Spanish banks' cross-border activity: An international comparison

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Just as the creation of the Economic Monetary Union and the entry into force of the euro catalyzed a period of strong internationalisation and financial market integration within the European banking sector, the financial crisis was equally powerful in bringing about a reversal of these processes. Despite this setback, current data show EU cross-border activity has, for the most part, recovered.

The important increase in cross-border activity in the EU, and in Spain, from 1999 up until the beginning of the financial crisis experienced a similarly significant contraction due to the impact of the crisis. On the basis of the latest ECB data, it can be concluded that the crisis led to a new scenario, which broke the European banking market´s trend towards greater openness, internationalisation, and financial integration. In some cases, cross-border activity indicators have dropped to levels seen prior to the creation of the Economic Monetary Union (EMU) and the euro, as in the case of openness for the EU banking sector as a whole. Internationalisation and integration levels, however, are currently above those of 1999. The situation of the Spanish banking sector to a large degree mirrored trends observed within other EU countries, although, in most cases, from a significantly lower starting point. Further advances in the process of EU financial integration will require progress on the banking union and single European banking market.

The creation of the Economic and Monetary Union (EMU) and the birth of the euro in 1999 were the major catalysts behind the processes of European financial market integration. The disappearance of exchange rate risk, stronger market competition, measures adopted to create a single market, etc. facilitated growth in cross-border financial flows between EMU member countries, and deepened their financial integration as a result. Moreover, the phenomenon of financial market globalisation, underpinned by developments in information and communications technologies (ICTs), has helped open up economies to the outside world and make them more international.

However, the international financial crisis that began in mid-2007 halted the progress of integration, the clearest sign of which being the diminishing significance of cross-border financial flows. In addition to widening spreads between interest rates in different countries for the same product,

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Against this background, the purpose of this article is to analyse recent developments in openness (relative share of finance obtained from the rest of the world), internationalisation (relative importance of foreign investments) and integration (intensity of the banking business among EU countries) of Spanish banks in the European context, using the information the European Central Bank (ECB) publishes on the cross-border business of monetary financial institutions (MFIs). The ECB supplies banking business information broken down by geographical destination: domestic *vs*. rest of the world, distinguishing in the latter case between the euro area, other EU countries, and third-countries. Additionally, it gives information by product type, distinguishing between interbank deposits and other liabilities on the liabilities side, and interbank loans, non-interbank loans, fixed income, and shares and other equities on the assets side. As a result, it is possible to analyse the degree of openness, internationalisation and integration separately.

The availability of information from 2013 going back to the birth of the euro in 1999 allows both the full extent of the progress of Europe's financial internationalisation and integration, and the impact of the crisis, to be explored. The breakdown of information by products shows both the different level of internationalisation/integration, and how the impact of the crisis has differed from country to country.

It is important to note that the data on cross-border activity the ECB provides refer to banks resident in each country, not including the business of their foreign subsidiaries. We are not, therefore, looking at the internationalisation of Spanish banks as such, but of the banks operating in Spain. Clearly, the scale of the two largest Spanish banking groups´ foreign business means that the share of foreign business relative to aggregate assets (30%) far exceeds cross-border business as a share of Spanish-resident banks' balance sheets (11.1%). We are therefore looking at cross-border business proper (non-local activity of the parent). The fact that the assets of Spanish bank's branches abroad exceed cross-border assets demonstrates that the international business model is decentralised. Spanish banks operating abroad do so through independent subsidiaries that are mainly financed domestically in the country where the subsidiary is based.

Openness

Openness is understood here to refer to the levels of finance attracted from the economy's external sector, such that the greater the weight of funds obtained within the country (domestic business), the lesser the openness.

Table 1 shows the trend in the weight of the deposits each banking sector attracts from abroad as a share of total assets. During the period of expansion lasting until 2007, the openness of euro area banks rose by almost three percentage points (pp.), rising to a peak of 21.3%. Conversely, during the crisis, openness plummeted by 7.2 pp. to a minimum of 14.1% in 2013. Indeed, the drop was so sharp as to situate it below the 1999 starting point.

Table 1

External openness of banks in the Euro area. Cross-border activity as a share of total assets
(Percentages)

	Total				Deposits from MFIs				Deposits from Non-MFIs			
	1999	2007	2012	2013	1999	2007	2012	2013	1999	2007	2012	2013
Germany	13.5	13.7	11.3	10.3	30.1	33.3	36.8	30.0	13.0	10.5	7.9	8.5
Austria	17.8	16.5	12.7	12.1	41.4	41.2	29.1	27.5	10.9	15.0	15.1	15.0
Belgium	38.3	46.4	27.2	27.1	73.1	84.3	68.4	75.3	27.5	33.9	24.6	23.6
Spain	**18.2**	**14.7**	**9.5**	**9.8**	**37.2**	**56.5**	**30.9**	**37.4**	**15.9**	**6.0**	**5.2**	**5.1**
Finland	10.6	16.1	29.0	28.4	63.8	73.7	82.0	78.4	1.4	4.4	20.9	24.3
France	13.9	20.8	13.5	13.4	33.2	49.2	31.2	30.9	6.6	14.3	13.5	14.0
Greece	9.4	25.0	17.1	17.4	46.4	69.1	19.6	31.5	4.7	17.6	20.8	16.9
Ireland	42.9	33.1	20.6	20.7	75.8	72.3	47.3	58.7	25.9	42.2	31.5	26.0
Italy	14.7	14.9	8.2	7.9	53.3	49.0	31.5	30.1	5.5	4.9	4.1	4.3
Luxembourg	53.0	40.5	41.9	40.5	71.6	72.4	86.7	85.3	67.2	47.9	45.8	42.1
Netherlands	26.9	33.5	23.3	23.3	64.9	87.4	89.2	91.3	14.5	21.8	22.1	23.2
Portugal	23.2	37.0	16.1	13.6	58.8	87.7	49.4	45.0	6.6	12.5	6.7	6.7
Euro area-12	**18.4**	**21.3**	**14.5**	**14.1**	**42.6**	**53.8**	**40.4**	**39.2**	**13.8**	**14.4**	**12.1**	**12.3**

Source: ECB and author's calculations.

In this context, Spanish banks' openness to the rest of the world has always been below the European average, with the gap widening to its maximum in the year the crisis broke out. During the crisis years, the relative weight of the financing received from abroad also fell, dropping to 9.8% in 2013. Spain is one of the few Euro area countries in which the banks' degree of openness actually declined during the expansion. In 2013, Spain ranked second after Italy among the countries studied in terms of its having the lowest degree of openness to the exterior.

The breakdown of finance received from abroad as interbank and non-interbank deposits reveals a much higher degree of openness in the former than the latter. Moreover, the increase in external openness during the expansion leading up to 2007 was much lower in the case of non-interbank deposits. In 2007, 53.8% of all interbank deposits in each country were drawn from abroad. In the non-financial sector, for example, the maximum percentage was 14.4%.

The biggest impact of the 2007 crisis was on the interbank deposit market, to the extent that each country's share of funds attracted from abroad dipped to below the 1999 figure. Cross-border non-interbank deposits also shrank in relative terms between 2007 and 2013, ending the period below their starting-point level.

In the case of Spanish banks, focusing attention on the last year available, although the importance of cross-border activity in interbank deposits is fairly similar to the European average (37.4% *vs.* 39.2%), there was much less openness in other deposits, as only 5.1% of financing came from abroad, which is less than half the euro area average. Indeed, Spain's banks attracted the smallest share of deposits from abroad of any country except Italy.

Internationalisation

A banking sector is more internationalised the greater the relative weight of its foreign investments in relation to total assets. As Table 2 shows, between the creation of the EMU in 1999 and the start of the crisis in 2007, European banks' degree of internationalisation rose considerably, as each country's business invested abroad rose from 21.5% to 31.9%. In Spain, although it also increased, it rose by only 1.7 pp., reaching a level well below the European average (13.9% compared with 31.9%).

Just as the banks became less open to the rest of the world during the crisis, their internationalisation also suffered its effects. In particular, from 2007 to 2013, the relative weight of foreign investment dropped 8.4 pp., falling to 23.5% in 2013. The internationalisation of the banks in Spain also decreased, dropping from 13.9% to 11.1% –a percentage higher only than that of Italy.

In the specific case of interbank loans, the degree of internationalisation is high, as in 2013, 43% of European banks' interbank loans were destined for banks in other countries. This percentage rose to 52.3% just as the crisis began, up 15 pp. from 1999. The crisis therefore exacerbated the domestic bias of interbank loans as a result of the mistrust prevailing in the markets.

Compared with the Eurozone banks, Spanish banks devote a smaller share of their interbank loans to banks in third-countries. Internationalisation is also lower in the loans to the non-financial sector market.

Compared with these values, Spanish banks devote a smaller share of their interbank loans to banks in third-countries, with the trend being similar to that in other European countries. The adoption of the euro increased interbank lending abroad, while during the crisis, precisely the opposite occurred.

Analysis of loans to the non-financial sector reveals a much lower degree of internationalisation, as currently only 4.6% of Euro area banks' lending is to foreign borrowers. Internationalisation has barely progressed since 1999, although it has not dropped during the crisis either. In Spain, the percentage of non-interbank loans granted to non-residents is tiny (1.5% in 2013), although it is almost twice what it was in 1999.

There was strong growth in the relative importance of external investment in fixed-income securities over the period 1999-2007, with the Eurozone banks' average rising from 35% of the total in 1999, to 58.4% in 2007. However, in subsequent years the drop was almost as intense, losing 21 of the 23 pp. gained previously. Developments in Spain were similar (international expansion until 2007 and subsequent contraction), although the weight of the investment in securities issued by non-residents was always below that of other European banking sectors. The progress in internationalisation was always much more limited in Spain, such that it was precisely in 2007 that the gap separating it from the Euro area was widest. That year, the internationalisation indicator for Spain's banks was 18 pp below the average. In 2013, the weight of Spanish banks' investment in debt issued by other countries was 12.6%, a third of that of Eurozone banks as a whole, and 6 pp. below its initial level in 1999. Over the course of the crisis the percentage has been halved.

Finally, in equities, European banks hold 37.2% of their total equities investments abroad, 13 pp. more than in 1999. The period of expansion brought about a rapid increase in the internationalisation of investments, which was truncated by the crisis. In Spain, the weight of foreign investment today has almost recovered to pre-crisis levels. On the other hand, the current level of equity investment is below the peak reached in 2007, and is almost 5 pp. below the Eurozone average (32.6% *vs.* 37.2%).

Table 2

Extent of internationalisation of banks in the Euro area. Weight of the external sector in total assets
(Percentages)

	Total				Loans to MFIs				Loans to Non-MFIs				Securities other than shares				Shares and other equity			
	1999	2007	2012	2013	1999	2007	2012	2013	1999	2007	2012	2013	1999	2007	2012	2013	1999	2007	2012	2013
Germany	15.5	32.1	22.7	24.0	26.3	46.2	37.3	38.7	2.0	3.4	4.3	5.6	21.9	50.6	41.7	42.5	21.5	32.0	33.6	33.0
Austria	21.7	37.7	29.4	29.3	35.1	49.0	34.7	35.0	3.7	5.8	7.6	9.4	37.8	67.3	47.4	45.3	12.9	41.2	30.6	29.3
Belgium	39.5	57.5	38.5	38.8	73.4	91.1	82.0	83.0	6.4	8.4	7.3	7.7	41.4	76.4	38.5	39.1	68.5	62.7	56.2	57.5
Spain	**12.2**	**13.9**	**11.4**	**11.1**	**28.0**	**44.3**	**37.1**	**36.3**	**0.8**	**1.0**	**1.5**	**1.5**	**18.6**	**24.6**	**13.9**	**12.6**	**25.8**	**44.6**	**35.0**	**32.6**
Finland	18.6	26.5	24.7	32.0	61.5	72.0	37.2	56.7	0.3	0.8	2.8	4.9	22.0	55.9	85.1	83.5	9.5	7.9	12.2	9.6
France	20.5	28.3	20.7	20.9	29.6	39.4	29.4	30.2	1.5	2.6	2.3	3.3	36.7	57.3	41.5	37.6	23.2	38.1	31.7	37.4
Greece	11.2	23.4	28.2	26.3	29.1	69.5	90.5	81.1	0.2	0.0	0.9	1.0	2.2	35.1	82.5	85.3	5.6	53.2	65.1	67.0
Ireland	50.7	60.5	56.9	57.5	64.2	65.5	75.0	72.7	16.5	6.9	6.8	7.7	84.5	95.6	80.0	80.1	32.8	47.3	50.0	44.0
Italy	11.2	11.4	8.2	7.5	40.9	28.6	31.8	28.4	1.5	1.3	1.5	1.3	12.0	18.0	6.0	6.1	19.7	35.1	33.0	33.3
Luxembourg	80.7	81.5	80.5	81.3	75.4	80.5	82.5	85.5	43.0	24.8	30.1	37.1	97.5	96.6	96.3	95.5	69.8	63.5	50.0	54.6
Netherlands	28.4	38.3	25.9	28.8	59.4	90.4	59.9	73.6	2.1	5.4	6.4	7.7	59.9	42.5	32.7	31.7	41.6	35.4	62.1	75.1
Portugal	19.2	21.3	15.8	13.9	48.5	69.3	61.8	56.2	2.1	2.0	1.4	1.2	22.2	44.0	13.0	13.4	19.0	26.9	39.4	42.3
Euro area-12	**21.5**	**31.9**	**23.0**	**23.5**	**37.4**	**52.3**	**41.9**	**43.0**	**3.0**	**3.4**	**3.7**	**4.6**	**35.0**	**58.4**	**38.6**	**37.4**	**24.3**	**38.2**	**35.5**	**37.2**

Source: ECB and author's calculations.

European financial integration

Apart from analysing the impact of the crisis on the openness and internationalisation of the Spanish banking sector in the European context, it is also of interest to analyse how cross-border activity has evolved in other EU countries, as its relative importance as a share of total business is a measure of Europe's financial integration. Thus, the greater the weight of a country's banking business with its EU partners, the higher its degree of financial integration.

Taking the position of each banking sector with respect to the rest of Europe as its reference, Table 3 shows this indicator of integration with the rest of Europe for each of the Eurozone's banking sectors. In the case of Eurozone bank assets, the relative weight of cross-border business with EU countries increased by 6.9 pp. from 1999 to 2007, reaching 22.4% at the end of the period, the level of financial integration consequently increasing.

On the other hand, during the crisis, the retreat from integration caused a loss of banking business with EU partners, with the integration indicator dropping by 3.3 pp. Nevertheless, the relative importance of cross border business with other EU countries was higher in 2013 (19.1%) than in 1999 (15.5%). It is worth noting that specifically in 2013, financial integration recovered, no doubt helped by the strong support for the euro given by the ECB with the measures adopted as of mid-2012.

The relative importance of cross border business with other EU countries was higher in 2013 (19.1%) than in 1999 (15.5%). It is worth noting that specifically in 2013, financial integration recovered, no doubt helped by the strong support for the euro given by the ECB with the measures adopted as of mid-2012.

Table 3

Degree of financial integration with the EU. Eurozone banks' business with other EU countries as a share of total assets

(Percentages)

	Assets				Liabilities			
	1999	2007	2012	2013	1999	2007	2012	2013
Germany	10.0	20.5	16.6	19.6	12.1	13.7	12.1	10.2
Austria	11.5	24.8	18.3	22.8	14.5	16.8	13.7	13.4
Belgium	34.1	52.3	32.7	31.6	30.1	42.0	25.7	25.1
Spain	**8.5**	**10.9**	**9.7**	**8.9**	**11.7**	**16.2**	**11.2**	**11.5**
Finland	16.3	22.2	21.7	27.3	11.4	14.2	30.9	35.4
France	13.5	18.8	13.9	17.1	12.8	20.1	15.5	15.4
Greece	8.4	18.2	28.7	26.9	7.3	27.7	18.9	20.5
Ireland	39.5	39.1	42.4	43.5	42.3	47.0	34.1	36.7
Italy	9.6	10.1	7.6	7.4	16.8	20.7	12.1	11.2
Luxembourg	66.3	55.1	54.5	57.9	45.4	37.5	47.0	43.7
Netherlands	20.7	31.2	20.1	21.4	20.3	31.8	25.7	24.4
Portugal	11.6	16.6	13.3	11.9	16.7	25.5	14.6	11.1
Euro area-12	**15.5**	**22.4**	**17.1**	**19.1**	**16.4**	**22.1**	**16.6**	**15.8**

Source: ECB and author's calculations.

The trend in Spanish banks' business with other EU countries was upward until 2007, although the gap relative to the evermore integrated banks in other European countries widened. Thus, whereas in 1999 the weight of investments in other EU countries was 7 pp. lower in Spain than elsewhere in the Eurozone (8.5 *vs.* 15.5%), in 2007 the difference was 11.5 pp. In subsequent years there was a retreat in the integration of Spanish banks with their European partners, with the weight of cross-border activity with the EU dropping to 8.9% in 2013, a value almost identical to that in 1999.

On the liabilities side, the relative weight of Eurozone banks' deposits from EU countries grew by 5.7 pp. between 1999 and 2007, rising to a peak of 22.1% just before the crisis. However, when the crisis broke out, the relative weight of cross-border business with other EU countries dropped by 6.3 pp., such that in 2013 integration was even lower than when the EMU was created. It is also noteworthy that from 1999 to 2007, with the exception of Luxembourg, there was an increase in the relative weight of cross-border business with other EU countries, while in the post-crisis period, European integration decreased in all EU countries except Luxembourg and Finland.

In the case of Spanish banks, the degree of integration with Europe rose until 2010, with an increase in the relative weight of business with their European partners of 5.3 pp. However, even in this year of maximum integration, the importance of business with other EU countries was below the average for European banks, with a difference of 2.3 pp. In subsequent years, the impact of the crisis on Spanish banks was much greater, with a drop in the relative weight of business with the EU of 5.4 pp. In 2013, the value of the financial integration indicator was 11.5% (compared with a Eurozone average of 15.8%), greater than that of Germany, Italy and Portugal.

The information on deposits given in Table 4 shows the very different level of integration in interbank and non-interbank deposits. In the former case, the wholesale nature of the market shows a larger and growing share of cross-border activity. Specifically, during the period of expansion, the weight of business with other EU countries grew by an average of 10 pp. for Eurozone banks as a whole, reaching 37.6% in 2007. Conversely, although non-interbank deposits grew with integration, they accounted for just 8.1% in 2007. The importance of Spanish banks' interbank financing from other EU countries developed further in this context, as it came to account for 50% of financing in 2007. By contrast, in previous years, there was a bigger step backwards in terms of integration, with the indicator dropping by 19 pp., almost twice the Euro area average. Non-interbank deposits taken by Spanish banks from the rest of the EU barely changed over the period examined, and were below the European average in 2013 (2.9% *vs.* 7.6%), situating Spain among those EU countries obtaining least financing in the form of non-interbank deposits. Notable differences exist between countries, with non-interbank deposits ranging from a minimum of 2.3% (Italy) to a maximum of 26% (Luxembourg), and interbank deposits from a minimum of 18.8% (Austria) to a maximum of 68.1% (Netherlands) in 2013.

The pattern on the assets side has progressed similarly, with an increase in the weight of investments from EU countries between 1999 and 2007 and a decrease in subsequent years. The level of integration in non-interbank loans is much smaller, with just 7.5% of exposure being from other EU countries in 2013, compared with

Table 4

European financial integration in terms of bank liabilities. Eurozone banks' business with other EU countries as a share of total assets
(Percentages)

	Interbank deposits				Non-interbank deposits			
	1999	2007	2012	2013	1999	2007	2012	2013
Germany	19.6	24.5	27.0	21.6	6.5	5.3	4.1	4.7
Austria	25.0	26.3	18.9	18.8	5.6	9.1	10.1	10.2
Belgium	43.9	57.2	41.8	47.3	17.3	26.6	18.9	17.8
Spain	**28.2**	**49.9**	**27.9**	**33.9**	**2.6**	**2.9**	**2.7**	**2.9**
Finland	49.2	33.6	44.7	53.9	0.5	2.4	15.8	20.2
France	19.8	28.1	20.5	20.8	3.0	7.1	9.5	9.3
Greece	32.2	66.6	18.5	30.2	1.1	15.5	19.1	15.5
Ireland	59.5	58.6	42.9	54.2	18.2	25.9	22.3	20.6
Italy	40.5	43.0	29.3	28.2	2.0	2.1	2.1	2.3
Luxembourg	46.5	42.7	61.2	60.5	43.6	29.2	29.8	26.0
Netherlands	35.8	63.4	66.1	68.1	8.0	10.2	10.7	11.7
Portugal	35.2	46.5	33.8	27.8	3.7	8.0	2.3	2.5
Euro area-12	**27.5**	**37.6**	**29.7**	**29.3**	**6.9**	**8.1**	**7.5**	**7.6**

Source: ECB and author's calculations.

Table 5

European financial integration in terms of bank assets. Eurozone banks' business with other EU countries as a share of total assets

(Percentages)

	Interbank loans				Non-interbank loans				Securities other than shares				Shares and other equity			
	1999	2007	2012	2013	1999	2007	2012	2013	1999	2007	2012	2013	1999	2007	2012	2013
Germany	18.5	35.9	27.3	28.1	3.3	6.0	6.1	8.1	16.2	40.8	34.2	34.5	12.4	18.2	22.1	22.1
Austria	19.1	38.4	24.1	26.5	4.3	10.8	12.1	17.4	25.2	54.7	38.0	37.3	4.6	20.1	12.1	16.6
Belgium	62.3	79.3	59.4	55.0	8.7	19.3	12.2	12.8	32.6	63.8	33.0	33.6	56.0	55.1	48.8	50.5
Spain	**22.3**	**39.9**	**32.7**	**28.2**	**1.0**	**2.0**	**2.3**	**2.4**	**12.0**	**20.3**	**12.1**	**11.0**	**10.7**	**26.2**	**16.8**	**16.9**
Finland	53.1	54.8	21.3	26.7	1.7	2.1	9.4	15.2	16.8	50.0	76.8	74.1	4.8	6.3	10.8	8.4
France	19.0	28.7	21.2	20.5	2.2	3.4	4.7	6.9	24.1	43.5	32.5	34.2	11.2	20.5	18.0	20.3
Greece	24.4	63.8	85.4	75.9	0.4	0.9	1.2	1.2	0.7	27.1	79.0	83.5	1.9	16.2	25.9	27.3
Ireland	50.8	55.9	62.1	60.3	24.2	11.3	14.4	16.9	59.4	55.6	52.2	50.7	22.4	25.2	41.9	37.0
Italy	34.2	26.9	28.0	23.8	2.7	1.7	1.8	1.7	6.3	15.0	5.3	5.2	14.4	32.5	31.3	31.8
Luxembourg	62.2	58.2	57.2	61.5	56.6	31.7	36.9	45.9	79.0	68.5	64.9	61.0	54.2	44.2	27.7	30.6
Netherlands	44.2	79.2	41.4	47.9	3.5	7.7	10.6	11.2	48.6	35.8	26.3	25.5	19.9	11.1	31.5	42.6
Portugal	27.8	54.8	48.2	39.3	2.4	2.5	1.8	1.6	12.7	34.5	12.2	12.8	12.4	18.2	31.8	35.5
Euro area-12	**27.5**	**42.0**	**31.2**	**30.7**	**4.4**	**5.5**	**6.0**	**7.5**	**25.5**	**43.3**	**29.8**	**29.4**	**13.9**	**23.4**	**22.1**	**23.5**

Source: ECB and author's calculations.

a percentage of 30.7% in loans to European MFIs. In the case of fixed-income investment, the relative importance of foreign investment in the EU (29.4%) is currently similar to that of interbank loans, while that of equity investment is somewhat less (23.5%).

Spanish banks' integration with the EU is similar to the Eurozone average in the interbank lending market (28.2% *vs.* 30.7% in 2013). Conversely, the importance of exposure to other EU countries is much smaller in the case of non-interbank loans (2.4% *vs.* 7.5% in 2013), situating Spain at the bottom of the table on the integration rankings. In the case of exposure to debt, the relative weight of investments in other EU countries by Spanish banks is currently below even the 1999 level (11% *vs.* 12%), at a value that is a third of the Eurozone average (29.4%). Finally, in the case of equity investment, the trend in Spain's exposure to the EU as a share of the total was the most volatile in the Eurozone, with a bigger increase during the expansion and a bigger drop during the crisis.

Concluding remarks

The disappearance of exchange rate risk with the advent of the euro, and the multiple measures passed to achieve a single financial market in Europe, bore fruit in terms of increased cross-border activity by European banks, which increased their exposure to other EU countries. Thus, domestic business lost weight in favour of cross-border activity. As Table 6 summarises, investments in other EU countries grew in importance on banks' balance sheets, with domestic business dropping by 7.4 pp.; something similar happened to liabilities, although the relative weight of domestic business dropped less.

Spanish banks also benefited from the integration process, with growth in their business with other

Table 6

Geographical distribution of Eurozone banking sectors' balance sheets
(Percentages)

a) Assets

	1999			2007			2012			2013		
	Within country	European Union	Rest of the World	Within country	European Union	Rest of the World	Within country	European Union	Rest of the World	Within country	European Union	Rest of the World
Germany	83.9	10.0	6.1	71.8	20.5	7.7	76.9	16.6	6.4	72.9	19.6	7.6
Austria	77.3	11.5	11.2	65.9	24.8	9.3	73.2	18.3	8.5	69.4	22.8	7.8
Belgium	57.7	34.1	8.2	38.1	52.3	9.6	56.3	32.7	11.0	55.3	31.6	13.1
Spain	**86.9**	**8.5**	**4.5**	**86.4**	**10.9**	**2.7**	**87.0**	**9.7**	**3.2**	**87.5**	**8.9**	**3.7**
Finland	80.0	16.3	3.7	71.9	22.2	5.9	71.2	21.7	7.1	61.8	27.3	10.9
France	77.0	13.5	9.5	72.7	18.8	8.6	79.9	13.9	6.3	74.8	17.1	8.1
Greece	87.3	8.4	4.3	76.1	18.2	5.7	67.4	28.7	3.9	69.6	26.9	3.5
Ireland	45.9	39.5	14.6	40.4	39.1	20.5	40.9	42.4	16.7	38.4	43.5	18.1
Italy	87.3	9.6	3.1	88.8	10.1	1.1	91.5	7.6	1.0	91.5	7.4	1.2
Luxembourg	15.7	66.3	18.0	22.8	55.1	22.1	21.8	54.5	23.7	16.4	57.9	25.7
Netherlands	70.4	20.7	8.9	60.1	31.2	8.8	70.4	20.1	9.5	67.5	21.4	11.1
Portugal	79.4	11.6	9.0	78.5	16.6	4.9	83.2	13.3	3.5	84.3	11.9	3.7
Euro area	**76.9**	**15.5**	**7.6**	**69.5**	**22.4**	**8.0**	**76.2**	**17.1**	**6.6**	**73.1**	**19.1**	**7.8**

a) Liabilities

	1999			2007			2012			2013		
	Within country	European Union	Rest of the World	Within country	European Union	Rest of the World	Within country	European Union	Rest of the World	Within country	European Union	Rest of the World
Germany	79.7	12.1	8.2	79.6	13.7	6.8	82.0	12.1	5.9	84.4	10.2	5.3
Austria	75.1	14.5	10.4	73.4	16.8	9.9	79.1	13.7	7.2	80.4	13.4	6.2
Belgium	50.6	30.1	19.3	40.8	42.0	17.2	62.5	25.7	11.9	63.5	25.1	11.4
Spain	**76.6**	**11.7**	**11.8**	**79.6**	**16.2**	**4.1**	**86.1**	**11.2**	**2.7**	**85.9**	**11.5**	**2.6**
Finland	84.6	11.4	4.0	69.4	14.2	16.4	47.3	30.9	21.8	51.4	35.4	13.3
France	77.9	12.8	9.4	64.1	20.1	15.8	76.9	15.5	7.6	77.2	15.4	7.5
Greece	87.0	7.3	5.6	70.1	27.7	2.2	79.7	18.9	1.4	78.1	20.5	1.4
Ireland	45.0	42.3	12.7	38.4	47.0	14.7	59.4	34.1	6.5	58.3	36.7	5.0
Italy	76.1	16.8	7.1	75.0	20.7	4.3	85.9	12.1	2.0	86.8	11.2	2.0
Luxembourg	30.1	45.4	24.5	37.1	37.5	25.4	31.7	47.0	21.3	35.7	43.7	20.6
Netherlands	63.4	20.3	16.4	51.6	31.8	16.6	59.7	25.7	14.6	61.4	24.4	14.2
Portugal	71.8	16.7	11.5	53.2	25.5	21.2	76.6	14.6	8.8	80.2	11.1	8.7
Euro area	**72.9**	**16.4**	**10.7**	**66.9**	**22.1**	**11.0**	**76.4**	**16.6**	**7.0**	**77.6**	**15.8**	**6.6**

Source: ECB and author's calculations.

Table 7

Weight of Spanish and Eurozone banks' cross-border activity with other EU countries
(% of assets)

	1999		2007		2012		2013	
	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain
Assets								
Loans to MFIs	27.5	22.3	42.0	39.9	31.2	32.7	30.7	28.2
Loans to Non-MFIs	4.4	1.0	5.5	2.0	6.0	2.3	7.5	2.4
Securities other than shares	25.5	12.0	43.3	20.3	29.8	12.1	29.4	11.0
Shares and other equity	13.9	10.7	23.4	26.2	22.1	16.8	23.5	16.9
Liabilities								
Deposits from MFIs	27.5	28.2	37.6	49.9	29.7	27.9	29.3	33.9
Deposits from Non-MFIs	6.9	2.6	8.1	2.9	7.5	2.7	7.6	2.9

Source: ECB and author's calculations.

EU countries. Nevertheless, the greater relative weight of this activity was not due to the loss of domestic business (which grew strongly as a result of intensive credit growth), but the drop in activity outside the EU. The pattern was the same on the liabilities side, where not only did domestic business not drop, but it actually grew from 1999 to 2007, such that the increased weight of business with the EU was due to the declining importance of financing raised from the rest of the world.

The mid-2007 financial crisis led to a new scenario which broke the European banking market's trend towards greater internationalisation, openness and integration. Between 2007 and 2013 the importance of domestic business grew, representing a step backwards in integration with the EU and a decline in internationalisation and openness. The pattern was similar in Spain, with a smaller share of business with the EU in 2013 than in 2007.

Analysis by banking products (Table 7) also clearly shows the impact of the crisis on banks' cross-border activity with other EU countries. For Eurozone banks, the interbank lending and fixed income markets were hit hardest by the crisis, with drops of 11.4 and 13.8 pp. in their share of business with EU countries as a whole. The interbank deposits market also suffered from the lack of confidence that spread through markets with the crisis, with a drop of 8.2 pp. in the weight of business with other EU banks. On the other hand, the integration of non interbank loans and deposits has barely been affected, although it should be borne in mind that cross-border activity in other EU countries is relatively small scale.

In this context, Spanish banks also underwent a drop in the weight of business with other EU countries, this weight being less than the average for other Eurozone banks, except in the case of interbank deposits. The biggest difference with European banks as a whole as far as cross-border business with the EU is concerned was in fixed income investments, where the EU accounts for just 11% of the total, compared with a European average of 29.4%.

In this context, the priority of the banking union project must be to make up for lost ground as regards financial integration. As progress is made towards the single banking market, the differences that currently exist between the cost of access to finance can be expected to diminish, and the domestic bias in the composition of investment and origin of bank finance, which rose so considerably during the crisis, should decrease.