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BANKING Spain is in a lot of trouble with its economy and there are serious doubts over how successfully it can overcome this. Hans Redeker, currency chief at Morgan Stanley, said that:

“We have a revolt taking place by foreign investors in these bond markets [...] There have been hardly any purchases for several months. We are seeing net disinvestment because people fear that these countries lack the potential to grow themselves out of the problem, and risk falling into a Fisherite debt trap.”¹

Even if the crisis is resolved, Spain may have to incur much higher costs when borrowing in order to attract foreign investment. There is a fear that investment banks are ignoring Southern Europe, as Anthony Peters from Swiss Invest says:

“They have kissed peripheral Europe good-bye’, clients have been telling asset managers to eliminate them from the risk of southern European.”²

The banking sector in Spain is seriously under capitalized and the current climate faced by the public and the government will work against saving and bailing

out big banks, which is key to restoring foreign investment. With the inevitable Euro zone bail Spain can now recognise losses and this will hopefully lead to a recapitalisation of the banks.³ Spain’s largest and most successful banks are being hit with lowered ratings, according to Moody’s, and are struggling to find their feet on the stock market. Despite considerable troubles, Spain’s finance minister **Elena Salgado** remains upbeat about the prospects of the Spanish banking system, insisting that it will not incur further declines. Going further than to just quell fears, she went on to say that Spain’s handling of the situation could provide “lessons for the rest of Europe

and the world” and enable Spain “to emerge as more efficient and resilient to any future crisis”. Europe awaits her promise fulfilment.

Spain’s banks have taken to reducing costs and the Government has been strict in enforcing reforms that should make the banks solvent in the future. The minister finished by revealing that most of the assets managed by investment banks will be transferred to the commercial banks to bring about ‘transparency and access to capital markets.’⁴

The Spanish are confident (though some may say over confident) of emerging from this crisis of the Euro zone. Similarly, Britain should be equally optimistic as Spanish banks have a large stake in British banking, and have proved competent banking partners in the past.

Santander Group plc is one of the top 10 banks in the world and since the financial crisis has significant interest in the UK.

In 2008, the Santander group confirmed that it was to takeover Alliance & Leicester and then acquiesce the savings business of Bradford & Bingley. Along with Abbey (formerly Abbey National), which they acquired in 2004, all the banks were

brought together under the Santander name at the end of 2010.

In Britain, Santander offers one of the most competitive ISA rates as it pays 2.80% over the Bank of England base rate for the first 12 months – with a minimum guarantee rate for 12 months of 3.30% AER tax-free. Santander also maintains a profile high in this country by sponsoring British Formula 1 team McLaren, massively increasing its awareness.

The group’s profit between 2007-2010 totalled 30,060 million Euros making them the third largest bank in the world. It has also become one of the leading banks in the UK in just over six years. The acquisition of Abbey in 2004 was one of the most successful cross border transactions, with the UK contributing 1,985 million Euros to the groups profit (18%).

While problems in the Euro zone are hampering Spanish banks and affecting Spain more widely, the future of Santander looks a lot more promising in the UK as agreements are in the pipeline for the bank to acquire hundreds of RBS branches. Thus while the British public remain skeptical of Spanish banking in Spain, and especially with regard its sovereign debt, its commercial banking in this country is something British people can rely upon.

*Research & report: Ben Jones, August 2012.
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¹ <http://www.contraryinvestorscafe.com/last-tango-opportunities-traps-overview/>

² <http://www.telegraph.co.uk/finance/financialcrisis/8677989/Europes-money-markets-freeze-as-crisis-escalates-in-Italy-and-Spain.html>

³ <http://www.efinancialnews.com/story/2011-07-13/spanish-banks-more-vulnerable-than-italys>

⁴ <http://www.toroeconomics.com/2011/06/21/spains-banks-arent-going-bust/>

⁵ <http://www.santander.com/cs/cs/StaticBS?blobcol=urldata&blobheader=application/pdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1265297824847&cachecontrol=immediate&ssbinary=true&maxage=3600>