

GEOGRAPHY OF SPANISH SOVEREIGN DEBT. SOME SPATIAL CONSIDERATIONS FROM A POLITICAL PERSPECTIVE

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I. INTRODUCTION

The spatial structure of the international financial connections is an element that can be useful to better understand the characteristics of the current economic crisis. A growing interdependence between equity flows, investments and the mechanisms of decision-making on financial politics matters seems to exist. Equity markets have a remarkable capacity of influencing the political room of manoeuvre of the States, their financial soundness and, in essence, the capacity of implementing a certain model of State. The possibility of being able to map the international movements of equity may be a useful line of research when getting to know the geography of the financial crisis better, to the extent that it can provide some relevant data about the source of the investments and the influence of spatial location in the organisational structure of the financial «multinational» companies that perform global scale operations from a differentiated spatial logic.

As happens in other economic areas, the organisation of international financial companies has a very characteristically territorial logic. As noted in the data provided, foreign investors in Spanish debt, listed by the Public Treasury under the generic name of «non-resident holders», form a conglomeration of companies who have a complex organisational structure, where spatial dimension plays a central role in their global market strategy.

The location patterns of the financial companies that are active on an international level are sophisticated. From the point of view of territorial analysis there is an important difference between the concept of foreign investor and that of non-resident holder. The complexity of financial activity has meant Spanish companies are able to acquire debt from subsidiaries located in other countries. In contrast, foreign companies can acquire debt from their subsidiaries located in Spain. In this case, more common and more important than the previous one, they would be foreign investors, even if the acquisitions were not made from outside Spain. Geographical data analysed here relates to the specific location of investment

companies. For example, if a Spanish sovereign debt investor is the subsidiary located in Ireland of a French company, for the spatial count the reported capital is allocated to Ireland and not to France. Together with the spatial scale, it has been necessary to clearly determine which is the most appropriate unit of analysis. In this case the reference used has been the ten-year maturity State Bonds.

As it hasn't been possible to obtain the appropriate spatial disaggregation on the public registries, the option chosen has been to analyse diverse data drawn from the financial agency Thomson Reuters, who has updated information that is key to knowing some characteristics of the non-resident holders available. Through the agency it has been possible to access the list of the investment companies who have reported holding sovereign debt securities in August of 2012, the last available data when this study was being drafted. The crosschecking of available databases at the agency has allowed us to have a list of establishments available, disaggregated by countries, which report holding sovereign debt.

The selected debt issues correspond exclusively to those performed in the securities trading secondary market, and have been localised through their ISIN codes. The information compiled exclusively affects those companies who have reported holding these products within their portfolios. It is estimated that the analysed data represents around 4% of the nominal value of the total of registered issues.

II. SPATIAL STRUCTURE OF THE FINANCIAL INVESTMENT COMPANIES

They are highly specialised companies employing highly qualified professionals. In many cases they are related to big banks (Santander Assets, BBVA Assets, BNP Paribas Investment, etc.) and they sometimes work as links between traditional commercial banking activities and financial investments in highly speculative derivatives and futures markets, where capital gain is substantial but so is the risk and that means using certain investment strategies. This *de facto* union between commercial and financial banking allows for investing huge amounts of money in high-risk products, and is a key aspect of the problem.

From the spatial point of view, they are companies that very often have a complex organisational structure with a high level of organisational decentralisation and offshoring of their activities in global scope financial centres. Usually destination countries and cities are also world financial centres, through a strategy of expansion and diversification of the market. The tax regime, the ease of mobilising a huge amount of capital in short periods and without important obstacles, or the location of strategic financial centres are only some of the location patterns linked to these type of activities.

Although the internal relation of each of the subsidiaries can vary, in general the level of autonomy is not too high. Apparently there is a high level of dependence with regards to the strategic decisions taken at central headquarters, generally located in a big world financial centre, and that exert a strict pyramidal control with regards to the different subsidiaries that are based in other countries. Therefore it is possible to speak about complex commercial groups acting on the international financial market through diverse companies, often located in some of the big world financial centres, especially in the City. Thus the relocation strategy allows us to cover a larger-sized financial market through a more or less diversified corporate structure.

A relevant example of this kind of organisation is the case of BNP Paribas. It is an important European bank and a regular buyer in the Spanish market. When analysing its strategy regarding the acquisition of bonds in detail we can see that the investments are made through at least eight different delegations located in seven countries, although the possibility of this number being in fact higher is not discarded. The social headquarters of the company is still in France, the place where it reports holding a higher number of securities, even higher than in its Spanish subsidiary. Together with debt from both countries, BNP has acquired debt from Luxembourg, Belgium, Japan, Holland and the United Kingdom. Spatial diversification in the management of assets is then high. It is unknown what the internal functioning of this process is, neither is much known about the decision-making procedures that explain why they issue orders to buy from one place or other.

Table 1

NOMINAL VALUE OF THE 10-YEAR BONDS REPORTED BY THE BIGGEST INVESTMENT COMPANIES (AUGUST 2012)

	Nominal value (in thousands US\$)	%
Santander Asset Management SA, SGIIC	902,186	7.25
BBVA Asset Management, SA, SGIIC	896,282	7.20
BNP Paribas Asset Management SAS	782,697	6.29
AXA Investment Managers Paris	712,128	5.72
Amundi	575,850	4.63
Invercaixa Gestión, SGIIC, SAU	507,497	4.08
Allianz Global Investors France SA	406,713	3.27
CM-CIC Asset Management	346,439	2.78
Natixis Assurances	342,690	2.75
MMA Finance	325,617	2.62
CNP Assurances (Caisse Nationale de Prévoyance)	301,309	2.42
Total big companies	6,372,406	51.18
<i>Rest of companies</i>	<i>6,078,253</i>	<i>48.82</i>
Total general	12,450,659	100

Source: Thomson Reuters on 14/08/2012 and created by the author.

The analysed data highlights that the biggest part of the analysed debt is held by a small number of companies, a key aspect due to the high risk of cartelisation that is involved in this phenomenon. Only 11 of the 328 societies absorb more than half –51.18%– of the value of all reported bonds. Financial concentration and the hierarchisation of the investments is therefore very high and it could possibly be even higher, as many companies operating in the market with different identifiers are in reality subsidiaries of a big-holding of worldwide scope, and therefore the level of concentration of financial equity in few holders is highlighted (Table 1).

Investments are made from a reduced number of countries. Excluding those proceeding from within Spanish territory, most investment societies are located in states within the E.U. In general, the presence of commercial companies in the American, Asian and let alone the African space is of little relevance. 95.75% of the nominal value of the analysed securities have been acquired in Europe, and the remaining 4.24% is divided equally between Asia (2.05%) and America (2.19%). The presence of companies with its origin in Africa is merely a testimonial (0.01%). It seems obvious that equity from Asian or American sources doesn't operate directly in the Spanish market, but it does however do it through specialised companies who are located in Europe (Map 1).

In Europe, the largest part of investments are made from a select group of countries, from which investment companies acquiring bonds on the secondary market operate. They come mainly from States belonging to the Eurozone (Spain, France, Germany, Italy, Austria, Holland, Finland, Luxembourg, Ireland, Belgium, Portugal and Monaco). The cases of the United Kingdom, Denmark and Sweden as States within the EU without a single currency should be added, as well as those States not belonging to the UE (Norway and Switzerland). So, seventeen of the twenty-five countries acquiring debt are located in the continent. On one hand this element shows the strong «regional» nature of Spanish financial positions on the international context, and on the other, the low participation of emerging economies (Map 2).

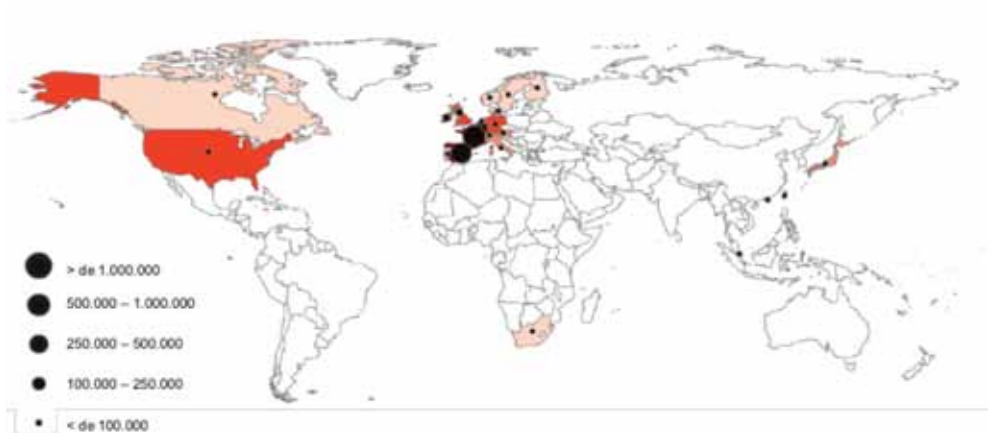
Worldwide, the largest bond investment is made from France. Its companies manage issued debt worth 4,969 million dollars, 39.92% of the total value, even more than securities acquired in Spain, which for the same time period reached 4,304 million dollars and represented 34.57%. Seven of each ten dollars of reported bonds therefore came from French and Spanish societies.

This financial macrocephaly becomes apparent when noticing the volume of debt acquisition by other countries. The second largest investor, regarding the reported nominal value, corresponds to companies located in the United Kingdom, with 498 million, a much lower figure than the French one. The same happens with Germany, which is the fifth largest European investor with reported bonds worth around 318 million. Its companies manage significantly small amounts compared to French companies. However, a direct correlation between the economic position of a State and the volume of the debt acquired from it doesn't seem to exist. The strategy of spatial diversification, which is characteristic of financial companies, dissociates both elements, as Allianz, one of the biggest private holders of Spanish debt, is German, although the debt is acquired from third countries.

Outside of Europe the number of investors decreases significantly. The low internationalisation level of the Spanish debt market is manifest, as only two American countries, U.S.A. and Canada, have investments in bonds issued in 2012. Previously, companies located in the Bermudas had acquired this product, although its presence and impact was only symbolic. The distribution of the investments made is concentrated around two big financial companies, The Vanguard Group Inc., and Oppenheimer Funds Inc., who have bonds worth 120 million dollars and represent 43.9% of the nominal value of the bonds which are reported by societies of the U.S.A.

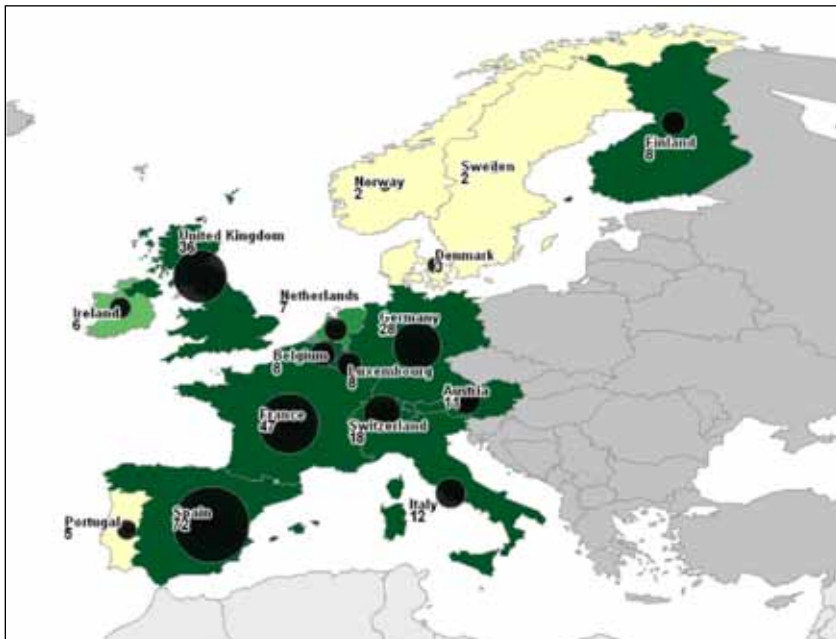
From Asia, there are companies who are active in Spain, located in Japan, as this country is capitalising the investment, holding 95.6% of the total value of the acquired debt. The cases of Hong Kong and Taiwan should be added, representing 3.6% and 0.8% respectively.

Map 1
LOCATION OF INVESTMENT COMPANIES ON THE SECONDARY MARKET
(REPORTED NOMINAL VALUE, IN THOUSANDS OF US\$)



Source: Thomson Reuters on 14/08/2012 and created by the author.

Map 2
EUROPEAN COMPANIES INVESTING IN THE SPANISH MARKETS
(AUGUST 2012)



Source: Thomson Reuters on 14/08/2012 and created by the author.

It is probable that companies located in Hong Kong are linked to capital from Chinese sources, a fact that would explain, at least partially, the high proportion of debt acquired in yuans. The last bond trader is from Singapore, although its stake in the global value is residual. From the point of view of the entrepreneurial structure, financial concentration in the hands of a few is still prevailing in these spaces, as is happening in Europe and America. The process of capital concentration is even bigger, as much as 76,37% of the nominal value of Asian investments are held by five financial companies, most of them subsidiaries of the big Japanese Zaibatsu.

III. CONCLUSIONS

The use of financial information for spatial analysis can be a valuable tool in the understanding of political and economic relationships between different States. The evolution of the financial crisis within the fold of the EU has highlighted the existence of a direct correlation between flows of international financial investments and the political relationships within the Member States. Managing this information allows us to know, in more detail, some of the spatial consequences that this process has generated.

The Spanish debt acquisition market is limited to a small group of large companies, which control an important part of it. Analysed data highlights that a substantial part of the reported bonds on the secondary market are held by a select group of companies. Perhaps there is some hastiness when talking about the anonymous nature of the markets, as with proper information it is possible to figure out those who are ultimately responsible for certain investments and from where these investments are made.

Financial companies use spatial location as a strategic tool in the process of decision-making. Their organisational structure is highly diversified and with an important level of specialisation, and its position in the territory is considered as an element that plays a relevant role. This structure has a global scope and debt investments are made in a complex way, through various companies located in the large international financial centres. Although it is somehow risky to speak about cartelisation of the financial space, the concentration of investments in a reduced number of companies makes it possible for them to carry out these kinds of practices.

On the contrary of what happens in other areas of economic activities, especially in industry, where different subsidiaries of large multinational companies show a high level of internal specialisation and selected locations in the territory, within the financial sector the internal organisational structure of the different delegations doesn't present relevant differences. Its organisational structure is linked to the existence of a location logic appropriate to the morphology of this sector.

The patterns of location of these equity management multinational companies seem to be twofold. Firstly, the setup of subsidiaries in the large international financial markets allows for a greater proximity to investors and facilitates a diversification of business opportunities on global scale. Secondly, the proliferation of many subsidiaries in countries where tax legislation is favourable is remarkable. The analysed data of the Spanish market shows that some operations are performed from these types of spaces. It would be very useful to have an in-depth study of internal equity flows that take place within the different subsidiaries of these groups.

The final step in the decision-making processes regarding debt acquisition takes place in some international financial centres, with everything pointing to the City of London playing a key role in the current situation. The exterior financial flows of sovereign debt come mainly from France, followed at large distance by the United Kingdom (City), and two countries, Luxembourg and Ireland, which have a beneficial tax structure. It is a little striking how low the stakes of financial companies located in Germany are. The French and German political stance could be the reason, at least partially, of the exposure of their investors in the Spanish market. The level of internationalisation in Spain is less diversified than it could appear to be a priori. This element could be considered key in international political strategy terms, to the extent that Spain still shows an insufficient level of economic and political relationships with some dynamic geo-economic spaces.

The minor role of emerging countries in the Spanish financial market is significant. Investments from companies located in some countries that are foremost investors, such as China, Russia, India or Brazil, have not been detected or are very marginal. Maybe it is convenient for Spain to reinforce its role in other spaces other than the European. Spain is focused on the EU to face this crisis and maybe it is necessary to diversify its efforts towards new markets from a more global geo-political perspective.