Speech at the 5th Edition of the Jaime Fernández de Araoz Award

Thursday, 20 June 2013

Antonio Rodríguez-Pina

Chairman and CEO

Deutsche Bank SAE 2

Your Royal Highness, Secretary of State for Telecommunications, Secretary of State for the European Union, Luisa, the Fernández de Araoz family, members of the Jury, Professors Panier, Villanueva and Pérez-González, dear friends,

I should like to start by expressing my gratitude, both personally and on behalf of Deutsche Bank, for the opportunity to chair the Jury in this fifth edition of the Jaime Fernández de Araoz Corporate Finance Award. I would particularly like to thank Your Royal Highness the Prince of Asturias for honouring us once again with your presence and for your unconditional support for this initiative since its inception.

In just ten years, the abundant talent and enthusiasm of Jaime’s family have turned this award into a highly prestigious forum for analysis and debate in the area of corporate finance in Spain. So for me, as Deutsche Bank’s representative at this 5th Edition of the Award, being asked to address you is an opportunity for which I thank Luisa and the Fernández de Araoz family, whom I have loved and admired in equal measure for many years now.

Forty works were submitted for this year’s Award by eighty-five authors from twenty-six different countries. The majority of participants work at universities and other academic institutions, though eight of them come respectively from the Bank of Spain, the Central European Bank and the Federal Reserve Banks of Minneapolis and New York. Five of the works submitted were from Spanish universities: two from Carlos III University, one from Pompeu Fabra University, one from the Complutense University in Madrid and one from the Antonio University in Nebrija. The remainder were submitted by from international teams of authors, mainly from Europe, among them thirteen Spaniards, from some of the most prestigious universities in the world. While these were mostly in the USA (including Harvard, MIT, Stanford, Columbia, Kellog, Princeton and Duke), there were also submissions from European institutions like INSEAD, Tilburg, Toulouse and the London School of Economics.

At a preliminary meeting, the Jury analysed all forty works submitted and drew up a short-list of ten that would go on to be analysed in depth. At the next meeting, following an exhaustive debate and with assistance from a specialist group of professors and experts in the relevant field, five finalists were chosen. At our final meeting there were two rounds of votes which finally led to the Jury’s selection of the winner of this year’s Award, which we shall discuss in a short while.
I’m going to talk a little, I’ll be brief, don’t worry, about the discipline that forms the focus of analysis in this Award, and its impact on the Spanish economy. At its heart, “corporate finance” seeks to provide a response to two questions: What is the most efficient way of financing a business activity? And what is the most efficient way of investing available resources? It could be said that the history of corporate finance being applied systematically to businesses in Spain does not go back more than twenty-five years. The process began when, like Jaime Fernández de Araoz and a small group of mutual friends, the majority of whom are here today, we were offered the opportunity of working at some of the large investment banks in London and New York that had begun to look with interest at the Spanish market around the beginning of the 1990s.

During those early years, the bulk of the Spanish business sector was in state hands. The hydrocarbons, electricity, telecommunications and airline sectors were all reliant on the public sector and operated with very little competition, and some even as monopolies. Competence in the banking sector was minimal, financing conditions in the Spanish economy were much worse than those of our European neighbours and our capacity to access the capital markets was practically non-existent. In such circumstances, it was no surprise that Spanish businesses were unable to compete internationally and that there was practically no such thing as a Spanish multinational.

The last 20 years have seen a genuine revolution that has transformed the business map in Spain, following a process of privatisation that is only rivalled in Europe by the one that has taken place in the United Kingdom over the same period.

The privatisation of our production base, supported without exception by the various different governments that have run Spain over the last three decades, was accompanied by regulatory changes that, with very few exceptions, have guaranteed competition in key sectors of the Spanish economy. With competition came an increase in competitiveness and the move by Spanish companies into the international arena. We began in Latin America, due to our existing cultural and linguistic links, but we ended up by demonstrating that Spanish multinationals are capable of competing successfully in the most developed and efficient markets in the world. In these times of strict readjustment (long, but like everything in this life, closer to finishing with every day), it is understandable that our pessimism has made us forget the financial successes achieved by our country, though these become clear when everything is seen in perspective.

Few international analysts would have said that five Spanish multinationals would have been among the twenty-five best companies on the Eurostoxx 500 index, measured on the basis of stock market capitalisation. That’s twenty per cent of this group of large European companies, a higher percentage than would be expected from Spain’s GDP as a proportion of the Euro zone as a whole. Even though this is in itself surprising, as a purely quantitative figure it is incomplete. Without exception, these five companies, Inditex, Telefónica, Santander, BBVA and Iberdrola, all display common characteristics that illustrate the huge advances achieved in the Spanish business sector and the country’s economy: they are all multinationals (indeed, all of them obtain the majority of their earnings outside Spain), they have all gained strength from the efficiencies imposed by competition in their domestic marketplace, Spain,
and they are all among the world’s most efficient companies in their respective business sectors. Some of you may be surprised to learn that a country like Italy with a much longer business tradition only has two companies in this Eurostoxx roll of honour, ENI and Enel, both of which are still under state control and operate in restricted conditions of competition in their domestic marketplace.

The role of investment banks as pioneers of corporate finance has been key to this process of transformation in the Spanish business sector. Both government and business have been assisted by specialists in corporate financing during privatisation processes and operations for the purchase, sale and merger of companies, internal consolidation and the international expansion of Spain’s principal business sectors, the issue of shares and bonds on the international markets and, in short, the more professional management of financing in the Spanish economy.

This impressive transformation has also led to significant imbalances that became dramatically accentuated as a result of the financial crisis that followed the decade of extraordinary growth experienced by Spain following the introduction of the euro in 1995.

An unsustainable public deficit, a dramatic loss of competitiveness, a highly inefficient labour market that leads to unsustainable unemployment and a crisis of solvency in the financial sector. However, there is another great imbalance in the Spanish economy that will take time to correct, one that takes on particular relevance in the conclusions reached in the work by Professors Panier, Pérez-González and Villanueva. This is the huge amount of borrowing in the private sector and, in particular, the high level of debt in the business sector.

Borrowing in the private sector in Spain tripled in just five years, rising from 65% of GDP in 1995 to more than 200% of GDP in 2010. Against a background of global financial tensions, with the resulting lack of available credit and concerns about the financial solvency of borrowers, this huge level of borrowing represents a significant competitive disadvantage for Spanish businesses in the current recession, and a negative factor when it comes to evaluating the solvency of Spanish sovereign risk. Even though it is moving slowly, the necessary deleveraging of the private sector in Spain which began in 2011 is having a negative impact on internal demand, which is in turn contributing to the slowdown in economic recovery.

The conclusions reached in this year’s winning work are, therefore, extremely opportune, in that they offer an original and rigorous demonstration of how certain political fiscal measures that are aimed at offsetting the traditional fiscal incentives for financing business activities with debt actually have an impact on a company’s capital structure. More specifically, they show that establishing a fiscal incentive for investment in equity, similar to the incentives that exist for investment in debt, will significantly help to increase capitalisation and reduce leveraging in the business sector of a particular economy and thus reduce overall leveraging in that country’s economy. Spain currently provides one of the clearest examples of the need for the kind of economic and fiscal political debate suggested by Professors Panier, Pérez-González and Villanueva.
By way of conclusion, I should like briefly to share our vision for the recovery of the Spanish economy. It is true that our country reacted late to the crisis, but nevertheless, over the last eighteen months the speed of our reforms has begun to attract the world’s attention. A great part of the work has already been done. Increasing competitiveness has led to a huge increase in exports and restored the equilibrium of our commercial balance sheets and current accounts. The financial sector has made great advances in terms of restructuring and recapitalisation, a *sine qua non* for its return to credit. Labour reforms have reduced the rigidity of the Spanish jobs market, which will in turn help improve the future competitiveness of our economy and, even more importantly, prevent the loss of jobs from being, as it has until now, the only mechanism, and a very unfair one, for adjusting to falls in business activity in Spain.

It is true that the positive effects of all these adjustments have not yet been felt on the street, in fact quite the contrary, but Spanish people in general are nevertheless bearing the burden with maturity and responsibility. There are, in any case, reasons for optimism, now that Spain, from its leaders down, has finally mobilised itself, following the immature and stubborn denials with which we reacted to the crisis in its early stages. If the government maintains its commitment to the necessary reforms, achieving the required level of collaboration from the population at large, hopefully through regular communication and by example, Spain will come out of this crisis with more robust productive and financial structures and, even more importantly, with a society that is much more mature and responsible with regard to financial issues.

Academic research of the kind we are recognising today provides effective and specific assistance in offering solutions that will help to ensure that the next financial crisis, which will doubtless come sooner or later after the next period of growth, will find our country with businesses and public finances that are much more robust. And this will be due in no small part to the organisers of this award and, of course, to Professors Panier, Pérez-González and Villanueva. Many thanks, Professors, and many congratulations on this well-deserved Award.