

# Madrid – 1988

Financial Women's Association of New York



*FWA Delegation to Spain with His Majesty King Juan Carlos I at the Zarzuela Palace.*

## ***FWA Received Royally In Madrid***

The week began with an hour-long private audience with His Majesty, King Juan Carlos at the Zarzuela Palace. Set in the middle of an ancient hunting preserve, the Zarzuela Palace is an unpretentious modern building that serves as the private home of the royal family as well as the administrative offices. The FWA delegation was ushered into a reception room where we were joined by the King. FWA President Margaret Newborg then spoke briefly, describing the association and our activities in New York and thanking His Majesty for receiving us.

King Juan Carlos spoke a few words of welcome and invited the group to

gather around him and ask questions. The rest of the time was spent in almost casual conversation with this remarkable man who, since becoming Head of State at the death of Franco, has used his position and his considerable personal authority to balance competing powers and maintain democracy in Spain.

In a discussion of the attempted revolt by some Army generals in 1983, the King recounted how he, as Commander-in-Chief, ordered the military to not follow these officers, and appeared on television in support of the existing democratic institutions and administration. He is widely credited with being a key player in the

## ***Spain At An Historic Moment***

A country shut off from the main-streams of twentieth century life for forty years, now exploding with growth and confidence. Ancient portraits on museum walls and a young and vibrant king. A society that is still essentially Spanish, but is eager to join the rest of Europe.

The 25 members of the Financial Women's Association delegation saw Spain at an historic moment in its history. Spain is poised to take its rightful place in the developed world and, eager to speed up the process, is building on U.S. and European models for the privatization of state-owned companies, stock market reform, consumer marketing, banking, and finance. At this moment, the forward momentum of the Spanish economy presents a range of opportunities for investment and joint ventures and a textbook on the reformation of a country.

The year 1992 is a crucial one for Spain. Not only is that the year that trade barriers are abolished within the EEC, with the increased opportunity and increased competition that entails, but it is also the year that Spain plays host to the Olympics and to the World's Fair in Seville honoring the 500th anniversary of Columbus's discovery of America. Spain will be in the center of the world's stage in 1992 and it is determined to play a starring role.

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peaceful transition of Spain from a dictatorship to a democracy.

When questioned about Spain's role in Latin America, he agreed that his country may serve as a role model for some new democracies. The King

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## Spain In The Middle Of A Financial Revolution

Spain has missed the Protestant, Bourgeois, Industrial and Scientific Revolutions but is not about to be left behind again.

Guillermo de la Dehesa, the dynamic young Secretary of State for the Economy, explained how Spain is rapidly reforming its markets so that it will fully participate in the European Community. Holding responsibility for Economy, Trade and Taxes, Senor de la Dehesa performs the combined roles of what in the United States would be the Office of Management and Budget, and the Departments of Treasury and Commerce.

In a recent barrage of reform actions, trade barriers have been reduced, a value added tax introduced, personal income taxes reduced and capital markets reformed. The economy has responded positively to these changes, although some initially thought they were too much.

A major problem is the unacceptably high level of unemployment, which is officially 20% but which may be closer to 10-14% if the underground economy is taken into account. Several tactics are being used to attack the problem. Unem-



*Sr. Guillermo de la Dehesa, Secretary of State for the Economy and Elinor Bachrach.*

ployment benefits are concentrated heavily with youth and consist primarily of grants for professional training and living expenses. Spain is attempting to introduce more flexibility into the labor markets, with temporary work contracts rather than life-time positions. In addition, educational institutions are beginning to concentrate more on developing technological training programs.

Sr. de la Dehesa projects much more public investment in infrastructure over the next few years, especially in preparation for 1992. The EEC is providing some of the funds, while the rest will come from the increased government revenue. He does not expect that the spending will jeopardize the

budget limits the government has set.

In his budget policy, Sr. de la Dehesa is trying to lessen government involvement in business. Spain is systematically privatizing many state-owned companies, reinvesting cash in the ones they choose to retain.

Sr. de la Dehesa described efforts to create a climate for the freer flow of capital in order to mobilize savings for equity investments and lessen pressure on interest rates. In response to a question about the tax consequences of privately owned companies being sold publicly, he indicated he was recommending a one-time incentive for selling shares. Such a strategy would attract new capital, create a lively acquisition market and add to the numbers of companies traded on stock exchange.

The meeting with Sr. de la Dehesa reinforced yet again the youth, energy and informality of the Spanish governing elite. At the end of the meeting, he strolled down the Madrid street with us, continuing to answer questions, before dodging through traffic on his way to a lunch at the Bank of Spain.

*Nancy Sellar  
FWA Executive Director*

## Equity Markets Respond To Privatization

INI, the Instituto Nacional de Industria, is the state-owned holding company for more than 60 companies. The group, which employs about 170,000 people, includes coal mines, power plants, the country's two regular airlines and its main steel and aluminum centers. Companies within INI produce goods ranging from fertilizers to handicrafts, from electronics to aircraft.

The FWA delegation's visit to INI began with an impressive audio-visual presentation describing the far-reaching operations carried out by this immense state-owned holding company. This was followed by a guided tour of a detailed exhibit

showing INI's major industrial groups.

Following tapas and drinks, the group moved into INI's board room where we met with Sr. Claudio Aranzadi, the firm's 42 year old Chairman. Appointed to the post in 1985, Aranzadi was charged with the monumental task of streamlining INI and cutting its mounting losses. Under his direction, INI has begun privatizing some of its holdings. Two significant divestitures since 1986 were the sale of 100% of SEAT, Spain's only auto manufacturing company, to Volkswagen, and a partial sale on worldwide markets of Telefonica, the nation's rapidly expanding telephone com-

pany. During our visit, final preparations were underway for a global offering of ENDESA, the state-owned electric company. Future spin-offs may include Iberia Airlines, the world's most profitable international passenger air carrier.

Such privatization efforts, combined with increased efficiency and strategic plant closings, have cut INI's losses from billions to millions of pesetas in just two years. Sr. Aranzadi expects INI to turn a profit well before Spain's full integration into the Common Market in 1992.

*Dianne George Mendez  
Assistant Treasurer, Creditanstalt*



His Majesty King Juan Carlos I shaking hands with FWA 1987/88 President Margaret Newborg.



Panel participants (left to right): John Jurgensen, President of Georgeson, Inc.; Gonzalo Milans del Bosch, Managing Director, BANIF SA; Enrique Polo de Lara, President M&A International SL; Ultano Kindelan, President, Merrill Lynch, Spain.

## Consumer Banking In Spain – A Sleeping Giant Wakes Up

The FWA delegates had an interesting opportunity to compare the views of American and local consumer banks in Spain.

Sr. Ricardo Angles, the President of Citibank Spain, hosted the group for a tapas lunch on the roof of the bank's headquarters building. Sr. Angles spoke optimistically about Spain's economy. In fact, he said, Spain ranks with Great Britain and Ireland as Citibank's most profitable consumer market in Europe.

Foreign banks overall in Spain are averaging a 6% ROE, which is close to the EEC average.

Sr. Angles said that, while the market is very attractive, it would be difficult for a foreign bank to establish a foothold now without acquiring a Spanish bank. The large Spanish banks are rapidly improving the level of their product and marketing sophistication and are becoming increasingly formidable competitors. Two recent mergers have reduced the seven largest banks to five and further consolidation is expected. These five banks together account for 80% of deposits, 70% of loans and 96% of the branches.

A few days later, the FWA delegates met with senior executives at Banco de Vizcaya, which is in the process of merging with Banco de Bilbao to become the second largest bank in Spain. During a fascinating presentation by Sr. Jorge Calvet, Manager of Capital Markets, the group learned the rationale behind the merger. The new bank will be in an excellent position to take advantage of the increasing investment banking opportunities as well as the growing consumer affluence in Spain. There will be considerable economies coming from the merger, although Spanish companies are somewhat restricted in their ability to reduce staff.

The Banco de Vizcaya management

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## Restructuring The Stock Exchange

The Madrid Stock Exchange was founded in 1902 and still presents an antique appearance. Based on the French single-capacity, auction system, the Madrid Exchange is growing, but needs considerable restructuring before it can take its place among the leading world markets.

The current market is extremely narrow, with only 60-90 of Spain's top 500 industrial companies listed on any of the country's four exchanges (Madrid accounts for 85% of the volume). In addition, the five major banks, Telefonica (the most actively traded stock) and a few electrical utilities heavily dominate both trading volume and market capitalization. Of the 576 stocks currently listed, only 60 or so are sufficiently liquid to be an option for a sizeable institutional buyer.

At this time, only individuals may be brokers and commissions are fixed. The Madrid Exchange is self-regulated, but legislation is pending that will greatly change the way the market operates. The legislation will include the creation of a computerized National Stock Exchange, quotation of the major stocks, and establishment of two types of stock exchange member firms: single capac-



Sr. Adolfo Ruiz de Velasco at the Madrid Stock Exchange.

ity brokers and broker/dealers who can take positions as well as dealing directly with the public. It is expected that fixed commissions will be abolished, that a National Stock Exchange Commission will be established and that insider trading will be outlawed. These changes, which have been under consideration for awhile, are expected to be implemented sometime before the end of 1988.

The FWA toured the Madrid Exchange and met with Sr. Adolfo Ruiz de Velasco, a prominent member of the Exchange. He pointed out the Madrid Stock Exchange Price Index rose by 141% in dollar terms in 1986, the highest increase in the world. It also recovered better and faster than most of the world's exchanges from the October 1987 crash.

Kenneth Newborg  
Area Director, Houbigant

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also suggested that he and others in Spain might serve as a resource to the United States in understanding how best to deal with Latin American governments.

Commenting on changes happening as a result of Spain's entrance into the EEC he stated, "business is waking up, becoming more aggressive, acting more quickly." King Juan Carlos is pleased to see groups such as the FWA coming to Spain. "The world has to realize that Spain is much more than bullfights and flamenco. You will see the best of Spanish business and realize how much we have to offer."

Our conclusion as we left was that Spain is overwhelmingly fortunate to have this man in this job at this time. He has proclaimed that he is "king of all the people," and holds a position above the parties and competing factions that could disrupt the country's new democracy.

*By Meg Gottemoeller  
President, The World Information Corp.*

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group that met with the FWA included former employees of Chase, Citibank and Bankers Trust and one got the impression of a young, savvy team that is ready to compete aggressively in the expanding European market.

When asked about the level of their Latin American debt, Sr. Calvet pointed out that reserve requirements for Spanish banks are far higher than in the U.S. and that they've set aside reserves of 70% for their Latin American loans.

The Spanish banks do share some concerns with their American counterparts. When asked what he foresaw as the biggest potential problem over the next few years, Sr. Calvet confessed, "We're afraid of being bought by Deutschebank."

*Lois Gaeta  
Director of Programming  
Visual Information*

**SPEAKERS**

His Majesty,  
King Juan Carlos

Guillermo de la Dehesa  
Secretary of State for the  
Economy

Antonio Ruiz de Alda  
Vice Governor  
Banco de Espana

Reginald Bartholomew  
United States Ambassador to  
Spain

Alfredo Casajus  
Lieutenant Mayor  
City of Madrid

Adolfo Ruiz de Velasco  
Member  
Madrid Stock Exchange

Ricardo Angles  
President  
Citibank Spain

Claudio Aranzadi  
Chairman  
Instituto Nacional de Industria  
(INI)

Nicholas Bray  
*The Wall Street Journal*

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Martha Norget  
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Leon Selig  
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Esteban Borrell  
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Fernando de Asua Alvarez  
Chairman  
IBM Spain

Jorge Calvet  
Manager, Capital Markets  
Banco de Vizcaya

Jaime Andrieu  
Office of the European Economic  
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John Jurgensen  
President  
Georgeson, Inc.

Enrique Polo de Lara  
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M&A International, S.L.

Ultano Kindelan  
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Gonzalo Milans del Bosch  
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Tom Burns  
*Financial Times/Newsweek*

Merril Stevenson  
*The Economist*

Jorge Hay  
Economics Writer and Banker

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