

Banking regulation and concentration in Spain: a regional analysis, 1962-1975

Regulación y concentración bancaria en España: un análisis regional, 1962-1975

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ANALYTICAL SUMMARY

The aim of this study is to determine to what extent the “Ley de Bases para la Ordenación del Crédito y de la Banca (LBOCB)” of 1962 affected banking competition at regional level in Spain between 1964 and 1975. By calculating a structural concentration index, the Herfindhal Hirschman index (HHI), we show the evolution of provincial concentration in late Francoism. Based on the assumption that the relevant market in which financial entities compete is the local/regional one, the results presented allow us to obtain a more complete view of the effects that this new legislation (LBOCB) had on the Spanish banking system. The reason for choosing a regional perspective is that banking intermediaries, either for economic or legal reasons, did not usually provide their services countrywide.

In doing so, and although included in the LBOCB as part of the financial system, savings banks have not been considered because certain banking operations were still prohibited. Moreover, some of them had begun to expand into neighbouring provinces and there was no disaggregated data at the provincial level to estimate concentration on main operations. For this, and despite their importance, they have not been considered for this study which focuses on private banking. Correspondingly, it should be noted that the relationship between concentration and competition is still a matter of debate.

For the calculation of the concentration indices, an unprecedented source has been used: the list of the main liability transactions broken down by province submitted by each bank to the Banco de España for inspection. The use for the first time of disaggregated data means that it is not necessary to estimate provincial HHIs, as had been the case hitherto. In fact, as the research shows, in some provinces there are deviations between the actual and estimated indices. Besides, the methodology employed makes possible comparisons with other approaches carried out for previous and subsequent stages.

Based on the main findings, it can be affirmed that bank concentration at the provincial level decreased during the period considered, except in Huesca and Teruel, where the acquisition of Banco de Aragón by Banco Central led to the opposite. Santander, as a matter of fact, remained the only highly concentrated provincial market, because of the widespread influence of Banco de Santander. We can therefore conclude that the new banking regulation of 1962 (LBOCB) resulted in a generalized decrease in concentration.

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