THE WORLD BANK

WORLD TRADE ORGANIZATION

The Internationalization of Financial Services

Issues and Lessons for Developing Countries

Editors
Stijn Claessens
and Marion Jansen

KLUWER LAW INTERNATIONAL
THE HAGUE · LONDON · BOSTON

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Published by:
Kluwer Law International
P.O. Box 85889, 2508 CN The Hague, The Netherlands
sales@kli.wkap.nl
http://www.kluwerlaw.com

Sold and Distributed in North, Central and South America by:
Kluwer Law International
675 Massachusetts Avenue, Cambridge, MA 02139, U.S.A.

Sold and Distributed in all other countries by:
Kluwer Law International
Distribution Centre, P.O. Box 322, 3300 AH Dordrecht, The Netherlands

Library of Congress Cataloging-in-Publication Data is available

Printed on acid-free paper

ISBN 90-411-9817-2

Kluwer Law International incorporates the publishing programmes
of Graham & Trotman Ltd, Kluwer Law and Taxation Publishers
and Martinus Nijhoff Publishers

Printed and bound in Great Britain by Antony Rowe Limited.

PREFACE

In February 2000 the WTO's Services Council formally launched the new round of negotiations on services that will include negotiations on trade in financial services. The internationalization of financial services is an important issue in the context of strengthening and liberalizing financial systems in developing countries. Both the WTO Secretariat and the World Bank have been active in research and policy work on liberalization and internationalization over the last few years.

This and other work has shown that internationalization is an area where exchange of experiences can be very useful. A one-day conference, sponsored jointly by the WTO Secretariat and the World Bank, took place on 10 May 1999 at the WTO in Geneva. Invitees to the conference included Geneva-based WTO delegations, representatives from international institutions, individuals from the private sector, academics, and WTO Secretariat and World Bank staff. The emphasis at the conference was on round-table discussions. As background, a number of papers had been prepared under World Bank sponsorship. They form the basis of this book, with other papers added at a later stage.

The papers cover several case studies, reviews of the EU experience of internationalization, the political economy of internationalization, the legal/regulatory dimensions of internationalization, and a review of the financial services agreement of December 1997. The case studies focus on the effects of opening up the financial services sector in specific countries. The focus of other papers is on implementation issues arising from the exposure of the financial sector to foreign competition, including transition issues and regulatory and legal matters.

In particular the issues addressed in the papers include:

- The benefits of a strong and competitive financial sector.
- The role of internationalization in creating stronger financial systems.
- The differences between foreign and domestic financial services.
- The effects of foreign entry on domestic financial services providers.
- The importance of domestic deregulation and the quality of the institutional framework for internationalization.
- The relationship between internationalization and capital account liberalization.
- The advantages of a phased program of opening up.
- Internationalization of financial services as part of a process of deeper integration.
- The value to countries of committing to internationalization.

As general experience and the chapters in this book show, there is much support for the view that internationalization can help countries build more robust and efficient financial systems by introducing international practices and standards; by improving the quality, efficiency, and breadth of financial services; and by allowing more stable sources of funds. Given the state of institutional development of many developing countries' financial systems, these benefits could be substantial. Yet there have also been concerns about the speed and degree to which countries should open up to foreign competition in the financial sector and it has been recognized that internationalization particularly in the absence of adequate regulatory structures may carry certain risks. The chapters in this book point at different aspects that determine whether the benefits of internationalization of financial services exceed its potential costs. Together they provide insights on the variety and importance of the effects of internationalization on domestic financial systems and, we believe, offer some useful information for those countries that are considering whether to increase the openness of their financial sector.

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WTO

ACKNOWLEDGMENTS

We would like to thank the World Bank for providing financial support for the project. This allowed the commissioning of number of the papers in this volume, the organization of a conference on 10 May 1999 in Geneva, and the production of this book. We are also grateful for support from the WTO Secretariat.

We would like to extend our thanks to a number of individuals. We acknowledge our debt to Mike Walton and Alan Winters at the World Bank who helped in initiating the project. Brian Hindley was instrumental in getting the project from initial concept stage to a full fledged proposal. The two referees of the Research Support Committee of the World Bank provided constructive comments which helped improve the project design. Ross Levine and Jordi Gual reviewed most of the papers and provided very useful and constructive comments to the authors. Patrick Low provided much encouragement during the project. We are also grateful for the rapporteurs at the conference, Joseph Francois, Jordi Gual, and Xavier Vives. Rose Vo and Lidia Carlos Silvetti were a great help in making the conference a very smooth event.

We are grateful to a number of colleagues at the World Bank and the WTO for their advice and comments on the project and draft of various papers. Thomas Glaessner and Daniela Klingebiel at the World Bank provided useful comments and suggestions on individual papers. We acknowledge the continued encouragement and support of Gerard Caprio. Patrick Low and David Hartridge as well as Masamichi Kono at the WTO were instrumental in organizing the conference. We have benefited from the comments and suggestions from a number of others outside the World Bank and the WTO, including Wendy Dobson and Sydney Key.

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Stijn Claessens and Marion Jansen†*

OVERVIEW THE INTERNATIONALIZATION OF FINANCIAL SERVICES: ISSUES AND LESSONS FOR DEVELOPING COUNTRIES‡

1. Introduction

This book presents fourteen contributions analyzing different aspects of the internationalization of financial services. Some of the papers concentrate on theoretical aspects, some investigate cross-country patterns while others examine specific country experiences with internationalization. All of them focus on whether the benefits of internationalization of financial services exceed potential costs. Together, they shed light on the variety and importance of the effects of internationalization on domestic financial systems.

The main conclusion that emerges is that internationalization can offer countries important benefits, but that it does raise some specific risks. Internationalization can help countries build more robust and efficient financial systems by introducing international practices and standards; by improving the quality, efficiency and breadth of financial services; and by allowing more stable sources of funds. Given the state of institutional development of many countries' financial systems, these benefits could be substantial.

The extent of these benefits, and the costs of internationalization depend, to a great extent, on how it is phased in with other types of financial reform, particularly domestic financial deregulation and capital account liberalization. Many countries which had successful experiences (Argentina, Spain, Ireland, Portugal and others) opened up to foreign financial firms while also engaging in a process of rapid domestic deregulation and, consequently, reaped substantial gains. The experience of the EU, in particular, suggests that internationalization and domestic deregulation can be mutually reinforcing. Increased foreign entry bolsters the financial sector framework creating: a constituency for improved regulation and supervision; better disclosure rules; and improvements in the legal and regulatory framework for the provision of financial services. It also adds to the credibility of rules. These benefits of opening up to foreign entry follow from top-down actions on the part of government, as well as from bottom-up pressures from the market as best international practices and experiences are introduced.

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‡ We would like to thank Sydney Key for very useful comments.

S. Claessens and M. Jansen (eds.), The Internationalization of Financial Services, 1–17.

The two reform processes (internationalization and domestic financial deregulation) are mutually reinforcing, but they are not sufficient in themselves. More than in other sectors, the gains and costs of internationalization depend on the regulatory and supervisory framework, which often needs to be adapted. Experience shows that it is vital to strengthen the supporting institutional framework in parallel with domestic deregulation and internationalization; this is particularly true of the regulatory and supervisory functions of the state but it also applies to the use of the market in disciplining financial institutions (especially through better information and greater disclosure, and improved standards for the governance of financial institutions).

The need to strengthen the supporting institutional framework is even more obvious when it comes to capital account liberalization. Experiences in recent years have shown that achieving the potential gains, and avoiding the risks, of capital account liberalization depend to a great extent on the domestic incentive framework being in place for financial institutions and the strength with which regulations are enforced. The experiences in this volume underline the potential benefits of foreign financial institutions in stabilizing capital flows. Several countries with significant foreign presence benefited from the access of these institutions to foreign capital during periods of economic turbulence. More generally, the studies show that foreign presence can lead to a stronger regulatory and supervisory framework, thus making the processes of capital account liberalization and internationalization mutual reinforcing.

2. Context and Scope of Issues Regarding Internationalization

As globalization advances, countries experience increasing pressure and incentives to seriously evaluate the internationalization of services – the opening of domestic service markets to international competition, and the growth of cross-border provisions. This pressure stems from the increased importance of services, generally, to economic growth and well-being; the complementarity of services to trade and capital flows; and the increased ability to transfer services across borders. Regional trade agreements and deliberations increasingly focus on services, multilateral negotiations in the General Agreement on Trade in Services (GATS) on services started in February 2000.

Financial services are an important part of this trend. Increasingly, countries recognize that finance is crucial for savings, efficient resource allocation and growth. A broad sample of empirical and analytical work in recent years has confirmed that a sound and efficient financial sector is essential to economic growth. The financial sector is a "make-or-break" sector for many developing countries in firmly achieving economic growth – especially given the challenges that both industrial and developing countries have faced in building robust financial systems.

The contributions in this book support the view that internationalization can help countries build more robust and efficient financial systems by introducing international practices and standards; by improving the quality, efficiency, and breadth of financial services; and by allowing more stable sources of funds. Given the state of institutional development of many developing countries' financial systems, these benefits could be substantial.

Yet, there have been many concerns expressed over the speed and degree to which countries should open up to foreign competition in the financial sector.

The debate on the role of open financial markets intensified after the East Asian crisis that started in the summer of 1997. The extent of the crisis was alarming as the problems rapidly spread from the financial sector to the real economy. Structural problems in the banking and corporate sectors of the concerned countries were among the factors that have been identified as contributing to the crisis. But it was the role of international capital that evoked new questions about the benefits and risks of internationalization.

Internationalization has raised a number of fears: the threat to domestic financial service firms and domestic financial systems; the undermining of prudential controls; the loss of monetary autonomy; and the increased volatility of capital flows. But many of these concerns are not related to internationalization. It is useful to distinguish three types of financial liberalization, and to delineate the scope of each.

- *Domestic financial deregulation* allows market forces to work by eliminating controls on lending and deposit rates and on credit allocation and, more generally, by reducing the role of the state in the domestic financial system.
- *Capital account liberalization* removes capital controls and restrictions on the convertibility of currency.
- *Internationalization of financial services* eliminates discrimination in treatment between foreign and domestic financial services providers, and removes barriers to the cross-border provision of financial services.

This classification indicates that internationalization does not restrict governments' ability to enforce regulatory regimes, undertake prudential supervision, conduct monetary policy or manage external capital flows. These have not been at issue, either in the general debate on internationalization or in the context of the GATS-framework. Similarly, the issues analyzed in this book concern those raised by internationalization *per se* (although some papers also have findings with implications for the other two issues).

3. The Benefits of a Strong and Competitive Financial Sector

The financial services sector accounts for around five percent of total economic activity in mature industrialized countries, and for more than that in some countries. Even small improvements in efficiency generate significant gains in the sector itself. More important, improved provision of financial services allows greater efficiency in nearly all other sectors: by expanding the range and quality of financial services; by allowing transactions that would otherwise not occur; by facilitating firm entry and competition in other sectors; and by improving export competitiveness. It can encourage savings, and can lead to more efficient use of savings. In all these ways, financial services is not "just another sector." The empirical evidence strongly shows that an efficient financial services sector enhances economic growth (see Levine 1997 for a review).

The key issue is how to bring about the provision of efficient financial services. Clearly, an adequate legal and incentive framework, including prudential regulation and supervision, is a mandatory element. Openness to foreign competition puts pressure on domestic financial firms to improve their productivity and services, thus providing consumers with better, more appropriate and cheaper services. It also gives financial firms access to new technologies and ideas to help them raise efficiency. The contributions in this book analyze what are the most important potential gains to countries from further opening up their financial systems, as well as the specific gains countries have obtained when this has been achieved.

4. The Role of Internationalization in Creating Stronger Financial Systems

A proper conceptual framework has not always guided the debate on internationalization. The chapter by Brian Hindley reviews the various arguments put forward by those who favor a stronger and more efficient financial sector, yet argue for protection of the financial sector against foreign competition. Hindley reviews the reasoning behind arguments like: the potential negative effects of internationalization on domestic financial service providers; the possible difficulties in monitoring and supervising foreign companies; the "infant industry argument" that favors the protection of domestic financial service providers in order to allow them to mature; and the possible lack of commitment to the local economy of foreign firms that would increase the potential for rapid capital flight. Hindley finds that only some of these arguments would call for government intervention, and that there are no cases where protection against foreign competition would be the optimal policy.

The chapter by Eschenbach, Francois and Schuknecht expands on this analysis by making the links between financial sector openness, financial sector performance and growth performance – not only conceptually, but also empirically, for a large sample of countries. In their empirical analysis, the authors relate financial sector competitiveness with openness to trade in financial services. They then relate per capita growth with competitiveness. They find that more competitive financial sectors have a higher level of growth, and that competitiveness can be achieved by more financial sector openness. The chapter thus provides empirical support for the analytical findings of Hindley that protection against foreign competition does not help financial sector competitiveness but, rather, that openness helps competitiveness and, in turn, economic growth.

5. Differences between Foreign and Domestic Firms

Foreign and domestic financial institutions may differ in their performance, interest and operational focus. These factors need to be taken into account when evaluating the impact of internationalization, as some differences may reflect variations in the cost structure and orientation of banks. The chapter by Claessens, Demirgüç-Kunt and Huizinga takes a broad approach to this issue by using bank-level accounting data for eighty countries – industrialized countries, developing countries and transitional economies – for the years 1988–1995. The chapter shows that foreign banks have lower interest margins, overhead expenses and profitability than domestic banks in developed countries, whereas the opposite is true in developing countries. This suggests that the reasons for foreign entry, as well as the competitive and regulatory conditions found abroad, differ significantly between developed and developing countries.

Papi and Revoltella confirm these results in their chapter. They analyze foreign direct investment (FDI) in nine transitional economies – also using individual bank balance-sheet indicators – and they distinguish different levels of foreign ownership. Their analysis confirms that banks with foreign participation tend to be more involved in non-traditional operations and rely less on interest revenues. They are also characterized by less risky loan portfolios, i.e., a lower ratio of loan loss reserves to gross loans. Controlling for bank-specific indicators reflecting the activities of individual banks, the authors find that foreign participation is associated with higher bank profitability. But foreign shareholding of more than 70% is needed for foreign partnership to affect cost efficiency, suggesting that a strong majority share is necessary to successfully restructure a bank.

The chapter by Clarke, Cull, D'Amato and Molinari shows that foreign banks in Argentina also differ in several ways from domestic banks. Foreign banks tend to be larger and have better quality loan portfolios, higher net worth and higher ratios of operating income to costs. Once established, foreign banks also specialize in different activities. Foreign banks have a slightly smaller share of income from services than domestic banks. Foreign banks also tend to be less involved in consumer lending, and focus their portfolios rather on the manufacturing sector. Foreign banks thus differ in their operations from domestic banks, and their reasons for entering Argentina tend to be quite specific in order to exploit their comparative advantages.

The chapter by Papi and Revoltella also provides some insights into the motivation for entry of commercial banks in transition economies. The authors find that attracting foreign investment in the financial sector depends on a number of factors. In contrast to Clarke et al., they show that foreign banks base their initial decisions on investing abroad on a wide range of factors, amongst which are market opportunities, economic stability, trade relations and the stability and efficiency of the host country's banking sector. The decision to expand investments depends mostly on economic and political stability and the bank–customer relationship. All of these factors appear to reflect general economic opportunities, rather than specific interests in exploiting particular market niches.

6. The Effects of Entry on Domestic Firms

The core analysis of most of the chapters concerns the effects of foreign entry on domestic firms with the case studies, in particular, analyzing in detail the channels through which foreign entry may be affecting growth. In their analysis of a broad sample of banks, Claessens, Demirgüç-Kunt and Huizinga show that foreign entry[1] significantly reduces domestic bank profitability, non-interest income and overall expenses. The reduction in overhead costs (expenses) suggests that foreign bank entry induces an increase in efficiency of domestic banks. Also, as profit margins go down as a result of foreign

[1] Foreign entry is measured in two different ways: the change in the share of foreign banks in the total number of banks; and the change in the share of foreign bank assets in total bank assets. It turns out that foreign banks' market share (share in assets) does not have a significant effect on domestic bank operations, while the number of foreign banks has. The authors infer from this that the number of foreign players, rather than their market size determine competitive conditions in national banking markets.

competition, domestic firms come under pressure to reduce costs. The reduction in non-interest income suggests that competition of foreign banks affects especially non-lending activities of domestic banks, possibly reflecting that foreign banks have superior know-how in these services.

These general results are confirmed in more detail in the case studies, especially those covering the emerging markets where liberalization, and other reforms, often happened within a short period of time leading to considerable change. The chapter by Denizer focuses on Turkey. Like Spain, Greece and Portugal (also discussed in the book), the Turkish financial sector was highly regulated, resulting in a concentrated market dominated by a few large banks with extensive branch networks. Liberalization started in 1980 with the elimination of interest rate controls and reduction in directed credit programs. Entry was liberalized, leading to a large number of new foreign banks during the 1980–1985 period. The capital account was, however, only opened in 1989. As in other countries, foreign banks focused initially on market niches generating fee-based income. This limited the impact of foreign banks, and interest margins of domestic banks did not decline. However, foreign entry did affect overhead costs negatively and the profitability of domestic firms was reduced, implying that foreign competition increased the efficiency of domestic banks and put pressure on profits. Over time, the costs of fee-based services declined and a greater variety of services became available.

Similarly, Clarke, Cull, D'Amato and Molinari show that domestic banks in Argentina experienced increased competition in those markets in which foreign banks specialized. In particular, net margins and profits were lower in manufacturing – where foreign banks had entered aggressively – and higher in consumer lending – where foreign banks did not have a significant presence.

In a study covering a longer period and a more complicated case, Barajas, Steiner and Salazar describe how Colombia's attitude towards foreign direct investment in the financial sector became increasingly restrictive over time, with new foreign investment banned outright in 1975. As foreign investment stalled throughout the 1980s, individual banks transformed themselves into joint-ownership, with at least 51% domestic ownership, but effectively under foreign control. These banks were more cost-efficient and had a higher loan quality than domestic banks. But the effects of these banks on domestic banks was limited, partly because competition within the country was diluted as the government owned more than 50% of banking system assets.

Colombia's policy towards foreign investment changed drastically when it opened its capital account in 1991. Two years later the financial sector was significantly liberalized with simpler rules for the entry and exit of both domestic and foreign banks; together with reduced intermediation taxes and a program of privatization of national banks. As joint ventures were transformed into wholly-owned banks, together with some new entries, foreign banks increased their share of assets, from 7.6% in 1991 to 31.4% in 1998.

As deregulation, domestic and foreign entry happened over the same period, the authors are careful to separate the effects of each reform. Deregulation was found to reduce intermediation spreads, increase administrative costs and increase loan quality. In contrast to other studies in this book, entry of new domestic firms had a stronger impact on the behavior of other banks than foreign entry, significantly reducing intermediation spreads (for both foreign and domestic banks) as well as reducing non-financial costs. Foreign entry also reduced non-financial costs, though in a less significant way. In addition, foreign entry negatively affected the loan quality of domestic banks, suggesting that there was migration of better quality borrowers to foreign banks domestically (and abroad through direct access to foreign funds).

Királi, Májer, Mátyás, Öcsi, Sugár and Várhegy investigate the experience in Hungary with foreign entry in detail. While legal barriers for foreign entry were never significant, foreign entry only took off after the financial crisis in 1992 initiated a period of consolidation of state-owned banks, followed by privatization. By 1997 the share of foreign banks in total capital was 61 percent, up from 12 percent in 1993, while the share of state-managed banks declined from 68 to 20 percent. The chapter finds that many, but not all, of the foreign-owned banks operated more efficiently than domestically owned banks. A lengthy presence in the market, and a well-balanced strategy with easy access to international markets seems to affect foreign banks' performance even more positively. The analysis suggests that the foreign presence in Hungary increased competitive pressure in the sector by enhancing overall efficiency. These gains were passed on to consumers as net interest margins decreased.

7. The Importance of Domestic Deregulation and the Quality of the Institutional Framework

Countries do not appear to benefit to the degree possible from internationalization if their domestic financial systems remain heavily regulated. A thicket of regulations puts the domestic industry at a competitive disadvantage relative to foreign financial institutions, creates distortions and risks inefficient resource allocation. The case-histories in this book confirm the need to consider domestic deregulation and internationalization jointly. The most useful insights come from those countries acceding to the EU, and from countries already within the EU. The EU experience is particularly insightful because in some countries financial sectors were quite competitive and highly developed prior to the Single Market (e.g., UK), while other countries had heavily regulated financial sectors, often with a major part in the hands of the government (Italy, Portugal, Greece, Spain).

The Single Market Program (SMP) increased the scope for foreign competition within the EU as it removed important barriers to trade in financial services. Major steps occurred in 1993 with the introduction of the "single passport" for financial institutions, and the removal of exchange controls. The "single passport" meant that any credit institution authorized to conduct financial activities in its home country was allowed to conduct the same activities in any other member state. The directive thus allowed free foreign competition within the EU. The removal of exchange controls meant funds could be moved, or borrowed abroad, to take advantage of banking services provided there.

For some countries, given existing distortions, intense foreign competition could have strained their domestic banking sectors, possibly even leading to bank failures and macroeconomic instability. The transition path is therefore crucial, as the contribution by Vives shows. Following an overview of the evolution of the European banking sector in the last few decades, as compared to the US banking sector, Vives analyses the banking crises in Europe over the last decade. In his analysis, Vives stresses that adequate financial sector regulation is necessary to deal with the potential problem of bank failure and systemic distress. Vives argues for a competent regulatory power at the pan-European level as regulation solely at the national level might lead to excessive intervention in order to support "national champions". At the same time national regulators may not have the appropriate incentives to intervene in a crisis when cross-border effects are important.

Vives also discusses the role of competition policy for the banking sector, and argues for a certain level of market power to reduce the risk of banking failure. Specifically, a bank that enjoys market power is likely to be more conservative as the costs of going bankrupt become higher. He states that this argument should be taken into account when judging bank mergers by giving both the competition authority and the regulator a role in decisions; the first will pay attention to competition, while the second takes account of stability.

The chapter by Gardener, Molyneux, Moore and Winters complements Vives' contribution with a detailed analysis of the impact of the SMP on the banking sector in various EU countries. Using a broad range of information – including case studies, a major postal survey and econometric data analysis – the authors find much evidence of an increase in competition in EU financial sectors. This increase was largest in the countries that were more heavily regulated before the introduction of the SMP. The study shows that, as a consequence of the SMP, banks prioritized customer service quality, and increasingly sought to target and develop products matching customer needs. While bank product prices fell only slightly, the authors suggest that this may be due to two opposing forces: intensified competition reduced prices; but the simultaneous re-regulation of key supervisory rules, like capital adequacy, raised banks' profit targets and increased prices. The authors argue that re-regulation was one of the main reasons for the successful implementation of the SMP as it guaranteed an adequate adaptation of the sector to the concurrent deregulation and liberalization. The chapter demonstrates that adequate regulation and proper bank supervision can be a necessary concomitant of deregulation in order to achieve the full gains of freer competition.

Honohan analyzes the effects of financial sector liberalization in Greece and Portugal, countries that had highly regulated financial sectors prior to the introduction of the EU Single Market. He stresses that these experiences are of interest to developing countries as these two countries were the least prosperous members of the European Union, and had banking systems that had much in common with those in developing countries. In the mid-eighties, the banking systems of both countries operated under a regime of high reserve requirements and binding quantitative credit controls. Most of the banks were government-owned or controlled, and a large volume of doubtful and non-performing assets had accumulated for several of them. Interest rates were also subject to administrative control, contributing to the net effect that banking, as a whole, was unprofitable and weak in its capital structure. Both countries' financial systems operated behind exchange controls. Opening-up their financial sector thus implied large potential competition from significantly more developed banks. Honohan analyzes how the two banking systems reacted.

In Greece, the structural changes started in the mid-eighties and included the lowering of reserve requirements and the freeing of interest rates. These changes led to significant entry of new banks, though only few of them were foreign. The sector continued to be dominated by a few state-controlled banks, with many non-performing loans and over-valued equity holdings. It was not until the 1990s that the authorities decided to recapitalize these banks, but the large banks remained under state control, and only a few small state-owned banks were privatized. For these and other reasons, Greece is a case of incomplete liberalization that has also led to difficulties of monetary control. Nevertheless, liberalization allowed the Greek financial sector to expand and modernize to some degree.

The reforms introduced in Portugal were more drastic and successful. Changes were brought about progressively over a period of ten years, starting with the admission of new banks (foreign and domestic) in 1983. The removal of interest rate controls, credit ceilings and other controls (on branching, for instance) began in 1988, while privatization of nationalized banks started in 1989. These processes were accompanied by a strengthening of the legislative framework. Exchange rate controls were not abolished until 1993. The reforms led to significant entry into the banking sector. The role of foreign banks remained minor however, partly because they could not participate in the privatization of the large banks. Initially, net interest margins increased, but then dropped rather sharply. Another positive effect of the entry was increased product innovation, which lowered borrowing costs, especially for certain low-risk consumers, and led to a better-developed mortgage market. According to Honohan, the reforms in the Portuguese banking sector should be considered a success due to their sequencing and continued implementation.

The chapter by Pastor, Pérez and Quesada focuses on changes thus took place in Spain's banking system related to its EU membership. The chapter thus complements Honohan's contribution. Helped by a favorable macroeconomic environment, Spain embarked on a major deregulation process to prepare domestic companies for foreign competition by increasing their own competitiveness. Among the most important reforms in the late eighties were the elimination of most legal differences between commercial and savings banks; the deregulation of interest rates; and the harmonization of prudential regulation with those in the EU which took place in 1989. Capital movements were liberalized in 1992. These reforms led to significant entry by foreign banks, although more in numbers than in size. On an aggregate level, the entry of foreign banks appears to have negatively affected the gross income of domestic banks. But, as most foreign banks concentrated on very specific market segments – mainly the inter-bank market – analysis shows that domestic banks in the same market segment were more heavily affected by foreign entry, and overhead costs, net interest margins and profits went down significantly.

8. The Relationships between Internationalization and Capital Account Liberalization

The degree of capital account liberalization can determine the potential gains and benefits of internationalization. Some degree of free capital movement is required for effective and efficient internationalization, especially regarding the cross-border provision