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Briefing note on changes in Spanish bank deposits

The European Central Bank (ECB) publishes monthly on its website a number of monetary and financial indicators. They include an indicator of deposits in the euro area member countries, Spain among them. These indicators are adapted to ECB monetary analysis and do not strictly correspond to bank balance sheet data, nor do they refer strictly to banks. These deposits refer to so-called monetary financial institutions (MFIs), which is the concept adopted by the ECB for its monetary analysis. For the period July 2011 to July 2012, inclusive, the ECB data show a decrease of €232 billion in deposits at Spanish MFIs.¹ The purpose of this statement is to provide information on some of the factors explaining this decrease.

Bank balance sheet data

The data published by the ECB (which are actually Banco de España data sent to the ECB for its monetary analysis purposes) include all deposits held by euro area residents other than MFIs and Spanish central government. As can be seen in the accompanying table, the ECB information comprises the following categories of deposits:

- deposits by Spanish general government other than central government (including, inter alia, regional and local government);
- deposits by Spanish households and non-financial corporations;
- deposits by households and non-financial corporations resident in other euro area Member States;
- deposits by insurance companies and pension funds and deposits by investment funds (except money market funds, which for these statistical purposes are considered equivalent to banks);
- and, finally, other non-MFI financial institutions, such as securitisation companies and funds and central counterparties, whether they be residents in Spain or in another euro area Member State.

- **The first factor explaining** the total decrease in deposits held with Spanish banks in the period July 2011-July 2012 (of around €232 billion, as stated above), **is the contraction in deposits by “other non-MFI financial institutions” in the period.** This contraction

¹ In the case of Spain, MFIs include credit institutions and money market funds. Most deposits are, however, at credit institutions, so this statement refers principally to the latter.

amounts to €142 billion or 61% of the total contraction in the period. As explained below, the bulk of this does not reflect a contraction in bank funding or liquidity.

- First, it includes statistical reclassifications (€20 billion relate to the reclassification as MFI deposits of deposits previously classified as those of counterparties) which do not reflect decreases in the liquidity of banks. The figure also includes a decrease in deposits associated with repo transactions between Spanish banks in which Spanish counterparties act as intermediaries (around €5 billion), which do not represent any alteration in the funding of the Spanish banking system as a whole either.

- Second, it includes a contraction of around €80 billion in deposits by securitisation companies and funds. Most of this figure reflects the early redemption of asset-backed securities retained by the banks which had originated them, a transaction which involves no decrease in liquidity or funding for the bank carrying it out. The volume of these early redemptions of asset-backed securities retained by banks became increasingly large during the period examined, since these asset-backed securities ceased to have the characteristics required for them to be used as collateral in bank funding.

- **The second factor**, by volume, explaining the decrease in deposits at Spanish banks in the period examined is the fall of around €85 billion in deposits by households and non-financial corporations. Not all this amount, however, had an impact on the liquidity of Spanish banks. It is necessary to exclude around €30 billion relating to the replacement of one type of funding (deposits) by another (bank promissory notes) due to regulatory arbitrage.² Obviously this switch has not involved any alteration of Spanish bank funding.

Balance of payments data

The above explanation of changes in deposits at Spanish banks during the period examined can be completed by turning to Spanish balance of payments data. According to these data, the deposits abroad of Spanish households and non-financial corporations increased between June 2011 and June 2012 (the July information is not yet available) by around €15 billion.

² In the period examined, deposits were subject to a regulatory change which raised their cost via an increased contribution to the Deposit Guarantee Fund for Spanish banks. This penalised deposits in comparison with bank promissory notes, which are not guaranteed by the Deposit Guarantee Fund. The Royal Decree-Law of 31 August 2012 on financial reform removed some of this penalisation.

DEPOSITS HELD WITH SPANISH MFIs BY OTHER GENERAL GOVERNMENT AND OTHER SECTORS RESIDENT IN THE EURO AREA ^(a)

Change in balance (€bn)	Change Jul 2011-Jul 2012 (both months included)
TOTAL	-231,9
RESIDENT IN SPAIN	-194,1
RESIDENT IN OTHER EURO AREA MEMBER STATES	-37,7
GENERAL GOVERNMENT OTHER THAN CENTRAL GOV	-1,5
HOUSEHOLDS AND NPIs ^(b)	-32,8
NON-FINANCIAL CORPORATIONS	-52,0
INSURANCE CORPORATIONS AND PENSION FUNDS	-2,9
NON-MFI INVESTMENT FUNDS	-0,6
OTHER NON-MFI FINANCIAL INSTITUTIONS	-142,1
RESIDENT IN SPAIN	-113,1
Securitisation companies and funds	-75,0
Central counterparties	-4,6
RESIDENT IN OTHER EURO AREA MEMBER STATES	-28,9
Securitisation companies and funds	-3,7
Central counterparties	-19,8

a Items published by the ECB in its statistics. They include repos.

b Non-profit institutions