



BANCO DE ESPAÑA



THE STRUCTURE OF THE SPANISH FINANCIAL SYSTEM

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THE TRANSFORMATION OF THE SPANISH FINANCIAL SYSTEM

- In the early 80s the Spanish financial system was rigid, underdeveloped, closed and heavily intervened. But it has since changed drastically
- Two main (interlinked) driving factors:
 - Changes in the macroeconomic environment
 - Changes in financial regulation



CHANGES IN THE MACROECONOMIC ENVIRONMENT

- High inflation, increasing fiscal deficit and interest rate volatility fostered financial innovation
- At the same time fostered stabilisation policies:
 - Decisive anti-inflationary orientation of monetary policy, which gradually gained credibility
 - Fiscal consolidation plan, which received further impulse from the run up to EMU
 - Spain joined EEC in 1986 and the Peseta entered the ERM in 1989
- As a positive result of those policies, Spain successfully completed its nominal convergence process by being included among the first group of countries forming the EMU in 1999



CHANGES IN FINANCIAL REGULATION

- **1980s**
 - Prudential supervision framework completed: Banco de España (credit institutions) newly created CNMV (securities) and DGS (insurances)
 - Bank rates and charges and commissions in securities markets fully liberalised
 - Capital movements partially liberalised
 - Book-entry public debt market comes into operation
- **1990s**
 - Second Banking Directive transposed (freedom to establish and provide banking services)
 - Compulsory investment requirements on banks lifted and reserve requirement markedly reduced
 - Capital movements fully liberalised
 - Full freedom to establish and provide financial services
- **2000s**
 - Investor compensation system created
 - New measures on transparency and good practices



THE SPANISH FINANCIAL SYSTEM IN 2003

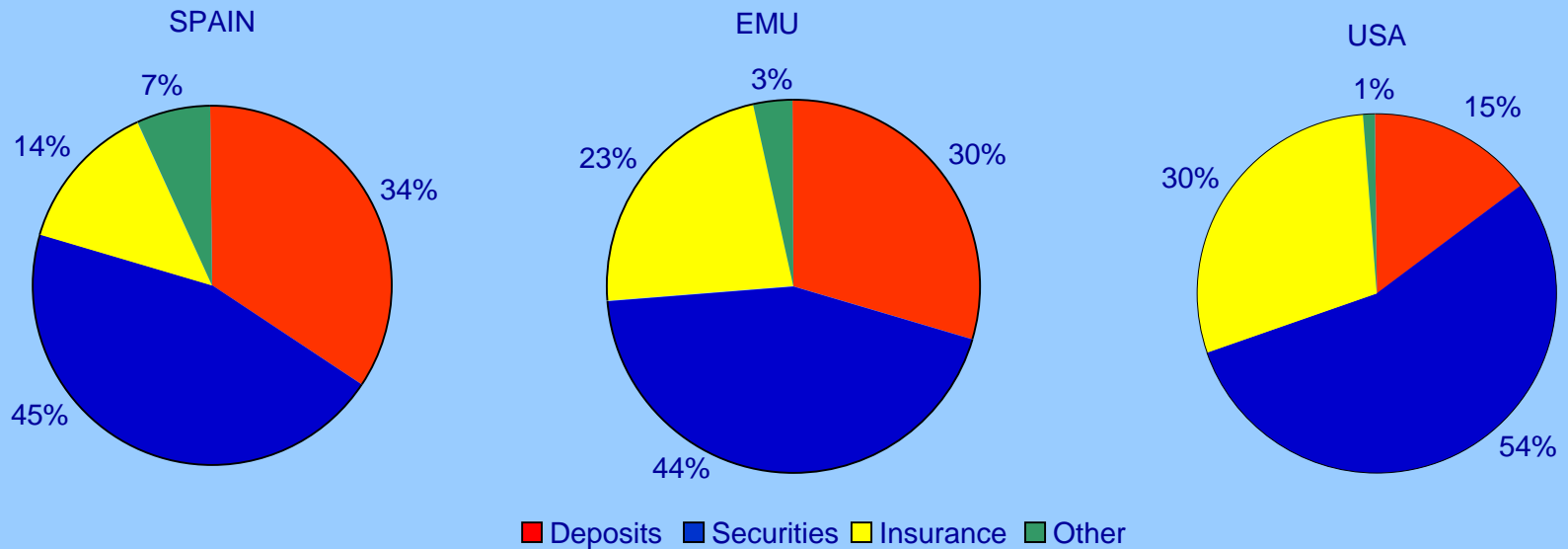
- **As a result the Spanish financial system is today a flexible developed and internationally active system well in line with those of other continental European countries**
- **Let us briefly review its main features**



A BANK-BASED SYSTEM

- Share of deposits in household financial assets in Spain:
 - Similar to the EMU average
 - Higher than in the USA

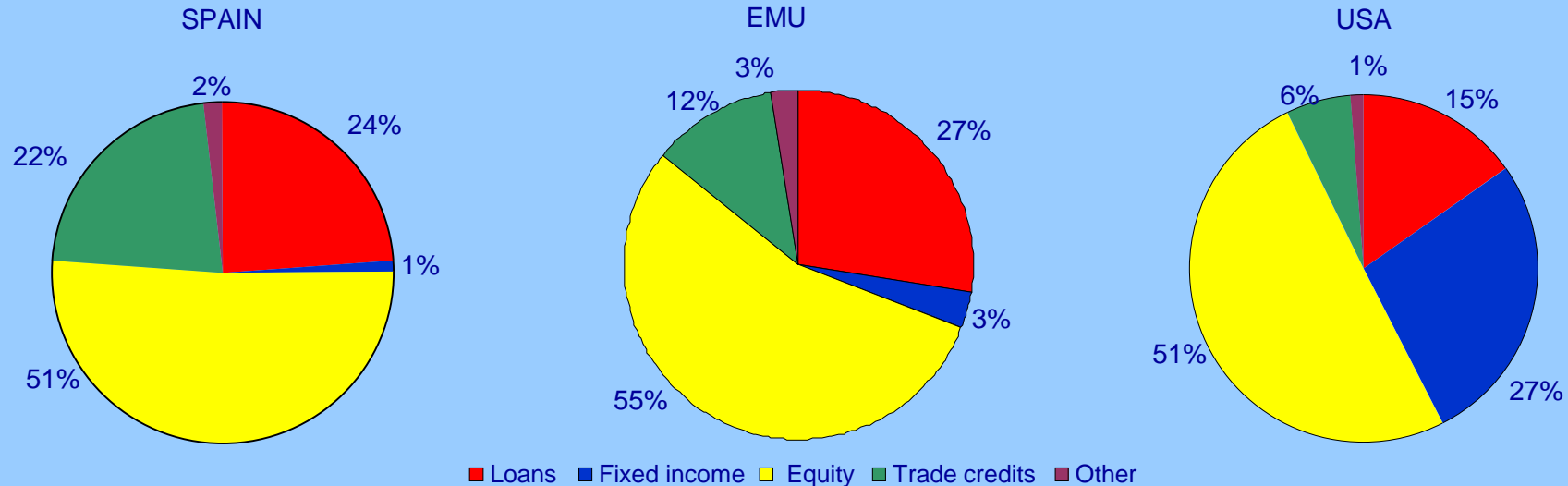
HOUSEHOLD FINANCIAL ASSETS



A BANK-BASED SYSTEM

- Spanish corporations mainly use bank credit to cover their debt finance
 - Share of loans is similar to the EMU average and higher than in the USA
 - Share of fixed income is similar to the EMU average and lower than in the USA

NON-FINANCIAL CORPORATIONS FINANCIAL LIABILITIES



THE BANKING SYSTEM

- **Healthy, internationally active and compares favourably with the EMU average**

	Spain		EMU	USA
	1995	2001		
Total assets (%GDP)	176.6	193.0	260.0	64.6
Number of institutions per 100,000 inhabitants	0.81	0.70	2.45	3.36
ROE (after tax)	10.9	15.4	11.3	15.7
Solvency ratio (Total)	11.9	11.0	10.7	12.4
Solvency ratio (Tier1)	10.3	8.7	7.7	9.6
Provisions/ Doubtful assets	71.0	201.9	95.6	171.7
Efficiency ratio	68.8	61.4	65.6	56.9
Foreign claims (%GDP)	11.9	59.3	79.3	8.7



THE BANKING SYSTEM

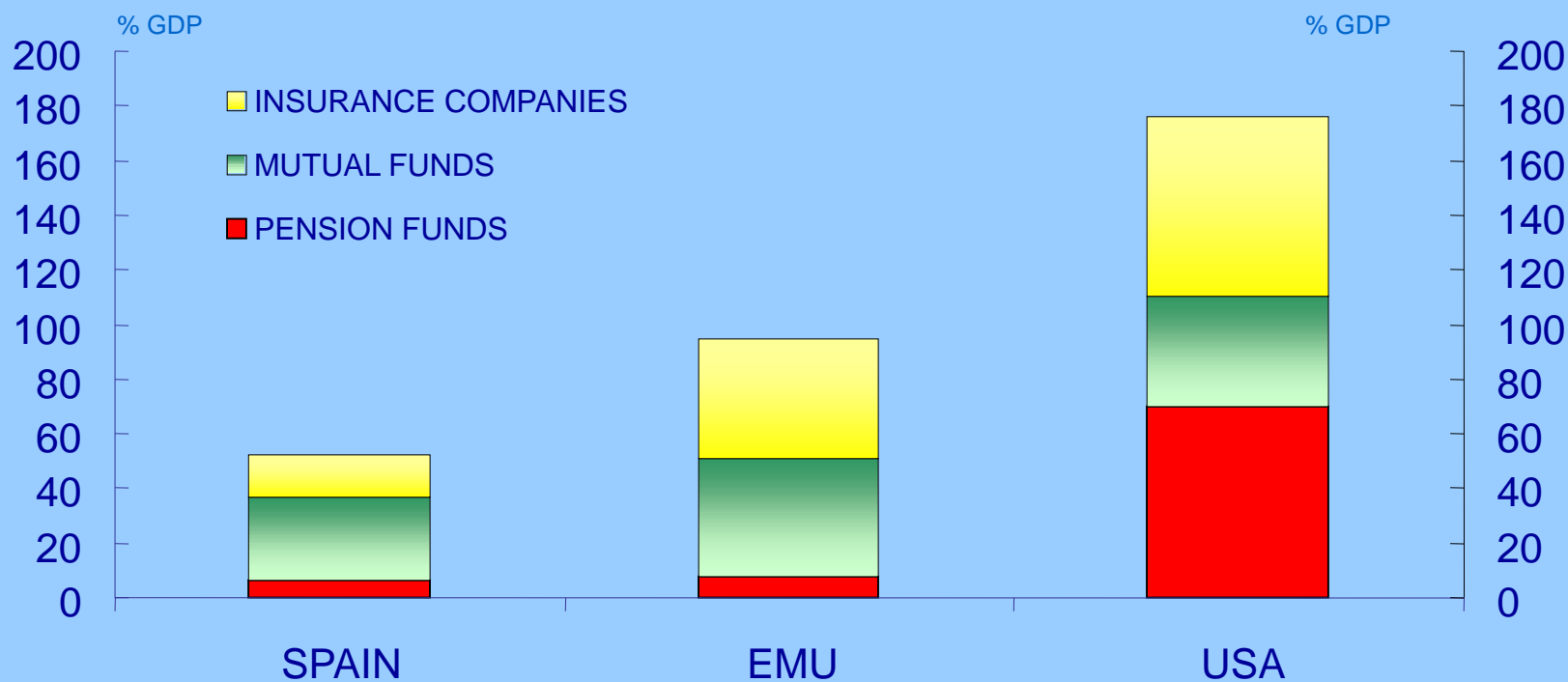
- Although there are some differences among different types of institutions

	Commercial banks	Savings banks	Cooperative banks
Number of institutions	146	47	88
Total assets (non-consol.) (%GDP)	102.4	69.0	6.8
Total assets (consol.) (%GDP)	123.5	73.3	7.0
ROE (after tax)	15.7	12.7	9.9
Solvency ratio	9.5	11.5	11.1
Percentage of business abroad	30.3	1.7	0.0
Provisions/ Doubtful assets	172.1	222.0	155.8
Efficiency ratio	59.0	62.2	62.0



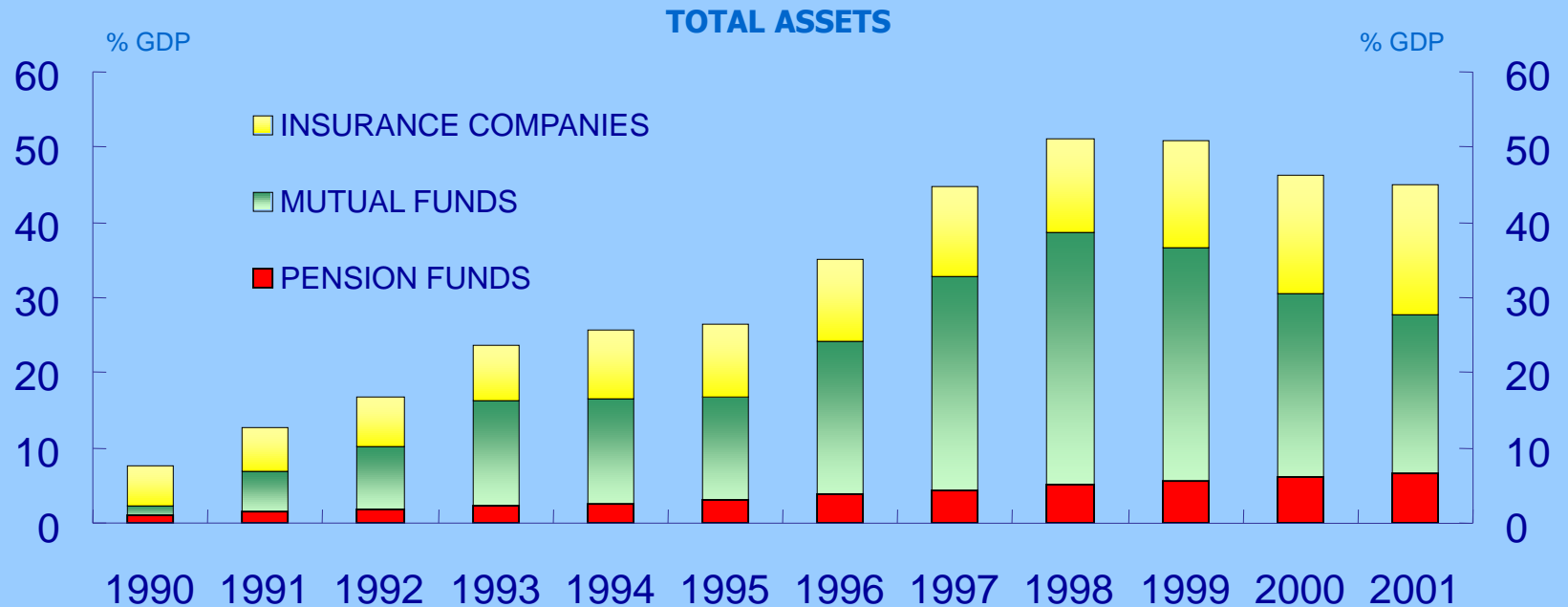
OTHER INTERMEDIARIES

- Institutional investment is lagging behind the EMU average and the USA...



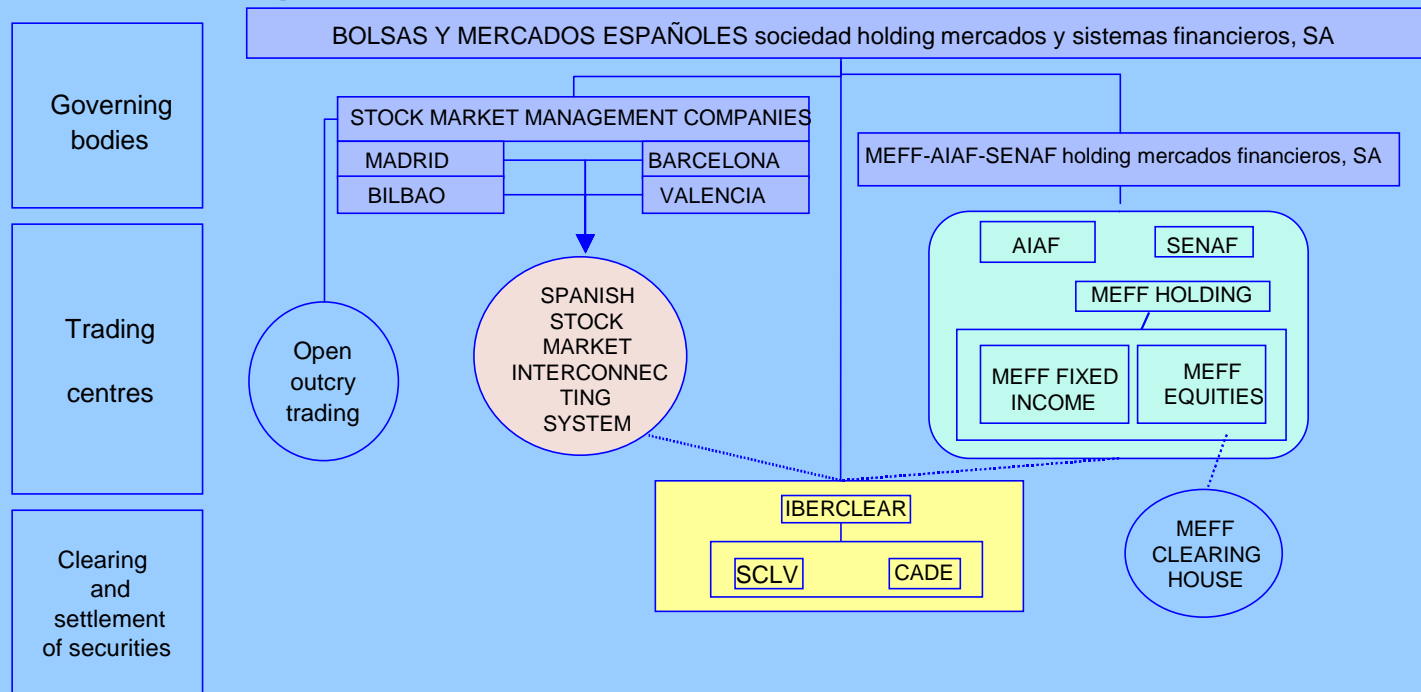
OTHER INTERMEDIARIES

- ... but has grown significantly over the 90s



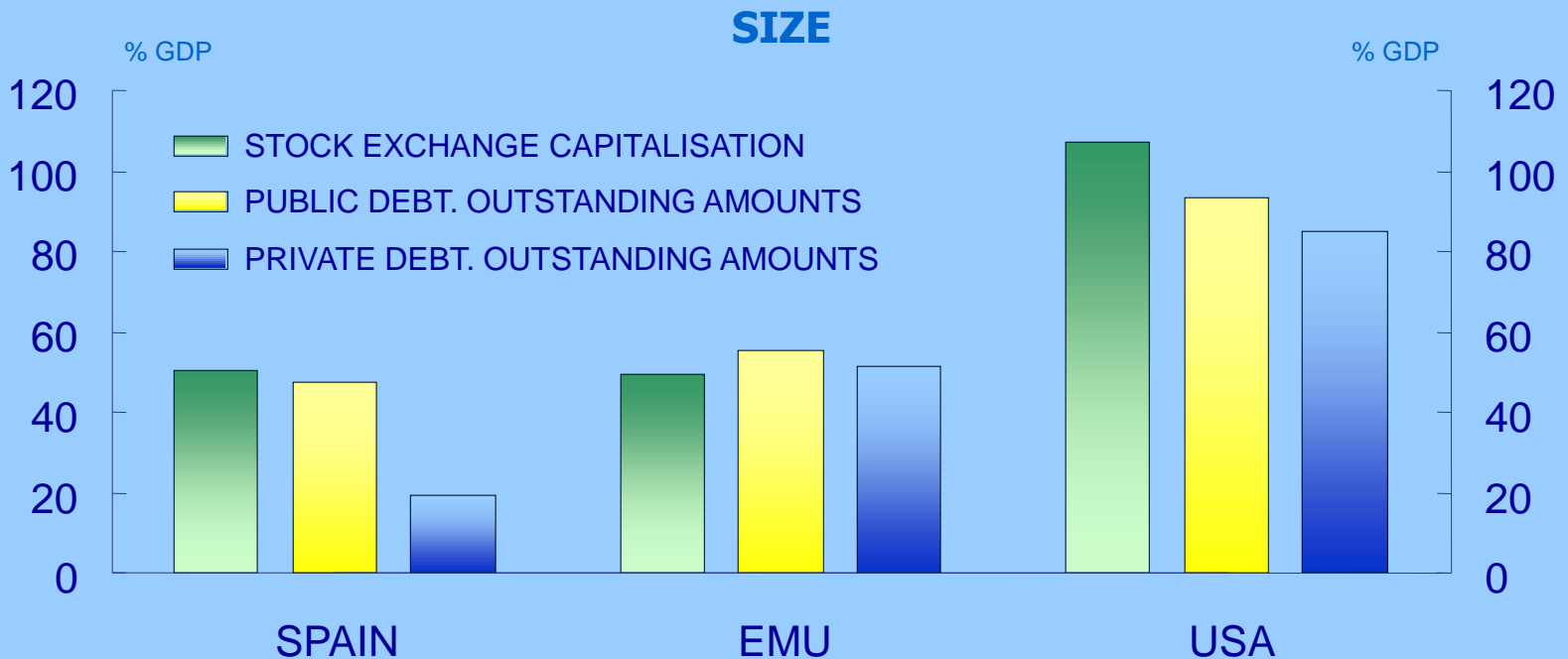
FINANCIAL MARKETS

- The organisation of financial markets has evolved from a segmented structure to a consolidated one:
 - Interconnection of stock exchanges
 - MEFF-AIAF-SENAF platform
 - Merger of SCLV and CADE



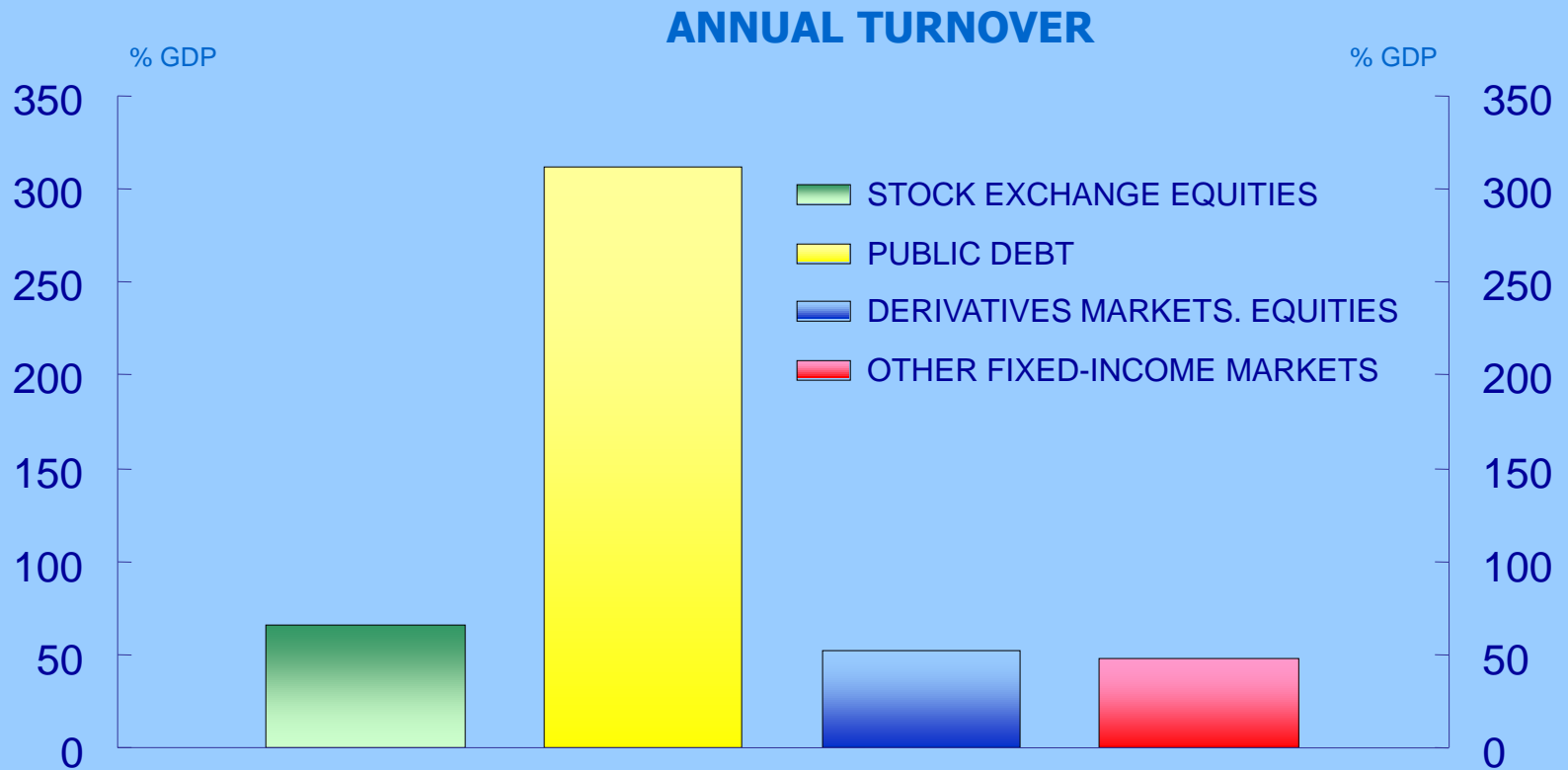
FINANCIAL MARKETS

- The relative size of the stock exchange and public debt market is similar to the EMU average but smaller than in the USA
- The relative size of the private debt market is smaller than in both the EMU and the USA



FINANCIAL MARKETS

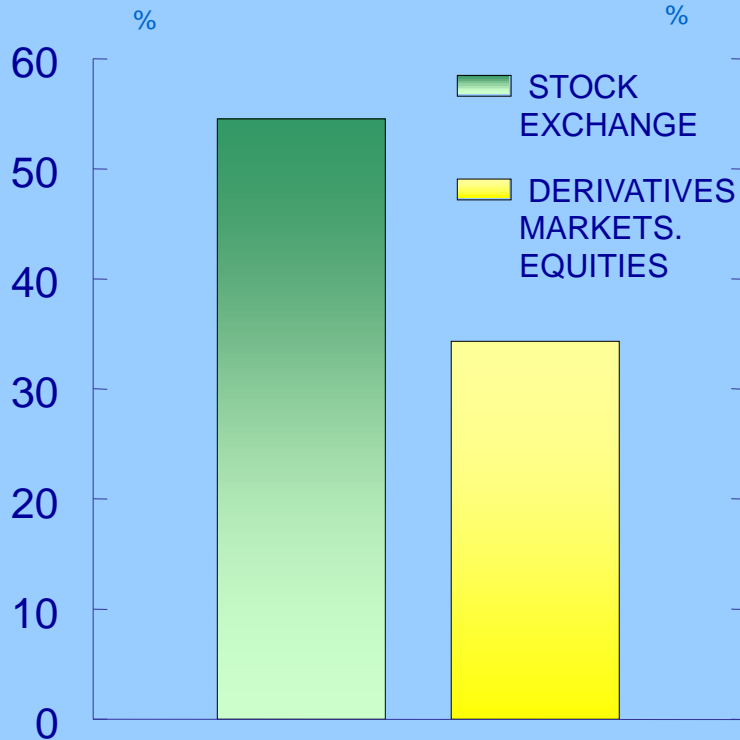
- Public debt market is by far the most active and liquid exchange in Spain



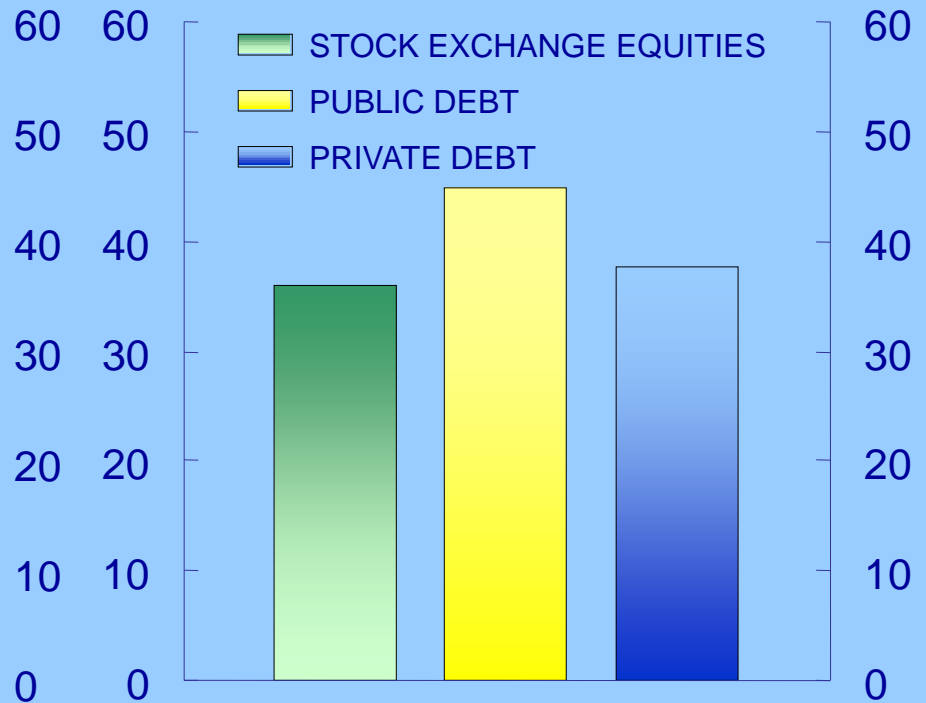
FINANCIAL MARKETS

- Spanish financial markets show a high degree of internationalisation

SHARE OF TURNOVER BY NON-RESIDENTS



OUTSTANDING AMOUNTS HELD BY NON-RESIDENTS



FINAL REMARKS

- **The Spanish financial system is currently a developed, internationalised and healthy system**
- **It is still mainly a bank-based system although both other intermediaries and markets are gaining momentum**
- **Banks' health and market consolidation place the Spanish financial system in a good position to face the challenges of financial globalisation**

