

ARE OUR SAVINGS IN JEOPARDY?

Published on the 28th of July of 2012 by l 'Econòmic de EL PUNT AVUI'

Francesc Bellavista i Arimany
Soci director del Despatx Bellavista

During the last weeks we are receiving ongoing consultations about this question. Citizens are concerned about an economic situation that do not fully understand (although they are well aware of its seriousness), due to the attitude of both Governments' leaders, Spanish and European, which make the whole situation even more difficult to understand. The result is a growing distrust of economic and political institutions and, particularly, doubts about the decisions to be taken to protect savings that are deemed threatened by several risk factors.

Risk factors to be considered are four. First of all, the fear of a "corralito" as happened in Argentina, a fact that would mean that the Spanish Government would prohibit, at least temporary, cash withdrawals from banks and the transfer of funds abroad (note that in no case this would affect the current payments and collections). The above mentioned would mean the immobilization of our savings and the inability to convert them, during that period, into a more favourable currency.

A second risk is associated with the financial institution in which our savings are deposited. It is common knowledge that there are financial institutions more secure than others, although most of the less financially sound have already been nationalized through the contributions made lately by the FROB and they will receive, as well, the assistance of the European stabilization funds. In return we must be alert to the conditions to be set by the European Authorities as they seem to be tougher than the measures implemented up to now by our rulers. In any case, the Deposit Guarantee Fund (Fondo de Garantía de Depósitos) offers coverage of up to 100.000€ per person and financial entity.

Stress tests carried out by international independent experts upon the Spanish banks show better outcomes than expected, even though the effects of debt restructuring have not been deemed, whose consequences could be catastrophic.

A third factor is the country risk. First negative scenario that Spain may face is the debt restructuring following what happened to Greece, this is, paying a percentage of the nominal value with a refinancing plan over the coming years at a sustainable interest rate. This situation can be equated to what it would be an arrangement with creditors (administration procedures) for a company and it would have an impact on the financial health of our banks, on the Fund Reserve of the Social Security (Fondo de Reserva de la Seguridad Social) and on the Deposit Guarantee Fund (Fondo de Garantía de Depósitos) as these funds are mainly invested in Spanish debt. Second and even worse scenario would be if

Spain is forced out of the euro. In this case, the experts anticipate a conversion of euros to pesetas with a loss of associated value around thirty per cent.

Finally, the fourth risk is the currency. Many investors wonder if they should move to currencies other than euros. In our opinion, it is more relevant the territory where our values are placed than the currency in which they are nominated, being always advisable a currency diversification.

Any solution to the economic Spanish problems need the solidarity of the economically healthiest european countries to guarantee the debt repayment of the countries in crisis. Since not only some countries are reluctant to this kind of solution but public opinion too, the most trascendental risk would be the country risk. Against this background , what should we do with our savings? In view that, currently, security is more important than profitability, the answer to this question depends on the features and circumstances of each saver and should be consulted with a financial adviser since the response it is not necessary to find solutions in financial institutions abroad.