

# **The Evolution of a Regional Bank in a Concentrated Banking Industry: The Banco de Valencia. \***

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## **Introduction**

In this paper I propose to study the evolution of a regional Spanish bank, the Banco de Valencia, with two main objectives in mind. First, to use this case study to provide a better understanding of the evolution of the Spanish banking sector, and secondly, to explore the relationship between the Banco de Valencia and regional development as a consequence of the important links between this financial institution and several Valencian industrial sectors.

One of the most widespread claims about the performance of the Spanish banking system during most of the twentieth century is its monopolistic nature with a small number of universal banks controlling the whole sector (Muñoz 1969), monopolistic power that was consolidated after the Spanish Civil War. Two of the main indicators of the banks' power in Spain have been the level of concentration of the banking industry and the existence of links between the main banks and industrial firms through the presence of common members on their boards of directors. These traditional views about the Spanish banking sector have conditioned the research in this area; most of the studies have based their conclusions on analyses of the big five banks, the small and medium sized banks having received scant attention. Recent research (Fanjul and Maravall 1985, Martín Aceña and Pons 1995, Pons 1999, García Ruiz 2003, and Pueyo, 2003) however has criticised the use of Spanish banking concentration as an indicator of the level of competition of the banking industry and has considered it necessary to look for other indicators of the structure and performance of this industry during this period. Moreover, the works of Torrero (1989) and Fanjul and Maravall (1985) stress the importance of considering the role of regional and local banks in the development of the Spanish financial system. More recently, several monographs have appeared about these types of financial intermediaries such as the works of Gárate (1999) about the Banco Guipuzcoano and García López (1999) about the Banco de Gijón.

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\* This is a very preliminary draft. This paper is the introduction to further research about the Banco de Valencia. Please do not cite without the author's permission.

The main purpose of this paper is to incorporate into this research area the case-study of the Banco de Valencia, a regional medium sized bank founded in 1900, in order to better understand the evolution of the Spanish banking system. Section 1 provides a description of the origins of the Banco de Valencia and the important changes in this institution after 1927. Section 2 shows the main actions of the Banco de Valencia in the post-war years and the impact of the change in the regulatory framework on the bank's strategy. Section 3 analyses the evolution of the Banco de Valencia in the 1950s and 1960s. Section 4 outlines some preliminary conclusions.

## 1. The origins

The Banco de Valencia was founded in 1900 by a group of Asturian capitalists who were important figures in industry, finance and politics. As Rodenas (1982, p.64) indicates, despite its name, the Banco de Valencia was not an attempt at creating a Valencian bank with Valencian capital. The foundation of the Banco de Valencia was, however, part of a general strategy of founding regional banks. During the first years, the most important shareholder and president of the board of directors of the Banco de Valencia was Jose Tartiere, an entrepreneur owning a lot of firms in the North of Spain (mining, metals...), who previously founded other banks of similar characteristics such as the Banco de Oviedo in 1899 (later on the Banco Asturiano de Industria y Comercio) and the Banco de Andalucia in 1900. The initial capital consisted of 10 million pesetas, divided into 20,000 shares, with only 10,000 in circulation.

Until the turn of the century the Valencian financial system was very weak. Only five national banking houses (Aznar y Roglá, Juan Bautista Carles, Trenor, Sancho and Rubio), two foreign banking houses (Francisco Laurens and Lombard Freres) and an agency of the Credit Lyonees operated in Valencia. At the end of the nineteenth century there were several attempts to introduce Valencian banks, but without success<sup>1</sup>. At the beginning of the twentieth century the situation changed when the main national banks initiated their expansion in Valencia<sup>2</sup>. After the foundation of the Banco de Valencia, in 1907 the Banco Comercial Español was also founded. This bank was an initiative of a French-Belgium-German financial group and they merged an agency of the Banco de Burdeos in Valencia and the banking house Francisco Laurens. According to the *Guía*

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<sup>1</sup> The Sociedad Valenciana de Crédito y Fomento (founded by the Marques de Campo and disappeared in 1880), the Banco Peninsular Ultramarino, Banco Provisional de Valencia and the Banco Regional de Valencia (these last two banking institutions were founded in 1881 and only operated for 5 years).

*de Valencia*, in 1909 11 banking houses, the Bank of Spain, the Banco de Vizcaya, Credit Lyones, the Banco Comercial Español and the Banco Hipotecario de España were operating in Valencia (Banco de Valencia 2000, p. 26). In 1923, the *Guía Levante* listed the existence of 7 private banks, the Bank of Spain, the Banco Español del Río de la Plata, Credit Lyones, the Banco Comercial Español and the Banco Catalán. In 1926, the Banco Central opened a branch and in 1927 the Banco Popular de los Previsores del Porvenir<sup>3</sup> followed suit (the Banco de Valencia 2000, p.28).

Despite the sizeable expansion of the Spanish financial system in the 1910s and 1920s (Martín Aceña 1985, p.131), the evolution of the Valencian financial system in those years was very modest and it was reduced to the creation of two new financial institutions: the Banco de San Jaime in 1916 in Carcagente and the Banco de Castellón in 1920. Neither the Banco de Valencia nor the Banco Comercial Español were specially benefited by the war. During the First World War the expansion of the economic activity in Spain was very linked to the industrial activity. However, the expansion of the Valencian banks was linked to the agriculture sector<sup>4</sup> and for this reason it was relatively modest: in 1919 there were three Valencian banks and in 1926 there was only one more; the Banco de San Jaime had disappeared and in 1925 was created the Banco de Burriana. As Rodenas (1982, p.73) points out there was no significant growth of the Banco de Valencia in those years and although the profits increased, the volume was very small. The most significant change in those years was the increasing presence of the national banks in Valencia. The Banco Hispano Americano had the main expansion: from three branches in 1919 to 11 branches in 1926, followed by the Banco Español de Crédito and the Banco de Vizcaya (both without branches in Valencia in 1919 and with 12 and 16 branches respectively in 1926).

The higher presence of national banks coincided with the weaknesses of the foreign banks in Valencia. The 1921 Banking Law that favoured national banks and the increasing competition explain the decline of these foreign institutions.

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<sup>2</sup> It is important to remember that some of the main Spanish banks were created at the beginning of the twentieth century (the Banco Hispano Americano in 1900, the Banco de Vizcaya in 1901, the Banco Español de Crédito in 1902).

<sup>3</sup> In 1922 the Banco de Bilbao and the Banco de Vizcaya each had a branch in Valencia. Both the Banco Central and the Español de Crédito had one branch each in Alicante, and the Hispano Americano in Alcoy, Alicante, Castellón and Xativa.

<sup>4</sup> During the years of WWI the rice sector experienced an important expansion as Asian competition was eliminated. In its early years the Banco de Valencia created a rice department. However, after the war the situation was reversed and the rice sector experienced serious problems.

The situation of the Banco de Valencia changed substantially in 1927 when a group of Valencian entrepreneurs<sup>5</sup> acquired the shares of the bank which were in circulation. Although they did not have experience in the banking sector<sup>6</sup>, they transformed the bank's strategy. This change in banking strategy was manifested in the following aspects. First, there was a capital enlargement from 10 to 50 million pesetas, with a paid-up capital of 25 million pesetas. Secondly, it began an important expansion in terms of branches. In 1929 the bank opened 13 branches and 13 agencies, in 1930 3 branches and 8 agencies and in 1931<sup>7</sup> 5 branches (BBVA 2000, p.86). Thirdly, the Banco de Valencia bought a considerable number of shares of the Banco de Castellon and in 1933 bought the main block of shares of the Banco Internacional de Industria y Comercio. This operation was very important because the Banco de Valencia managed to go beyond the regional ambit and increased its interests in other economic sectors (Ródenas 1892 p. 90). Fourthly, there was an increase in the interest the bank had in some industrial companies such as the Compañía Transmediterránea, Sociedad Valenciana de Mejoras Urbanas, Unión Naval de Levante, Mutua Valenciana de Seguros, among others. In 1930 with the collaboration of the Banco Hispano Colonial, Arnús-Garni, the Banco de Aragón and the Banco de Santander, the Banco de Valencia created a new firm which tried to absorb all the Valencian electrician firms: Luz y Fuerza de Levante. Other firms where the Banco de Valencia had interests in 1932 were: the Sociedad Anónima de Fuerzas Eléctricas, Hidroeléctrica Castellonense, Comercial Eléctrica, Electro Textil, the Compañía Industrial de Electricidad de Castellón and the Banco Español in Paris. Finally, the bank had strong links with the orange export business. Roselló and Bono (1975, p.10, p.66) consider that this is the period when the Banco de Valencia was most related to the export of oranges. Also Lluch (1976) insists on the strong links between orange exports and the Banco de Valencia in the 1920s and 1930s. Palafox (1992, p.37) claims that the Banco de Valencia's branching expansion was located in the main orange producing zones.

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<sup>5</sup> The Valencia entrepreneurs were Ignacio Villalonga, Vicente Noguera, José Galindo, Vicente Boluda, Manuel Casanova and Joaquín Navarro .

<sup>6</sup> According to Lluch (1976) most of them were orange producers, but there were also a few industrialists.

<sup>7</sup> After this year branching expansion slowed as a consequence of the introduction in 1931 of a number of regulatory restrictions by the Superior Banking Council (SBC) to control branching expansion.

| <b>Table 1. Main items and profitability of the Banco de Valencia and an average rate of profitability for the Spanish banks</b>   |                   |            |           |              |       |       |               |      |
|--|-------------------|------------|-----------|--------------|-------|-------|---------------|------|
|  | Banco de Valencia |            |           |              |       |       | Spanish banks |      |
|  | Profits           | Capital    | Reserves  | Total Assets | Prof1 | Prof2 | ROE           | ROA  |
| 1930   | 1,142,257         | 15,250,000 | 325,000   | 224,607,736  | 7.33  | 0.51  | 10.98         | 1.53 |
| 1932   | 1,622,147         | 15,250,000 | 1,012,500 | 332,405,049  | 9.97  | 0.49  | 6.64          | 1.01 |
| 1933   | 1,724,688         | 15,250,000 | 1,472,071 | 356,063,713  | 10.31 | 0.48  | 5.90          | 0.88 |
| 1934   | 1,813,003         | 15,250,000 | 2,500,000 | 350,633,360  | 10.21 | 0.528 | 6.01          | 0.86 |
| Prof1: "Profits/(capital +reserves)", Prof2: "Profits/Total Assets", ROE: average Prof1 for the Spanish banks, ROA: average Prof2 for the Spanish banks`.<br>Source: for the Banco de Valencia, <i>Anuario Financiero y de SA</i> , for the Spanish banks, Pueyo (2004). |                   |            |           |              |       |       |               |      |

Although this expansive strategy was implemented in a period of crisis (the 1929 crisis), it had good results. As we can see in Table 1, when we compare the Banco de Valencia's profitability rate with the average profitability rate for the Spanish banks (Pueyo 2004) we can see that although in 1930 the Banco the Valencia's profitability was below the average rate for the Spanish banks, the main difference is the trend: from 1930 to 1934 the profitability rate for the Spanish banking system declined (1930: 10.98, 1934: 5.90) whereas it increased for the Banco de Valencia (1930: 7.33, 1934: 10.21). In fact, the Reports of the Banco de Valencia highlighted the good performance of the bank in the years 1933, 1934 and 1935. The bank occupied the top position in the Cámara de Compensación ("clearing house") after the Bank of Spain in 1934 and 1935 (Banco de Valencia 2000, p.60).

## 2. The post-war years

During the Civil War the bank was situated in the republican zone. However, some of the members of the board of directors went to San Sebastian in the nationalist zone. Antonio Noguera went to live to Seville (a nationalist zone) and he was the principal manager of the bank in those years. Vicente Boluda managed the bank in the republican zone (he was murdered on 19<sup>th</sup> August 1936). On 6<sup>th</sup> of April 1940, the bank declared its situation after the war, and a new board of directors was elected: Antonio Noguera was the new president.

If the period 1927-1936 was characterised by an expansive strategy, what were the main actions of the Banco de Valencia in the post-war years? To answer this question it is necessary to consider two aspects. First, the important legislative change that took place after the Spanish Civil War, and secondly, the relationships between the evolution of the Valencian economy and the activity of the Banco de Valencia.

With respect to the first question, before the Spanish Civil War, banking was regulated by the Banking Supervision Law (BSL) of 1921, a law which broke with a period of relatively free banking in Spain (Martín Aceña 1985, p.126). In this law the notion of a bank was defined and the authorities introduced certain controls on banking operations and established close supervision of banking activities. After the Spanish Civil War (1936-1939), one of the first tasks of the new authorities (the Franco regime) was the restructuring of the banking system. The Decree of October 1939 ratified the so-called "status quo" by prohibiting the establishment of new banks without prior governmental approval. In 1946, when the BSL of 1921 expired, it was replaced by a new act: the BSL of 1946. The 1946 Act renewed the note issuing monopoly of the Bank of Spain, a monopoly that this institution had had from 1874, and regulated the financial sector. What were the main regulatory constraints of the 1946 BSL<sup>8</sup>? In total there were four: 1) the act maintained the legal barriers to entry, 2) interest rate controls were introduced, 3) state regulation restricted the banks to providing short-term credit through either discounting self-liquidating commercial bills, or supplying standard commercial credit with a maturity of no greater than 90 days, and 4) the BSL of 1946 regulated the expansion of banks through branches.

Evidently, this new regulatory framework affected bank behaviour. The *status quo* and the branching restrictions favoured mergers and increasing co-operation among banks, and we can find these two reactions in the Banco de Valencia's post-war performance: in 1942 the Banco de Valencia merged with the Banco de Castellón and in 1944 with a small bank called the Banca Jordá. So, if expansion was the main characteristic of the Banco the Valencia in the period 1927-1936, co-operation was the main feature of the bank in the post-war years.

The co-operation strategy was established in three different lines. The first one was its co-operation with the Catalan banks. The Banco de Valencia established an alliance with the Banco Hispano Colonial, a banking institution with strong links with the Banco Comercial de Barcelona and the Banca Marsans<sup>9</sup>. The second line was the co-operation between the Banco de Valencia and the Banco Central. These two banking institutions signed several agreements on the transfer and exchange branches and they

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<sup>8</sup> For more information see Pons (2002).

<sup>9</sup> In 1942, the Banco Hispano Colonial merged with the Banca Marsans, and the Banca Comercial de Cataluña. Villalonga promoted the merger between the Banco Hispano Colonial, the Banca Marsans and the Banca Comercial de Cataluña. The new Banco Hispano Colonial became the biggest Catalan bank, although this banking institution was always under the influence of the Banco Central.

also increased their collaboration in terms of personnel (the exchange of executives): most of the Banco Central executives began their careers in the Banco de Valencia<sup>10</sup> (Banco de Valencia 2000, p.97). Until 1921 the Banco Central did not have branches in Valencia. Thanks to the merges in 1921 and 1934 with the Banco de Albacete and the Banco Español de Río de la Plata respectively, it obtained a branch in Alicante and Valencia. The links between the Banco Central and Banco de Valencia become stronger after the Civil War. The change in the management of the Banco Central and the incorporation of people such as Villalonga, Noguera, Reig and Escuder, very important figures from the Banco de Valencia, helped to increase the relationships between the two banking institutions. Rodenas (1982, p.94) considers that the relationships Banco de Valencia-Central and Banco Hispano Colonial-Central explain the relationship Banco de Valencia-Banco Hispano Colonial and that it is no coincidence that Antonio Noguera, president of the Banco de Valencia, was also a member of the boards of directors of the Banco Hispano Colonial.

The third line of co-operation was also a consequence of the strong links between the Banco de Valencia and the Banco Central. From 1943, the Banco de Valencia was part of a banking agreement: the consortium BANCOR. This banking agreement was led by the Banco Central and the rest of the banks which were part of this agreement were the Banco Hispano Colonial, the Banco de Crédito de Zaragoza, the Banco de Valencia, the Banco de Zaragoza, the Banco Popular and the Banco de Santander, although the Banco de Santander did not in fact enter into this banking agreement. Three main figures of the Banco de Valencia were members of the board of directors of BANCOR: Noguera, Villalonga and Reig. The life of this agreement was short<sup>11</sup>. In 1946 the Banco Zaragozano decided to abandon this agreement<sup>12</sup>, and the Banco Popular de los Previsores del Porvenir entered it. The agreement disappeared in 1950, 7 years after its creation (when the Banco Central merged with the Banco Hispano Colonial), mainly because of the differences in term of proportion between the Banco Central and the rest of members of the agreement.

Following the pre-war tradition, in this period there was an important participation of the Banco de Valencia in the financing of export activities: rice and

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<sup>10</sup> For example, Jose Escuder Alcaide or Jose Carlos Abelló.

<sup>11</sup> The reason, according to Tortella and García Ruiz (1993, p.188), was that the Banco Central realised that the merger process was more efficient than co-operation.

<sup>12</sup> Following Tortella and García Ruiz (1993, p.188), the reason was that the Banco Central bought the Banco de Crédito de Zaragoza.

citrus fruits. However, Roselló and Bono claim that although the links between the bank and the export activity were maintained, there was a progressive loss of importance in citric exports (Roselló and Bono 1973, p.12). If in relative terms the Banco de Valencia was less involved in this period in orange export activities, there are two aspects that it is necessary to analyse: 1) the relationship between the Banco de Valencia's performance and the Valencian economy in the so-called autarkic period and 2) the involvement of the Banco de Valencia in the financing of other activities and its links with Valencian businesses.

After the Civil War the Franco regime introduced many measures in order to reorganise economic activity. The Franco authorities tried to achieve industrialisation through an increase in control and intervention, and 'inward-oriented' or 'autarkic' policies. The Valencian economy had an important agricultural export sector, and it is interesting to evaluate how this change in Spanish economic policy affected its development. On the one hand, Martínez Serrano, Reig and Soler (1978, p.126) indicated how the Valencian entrepreneurs complained about the scarcity of credit and the lack of long-term credit (a direct consequence of the BSL of 1946) and the serious problems that inflation<sup>13</sup> generated for Valencian export firms. The citric exports were reduced in the 1940s<sup>14</sup> and only at the end of the 1950s did they return to the levels of the 1930s. But, there is another relevant aspect in understanding the role of the banking system and the problems of Valencian industrialisation. An important characteristic of the Valencian economy was the reduced size of the firms. In Spain the larger firms were in sectors such as electricity, banking, transport, insurance, etc, and these sectors were not the most representative of the Valencian economy. The Valencian economic structure was concentrated in sectors which were more labour intensive, such as shoes, ceramics, furniture or textiles. Thus, if we take into account that the Valencian economy was until the 1960s an agrarian economy (only Alicante had a greater weight of the industry before 1960), with an important sector linked to export activities, that the industry was specialised in consumption goods and that these industries did not fall under the priorities of the Franco regime, the conclusion we obtain is that the Valencian

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<sup>13</sup> Inflation was a direct consequence of the problems of scarcity but also of the permissive monetary policy implemented by the Franco government in those years to guarantee abundant and cheap financing of the government.

<sup>14</sup> Martínez Serrano, Reig and Soler (1978, p.127) consider that climate conditions, scarcity of fertilizers (as a consequence of the autarkic policy and the poor results of the policy of imports substitution), and in particular rate of exchange controls were the main explanations for export evolution. Exports were

economy in the post-war years experienced serious difficulties. In this sense the Valencian industry followed the same evolution as the Spanish consumption good industry in general, experiencing a lack of aid and an important crisis as a consequence of the reduction of wages (Morella, 1992, p.129).

A final aspect we have to consider is the increasing role of the saving institutions after the Civil War, and in this case, the importance of the Caja de Ahorros de Valencia. In those years, this financial institution supplied new products and services. It adquired a more “banking” character, started an important branching expansion and merged other existing local banking institutions. In regional terms, the increase in competition in the Valencia financial system was a fact.

In this context, how did the Banco de Valencia evolve? In the post war years (1942-1950) the ratio “Loans/Total Assets” for the Banco de Valencia decreased from 16.94 in 1942 to 14.12 in 1950, following the same trend as the average for the total banks. However, as Table 3 shows, the ratio “Loans/Deposits” increased substantially: from 19.39 in 1945 to 40.7 in 1955 and this trend is similar for the whole regional banking sector. This rapid increase in the ratio “Loans/Deposits” took place in a period when the accumulative annual rate of deposits growth for the Banco de Valencia was above the same rate for the whole banking sector (16.46 % for the Banco de Valencia and 15.5 % for the whole banking sector), and this despite a regulatory context not very favourable to branching expansion. Thus, the Banco de Valencia experienced a more rapid growth of deposits that the average for the whole banking sector. Moreover, in the period 1945-1955 we observe a relative expansion of the financing activity of the Banco de Valencia despite a very constrained regulatory context. Not only did loans increase substantially, but also the main instrument used by small and medium sized firms for finance: the discount of effects (see Table 4).

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thwarted by an overvalued peseta and the system of licensing of all imports and exports also complicated the situation for the agricultural exporters (Martínez Serrano, Reig and Soler 1978, pg. 145).

| <b>Table2. Ratio Loans /Total Assets (in %)</b> |                   |                |                     |
|---|-------------------|----------------|---------------------|
|   | Banco de Valencia | Regional Banks | Average Total Banks |
| 1942  | 16.94             |                | 21.98               |
| 1945  | 13.54             |                | 16.25               |
| 1950  | 14.12             | 17.24          | 15.89               |
| 1955  | 17.30             | 17.59          | 15.23               |
| 1960  | 15.60             | 16.03          | 15.34               |
| 1965  | 8.21              | 12.96          | 13.17               |
| 1970  | 6.70              | 11.17          | 11.17               |
| 1975  | 8.80              | 11.67          | 13.98               |

Sources: Balances de la Banca Privada (CSB)

| <b>Table3. Ratio Loans /Deposits (in %)</b> |                   |                |                |                |
|---|-------------------|----------------|----------------|----------------|
|   | Banco de Valencia | Regional Banks | Big Five Banks | National Banks |
| 1945  | 19.4              | 27.2           | 24.7           | 30.2           |
| 1950  | 34.3              | 35.2           | 32.7           | 32.2           |
| 1955  | 40.7              | 40.6           | 30.5           | 29.4           |
| 1960  | 28.8              | 35.2           | 30.5           | 30             |
| 1965  | 14.7              | 23.1           | 25.3           | 25             |
| 1970  | 15                | 22.2           | 25.8           | 22.7           |
| 1975  | 19.2              | 26             | 29.4           | 29.7           |

Source: Reports of the Banco de Valencia several years and Balances de la Banca Privada (CSB)

| <b>Table 4. Ratio Discount (bills)/Total Assets (in %)</b> |                   |                |                     |
|--|-------------------|----------------|---------------------|
|  | Banco de Valencia | Regional Banks | Average Total Banks |
| 1942   | 9.35              |                |                     |
| 1945   | 15.16             |                | 14.55               |
| 1950   | 16.40             | 14.27          | 18.50               |
| 1955   | 15.69             | 14.57          | 19.90               |
| 1960   | 20.45             | 16.75          | 22.27               |
| 1965   | 29.52             | 27.70          | 36.60               |
| 1970   | 23.88             | 24.50          | 23.80               |
| 1975   | 27.39             | 25.40          | 22.50               |

Sources: Balances de la Banca Privada (CSB)

The post-war regulatory framework not only conditioned the evolution of credit but also the investment in government bonds and industrial securities. The Banco de Valencia increased the ratio “Government bonds/Total Assets” more significantly than the regional banks and even more than the average for the whole banking sector (Table 5). In this sense, the Banco de Valencia adopted rather conservative behaviour to benefit from the advantages of holding public debt<sup>15</sup>. With respect to the links with the industrial sector, in the post-war years the relationships with sectors such as electricity,

<sup>15</sup> The government encouraged banks to invest in new issues of Treasury bonds and in general the contribution of the Spanish banks to the financing of the public sector was higher than that of the Italian or German banks (Pons 2002, p.42). In Spain the public debt could be automatically discounted by the Bank of Spain. So, a sizeable amount of public bonds allowed banks to maintain high levels of liquidity.

public transport and construction increased. The links between the Banco de Valencia and some industrial firms became stronger: Devis, Cervezas El Turia, Unión Levantina de Seguros, Cofruna (1944), Dragados y Construcciones (1945), Macosa (1948). However, as we can see in Table 6, the commercial orientation of the Banco de Valencia in relative terms is clear. If we compare the ratio “Industrial Securities/ Total Assets” for the Banco de Valencia with the average for the total banks until the mid-1950s, we observe the commercial orientation of the Banco de Valencia. Table 6 shows that the Banco de Valencia was less industrial oriented than the mixed banks more oriented to commercial activity until 1955. Table 6 shows that the Banco de Valencia was less oriented to industry and more oriented to commercial activity until 1955.

**Table 5. Government Bonds/ Total Assets (in %)**

|      | Banco de Valencia | Regional Banks | Total Banks |
|------|-------------------|----------------|-------------|
| 1945 | 13.34             |                | 29.77       |
| 1950 | 15.40             | 19.87          | 17.98       |
| 1955 | 15.59             | 16.24          | 16.61       |
| 1960 | 12.60             | 12.93          | 13.08       |
| 1965 | 7.96              | 10.36          | 7.61        |
| 1970 | 9.72              | 10.65          | 8.64        |
| 1975 | 8.00              | 6.35           | 4.97        |

Sources: Reports of the Banco de Valencia several years and Balances de la Banca Privada (CSB)

**Table 6. Industrial Securities/ Total Assets (in %) and Industrial securities/Total Credits (in %)**

|      | Banco de Valencia |       | Regional Banks |       | Total Banks |       | Banco Central |       |
|------|-------------------|-------|----------------|-------|-------------|-------|---------------|-------|
|      | a                 | b     | A              | B     | a           | B     | a             | b     |
| 1942 | 2.42              | 14.29 |                |       |             |       | 9.26          | 41.39 |
| 1945 | 3.19              | 23.57 |                |       | 7.97        | 49.02 | 7.89          | 42.13 |
| 1950 | 2.46              | 17.40 | 6.88           | 39.92 | 5.11        | 32.18 | 4.30          | 31.25 |
| 1955 | 2.86              | 16.56 | 6.01           | 34.19 | 4.52        | 26.69 | 3.61          | 31.12 |
| 1960 | 6.29              | 40.33 | 6.27           | 39.11 | 4.44        | 28.96 | 3.25          | 24.57 |
| 1965 | 2.91              | 35.43 | 3.78           | 29.17 | 2.56        | 19.35 | 1.84          | 17.34 |
| 1970 | 1.90              | 28.42 | 3.38           | 30.28 | 2.30        | 20.59 | 2.58          | 31.78 |
| 1975 | 2.02              | 22.9  | 1.99           | 17.07 | 2.55        | 18.23 | 2.43          | 26.36 |

(a): Ratio “Industrial Securities/Total Assets” and (b) Ratio “Industrial Securities/Total Credits”.  
Source: Reports of the Banco de Valencia several years and Balances de la Banca Privada (CSB)

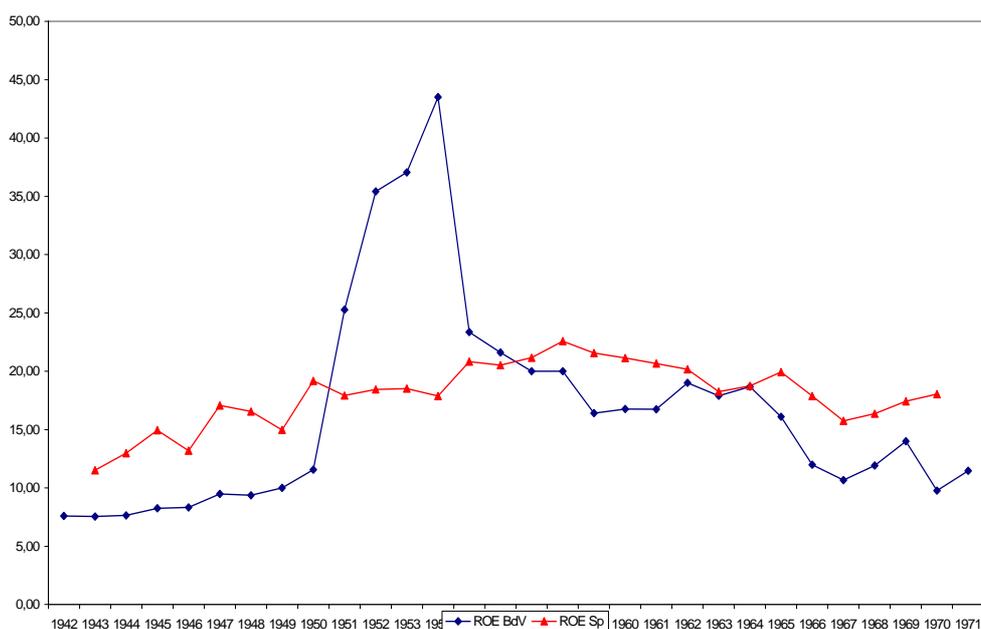
### 3. The important changes of the 1950s

In 1954 Antonio Noguera died and Ignacio Villalonga became the new President. Villalonga started in the Banco de Valencia in 1927, and went to the Compañía Española de Petroleos (CEPSA) in 1933. In 1939 he took charge of reorganising the Banco Central (CEPSA and the Banco Central were subsidiary firms). With Villalonga the Banco Central started its expansion and reinforced its strategy of mixed banks (Tortella and García Ruiz 1993, p.165). What changes can we detect in the Banco de Valencia from this year? First of all, in the 1960s there was a slower growth of loans than in the post war years. As Table 7 shows, this is the general trend for the total banks and also the regional banks but the decline in the rate of growth was more important for the Banco de Valencia (the annual accumulative rate of growth for the period 1955-1960 was 2.33 for the Banco de Valencia whereas for the total banks it was 12.76 and for the regional banks 19.16). Secondly, there was a higher involvement of the Banco de Valencia in industrial activity as the increase in the ratios “Industrial securities/Total Assets” and “Industrial Securities/Total Loans” (Table 6) indicates. As such, Villalonga changed the Banco de Valencia’s strategy towards a more industrial oriented bank. What were the repercussions of this change on banking profitability? Table 8 and Figure 1 show the evolution of profitability. Although the profitability rates of the Banco de Valencia had a declining trend in the period 1954-1964, the profitability rates were still quite high. In fact, in this period the profitability rates went back to the normal profitability rates after a period of obtaining extraordinary profitability rates (1951-1954).

|      | Rate of growth Loans (%) |                |             | Rate of growth Deposits (%) |                |             |
|------|--------------------------|----------------|-------------|-----------------------------|----------------|-------------|
|      | Banco Valencia           | Regional banks | Total banks | Banco Valencia              | Regional banks | Total banks |
| 1945 | -1.32                    |                | 20.5        | 12.21                       |                |             |
| 1950 | 16.98                    |                | 14.8        | 17.44                       |                | 15.01       |
| 1955 | 18.94                    | 18.17          | 18.17       | 15.49                       | 15.28          | 16.17       |
| 1960 | 2.33                     | 19.16          | 12.76       | 9.29                        | 13             | 12.86       |
| 1965 | 1.67                     | 6.66           | 9.68        | 15.10                       | 15.07          | 17.86       |
| 1970 | 19.69                    | 9.15           | 19.06       | 19.32                       | 10             | 14.51       |
| 1975 | 25.20                    | 23.4           | 27.0        | 12.18                       | 20.22          | 19.61       |

Sources: Reports Banco de Valencia several years and Balances de la Banca Privada (CSB)

Figure 1. Evolution of profitability (ROE) for the Banco de Valencia and an average for the Total Spanish Banks



**Table 8. Profitability of the Banco de Valencia and the Total Spanish Banks (in percentage)**

|      | Banco de Valencia |       | Average Spanish banks |      |
|------|-------------------|-------|-----------------------|------|
|      | Prof1             | Prof2 | ROE                   | ROA  |
| 1942 | 7.58              | 0.69  |                       |      |
| 1945 | 8.24              | 0.66  | 11.51                 | 1.24 |
| 1950 | 11.57             | 0.04  | 19.17                 | 1,23 |
| 1955 | 23.36             | 0.73  | 20.83                 | 1.08 |
| 1960 | 16.76             | 0.44  | 21.13                 | 1.09 |
| 1965 | 16.10             | 0.22  | 19.93                 | 0.93 |
| 1970 | 11.2              | 0.34  | 18.03                 | 1.26 |

Prof1: "Profits/(capital +reserves)", Prof2: "Profits/Total Assets", ROE: average Prof1 for the Spanish banks, ROA: average Prof2 for the Spanish banks`.

At the end of the 1950s the limitations of autarky became increasingly apparent and Spain's economic difficulties reached crisis proportions. The economic problems and international pressure forced the Franco government to adopt the 1959 Stabilisation Plan. The Plan set out to liberalise external trade and introduce market mechanisms. Although the liberalisation process was shy, the Plan acted as a stimulus to economic growth. The new economic environment created by the 1959 Plan was reflected in the *Ley de Bases* (Banking Law) of 1962. Despite the stated objectives of the *Ley de Bases*, there were few liberalising measures contained in this law. Barriers to entry were maintained, and controls on banking operations were even reinforced. The only area where the 1962 Banking Law introduced important changes was in branching with a significant relative liberalisation. In 1964 the Banco de Valencia began a period of

expansion with the opening of branches in Valencia, Elche, Alicante and other places. Another effect of the 1962 Banking Law was the creation of new banks. In particular the new banking institutions in the Valencia area were: the Banco Alicantino de Comercio (1964), the Banco de la Exportación (1965)<sup>16</sup>, the Banco de Alicante (1965), and later on an industrial bank, the Promobanc (1973). There was then an increase in competition as a consequence of the establishment of new banks and also new branches by other banking institutions. In fact the number of branches in Valencia in 1964 was 239 and in 1970 346, although the Banco de Valencia also increased its presence and went from having 61 branches in 1964 to having 92 in 1970 (Roselló and Bono 1973, p.146-147). But we must not forget that in 1970 the Caja de Ahorros y Monte de Piedad de Valencia had more than 169 branches.

The Banking Law of 1962 and the subsequent laws also had another influence on the banks: this banking law indicated that “the exercise of managing and executive duties in private banks shall be subject, as regards incompatibilities, to such regulation” and that it was necessary to control who presided over the different banking institutions in order to reduce problems of incompatibilities to such regulations as the Government may lay down on the proposal of the Finance Ministry. Following these indications it was no longer convenient that Ignacio Villalonga was the president of the Banco Central and the Banco de Valencia and so Villalonga was dismissed. Joaquin Reig became the new president.

Finally, this banking law tried to divide the banking sector into commercial and industrial banks and so it forced specialisation. In Valencia was founded the Banco de Promoción de Negocios (Promobanc). In this banking institution participated some important Valencian entrepreneurs. However, the perverse effects of this distinction between commercial and industrial banks, in the sense that the main banks were the owners of the main newly created industrial banks, led to its abrogation in 1974.

Martínez Serrano and Reig (1992, p.45) claim that 1960-1973 was the period of the most intense transformations in the Valencian economy. In this period the Valencian economy grew at the same rate as the Spanish economy (7 %) and the sectors in rapid expansion were the industrial sector (9.6 for the Valencian economy and 9.2 for the Spanish economy), the building sector (12.5 for the Valencian economy and 8.3 for the

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<sup>16</sup> The Banco de la Exportación was founded in 1965 to help the export activities. The President was J.A Noguera, and the Vice-Presidents were Ramón Flors Ortells and Manuel Casanova Bonora. These names belonged to families strongly linked to the Banco de Valencia from 1927.

Spanish economy) and some branches of the tertiary sector, especially those related to tourism. The sector with the lowest rate of growth was the agricultural sector. In this period the Valencian economy passed from being an agrarian to an industrial economy. On the one hand, the progressive liberalisation of the Spanish economy and the development of new means of foreign sources of finance implied a lesser role of the Valencian economy in the Spanish economy than in the previous period. The reason was a lower dependence of the Spanish economy on Valencian exports. On the other hand, an important process of industrialisation took place in the Valencian economy in this period with an important specialisation in sectors such as textiles, furniture, shoes and ceramics, among others. These were traditional sectors, with low technology, labour intensive, specialised in consumption goods and made up of small and medium sized firms -in 1974 in a total of 410 firms, 195 had less than 10 workers. The Valencian economy had a tradition in these sectors but in this period they achieved an important expansion and modernisation. The growth of these sectors was a consequence of internal demand and also in some specific sectors, such as the tile industry and the shoe industry, of external demand.

Some authors consider that in this period Valencian industrialisation took place despite the evolution of the agricultural sector. Martinez Serrano and Reig (1978, p.208) claim that for the period 1965-1969 most of the domestic savings went towards investment in new orange trees and that this deviation of resources towards the citric sector did not favour the industrialisation process. From 1958 to 1968 the citric area increased by 59 per cent, despite a decreasing trend of the profitability in this sector<sup>17</sup>. The main reason was the traditional mentality of the middle and high social classes who invested their savings in orange trees. Despite this citric agricultural expansion, the industrial sector experienced rapid growth.

How was the Banco de Valencia affected by this economic development? As explained before, the Banco de Valencia traditionally maintained strong links with the agricultural sector and particularly with the rice (Serrá Sister 1969) and citric sectors. These sectors did not have a very favourable evolution in this period. Moreover, we must not forget that the network of branches of this banking institution were located in the main citric producer zones. In this sense the Banco de Valencia during the 1960s had to faced up to three main questions: a) to define the “commercial” or “industrial”

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<sup>17</sup> The rise in production costs and low prices were the main reasons for the decrease in profitability in the citric sector (Sigma 1974, p.280 en MS 1978. P.151)

nature of the bank, b) to adapt its financial structure to the new needs of the Valencian economy and c) to face up to the increasing competition.

With respect to the first question, in the 1960s the Banco de Valencia consolidated the commercial nature of the bank.. In this period there was an important fall in the ratios “Industrial Securities/Total Assets” and “Industrial Securities/Total Loans” (see Table 6), there was a modest growth in loans in the first half of the 1960s and an important recovery in the second half of the 1960s (the rate of growth of loans in the period 1965-1970 was 19.69). Finally, there was a rapid increase in the discount of effects activity (see Table 4).

With respect to the second question, the scarce empirical information we have shows that the Banco de Valencia made a modest contribution to the Valencian industrial expansion at least until the mid-1960s, and a higher contribution from 1965. This contribution was reflected in the important increase in loans, with an annual accumulative rate of growth of 19.69 in the period 1965-1970 and 25.20 in the period 1970-75, clearly above the average for the regional bank. Also the discount of effects activity rose substantially in the second half of the 1960s. However, the important expansion of the Valencian economy in the 1960s was not reflected in the same way in the results of the Banco de Valencia, as the decreasing trend of the profitability rate in this period indicates (Figure 1). We must take into account that in the 1960s the bank had to adapt its structure to the new situation of the Valencian economy, with a relative lower participation of the agrarian economy, and to define its strategy for the future.

Finally, there was also an important increase in competition, mainly linked to the increasing role of the savings banks<sup>18</sup>. This adaptation was not an easy task. The Banco de Valencia experienced some problems during the 1970s not only because of the general context of crisis but also for internal problems. In the 1960s there were 5 “native” banks in the Comunidad Valenciana: Banco de Valencia, Banco de la Exportación, Promobanc, Banco de Alicante and Banco Alicantino de Comercio, 13 saving banks (5 from Valencia), and an important number of credit cooperatives. In 2000, however, there were 44 financial institutions: only 2 banks, 4 saving banks and the rest were credit co-operatives. The “native” Valencian banks were the Banco de Valencia and the Promobanc. In relative terms the Valencian more successful financial

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<sup>18</sup> In 1965 the total deposits in the hands of savings banks in Alicante, Castellón and Valencia was around 16,000 million pesetas and in 1971 it was around 51,000 million pesetas (Boletín Estadístico del Banco de España) with an important expansion in their number of branches.

institutions were the saving banks. These financial institutions started a period of strong expansion during the 1980s and 1990s and merged other financial institutions. The Caja de Ahorros y Monte de Piedad de Valencia merged the Caja de Segorbe in 1989 and the Caja de ahorros y Monte de Piedad de Castellón in 1991. After that it called BANCAJA. In 1993 it merged the Caja de Ahorros de Sagunto and bought the capital of the Banco de Murcia.

At the end of the XXth Century the evolution of the Valencian banks was very different: there was only a Valencian bank, the Banco de Valencia, but it was integrated in the BANCAJA group. In 1994 BANCAJA bought the shares of the bank in hands of the Banco Central Hispano (the 24, 24 per cent of the total assets of the Banco de Valencia). From this moment the Banco de Valencia reinforced its “Valencian” character but despite its functional independence, there were not longer independent Valencian banks<sup>19</sup>. The good results of the Banco de Valencia during the last decade of the twentieth century, with solid profitability and robust loan growth, confirms that in the long-term the bank managed to adapt to the new conditions. The next step of this research will be to analyse in depth the main difficulties of the Banco de Valencia during the mid-1960s and 1970s and to show how the Banco de Valencia finally managed to adapt to all these changes and undergo an important recovery from the 1980s.

## **Conclusions**

The Banco de Valencia in its origins was linked to the Valencian agriculture sector, especially rice and oranges. Despite its very modest performance in its early decades, after 1927 the bank experienced an important expansion in terms of branches and also profits. The difficulties of the agricultural sector and the slow recovery of the industrial sector in the post-war years prevented the bank from achieving high profitability rates in those years. In the 1950s Villalonga and the close links with the Banco Central implied a reorientation in its financial activity and the bank adopted a more industrial orientation. However, this change was very short lived and in the mid-1960s the Banco de Valencia definitively consolidated the commercial nature of the bank. In these years the bank had to adapt to the important changes taking place in the

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<sup>19</sup> El Banco de la Exportación había sido adquirido en los ochenta por ARESBANK, para posteriormente desaparecer, y con respecto a Promobanc, fue inicialmente absorbido por el Banco de Bilbao y en la actualidad pertenece al Grupo BBVA.

Valencian economy with a relative decline of the agricultural sector and an important expansion of the industrial and service sectors. The need to adapt to this new situation explains the modest evolution of the Banco de Valencia's profitability rates in those years. But its contribution to the financing of the Valencian economy was clear given the important increase in the rate of growth of loans and discount of effects shows. The Banco de Valencia showed a financial profitability in 2002 of around 18.55, well above the average rate for the whole banking sector (11.93). The good results of the Banco de Valencia indicate that in the long term the bank has managed to adapt to the new situation of the Valencian economy, a notion which provides motivation for further research in order to know how this adaptation actually took place.

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