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Spanish banks hit ECB loan record

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Spanish banks are borrowing record amounts from the European Central Bank as the country's financial institutions struggle to obtain funding from capital markets.

The banks borrowed €85.6bn from the ECB last month - twice what they borrowed before Lehman Brothers' collapse in September 2008 - and accounted for 16.5 per cent of net eurozone loans offered by the central bank.

This is the biggest monthly borrowing total since the euro's launch in 1999 and represents a disproportionately large share of the emergency funds provided by the ECB, according to analysis by Royal Bank of Scotland and Evolution.

The rise in the banks' borrowing from €74.6bn in April - or 14.4 per cent of net funding pumped by the ECB into the eurozone financial system - points to growing strain in the Spanish banking system.

Nick Matthews, economist at RBS, said: "If the suspicion that funding markets are being closed down to Spanish banks and corporations is correct, then you can reasonably expect the share of ECB liquidity accounted for by the country to have risen further this month."

The ECB does not provide a regional breakdown of where it is pumping liquidity supplied in its open market operations. But recent analysis of figures from national central banks has shown Greece and Ireland taking a bigger share than expected given the relative size of their banking sectors. May's Bank of Spain figures suggest Spain has followed suit.

The latest data support comments by Francisco González, chairman of BBVA, Spain's second-biggest lender, who said on Monday that the majority of the country's financial firms were shut out of the markets.

Carlos Ocana, treasury secretary, said the credit freeze was affecting Spanish banks.

Financial markets shrugged off concern about the country's banks, in spite of warnings from investors that longer-term problems had increased the chances that it would have to use emergency loans from the newly created €440bn stability fund.

The euro strengthened against the dollar while Spanish bonds held steady.

The government managed to raise €5.2bn from two short-dated debt auctions, although it was forced to pay three-quarters of a point more in yields to attract demand.

The European Commission yesterday gave its seal of approval to the Spanish government's austerity programme. Olli Rehn, European Union monetary affairs commissioner, said the budgetary targets of Spain and Portugal "appear to ensure an appropriate overall fiscal stance for the EU".

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