

# Banking Financial Management and Financial Markets

LCMB7012



**Prifysgol Cymru**  
Y Drindod Dewi Sant  
**University of Wales**  
Trinity Saint David

Student Name: Maria Angeles Hurtado Funes  
Student Number: 2013026  
Lecture Name: Rixon Nting  
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## FINANCIAL INSTITUTION

The economic development of any country in the world depends upon the existence of a well organised financial system. The function of financial services is the provision of money and monetary assets for the production of goods and services. (Natarajan, 01/01/2009)

Financial institutions are the financial intermediaries and depository institutions include commercial banks, savings and loan associations, investment companies, insurance companies and pension funds. Bank have same purposes that financial institution.

There are different banks and they play a very important part in broadening the financial services in the country.

The financial function is intermediation between individuals, governments, businesses, households and corporations. (Fabozzi, 2013)

The Financial institutions work like a bank, they give loans and advances to the customers and is a platform for the investments.

## FINANCIAL INTEGRATION BEFORE CRISIS.

Global bank was created 1944 by development countries to try increase the development level of countries, the idea was to create the United Nations Monetary and Financial Conferences, it was conducted with the attendance of experts representing 44 countries. The proposing of the conference was firstly Establishment of the International Monetary Fund (IMF) which will provide for the establishment of IBRD to be able to make up for the destruction of World War II, especially Europe. The World Bank is the fusion of 187 members they meet once a year, France, Germany, Japan, the UK and US are the biggest representation.

The word bank has three financial sources: capital the most important, debiting and other income.

In 1957 by Treaty of Rome was created the European Economic Community, which means that goods, services, capital and people can move freely across the borders after Single European Act 1986. (Charles Enoch, 2014)

After Maastricht Treaty in 1992 was promoted a single financial market in financial services and the EU reduced regulatory obstacles to cross- border.

Monetary policy was implemented by the Europa Central Bank, the participants were the member countries. The European Economic Community members signed the Singles European Act in Luxembourg in 1986.

The European Central Bank was created in 1988 the expectation was to build an Economic and Monetary Union (EMU) and maintain price stability and the purchasing power of the euro, also, that free capital movements within Europe, a common monetary authority and single monetary policy across the euro area countries. (Bank, 2021)

The European Investment Fund (EIF) was established in Lu DEA ( Data Envelopment Analysis)

The regulations for the single financial market were highly fragmented through at the end 1980s.

The European Central Bank under the Treaty of Maastricht replaced the European Monetary Institute in 1998 and introduced a single currency. It sets and implements the monetary policy for the euro area and safeguards price stability in the area. The ECB works with the central bank of all EU countries.

To remove barriers between European Union in 1999 was unified a single currency Euro to be sure the integrated and competitive capital market, the plan was developed by Financial Services Action (FSAP)

The purpose of this was that regulation of banking laws and eliminate barriers commercial between European countries.

There are three key political institution as European Parliament, the Council of the EU and the European Commission, they have legislative power to implement policies relative to the market and they are ensuring that whole the institution are working democratically. (Bank, 2021)

## CAUSES AND CONSEQUENCES

The financial crisis began in 2006, banks in U.S. increased losses due to subprime mortgages, it was because of severely undercapitalized and holding insufficient liquidity due to the operating model.

The price increase due to borrowing huge amounts of capital for mortgage, it caused the rising property prices, the gap between income and debt was big and increased the rate of global inflation, the consequences was rising energy prices, house prices and the global market prices.

The crisis triggered a global recession that resulted in an increase in unemployment. This situation began to get complicated when the borrowers could not pay the mortgages, the price of the property began to fall and the beginning of a global recession. Also the value of the assets held by many financial institutions.

The crisis 2007- 2009 affected the EU because the financial system was the same model operating in the United States before the crisis, banking system assets, credit and profits grew at a much faster pace than economic. (Hill, 2013)

The European bank change model originate- to -hold for another model that was developed by a U.S. bank called originate-to--distribute. US banks had great profits before the crisis that made European banks adopt the same form of business.

One of the products created was a Special Purpose Vehicle (SPV), it was sold to companies that transformed them in bonds. Mortgages were turned into classified triple A, the investor bought derivatives securities but they did not underline the products, it had a big demand for the high return, it was similar to the government bonds.

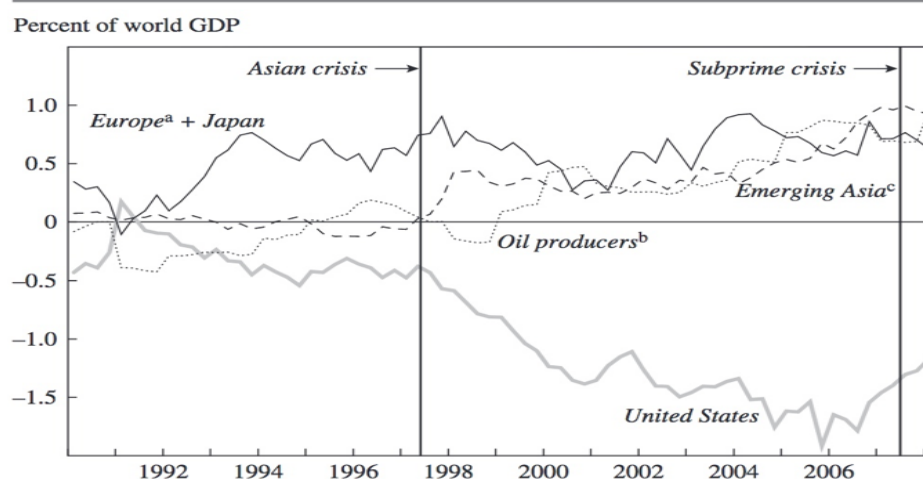
The bank in Europe was using a similar business model and they got a similar experience in that crisis. After the decline the profit was similar in the United States and EU.

The regulatory structure was really poor and underwriting of mortgage and other securities, also was lack of coordination among national regulatory authorities.

In the European Union the financial regulation was enforced by European member countries level for this reason the crisis took longer than the United States. The European structure has more sovereign layers than the United State, for this reason there are more opportunities to delay implementing financial reform. The integration of the financial system was by far- reaching political measure, by the EU to promote the single market in financial services including the creation of the euro. Large banks and insurance companies from advanced Europe established strong local presence or emerged in the European market. The process of financial market integration was strong, every country needed evidenced by the convergence interest rate across the country and market while large EU banks continued their strong expansion abroad their activities became larger, systemic and difficult to resolve. The Financial Integration took place against the backdrop of the financial system remaining bank based. The United Kingdom stock and bond was the exception and other small economies. Many countries appeared “over-banked” either in number of institutions or in volume of back assets. Financial integration reduced macroeconomic volatility and fluctuations in output growth.

The crisis epicenter was the real estate, that crisis also affects the commodities markets and the oil market in particular. The petrodollars was increase in price and became stability factor for the United States. The volatility of oil and the assets are interconnected. (Caballero, 2008)

Fig:4 Current Account Balance 1990- 2008



## BANKING STRUCTURES IN THE EUROPEAN UNION

The financial system is bank based as bond and stock markets provide. The EU bank system has mainly larger banks but medium- sized banks also are important. The structure of the banking system is different depending on the country, for example Germany and Poland have a large amount of small credit institutions. Normally this kind of banking system has three pillars, private commercial banks, public sector banks

and local cooperative banks, it is organized as a network. The size of the structure dwarfs the capacity of the home government and it is aligned with the economic size. Financial markets in the EU are in London, London-based capital markets and financial institutions account for a substantial share, that situation will be different after Brexit. The ECB President represents the bank at high level EU and internal meetings. The composition of the ECB has the following decision-making bodies.

- The monetary policy and the interest rate are designed by the Governing council, and also adjudicates which commercial banks can borrow from the ECB.
- Executive Board, help in the implementation of monetary policy and prepare governing council meeting
- General council is the president and vice-president and the governor is the central bank, they do the coordination for the new countries joining the euro.

### Government in financial market

The government is in charge the financial regulation and it can be supervisory by European Central Bank (ECB) and the Committee of European Banking Supervisors (CEBS)

The banks and government action from 2008 has been necessary and successful in restoring confidence in the financial market. After the bankruptcy of Lehman Brothers, the financial system needed more interventions and it had to be extended to a broader range of banks.

The government has long deemed to regulate the financial market, the government develops and has greatly influenced the evolution of financial markets and institutions. The strength of the financial system is necessary and vital for working because if the market is working, people are more confident that they have a good economy. Government has a responsibility that our financial market is regulated effectively. Government, market and institution need to interactively together

### Law regulation and contract after financial crisis 2008

Low inflation, low interest rate and a weak economic growth was the characterisation of the post-crisis macroeconomic environment.

The financial institution was created to regulate and supervise risk and reduce implicit public subsidies.

The members that accept the regulation by the European Union, should pass law to be part of the EU financial directive. The European Court of Justice is the last arbiter, making regulations and some of them need no implementation of legislation, every member of the EU is forced to follow it.

The financial regulation of EU is by the national government and by the EU's supervisory institution as the European Central Bank (ECB) also by Committee of European Banking Supervisor (CEBS) for the banking function or the Committee of European Securities Regulator (CESR)

There are two new funds that the financial institution needs to have, the amount would be determined by the risk of the assets, one is deposit insurance and other is stability fund both are regulated by The Parliament plans.

In 2008 the world had a big financial crisis worldwide. The cost of the European Union economy and citizens was imposed significantly. The UE made a decisive global regulation response. At that moment together with its G20 partners.

The European Parliament adopted a final suite of legislative measures, this reform is 40 legislative proposals. Rules and institutional structure of supervision have been affected. The EU reforms are multi-dimensional and most of them are linked with that crisis.

The regulation has various objectives: establishing a banking union, restoring and deepening the EU Single Market in financial services, building a stable financial system, transparency, responsibility and consumer protection to market integrity and improving the efficiency of the EU financial system.

The European Parliament Economic and Monetary Affairs Committee (ECON) needs to examine the legislation in close detail. There were many legislations that were changed or modified when the financial crisis erupted. Also, the regulation derives from the G20 agenda. The European Commission has created nearly 30 sets of rules to create appropriate supervision.

The UE Financial Services Action Plan was reviewed after that crisis. Legislation seeking to remove barriers between countries and they want to change a single market also Banking union. Another organism was created by the European Supervisory Authorities (ESAs). (Committee, 2018).

The banks in each country are supervised by the country's Central Bank, but in some EU member countries central banks are not directly involved in financial institution supervision. Securities and insurances are analysed and supervised by one regulatory authority. Other countries are regulated by multiple agencies.

## The Eurozone

The Eurozone is the financial economic regulatory structures the major important in EU. This is made up in countries which use the euro as their national currency. In the Eurozone there are 16 countries that have more than 40 financial supervisory authorities. The Eurozone is controlled by the ECB (European Central Bank) the objective is to keep the inflation under control.

This slowed the EU's response to the financial crisis. The supervision of its financial control is by home country, with coordination and cooperation among this national regulatory authorities as Committee of European Banking Supervisor (CEBS), for banking function and the Banking Supervision Committee of European System of Central Banks (ESCB), for securities, there is the Committee of European Securities Regulator (CESR) and for insurance and pension the Committee of European

Insurance and Occupational Pensions Supervisors ( CEIOPS) insurance and pension the Committee of European Insurance and Occupational Pensions Supervisors ( CEIOPS) The crisis affected different countries of the European Union, because the financial supervisor gave competitive advantages to the regulatory framework to some banks of the European Union.

### Bank liquidity creation

The creation of liquidity is a key reason why banks exist. Liquidity creation is an essential role of the bank, also it is important how liquidity changes over time and which is the most and least liquidity and risk transformation , liquidity creation is related to bank value. (Bouwman, n.d.)

Banks create liquidity by funding loans that they held to maturity, with demandable deposits. Actually banks sell off or securities loans and the funding occurs via short-term repos or asset backed securities that are subject bank.

The bank creates liquidity on the balance sheet by financing relatively. (Dincer, 2014)

Liquidity floor improves over the competitive market allocation. Liquidity regulation potentially mitigates bank vulnerability to liquidity shocks because the financial crisis and bank liquidity creation are often connected.

Off balance sheet guarantees such as mortgages and business lending during banking crises. Holding liquidity is costly because less liquid assets usually have higher return.

### Regulation structure

The regulation in the financial market is difficult because the financial market is complex and unpredictable. The global financial crisis highlights the fact that complacent law-markets and regulation can overlook risk trends.

Regulation structure is a complex and dynamic system such as the financial market that requires flexibility and adaptability. This Regulation has different phases with specific circumstances. After the crisis OTC derivatives and hedge funds were the primary focus of legislation.

The first phase is increasing supervision and enforcement rules to safeguard financial stability. (Online, 2014)

Fig 1: Structure EU

| <i>EU Level</i>                     |                                                                |                                                                                |                                                                                                                                                                                                                                                                                                                                              |
|-------------------------------------|----------------------------------------------------------------|--------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                     | <b>Body</b>                                                    | <b>Predecessor Lamfalussy Committees (until January 2011)</b>                  | <b>Main tasks/responsibilities</b>                                                                                                                                                                                                                                                                                                           |
| <b>Macro-stability</b>              | European Systemic Risk Board (ESRB)                            | -                                                                              | Supported and hosted by the European Central Bank, the ESRB conducts macro-prudential oversight of EU financial markets. It is designed to prevent or mitigate systemic risks to EU's financial stability.                                                                                                                                   |
|                                     | European Securities Markets Authority (ESMA)                   | Committee of European Securities Regulators (CESR)                             | In their respective fields, the ESAs participate, inter alia in:                                                                                                                                                                                                                                                                             |
| <b>Micro-prudential supervision</b> | European Banking Authority (EBA)                               | Committee of European Banking Supervisors (CEBS)                               | <ul style="list-style-type: none"> <li>– creation of the “European Single Rulebook”</li> <li>– prevention of regulatory arbitrage</li> <li>– protection of customers</li> </ul>                                                                                                                                                              |
|                                     | European Insurance and Occupational Pensions Authority (EIOPA) | Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) | <ul style="list-style-type: none"> <li>– maintenance and promotion of stability, integrity and transparency of financial markets</li> <li>– international supervisory coordination</li> <li>– direct supervision (e.g. ESMA supervises Credit Rating Agencies)</li> <li>– enforcement (as a rule subject to Commission oversight)</li> </ul> |
|                                     | (together, the ESAs)                                           |                                                                                |                                                                                                                                                                                                                                                                                                                                              |
|                                     | Joint Committee of the ESAs                                    | (3L3 committees)                                                               | Cooperation to ensure cross-sectoral consistency between the ESAs.                                                                                                                                                                                                                                                                           |
| <i>Member State level</i>           |                                                                |                                                                                |                                                                                                                                                                                                                                                                                                                                              |

The competent supervisory authorities of the Member States

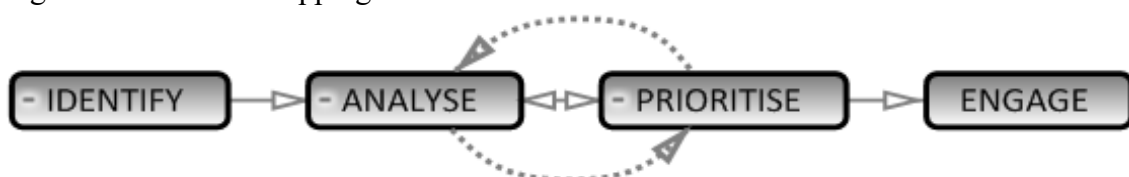
Regulation must be coupled with good supervision. In Europe, coordination has been established between national supervisors and at the level of the European Union which are essential for the financial stability of Europe.

The European Banking Authority (EBA) that supervises the recapitalization of banks . The European Insurance and Occupational Pension Authority (EIOPA) oversees insurance. The goal with the 28 national supervisors represented is to develop a single normative code for financial regulation in Europe and to help regain confidence. The European System Risk Board (ESRB) was also established for a macroprudential vision in order to provide an early warning on risks and to be able to issue actions to those risks. (Commission, 2014)

## Stakeholder mapping

Stakeholder mapping is used to analyses, identify and priorities organisations and people with power, for the performance of the company's project.

Fig 2 : Stakeholder Mapping

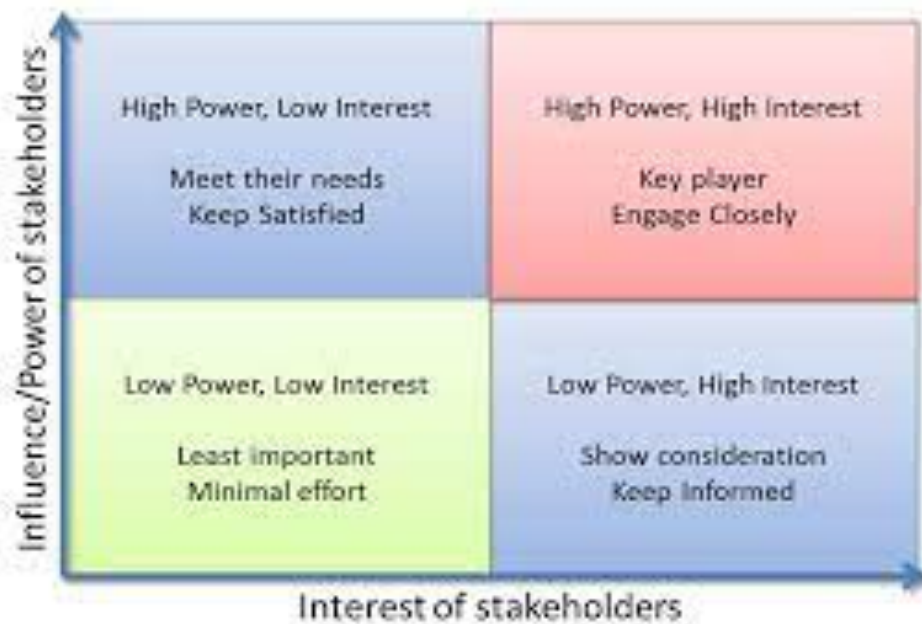


The firm needs to identify anyone who is interested in the project and need to create a community with them.

The stakeholder expectation needs to be defined in the project to create a more attractive project.

After, you can understand your stakeholder and appropriate engagement levels and the last step is to engage our stakeholder to win their support and understanding.

Fig 3: Stajeholders Analysis : Power/ Influence – Interest Matrix



Mendelow (1991) Proposes to analyze groups with interest and the role of power and the ability to influence the organization's strategy, the firm can represent it using a two-dimensional matrix.

This matrix is based on power and interest. It allows us to identify the parties that are really interested with high power and high interest that we would need to manage in detail in order to maintain the interest of the parties and the information is important. Low-power stakeholders should not spend a lot of time or money monitoring them. The other quadrants highlight the part that we have to keep informed with a high level. It is important to analyse the interested parties since the commercial energy, the communication plan can change, the audiences could be analysed depending on the quadrant (stakeholders., n.d.)

## Triparty repo system

This system is made up of three parts that intervene in the purchase and sale of securities. Securities dealers, cash investors and clearing banks are the participants in tri party repo system.

The clearing banks in Europe are Euroclear bank , Clearstream Bank Luxembourg Bank, Bank of New York Mellon,JP Morgan and SIS ,these are the ones in charge of intermediating between securities dealers and cash investors.

The securities are sold by the dealers to cash investors with the promise to buy it back later. This market is large and diversified with more than 4000 active firm such as cash Investors

The risk of the agreement of the parties does not affect the agents since they only offer their intermediation service between the two parties since the agreement remains bilateral.

Tri-party repo is used by many customers as it saves the cost of setting up running their own collateral management operation.

Non- government bonds and equity are used in the market in European tri-party repo. This market does nor suffer from such a concentration of the investor base as the US market. (Lucinda Brickler, 2011)

## Bank reform foreign

Before the crisis there was a global imbalance that was due to current account position and underlying capital flow, this led to the depreciation of the US dollar.

The fall of the US dollar value was argued as an inevitable situation to achieve the improvement of competitiveness and the sustainable reduction of the deficit. (Fratzscher, 2009)

The belief that the market was too big to fail was ended when one of the big companies called Lehman Brother failure imposed huge losses on their counterparties, this produced a fear throughout the entire market that changed the vision of this theory.

After the Lehman crash, currency transaction costs and volatility increased.

As there is volatility in the markets, the investor's risk of maintaining the same position is greater.

The global crisis impact on the foreign exchange markets came late. In 2007 the dominoes began to fall as the supposedly market-neutral equity portfolio suffered huge losses, in August a major unwind of the carry trade occurred and many currency market investors suffered huge losses. (Michael Melvin, 2009)

In August 2007 the first wave hit the foreign exchange market as losses in equity and fixed income portfolios spilled over as portfolio managers deleveraged and liquidated winning positions including their currency positions.

November 2007 credit problems increased as firms found it increasingly difficult to issue commercial paper, US Treasury securities fell substantially.

March 2008 the orderly rescue and sale of the Bear team to JP Morgan Chase restored some stability to the market.

The consequences of the crisis began to be suffered by the foreign market in 2007 when everything began to fall market neutral equity portfolio suffered huge losses.

The commercial paper was more difficult to be issued by the companies and there was a leak towards the quality of the treasury values of the United States, this caused a growth of the credit problems of the firm.

Also, the legal creation and regulation to avoid and reduce risk, led to the reduction of the compensation of the banks that had been accepted by the government assistance.

The trade-off between return and risk has changed, fewer incentives are fewer risks. The objective of public policy to combat financial crises is to reduce liquidity and increase the risks and costs associated with non-bank foreign exchange transactions. the costs associated with transactions by buyers increase with greater volatility in exchange rates.

## CONSEQUENCES OF BANK REGULATIONS

When the financial system became damaged, global regulations began to be programmed. Consideration of the causes, simultaneous shock to the financial system and interconnectedness. The firm takes action to protect by declining asset prices.

When the credit crisis started in 2008 that required rescues of a broad array of financial conglomerates can be attributed largely to financial institutions excessively risky capital structure. The institution and bank exposure to long-term assets financed with highly runnable short-term wholesale debit.

The large firms have a siloed, that are business line, legal entities operated in isolation from one another with limited information shared across the firm this firm were

### 1-Financial goals are included in Monetary policy.

The objective of monetary policy was to achieve price stabilization, due to bubble were often of excess in credit growth and provision rates were low by the central bank.

One of the single inflammatory tools is Interest rate setting by the central bank, which would ensure the financial system's stability.

There are other new tools called Base III standard, which have a critical effect to mitigate excessive credit and their consequences, kind of inflation in asset prices, its was a response brought by Financial stability boards (FSB) and the Basel Committee on Banking Supervision (BCBS). (Perrut, 2012)

### 2- The risk must be identified, analyzed and supervised by the institutions.

There were several problems, including liquidity, including the world financial system and European banking, helping to finance the real estate bubble.

After the adverse events caused by the economies of each country due to bankruptcy and the dislocation of the global financial system, Global-SIFIs was created as a subcategory FSB and SIFIs. The BCBS with the collaboration of FSB carried out a study to identify the Banks of global systemic importance that together with a

combination of criteria and the new characteristics such as interconnection, jurisdictions and the lack of available substitute was defined as G-SIB

### 3- Change in lenders.

The G7 declared its commitment to prevent the downfall of a major institution by applying the too big to fail (TBTF) principle.

The role of the lender Last Resort (LLR) underwent three major changes. the first is that of prudential doctrine. The second is a diversification between the LLRs, tasks were shared guaranteeing liquidity between the states and the central banks. Finally and thirdly, anti-crisis instruments were expanded, such as unlimited interventions, liquidity purchases and excess debt. The Central Bank also signed unlimited currency exchange contracts with each other that d

### 4-Risk management and taxpayer protection.

The G7 leaders mentioned above led to important actions to rescue insolvent institutions and therefore to big amounts of capital furniture in order to fill the equity gap.

The European Union created a framework for financial supervision and regulation

The decision take by intergovernmental meeting (European Council, Ecofin, Eurogroup), in coordination with international meeting (G7 and G20)

New legislation or regulatory action from the triangle (European parliament, Council, Commission).

Eurosystem actions were created mainly aimed at providing banks with liquidity.

The reformed were completed by the end of 2012 and were:

- a. The European Systemic Risk Boards main to prevent and mitigate systemic risks and issue warning and recommend measures when threats have been detected.  
This organ was created for macroprudential supervision  
The ESRB does not have a legal personality, it must be collecting the information and identifying system risk to make the action and recommend measures then threats have been detected.
- b. The change of the legislative framework. The launching of the euro in 1999, gave a fresh boost for completing the single market of financial services with two programs Financial Services Action Plan and Financial Services Policy. Due to the crisis requires emergency response for financial activities. The plan is founded on three principles.
  - 1- Enhanced transparency and regulation concerning credit rating agencies ( CRAs)
  - 2- Enhanced resilience and stability of the financial sector.
  - 3- Protection of the consumer, measures have been taken on short selling and credit default swaps.

The reforms were necessary to compete with the crisis, political and economic. It was important. The regulations that control taxes are necessary so that the economy does not

explode again despite the fact that banks and financial companies are not having the same benefit.

Politicians and economists do not believe in the benefits that these regulations had, but we can see that since the 2008 crisis, economies continue to grow at a much slower pace, but companies, banks and the population are not at risk. (Tommsdi, n.d.)

## REFORMS AND ISSUE RAISED

The change of the legal framework after the crisis, the supervision and the harmonization process were the problems in the European Union.

Some improvements were made in legislative reform but weakness and questions remain. The principle was presented by the European Commission. So, the policy cycle must be taken into account for implementation, enforcement, evaluation and revision. (E.C., 2010)

In 2007 there were players in the market who were using advanced technology to circumvent the rules thus creating disparities among investors.

Decision processes remain difficult due to the number of complex organizations, numerous tasks and limited binding powers.

In 2009 it became clear that the European economic policies created to deal with the crisis were not enough. The Stability and Growth Pact (PEG) could not prevent the accumulation of unsustainable tax.

Taxes before the start of the crisis. common goals were created instead of strengthening the European economy. There were no mechanisms to control the macroeconomic imbalances that had contributed to transforming a financial crisis into an economic crisis. (Berkowitz, 2015)

Other problems raise with the UE harmonization policy and regulatory competition by the Basel III standards. Basel committee on Banking Supervision created prudence in international regulation for banks, the members of this committee had to agree with their jurisdiction and have the necessary requirements and standards to apply as internationally active banks.

Basel III was added after the financial crisis of 2007-09, Basel III rules allow them to require complementary amounts of capital to individual institutions.

The agreed reforms of Basel III were to improve the standardised to approach the reforms will become tougher and more sensitive to risk, it will take a more standard approach that also includes a separate treatment for financing commodities such as exposures to project finance, to constrain the use of the internal model.

Other the reforms was Improve the operational risk framework, where misconduct that produces operational risks is analyzed, this determines that the risk increases with the bank's income and the risk losses have a greater probability of loss.

Also, the introduction a leverage ratio buffer, for globally systematically important banks, a G-SIB leverage ratio is added that is set at 50% higher risk-weighted loss absorption than a G-SIB

The last reform introduced a different output, the revised output floor and established set at 72.5% establishes a limit on capital benefits to maintain equal conditions in banks that use standardized approaches and internal models.

Banks are underperforming compared to other sectors and they no longer have control over interest rate or stability price. (Heffernan, 2005)

## BANKING CRISIS IN SPAIN 2008- 2014

The Spanish economy had been growing for 14 years due to economic globalization with financial integration processes, the use of new structured products and credit derivatives, until the financial crisis began in 2007.

The positive macroeconomic change could be evidenced by the growth of the employment rate, financial growth in the real estate sector, and loans to construction companies. In this period of expansion, credit to the resident private sector and the credit granted by depository institutions increased. At this time the delinquency rate had a low volume and there were high delinquency coverage rates

The public debt of the institutions was reduced, and the Spanish commercial banks reduced the volume of public debt, which became a small proportion of the institutional balance sheet. Positive pre-crisis results were driven by competition to attract new customers; they promoted fee and commission income to decline.

Because of the development in existing credit risk provisions, fall in real interest rate and the opposition of international jurisdictions accounting regulators the Banco de España introduced the countercyclical provision. It includes Spanish provision covering specifics and federal losses, provision covering an estimate of incurred losses and a portfolio by risk level at each point in time.

By 2008 the Spanish economy suffered a slowdown due to lower growth in household consumption and high interest rates. The adjustment fell heaviest on domestic demand which declined in private consumption, investment in capital of goods and in construction investment.

The recession of Spain started in the middle of 2008 due to the world financial situation. There was a change in the monetary policy of the ECB and a fall in the wealth of the private sector. There was a fall in dynamic asset prices, also, a correction in the real estate.

By 2010 was a failed recovery for Spain when an upturn began in the global economy, the contraction of the Spanish position in GDP was progressively smaller, the external deficit was shrinking and competitiveness improving but not complete, levels of private sector debt and dependence on export finance remained very high.

Economic policy reacted with fiscal policy with the negative effect on household income and government consumption and investment. The basic structure was spending cuts and also tax increases as the VAT and some partial elimination of tax relief on housing investment by 2010

In 2012 Spain was in negotiation to make the recovery program with the rescue loans from the eurozone, the package was for a 100€ billion bank recapitalization. Also was

established a credit line, Spain will receive free additional financial support from ECB in the form unlimited yield lowering bond purchases.

The adaptation of Banco de España to the legislation was done gradually, establishing measures for analytical provision and the creation of special off-balance sheet investment vehicles.

So, owing began to grow and the analytical provision changed to be negative, this was a consequence of the specific requirements of provision.

The bank establishes diversification policies for the real estate sector, setting limits on financing and concentration of maturities. the improvement of liquidity was important as fulfilling the function of control by government agencies and delegate

## CONCLUSION

As a conclusion we can see that the economy began to growth very slowly, less liquidity is more expensive and companies and banks do not have a high performance. The framework currently has an impact on the market, banks had to adjust their businesses and strategies in order to continue maintaining their profits and trying to have fewer legal problems. Profits have fallen in private and public banks.

Although there is an attempt to ensure that there is price stability, this is not enough to maintain it.

Growth is more complex when large companies have to manage large capital flows. Low inflation makes competitiveness more difficult and makes it more difficult to reduce public and private debt.

In a system where changes are rapid and constant, authorities such as the commission need to have focused overall impact rather the quantity of its legislative outputs, Parliament and council is who take the first responsible for proposal changes. For my understanding, the most dangerous thing is financial risk, since crises are not predictable, companies must take care of their balance sheet and try to obtain their benefits without reaching extreme risks in liability.

The crisis has contributed to our having a better model in the world economy based on financial regulations and clear capital operations.

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## ANEXO

FSAPs- Financial Sector Assessment Programs

EC- European Comission

IMF- Internacional Monetaria Fundation

ECB- European Central Bank

EMU- Economic and monetary Union

ECON- European Parliament Economic and Monetary Affairs Committee

ESRB- European Systemic Risk Board

MFIs- Monetary Financial Institutions

OFIs- Other Financial Intermediaries

EBA- European Banking Authority

FSAP – Financial Sector Assessment Program

ESA- European Supervisory Authorities

SPV- Special Purpose Vehicle