

KEY FEATURES OF THE SPANISH FINANCIAL SYSTEM

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Outline

- ❑ **The Spanish financial system**
- ❑ **Medium-term trends**
- ❑ **Profitability and solvency**
- ❑ **Some open issues**

The Spanish financial system



A solid, well-functioning financial system is key for

- **sustained economic growth**
- **macroeconomic stability**
 - **source of shocks**
 - **amplifier of other shocks**
 - **transmission mechanism of monetary policies**
- **Spanish financial system: a success story**

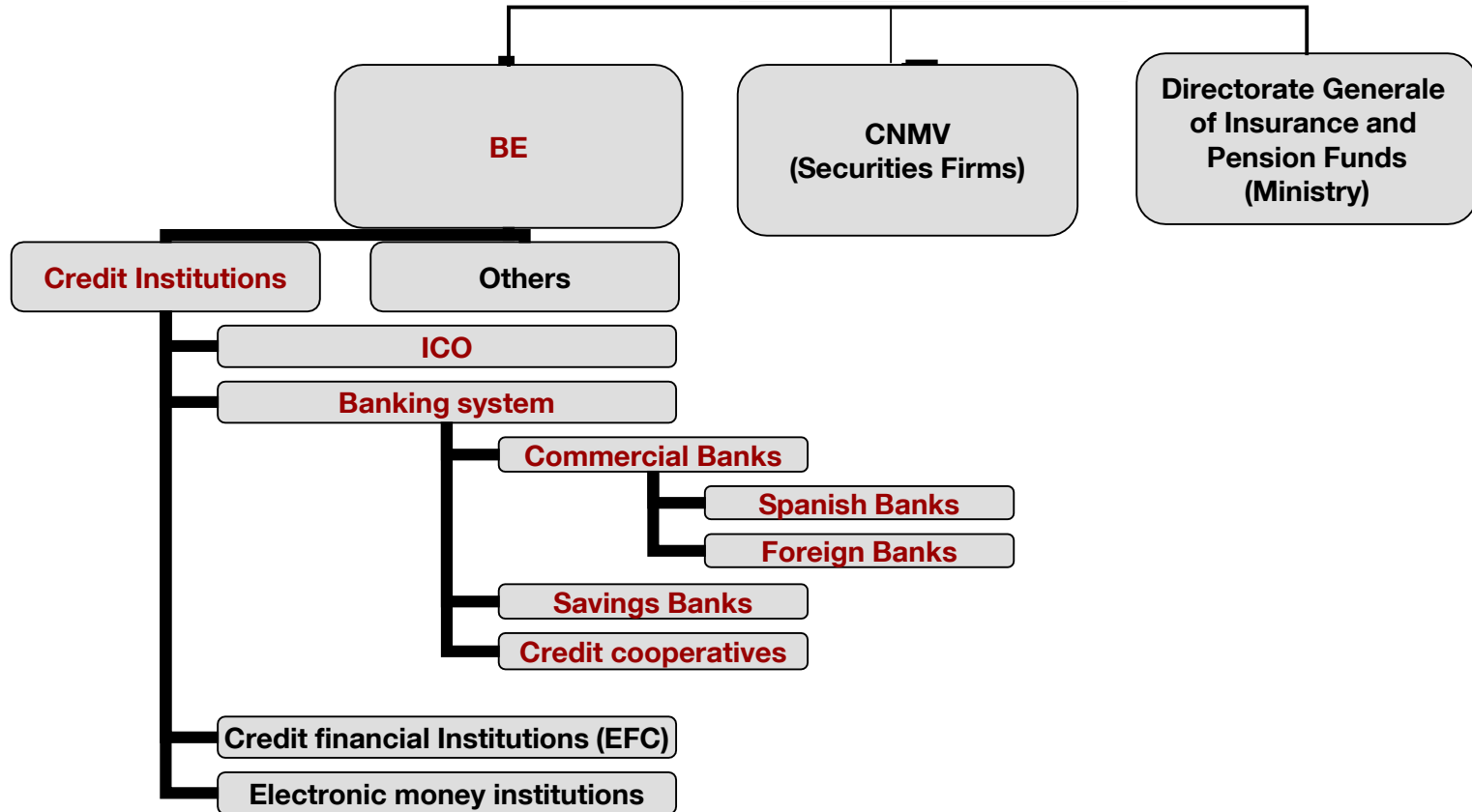
The Spanish financial system



- **Composition of a financial system:**
 - 1. Financial institutions or intermediaries**
 - **Banking** (Central Bank and banking system)
 - **Non-banking**
 - 2. Markets**
 - 3. Means (financial assets, financial and monetary policy...)**

- **Focus on the Spanish financial institutions or intermediaries**

Spanish financial intermediaries





- **Specially noteworthy is the large relative importance of the banking system**
 - *Total balance of the banking system makes most of total consolidated balance of credit institutions (~95%)*
 - *Banking Assets / Banking Assets + Asset Markets. 60%*
 - *Big role of banking system in asset markets*



□ Some features of ...

- Savings banks

- Able to carry out the same transactions as commercial banks
- Special characteristics: *Non-profit association*

No capital

Social work

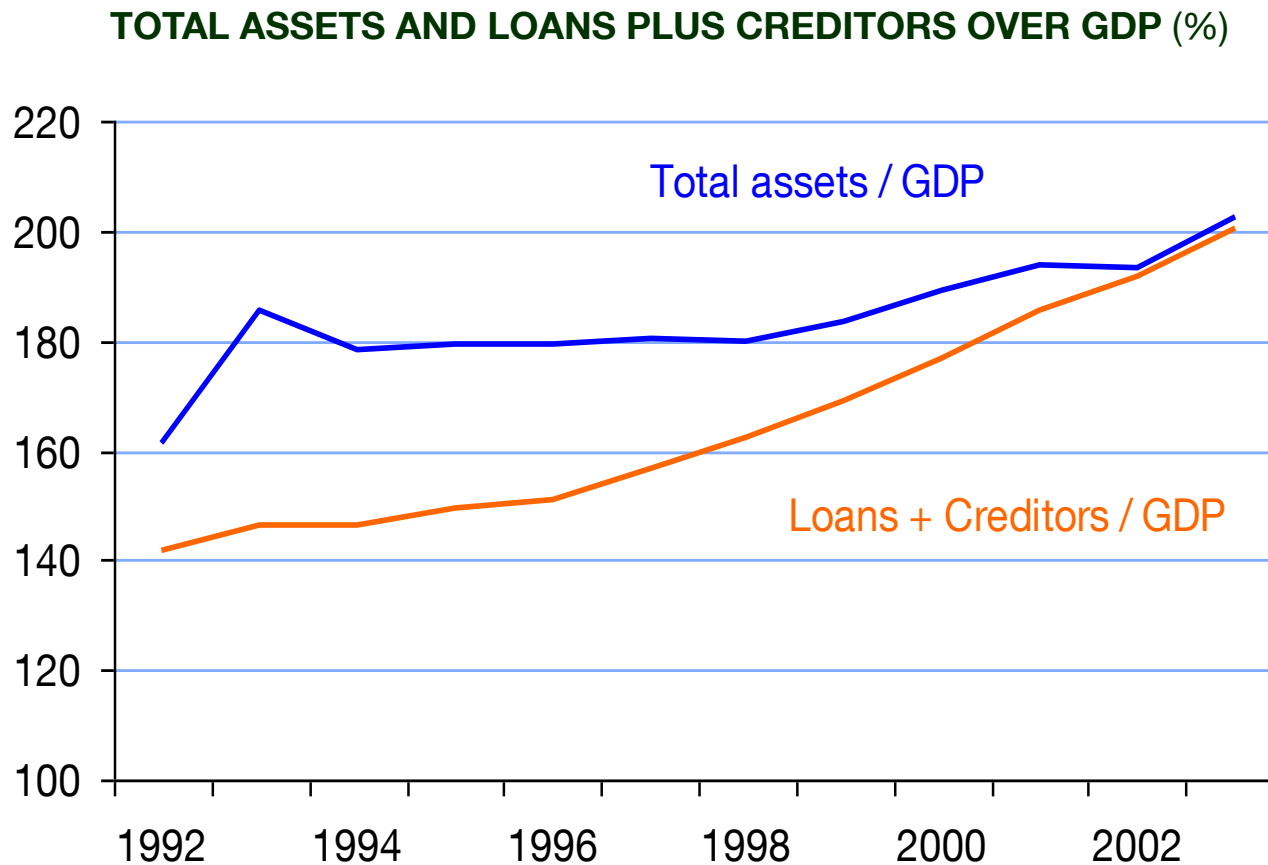
- Credit cooperatives

- Double nature: Deposit institutions + Cooperatives firms
- Able to carry out the same transactions as commercial banks with limits
- Not able to do business outside territory specified in Statute

Characteristics of the banking system



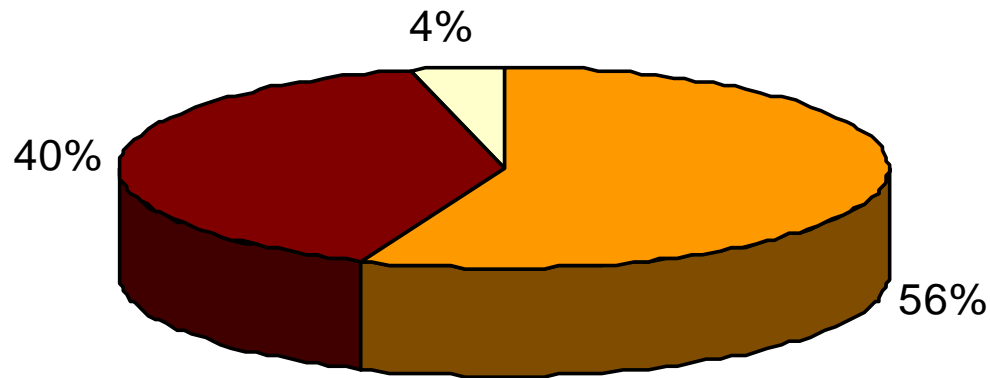
- The relative importance of the banking system in the Spanish economy exhibits an increasing tendency over time.





Types of institutions and relative importance

Relative importance in the total balance of the banking sector



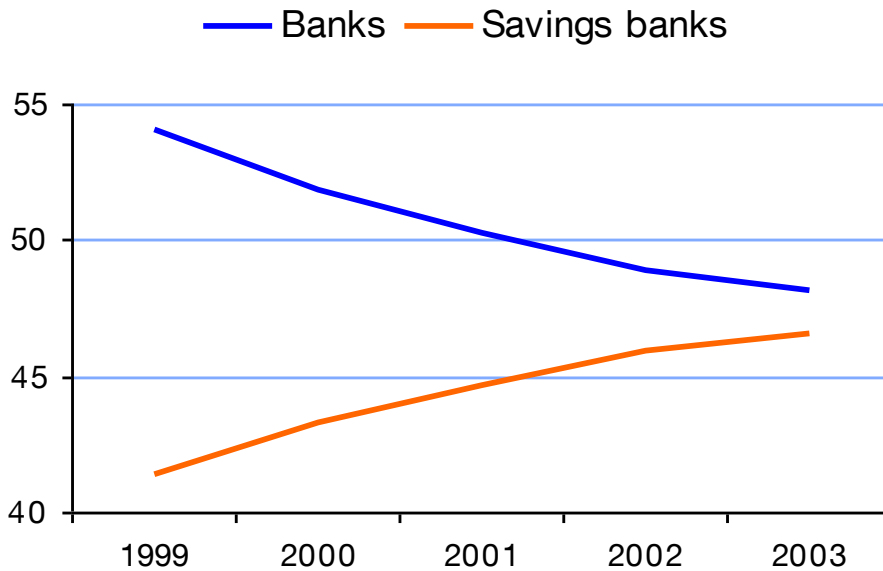
Commercial banks Savings banks Credit cooperatives

Characteristics of the banking system

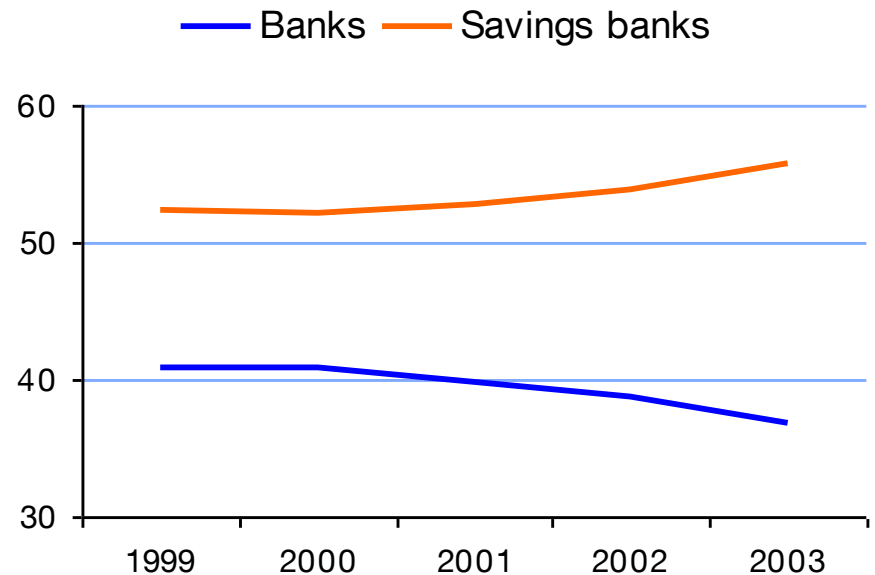


- Market share of savings banks has been increasing in the last years.

SHARE IN TERMS OF LOANS (%)



SHARE IN TERMS OF DEPOSITS (%)

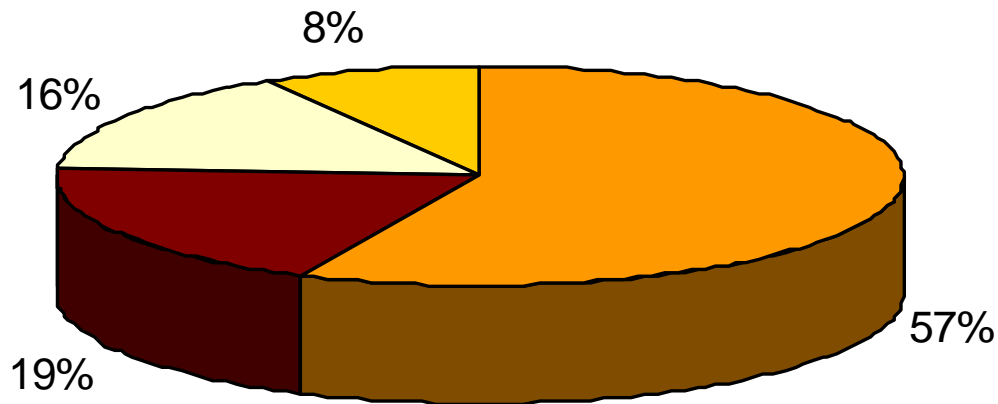




❑ Commercial banks:

- *High degree of concentration*

Relative importance in the total balance of commercial banks (2003)



■ Large Spanish banks

■ Other Spanish banks

■ Foreign banks operating in Spain

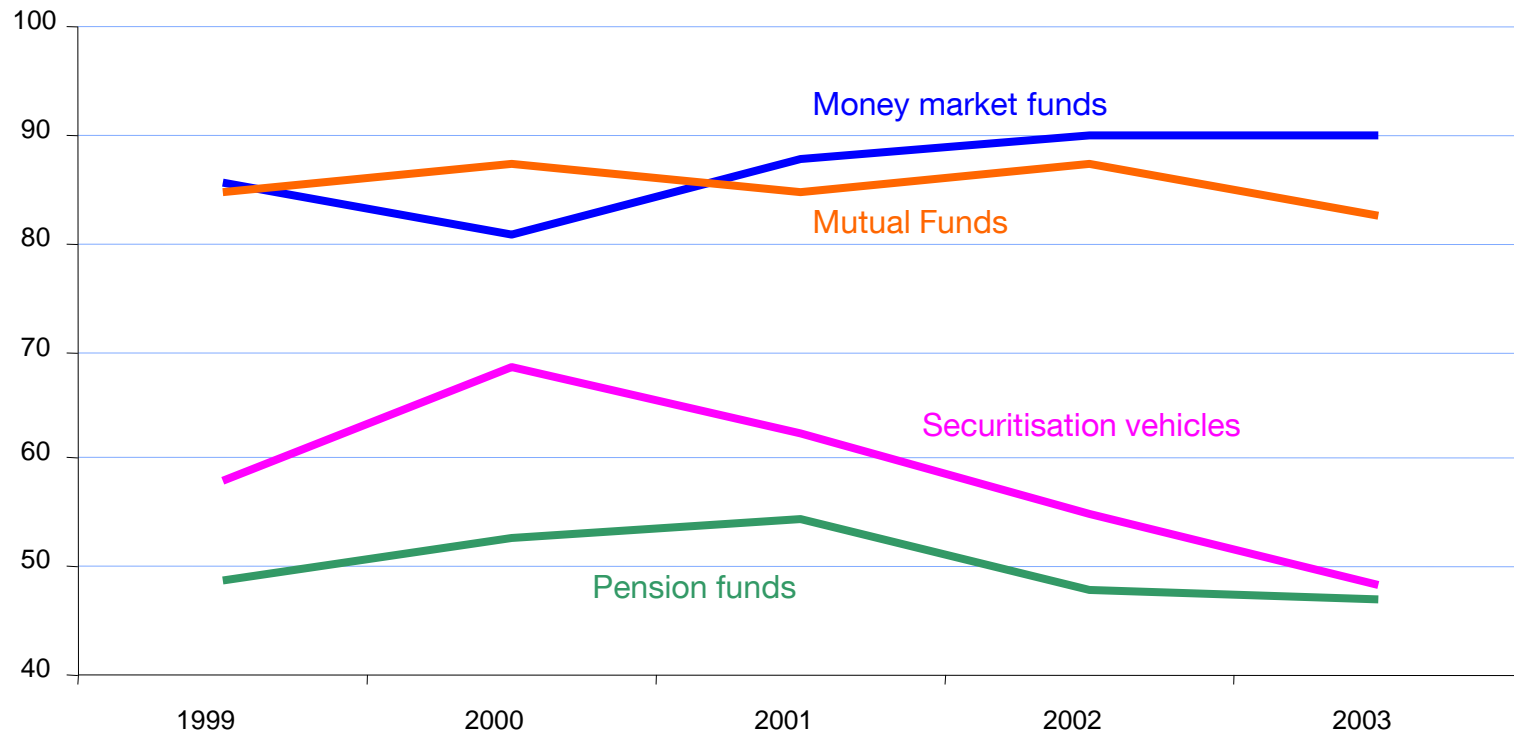
■ Branches of Spanish banks abroad

Characteristics of the banking system



- Spanish financial system, characterized by its high degree of bankarization

MARKET SHARE (%) OF ASSETS MANAGED IN SPAIN (Deposit institutions)



Characteristics of the banking system



- **High degree of bankarization:**

- **In 2002, 40,6% of total assets of Spanish insurance companies were controlled by Deposit Institutions.**

- **By business:**

- 56% life

- 40,5% mixed

- 5,2% non-life

-Overall: Clear specialisation by DI in life business.

Medium-term trends in Spanish banking



- **solidity after end 1970's crisis**
- **privatization**
- **opening up to foreign banks**
- **competition among domestic institutions**
- **consolidation and modernisation**
- **international expansion**

The road towards privatization

- **In the 1960s, public banks played a role as**
 - Commercial banks (mortgage banks, export credit)
 - Development banks for priority sectors (medium and long term credit)
- **Financial liberalization from 1970s**
 - Market principles introduced in public banks
 - Public credit complement not substitute for private credit
 - Increased competition between public and private banks
- **Full privatization in 1990s. At present only ICO:**
 - More of an intermediary than a direct loan supplier

In any case:

- Small size of public banks: at its peak (1986) 10.7% of private credit, today 3.6% (
- No evidence of contractionary effect on credit from privatization

Medium-term trends in Spanish banking

□ Evolution of the banking system

Great change of Spanish financial system while foreign banks remain the same as in the 90's

- **Drop of margins (10% to 2.5%)**
- **Strategies to compensate fall of margins:**
 - **Spanish banks have turn more professional and modern (more services offered, new technologies, reduction of costs)**
 - **Commercial banks concentrate and reduce costs, savings banks expand outside their traditional markets**

Number of bank branches	<i>Commercial banks</i>	<i>Savings banks</i>
1993	18,000	14,500
2003	14,000	20,000

Medium-term trends in Spanish banking



□ Evolution of the banking system: expansion and consolidation

- End-80's begins the expansionary phase, in size and geographical markets

- *From 1987 onwards, savings banks are allowed to open branches outside their original territory*

- *Mergers and acquisitions:*

- Comm. banks: 170 in 1995 – 144 in 2002 (2 largest: Santander, BBVA)*

- Savings banks: 78 in end 80's – 47 in 2002*

International expansion



❑ Latinoamerican expansion since mid 1990's

– Reasons:

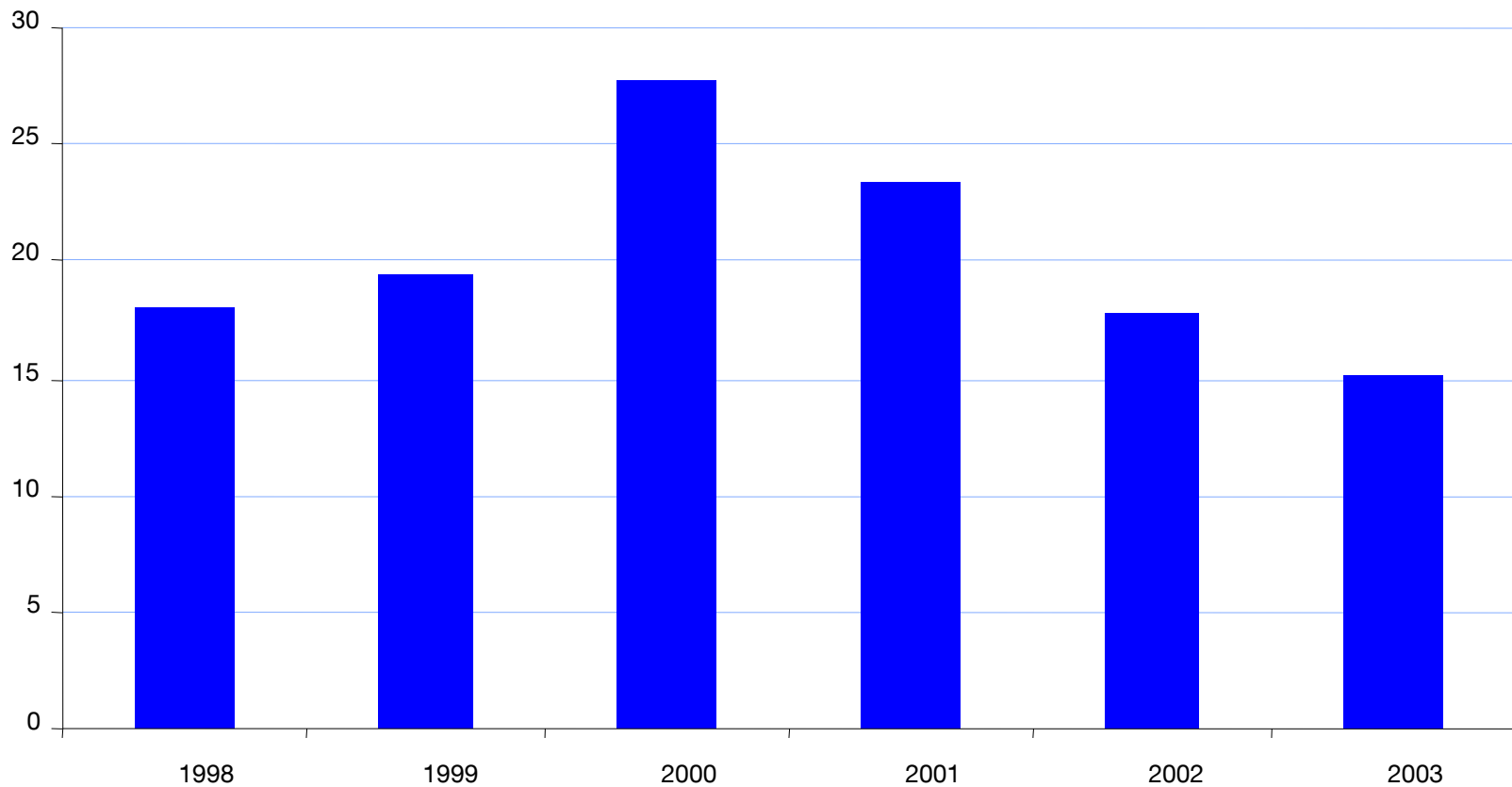
- Consolidation inside Spain
- Exhaustion of traditional business in Spain
- Narrowing of margins
- Expectations of growth in banking business in Latinoamerican countries
 - Minor bancarization
 - Presence of Spanish clients
- Larger margins
- Great inefficiency in costs and exportability of Spanish banking models
- Risk diversification
- Common language, affinity of cultures

BANCODE ESPAÑA – Lower costs of running

Madrid, 21 de abril de 2005 Quicker integration



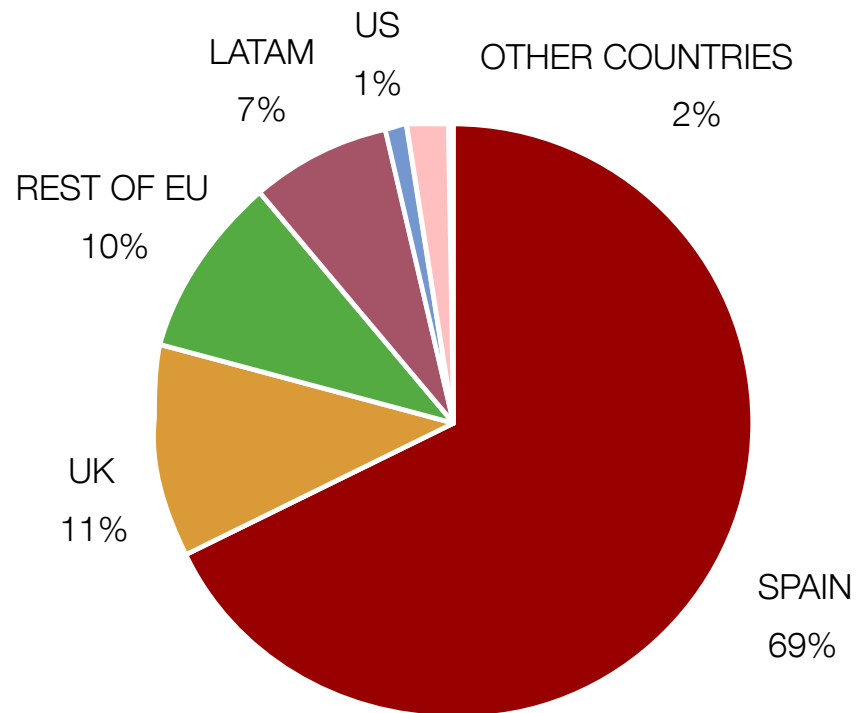
FOREIGN BUSINESS AS % OF TOTAL BUSINESS (Deposit institutions)



International expansion



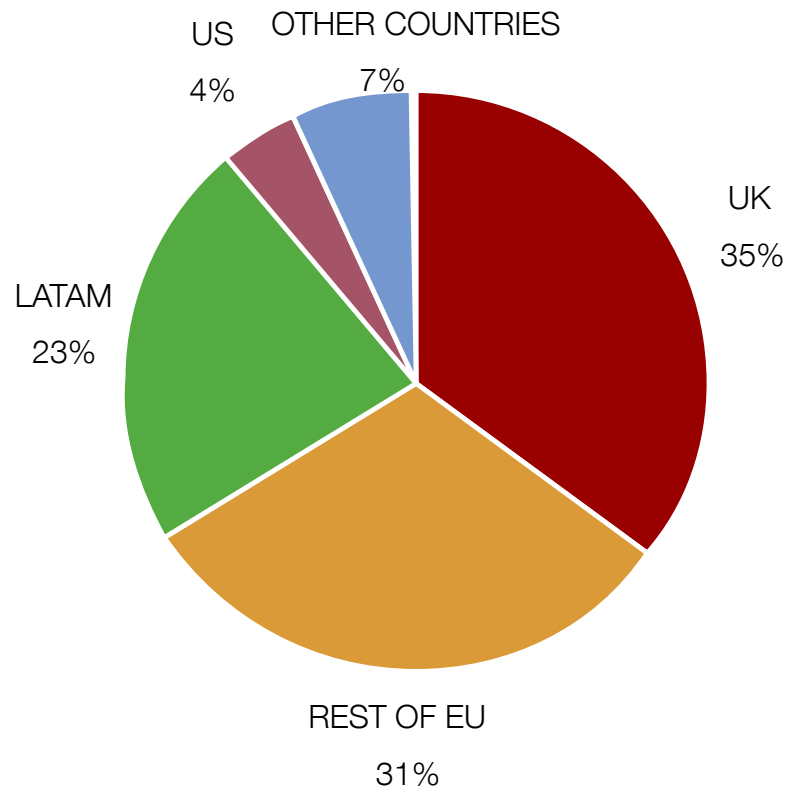
- Spanish deposit institutions' financial assets (Dec. 2004)



International expansion



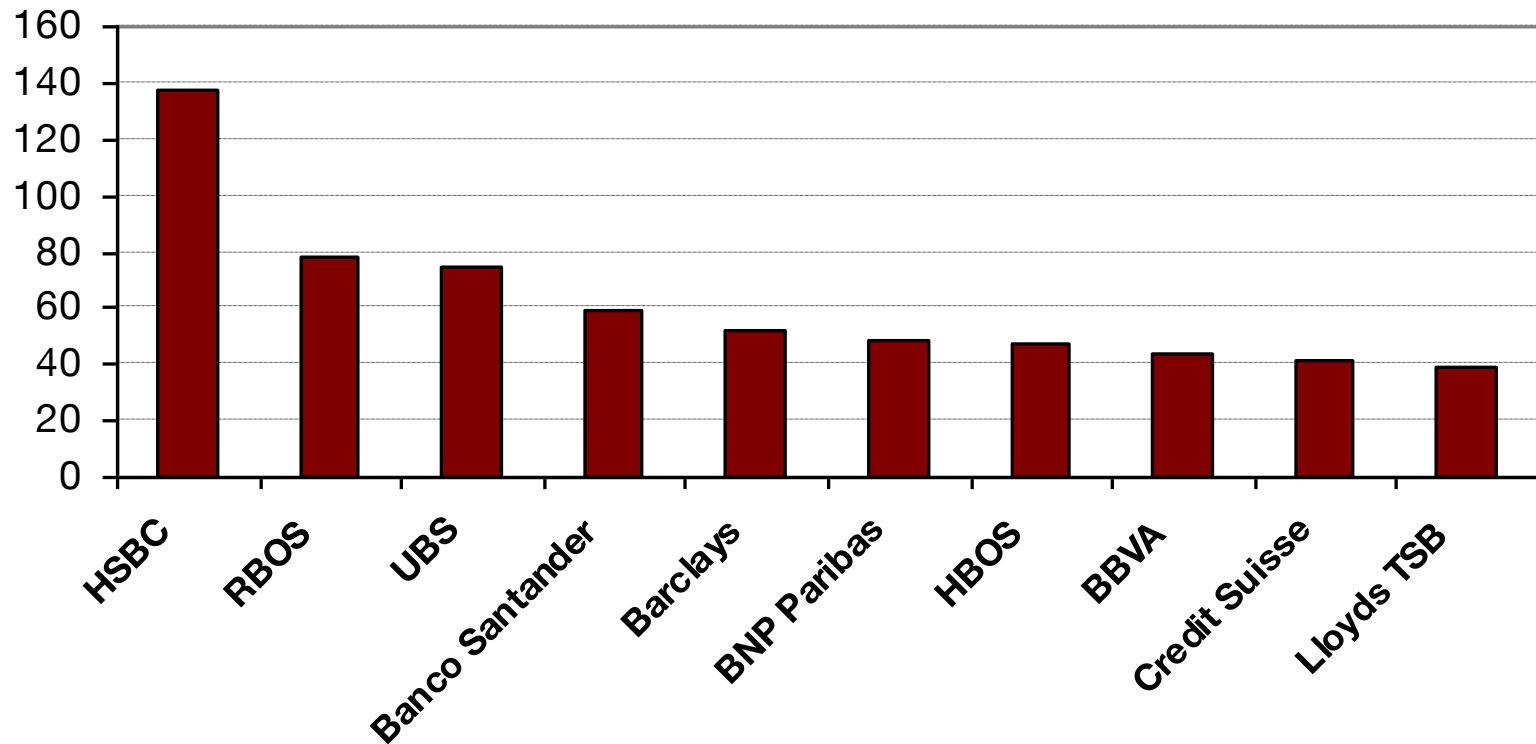
- Spanish deposit institutions' foreign financial assets (Dec. 2004)



International expansion



- 4th and 8th position among the top ten European banks by capitalization (€bn)



Spanish banks in relation to other European banks

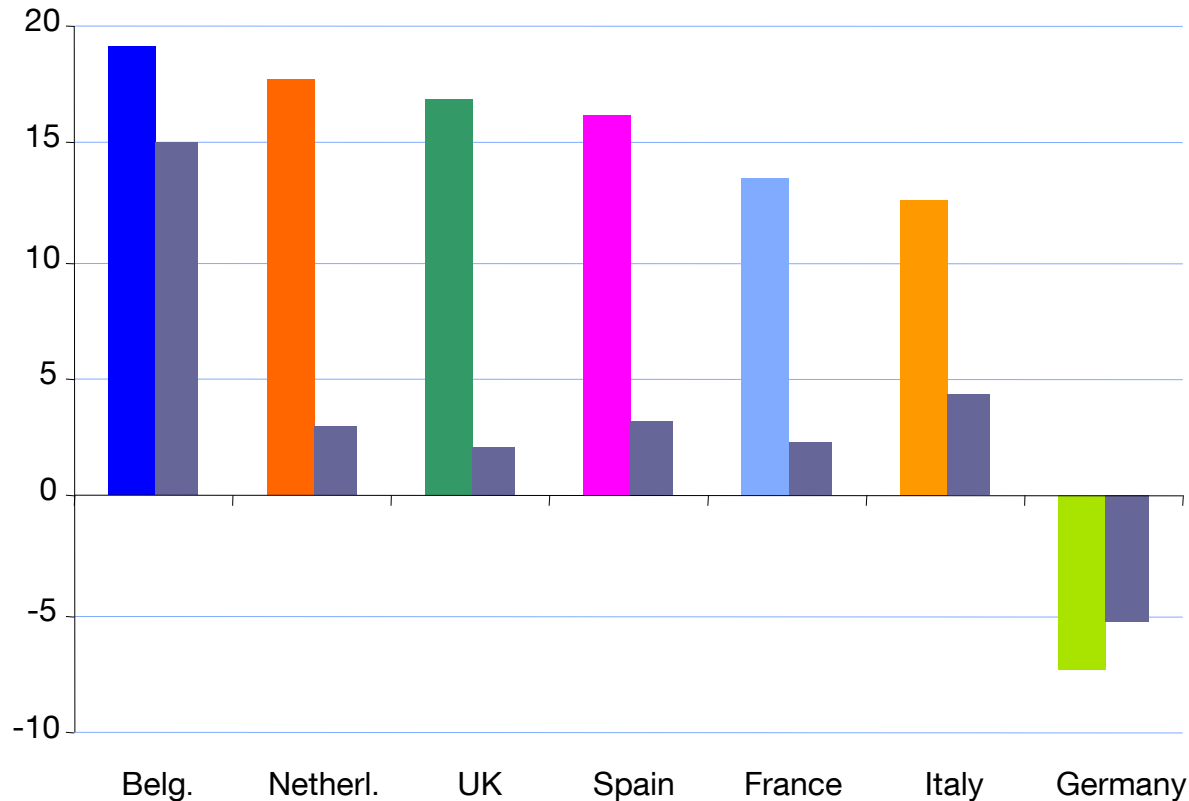


- **Efficiency ratios of Spanish banks are among the better of their European competitors.**
- **Higher profitability**
- **Solvency: capital ratio at EU average... and also strong Provisions**



Large European Banks, ROE and rate of change (2003)

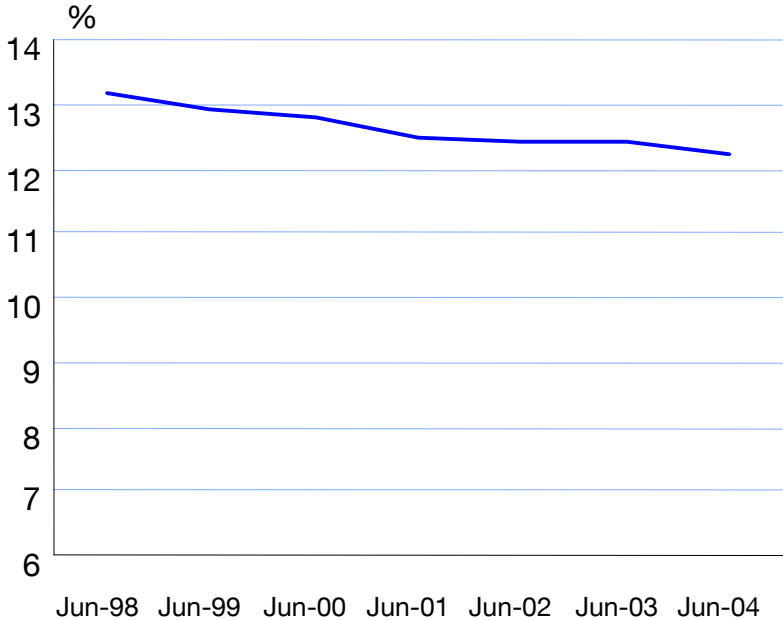
ROE (l-h bars) AND YEAR-ON-YEAR CHANGE (r-h bars)
MAJOR EUROPEAN BANKS GROUPED BY COUNTRY
(% and pp.; Dec. 2003)



Solvency



BIS SOLVENCY RATIO



Source: Bank of Spain

Some open issues

- **the mix between banks and markets**
- **financial liberalisation, international financial integration and macroeconomic instability**
- **issues raised by foreign banks in emerging markets for both home and host countries**