifying crisis. Spain's bad recession is back, and it looks like it could turn into a depression after all.

Disclosure: I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours.

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ndras Comments (409)

Well, what else is new? Shared pain is not a bad deal. why make a big deal about it? This too shall pass.
16 Aug, 02:44 PMReply! Report AbuseLike2

Aitor Comment (1)

You are wrong about Spanish exports. They have also been growing this year.
16 Aug, 04:23 PMReply! Report AbuseLike1

Thomas Warner Comments (10)

My data comes from the Spanish government, via Eurostat.

16 Aug, 05:44 PMReply! Report AbuseLike2

dbuttry Comments (20)

Here's the quote of the day: "Financial companies are excluded to avoid double-counting money they borrow and re-lend, although that misses some money they borrow and invest in other ways or consume."
Or consume?
Otherwise, some very astute observations here, especially about the impact of bankruptcy laws vis a vis home mortgages. Nice article. Thanks.
16 Aug, 06:20 PMReply! Report AbuseLike5
Thanks, I think, but I don't understand your remark about financial companies sometimes consuming what they borrow. I was explaining how I measured credit supply to the real economy. When doing so it's important to avoid double-counting credit that's lent to one party who lends it on to another. The most practical way to do that is to exclude all credit to financial companies, since they mostly re-lend what they borrow. But some credit to financial companies they invest in other ways, and some, yes, they consume. Particularly during a bubble. That's credit that reaches the real economy, and I'm giving you a heads up that I couldn't count it.

16 Aug, 08:56 PM Reply! Report Abuse Like 2

American in Paris Comments (4468)

Interesting article.
16 Aug, 06:31 PM Reply! Report Abuse Like 1

Julian Marchese Comments (39)

Fantastic article, lots of helpful data, thank you.
16 Aug, 08:32 PM Reply! Report Abuse Like 1

untrusting investor Comments (8340)

Ditto that. Very well written article that explains much of why Spain is in such dire straights. Kudos to the author for the work and time spent.
16 Aug, 10:18 PM Reply! Report Abuse Like 1

Larry3993 Comments (75)

The article is well written, but it does not attempt to debate those who are arguing a bullish view on Europe and Spain. The bulls say that now that Germany seems to be going along with Draghi and the ECB, the fix is in for at least another 12 months, so there won't be a Spanish credit crisis for another year or so. Tom Warner, do you disagree with the view that the crisis will be postponed for another year?
16 Aug, 08:55 PM Reply! Report Abuse Like 0

Thomas Warner Comments (10)

I think my answer to your question is in my article. This bailout will hold down the interest rates that Spain pays on its debts. Spain will be selling bonds to a quasi-market in which the ECB and EFSF/ESM will determine prices. So there can't be a crisis of falling prices on Spanish state bonds, as long as this bailout is implemented. But there will be a worsening economic crisis in Spain.
Greece also has no problem with falling bond prices. It borrows from Eurozone governments directly, without the pretense of a market that Spain will have. Is that a reason to be bullish on Greece?

16 Aug, 09:16 PMReply! Report AbuseLike2

lyeonn Comments (290)

The credit supply part is really an eye opener.

Thanks for the carefully organized data and insightful analysis.
16 Aug, 09:35 PMReply! Report AbuseLike2

divinecomedy Comments (165)

I was in Europe about one month ago on a 10 countries tour (I didn't go to Spain though), and everywhere there were plenty of Spaniards (even young people) going to nice cafes, etc. I know that all of that is pretty anecdotal, but whenever I see an article about the Euro crisis, I always wonder how real it is.
16 Aug, 10:04 PMReply! Report AbuseLike4

coolkennylee Comments (11)

Headlines always exaggerate the actual problem of any issue. Young people do not really follow financial and economic news; thus, which is why they continue on with their normal lives. Same with the whole Israel and Iran dilemma. Israelis are nonchalant about the whole Iran issue. The neighbors usually panic more!
17 Aug, 12:30 AMReply! Report AbuseLike1

Arvidos Comments (31)

Exactly, the ‘euro crisis’ has been going on now for a few years, but I hardly see any effect. Especially the young people don’t really care too much, everybody goes out, take holidays etc. Ive been to Spain a few times, its not in a revolutionary period by far.
Reason is that the state of welfare is simply too high for that, akin to Japan who has been in a zero-growth period for 20 years now.
Not comparable to countries where war, mass poverty and even starvation exists.
And bye the way, why don’t they talk about the growing European economies like Turkey and Poland?

An advice to a lot of people: don’t watch tv for a month, don’t read the newspaper, its full of fearmongering……
17 Aug, 04:04 AMReply! Report AbuseLike3
The various data you outline in this article point toward continued long-term economic malaise in Spain. However, although you tag the etf symbol EWP to this article, you make no mention of where you think the etf is going. EWP has already rebounded strongly from its recent lows...

Can someone explain to me why the Euro is trading at its current level. I mean what is propping it up. If things are so dire one would think it would at least be at parity with the U.S. dollar.

I think because of the also bad debt situation in the US, even as it’s not so prominently in the media....

Or why the IBEX has been on a tear in August? Almost everyday up. Today up almost 2%! What don't we know? :)

great article mr warner
the only thing i missed was some elaboration on the issue of spains autonomous provinces and their failure to balance their budgets
you have, im sure, "packed" them into spain as a whole but i think their uniqueness deserves some further pondering

anyway; thanks for your work
Thanks. I can't write everything in one article! To some extent the Spanish provinces are in a similar situation to the US states. They don't have as much revenue or borrowing flexibility as the central government. The interesting thing is how in Spain the central government appears to be using this to regain power over regional levels. That could be another long article, but I think I'll leave it to someone else.

The Spanish live in a make believe fairyland. I'm living here for a year and am stunned at paying 160E a year local tax, but enjoy free libraries, lavish fiestas, good local schools (small classes and new buildings). Our local authority have borrowed large sums for local infra-structure, tram service etc. In the Uk my local tax is ten times that for less services, with no money for a tram (2 million people city). They need to rethink their tax base, putting up TLA (VAT) to 21% just depresses sales further. Property cannot be taken out of the country, and millions of foreign owned homes would have no choice to pay it.

Good comment. Not sure why so many of us think we're entitled to something we are unwilling to pay for. Seems like tax codes everywhere are in need of revision.

As former resident of Granada and Salamanca, I must agree with Tobercardo. Serious infrastructure issues meet the eye constantly, and no evidence of the long term ability to finance repair. Glad to have seen it while we could.

Let me applaud the author t=for this effort! A very well written article if I do say so myself. I really liked the expression "credit riptide"! So apt!
The only reason the US didn't face a similar riptide ... yet ... is that it can print its own currency so-to speak. Spain of course cannot. Nor is Spain in the position of being the de facto world monetary basis.

Yes, I agree that it will continue to spread the pain especially when it's not being forced to take the pain on itself. It's all due to the yahoos in Germany and elsewhere in Europe and those US and Chinese bankers who have invested so much in Europe.

But there's a limit to it all. That was shown in 2007-2008 when after the various hedge fund failures and the banking involvement therein confidence in the sector fled. It will happen again. As we've seen each bailout has had less and less of an effect. And certainly the bailout money isn't going to the real economy... itss only going to the bankers to cover their assses as much as possible because that's who the politicians owe their offices to.

I'm not called "The Cynic" for nothing!

Cheers.
17 Aug, 09:52 AMReply! Report AbuseLike 1

Let me first applaud the author's work here. Very informative and well reasoned.

Let's face it, the main reason why Spain's misery will be spread and continue to be spread over All Europe and beyond is because of a lack of intestinal fortitude by Germany and other European partners not to mention the US and Chinese bankers who've invested so heavily in Europe. They've got no balls so-to-speak, and that's not to be gender bashing in any way against Angela Merkel, it's just politics with her. The finance Minister in Germany is the bad cop, while Angela inevitably comes through as the good cop especially when Sarkosy was in office. But I wonder what will happen when France goes the way of Spain and the other PIGS. That will be an interesting development which is now getting closer and closer to coming to fruition especially with France's current leadership. It's a CYA proposition since all politicians owe their offices to the bankers who funded them.

And I'd be surprised if the Republicans are elected into the Presidency later this year, that personal bankruptcy won't be considered for change more like the Spanish situation because god knows the middle cass needs to be robbed to support the failing lifestyles of the rich!

Cheers.
17 Aug, 10:21 AMReply! Report AbuseLike 0

Thanks for the article. Just two comments: 1) 36% of Banco Santander's real estate loans to promoters (companies) ar failing while only 3% of their mortgage loans to individuals are having problems. Homeowners are not the problem. 2) Please stop these anecdotes about cafes being full. 20,000
Argentinians died of starvation in a middle-income country in which the cafes were full.
17 Aug, 11:11 AMReply! Report AbuseLike0

Thomas Warner Comments (10)

I think you need to re-read my section on home mortgages. That was my point that very few have defaulted. But it is a big problem, because repaying all those mortgages is going to suppress Spanish consumer demand for a long time. Look at Japan for a parallel.

But yes the Spanish cafes will always be full! Even if the beans aren't as premium as they used to be.
17 Aug, 04:07 PMReply! Report AbuseLike2

neobliviscar Comments (99)

Thank you for the well written article that puts an accurate light on quite a number of Spanish issues. It is very easy to have one perception of Spain from outside, and another from having lived there and seen the debtload mushroom as it has over the last decade.

Not much else to add. Think Spain much more likely to follow Greece, while Ireland and Italy can muddle through.
17 Aug, 11:31 AMReply! Report AbuseLike2

casabravo Comments (2)

This is an outstanding review of a not so well known situation - Spanish homeowners inability to default on their mortgages adding to the pain of an austerity economic cure. I wanted to also point out that Americans routinely default on their mortgage because of the way homeowner contracts are written. Strategic default is what allows a homeowner to simply stop paying the mortgage - not from lack of resources but an economic decision based on the value of the underlying asset - and there are no recourse to the bank other than to repossess the property. You can find detail here: http://bit.ly/MCrIya.

For this reason, America is a world apart from the rest of the planet. You could say it allows us to cure the problem (as long as you are not the banker) and get back to the cycle sooner. Some say it degrades the moral fiber by making contracts something of convenience.
17 Aug, 12:18 PMReply! Report AbuseLike0

neobliviscar Comments (99)

Strategic Default depends upon the state. What is possible in California is not as equally possible in Florida.

One of the very few issues I had with the article was the belief that debt is discharged as once was possible. Your best bet now is to get past the statute of limitations before the overwhelmed banks come after you for the difference. That promises to quite a budding industry.
17 Aug, 01:45 PMReply! Report AbuseLike1
Greece then Italy, then Spain will Splinter off from the European Union. I believe It has been structured that way from the beginning. Once the Flight of Capital begins in earnest, I believe nothing will stop it!

18 Aug, 05:28 AM
Reply!
Report Abuse
Like 0

untrusting investor Comments (8355)

TE,
The "smart money" is betting that Germany, Holland, and the stronger north will leave the EU and set up their own currency union. Lots of advantages to that such as it still leaves the euro intact and avoids much of the damage of having multi-trillions in contracts denominated in old euros. That way the weak south can devalue to their hearts content and the stronger north can also pay off old contracts and obligations in the much devalued old euro.

No great solutions, but it sure makes a lot more sense for the strong north to leave rather than to kick out the weaker south.

18 Aug, 05:21 PM
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Lloyd Clucas Comments (30)

More good stuff. Happy to see you in print again.

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