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Public Banks as an Instrument of Economic Policy: a Proposal for Spain.

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ABSTRACT: At the beginning of the global financial crisis of 2008, as well as the pandemic in 2020 and in general when the market is not able to provide financing, the need for public banks to act as a primary public policy instrument became evident and, in fact, in Spain, ICO played a crucial role in 2009-2012 and 2020-2021. However, the arguments about the suitability of public banking as an instrument of economic policy beyond moments of crisis have been considered by numerous authors and go far beyond the maintenance of a subsidiary role of private banking in unfavourable economic conditions. Consequently, in this article a review of the arguments about the need to have a public bank with sufficient critical size and capacity for action has been carried out. Secondly, public banking in Spain is analysed and, finally, taking into account the above, a public banking proposal for Spain is made.

KEYWORDS: Public banking, Financial exclusion, Economic crisis**.**

I. INTRODUCTION

The debate surrounding the necessity of public banking as a significant economic policy tool has been revitalized after the outbreak of the global financial crisis and, particularly in Spain, after the Bankia rescue in 2012. Consequently, public banking is now seen as the central instrument for implementing relevant public policies that would promote recovery from the economic aftereffects of the pandemic.

The International Monetary Fund (IMF) stated that "given the extraordinary circumstances of the COVID-19 pandemic, public banks, if financially sound and adequately resourced, may temporarily increase their support for households and businesses, primarily through (subsidized) loans and loan guarantees. An advantage of public banks is their ability to reach large and small businesses, as well as households and subnational governments. Several advanced and emerging market economies have announced plans in this direction. Experience with the global financial crisis (GFC) shows that public bank loans and guarantees can be effective but involve fiscal risks and costs. It is necessary to ensure a high degree of transparency and a clear rationale for intervention, assess and disclose risks and costs, take risk mitigation measures, and make provisions in the budget" (IMF, 2020, p. 1).

In light of this, the role of public banks in the post-COVID stage can be oriented in two directions. The first option, which appears most likely, involves a reversion to the traditional role assigned to public banks in each national jurisdiction, being the performance during the pandemic exceptional. Another possibility, contingent on the effectiveness of countercyclical buffers and the existence of public banking with an extended network, is a transformation in the design and capacity of public banks in countries with relatively smaller public banks. In this regard, this article aims to critically examine these two possible functions of public banking. The second part of this research focuses on the case of Spain, where a banking model without a branch network is analyzed by considering it as an alternative to the current model.

II. ARGUMENTS ABOUT THE NEED FOR A PUBLIC BANK

Public banking "can be owned by the State directly or a public company; or it may be publicly controlled, i.e. governed in accordance with a legally binding public interest mandate, in accordance with public law, or by meaningful public representation on the governing council, or by some combination of these governance factors. One or both place a bank within the public sphere and as a public financial institution (Schmit et al., 2011; OMFIF, 2017)". Apart from their diverse legal form, public banks also serve a wide range of functions, primarily focusing on economic development. These institutions place special emphasis on supporting small and medium enterprises, promoting exports, and facilitating development projects in other countries (National Development Banks). Banks also play a decisive role in economic and social transformation since they act as channels for public investment. Furthermore, we argue that public banks handle a portion of deposits, similar to other commercial banks. This view finds explanatory power in two arguments. First, commercial banks do not develop their services in certain cases, such as incomplete markets, rural areas, sociocultural associations with limited budgets, and individuals who are excluded from the financial system due to lack of resources. Second, financial service fees in countries such as Spain are disproportionately high, and on many occasions, they do not respond to any specific service.

The delimitation of the previous paragraph accommodates different degrees of institutions and economies which, at the same time, have different degrees of development. However, it is necessary to point toward specific cases to examine the varied models of public banks in countries or regions with similar economic characteristics.

Public banks can be national or multilateral institutions, such as the European Investment Bank (EIB) in Europe, the Inter-American Development Bank (IDB), and the Commonwealth Development Corporation (Barrowclough, 2020). At the national level, the largest public banks are found in China, controlling a total of $20.6 trillion in assets. As a reference point, public banks in the rest of the world accumulate $17 trillion in assets, with Germany's KFW group and India's State Bank being the most significant, each with assets surpassing half a trillion dollars. Other notable examples of large banks, with asset size above $400 billion include Sberbank in Russia, Cassa Depositi e Prestiti in Italy, and CDC-BPI group in France.

Combining the classification proposed by Griffith-Jones et al. (2018, p. 3) with the conclusions of the Eurodad Report (2017), we can delineate the functions of public banking as the following:

a) During periods of economic instability, public banks can counteract the procyclical behavior of private financing, promote economic stability, and play a role as drivers of lending.

b) During the stages of economic crisis, there is a problem of credit rationing due to the inefficient functioning of financial markets (Stiglitz and Weiss, 1981). Asymmetric information problems result in commercial banks tightening credit requirements, demanding increased guarantees, risk premiums, and subsequently, raising the cost of financing. Consequently, the volume of credit in the financial system is reduced. In this respect, public banks can function as networks that channel a financial recovery by promoting public policy. A notable example is the provision of stabilization policies through credit to companies during the COVID-19 crisis. Alonso and Trillo (2021, p. 88) estimate the relative weight of loans and guarantees to companies implemented during the pandemic by five public banks in Europe between 8%-17% of the GDP of each European country analyzed.

c) Public banks can promote innovation and change in the economic structure of a country, or globally, in the case of an action led by multilateral banks.

Public banks allocate part of their funding to finance research and technological innovation activities. In terms of investment in technology, Stiglitz (1994, p. 44) points out that "firms may not be able to capture the social returns generated by their innovations due to competitive imitation. As a result, the economy is not likely to invest enough in the development of new technologies. Directing credit to technology-intensive industries can be an effective tool to promote innovation."

In the present, there have been significant changes, particularly in the energy model. In addition to geopolitical and transport issues, these transformation processes, often referred to as the green transition or the decarbonization of economies worldwide, involve critical decision-making related to energy production technologies.

The Next Generation EU funds represent an example of policies aimed at recovering public investment in environmental issues. Through joint financing and debt issuance by the European Commission intended to support Next-EU policies, recovery and resilience plans will involve the participation of national public banks.

d) Banks can also support the funding of geographic regions, priority economic sectors, and the investment in infrastructure and exports.

Public banks subsidize national strategies on sectors in need of development projects. This function typically involves financing specific projects, such as transportation, water distribution, education, health, and general plans to transform the productive structure. Business financing, especially for SMEs, is also a role traditionally assumed by public banks. In this context, public banks may invest in venture capital funds, including taking shares in private equity entities, in the case of companies that carry out activities or projects linked to the development objectives of public banks.

e) Public banks contribute to enhancing financial inclusion and addressing gaps in credit supply or demand of credit that remain unfilled by the private sector.

This subsidiary role is commonly assumed by all national public banks. For instance, banks can support rural financing when markets have become incomplete, or they develop specific programs aimed at funding projects from a gender perspective. Additionally, banks also offer retail services by facilitating low-commission deposit management.

f) Public banks can also finance development loans from third countries, particularly those in underdeveloped areas.

The COVID-19 pandemic has further exacerbated the financing needs of projects in these countries. According to the World Bank, the high additional financing requirements resulting from the pandemic crisis will be exceptionally huge and are likely to persist over the medium term (World Bank Group 2020). In March 2020, the United Nations Conference on Trade and Development (UNCTAD) also noted the need to finance a Global Green New Deal (UNCTAD, 2019). In this sense, public banks can also be crucial in improving financial standards, emphasizing social, environmental, and human rights safeguards.

The function that development banks have in financing the business fabric needs to be considered. Within the mandate of multilateral and national banks, it is possible to demand corporate social responsibility criteria, ensuring strict compliance with labor legislation, international regulations, and, in particular, tax regulations. In environmental matters, following Dikau and Volz, 2020 or Mazzucato and Semieniuk, 2017, central banks and public financial institutions are assuming decarbonization among the objectives of their mandates.

The COVID-19 crisis has made the advantages of public banks' actions banks visible worldwide, according to Barrowclough et al., 2020 in specific:

- To respond quickly.
- To fulfill their public purpose mandates when they have been strongly supported by the political authorities.
- To act boldly, providing liquidity with generously low-interest rates and preferential repayment terms.
- To mobilize their existing institutional capacity; banks that have historically achieved greater implantation have been more effective in implementing economic stabilization programs.
- To take advantage of the economic advantages offered by participating in sovereign wealth funds and public pension funds and collaborating between national public banks and public banks from different countries.

At the European level, the Juncker Plan and the EFSI funds materialize the European response to the economic consequences of the pandemic. Since 2016, the European Union has launched a set of financial vehicles and funds managed by the European Commission and the European Investment Bank. Mertens et al. (2017, p. 16) refer to this new mission of development banks as a "Hidden Investment State," insofar as "their central structures remain somewhat hidden with unclear and at least varied effects on their material impact. In this sense, it differs markedly from Keynesian-type state investments. Through financial instruments, the EU seeks to achieve greater fiscal impact than the size of its limited budgetary permits. Taking the form of guarantees and capital, this Hidden Investment State works is based on public-private partnerships and leverage and, therefore, requires less direct state spending. Therefore, it is not an effort in democratic economic governance, but continues in the line of technocratic governance. Along these lines, and despite the failure of fiscal austerity in Europe, the market-liberalizing bias of European Union policy is reinforced by consolidating the power of finance (Braun et al. 2018, p. 7). The principle of subsidiarity dominates the design of European policies, which implies prioritizing policies to support the business fabric, rather than using of direct public spending on investment.

The COVID-19 pandemic has revealed a set of additional advantages for the performance of public banks. An important point is that public banks have different financial sustainability policies and criteria than commercial banks. Barrowclough et al. (2020, p. 10) state that "Public banks can offer loans, credits, and grants in ways that would otherwise be impossible for private for-profit banks. In turn, public banks can and do operate according to a much wider variety of logics than private banks." In this respect, banks should both develop different policies from those of commercial banks and strengthen the control structure of their governing bodies.

Therefore, public banks should not set the goal of maximizing profits as a private company and be conceived as a decentralized transfer management unit, as that is what the budgets of the Public Administrations are for. Most of the mentioned functions have to do with credit, which implies professional credit risk management to avoid default events. To meet this objective, the personnel belonging to public financial entities must have outstanding training, experience in the sector, and a clear vocation for the public. Although not completely conditioned either in terms or amounts by the market return targets of other financial institutions, there must be a return on investment activities. Therefore, we argue that the view that private losses, inherited from loans granted without the minimum of banking prudence, become public losses that imply an increase in public spending, de facto hiding a business subsidy, is not acceptable.

Another point that may represent an opportunity for public banks is related to governance, auditing, and financial and parliamentary control of institutions. Eurodad (2017) highlights that development banks can be advantageous in several ways. First, it governs the active participation of civil society and bank employees and establishes public channels of access to information on the banks' activities. Second, they may also have agreements to protect the management of public banks from "undue government pressure", contrary to the development bank's mandate. Lastly, they could also play a prominent role in arbitrating stakeholder engagement mechanisms, independent external evaluations, and grievance mechanisms.

The last point that requires examination is public banks' actual size and capacity to generate significant changes in specific areas such as climate change. In an IMF document, Cull et al. (2017) estimate that public banks worldwide have total assets worth 5 trillion dollars. Therefore, it seems impossible to obtain the approximately 6 trillion dollars that the green transition needs to reduce carbon emissions. Marois (2019, p. 158) uses the criterion of grouping all public banks on the fact that they have more than 50% of the shareholding and are governed by public mandate and public law (including public, multilateral, pensions sovereign wealth funds and central banks). The idea behind Marois' argument is to highlight that all public financial institutions have assets of 38 trillion dollars, which makes them an institutional sector with sufficient capacity to finance the energy transition. In our view, this problem needs to be analyzed by considering the context of interests that prevent the real capacity from implementing investment plans. Interestingly, the plans developed to change the direction of production contradict the conventional objectives of economic growth of multinational companies, which simultaneously lie in direct opposition to the policies. Consequently, this is a problem of not only asset aggregation or the capacity to finance investment activities for the green transition from an international perspective but also the lack of possibility to act coordinately with a joint mandate. The capacity of public banks to act differs considerably in different countries, and the institutional and political frameworks of each country make it very complex to reach agreements on global policies..

III. A VIEW OF PUBLIC BANKING FROM A CRITICAL PERSPECTIVE

It may seem obvious that the existence of a public bank is inexorably linked to a progressive vision of its operation in the sense of serving interests of a social nature or economic development. However, as in many other institutions, the specific model of public banks, regardless of their size, requires analysis in terms of power relations, conflicts of interest, and correlation of forces in the field of social class division. These elements are central in the scheme of coalitions or majority governments that make decisions regarding the actions of financial institutions. Assuming that, regardless of the scheme, it will always serve a general interest, is, in our view, questionable. For a change in the model, some things need to be considered, such as the resistance offered by the framework of political relations that will defend the pre-existing model, whether there is no public bank, and whether it has a very limited scope of action. In this sense, different stakeholder groups would always reject changing toward a bank's model with more progressive objectives, placing legal limits on public action, delegitimizing their action through their influence in the media, and using the judicial system to avoid relevant changes.

In sum, the existence of public banks does not fully define their orientation in terms of economic policy. In contrast, it is widely believed that public banks have been oriented to comply with the interests of large corporations, serve as channels for multinational companies to obtain development projects, and act as commercial incentives for private banks. In light of this, there are also two possible lines of action. The first possibility is to leave the projects with the least profitability or the highest probability of suffering losses to public banks. Another option is to allow commercial banks to be delegated agents of public banks in terms of commissions, even after having shown abusive practices against clients or having a policy contrary to financial inclusion.

Supranational institutions, such as the Inter-American Development Bank or the IMF, have been in favor of public banks undertaking development projects. Nonetheless, political relations have always occupied a crucial position because large companies that undertake investment projects financed by development banks come mainly from Western countries, and in many cases, they are creditors of countries to which development policies are directed. Another element worthy of consideration is the socioeconomic origin of the senior officials who manage these entities. The dominance of a neoliberal ideology in the context of workers in the public sphere, conditioned by conventional economics studies, cannot lay the foundation for a change in the public banking model. That is why they act by short-circuiting the change of the model instead of driving it.

The last element to consider is that public banks must acquire deposits. It is essential to question whether there is an improvement in the social function of money management if deposits are taken. The European Central Bank and central banks worldwide are launching a digital currency initiative that, regardless of the technology that supports this new part of the money supply, would imply a currency issued by the Central Bank and outside commercial bank deposits. How this will be implemented is still under study, but de facto, it will imply the possibility of making payments with counterparties in the Central Bank's liabilities. In this respect, the problem is not the existence of the deposit but rather the economic abuse that comes from the banks in the commissions applied for maintenance or other operations associated with the deposits. This area brings us back to the problems of commercial banks' financial supervision, which also requires the proper context for socio-political analysis. With difficulties in increasing the credit business and the need to compensate the financial margin during the sovereign debt crisis in Europe, supervision has been benevolent with the increase in bank commissions, prioritizing the economic interests of banks over those of depositors. As is widely known, deposits are bank debt, and the interest rate for clients when commissions are established is negative interest, which is equivalent to charging for receiving external financing.

In our view, if public banks accept deposits, this cost will be reduced, resulting in significant benefits. On the one hand, it would favor financial inclusion by helping socially disadvantaged sectors receive aid from the public sector and promoting the activity of social and cultural associations, which would receive similar treatment to small businesses. On the other hand, if the existence of deposits in public banks is not regarded as the best possible solution, the problem of commissions not responding to a real service will be solved. This would happen particularly if the financial supervisor had a vision of defending social interests, rather than the financial industry.

All in all, “what public banks can do and how they evolve are the result of recurring power struggles between competing public and private interests within capitalism” (Marois and Güngen 2016). Failures in the effectiveness of these controls may undermine the future expectations of a public bank. Hence, it is necessary to situate this issue in the context associated with political forces that do not want a public bank with progressive objectives. This is primarily due to the lack of belief in the transformative capacity of public policies, or because they only think of their benefit when taking part in the management of these institutions. The activities of public banks should not have the same objectives or financial characteristics as commercial banks and, above all, they should not be seen as instruments to generate corruption. To avoid this, they must operate with professional criteria, strengthen control in entities' internal financial systems, and periodically evaluate the social effectiveness of credit policies. In this latter measure, the external audit of accounts must be truly effective and fulfill its mission at the service of parliamentary control. Marois (2019, p. 162) points out that "the placement of the social struggle before any notion of a "public" bank is necessary. Public banks will have problems that are often generated within societies and are as much political and social as economic. Therefore, they are not exempt from critical evaluation, transparent accountability, and self-reflective improvement simply because of their public nature. Suggesting otherwise leads to dogmatism. When public banks are abused for personal or political gain, this must be confronted, and criminals held accountable."

In any case, the possible existence of problems of political influence and corruption is not a sufficient argument to allege a greater general inefficiency of public banks compared to private ones. Chen et al (2016), with a sample of 2,655 banks from 56 countries between 2004 and 2010, point out that government banks have shown higher lending growth rates compared to private banks during the crisis. However, in countries with low corruption (measured by the ICRG corruption index), the increase in lending from government banks is associated with better banking performance and better economic recovery in crisis periods. In countries with high corruption, the increment in lending from government banks is not related to past beneficial effects.

IV. PUBLIC BANKING IN SPAIN: THE OFFICIAL CREDIT INSTITUTE

A) The Official Credit Institute

The configuration of public banking in Spain resulting from the 1991 reform had two fundamental consequences. On the one hand, it led to the creation of the Spanish Banking Corporation, later known as Argentaria, together with the legal form of a public limited company to be privatized later, and the task of being the head of the group formed not only by the EOCs but also by the Caja Postal. On the other hand, it promoted the independence of the Official Credit Institute (ICO), which remained separate from the Banking Corporation of Spain, even though at that time there were no specific instructions or tasks assigned to the ICO. However, based on the powers granted to it in 1988 as a state company with the character of a credit institution, it could initiate activities that would not be sanctioned until 1995.

Indeed, the approval of Royal Decree-Law 12/1995 of December 28 addressed urgent measures related to budgetary, tax, and financial matters. This decree also focused on *the regulation of the new legal and financial regime of the Official Credit Institute, which was pending since Royal Decree-Law 3/1991*.

The ICO was recognized as a State Financial Agency and its purposes were the maintenance and *promotion of economic activities that contribute to the growth and improvement of the distribution of national wealth and, especially, those that, due to their social, cultural, innovative, or ecological significance, deserve encouragement, with absolute respect for the principles of financial balance and adequacy of resources for purposes that the Institute must observe in any case*.

Subsequent rules to that of 1995, such as Royal Decree 706/1999 and Royal Decree 1149/2015, further established and developed organizational aspects and banking operations of the ICO that had not been dealt with in the previous standard. These rules also aimed to enhance corporate governance and transparency, although they do not imply a change in terms of financing objectives and credit instruments.

The functions of the ICO are the following (ICO, 2021):

1. As a State Financial Agency, it should carry out the financial operations entrusted to it by the Government. These operations are financed by the State, and the ICO acts as a manager or intermediary, passing on the costs to the State and receiving a management fee or compensation of interest rate differentials. In other cases, the instrumentation, administration, and accounting of these operations are done separately, in an accounting independent of that of the ICO (ICO, 2021: 13). These operations include, for instance, the management of the various cooperation and development aid funds, the financing funds of Local Entities and Autonomous Communities, or the ICO COVID-19 Guarantee Lines, which will be discussed later.
2. As a credit institution, the ICO is responsible for financing medium, and long-term productive investment projects carried out by companies and entities of the social economy. It focuses on financing those areas considered necessary for the development of certain sectors or regions without competition with private commercial banks. The operation of operations can be classified as follows:

(a) Direct operations. They are aimed at large companies, and the credit amounts are high, usually exceeding € 10 million. Although bilateral corporate loans are one of the modalities of direct operations, the ICO generally conducts these operations through co-financing with other operators in the financial sector. This co-financing includes syndicated loans, club deals, project finance, national and international guarantees, primary market issuances of bonds, corporate promissory notes, securitizations, etc.

(b) Mediation operations. In mediation lines, the ICO lends to companies through banks and savings banks. The companies, in turn, approach the branches of the credit institutions that have signed the collaboration agreement with the ICO. The mediation process involves the collaboration with credit institutions, wherein the ICO provides the financing, and the banks through their commercial network, and the identification and risk analysis of the companies to determine the granting of the financing. Some inefficiencies may occur in the chain of transmission of financing, as the ICO lacks the operational capacity to finance SMEs throughout Spain, especially considering its large geographical

coverage and the 300 employees in a single headquarters.
c) Financing through venture capital funds. Throughout the life cycle of the investment, this aims to promote the creation and growth of companies.. The ICO achieves this through minority co-investments in projects or funds in partnership with the Spanish venture capital sector. This financing is carried out through the venture capital subsidiary of the ICO group, known as AXIS.
3. As a financial instrument of Economic Policy, the ICO plays a role in channeling resources from the EU in its different modalities and collaborates with government agencies to transfer resources to companies, thereby achieving economic and sectoral policy objectives.

This credit activity of the ICO is conducted as a financial instrument of economic policy in collaboration with Ministries, intermediate autonomous governments (known as "Comunidades Autónomas"), local governments, and their dependent agencies. The objective is to channel funds towards Spanish business projects with initiatives such as the ICO Line Red.es, which promotes digitalization in SMEs, and the agreement with RTVE to finance Spanish film productions. Moreover, this area also encompasses the financing that the ICO grants jointly with other entities to promote social housing, as seen in the financing agreement reached in February 2020 with the EIB for public social rental housing promoted by Seville's City Council.

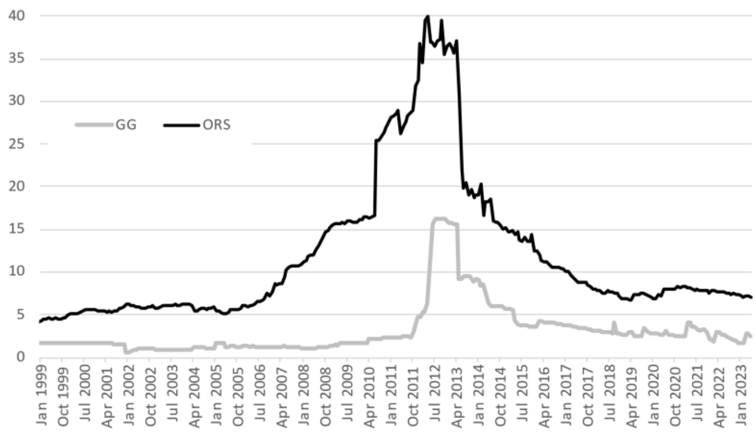
Furthermore, the ICO works in collaboration with the European Commission, the European Investment Bank (EIB), and the European Investment Fund (EIF) to channel and manage resources from the EU. Of particular relevance are the funds from EU multiannual financial framework programs, such as the European Guarantee Fund, the Next Generation EU Programme, the Juncker Plan in the period 2016-2020, and the Invest EU and Connecting Europe Facility in the Multiannual Financial Framework 2021-2027.

B) Credit activity

Historically, the trajectory of the ICO has been limited due to its size. By the end of 2020, it had a staff of 357 people located in a single headquarters in Madrid. However, the collaboration with private banks in the mediation lines has allowed for a much greater scope of credit investment aimed at SMEs.

The market share, measured by the flow of new operations to ICO companies in comparison to those of the credit system, has remained around 2% over the last few decades. Specifically, as of the end of 2020, this figure was reported to be 2.1% (ICO, 2020:50). This trend is consistent throughout the historical series, except for the years during the great recession when the credit activity of the ICO multiplied to meet the needs of both companies and regional and local administrations. As the graph shows, the balance of loans to general government and other resident sectors increased from €1.04 billion and €11.2 billion, respectively, in January 2008 to €16.20 billion and €39.9 billion in the months before the summer 2012 bailout. This serves as a clear example of the countercyclical capacity of public banks.

Credit balance for General Government (GG) Other Resident Sectors (ORS)



Source: Banco de España, BIEST

C) The ICO in the Covid-19 crisis

Since the beginning of the pandemic, most EU countries have implemented emergency measures to mitigate the health and economic collapse's effects. Many of the initiatives involved increasing public budgets, such as strengthening health sector financing and protecting employment. Additionally, a crucial part of the response has been carried out through the public banks of the countries and the EU.

In supporting the business fabric, large public loan guarantee programs have played an instrumental role in preserving companies' access to bank loans while transferring some of the credit risk and potential credit losses from banks to governments. The ICO, for instance, has established a line of guarantees of up to 140,000 million.

Regarding support for households, the measures that have been put into operation involving public banks have been relatively smaller. In particular, they have primarily focused on the granting of guarantees for tenants, in which the ICO stands out with an endowment of 1,200 million euros. Moreover, public banks have facilitated the provision of basic supplies and moratoriums on the payment of mortgages and rents.

The ICO's role has been instrumental in supporting the business fabric through increased lending and public loan guarantee programs. These programs aim to preserve companies' access to bank loans by transferring some of the credit risk and potential credit losses from banks to governments. The ICO's establishment of a line of guarantees of up to 140,000 million euros is an example of its proactive involvement during the crisis.

In conclusion, the activity of the ICO as a public bank may not be highly significant except for moments of crisis. As it has been argued, it is primarily during these critical situations that the ICO compensates for the contraction of private banking activity. This reinforces its subsidiary and scarcely proactive role because of its small size and the legal limitations of action since the strategic direction of the Official Credit Institute, and the evaluation and control of the results of its activity, corresponds to the Ministry of Economy (RDL 706/1999)..

V. A NEW PUBLIC BANK IN SPAIN?

Our public banking proposal would require an institutional and political structure that, while it does not exist, could be in line with what we commented on in section II. Probably the biggest impediment to change is in the actual conception of this institution as a neoliberal public bank, whose basic principle of action is "public-private collaboration and complementarity" with private banking (ICO 2022), rather than a bank providing a finance public service or another instrument contributing productive change.

A preliminary concern is the general objective of both promoting economic activities that contribute to growth and improving national development, especially in those activities related to social, cultural, innovative, or ecological significance. Additionally, companies receiving funding need to be respectful of labor rights, gender equality, and environmental sustainability. Departing from these premises, we propose the following areas of action for public banking:

a) Productive investment of SMEs. In Spain, SMEs are approximately 3 million companies compared to about 5000 large companies (MICT 2021). Considering this fact, it seems reasonable to maintain the credit activity of financing productive activities of SMEs currently carried out by the ICO. In this process, the digitalization of SMEs and microenterprises and the increase of their average size is a priority, as it improves competitiveness and resilience against the economic cycle's evolution.
In addition to specific objectives, the difficulties of SMEs obtaining financing remain the same as a decade ago: the requirement of guarantees, high-interest rates, and short repayment periods. However, companies have declared that financing conditions during 2021 were similar to those of 2018 or 2019. This points to the idea that a stable financing scenario has been maintained and favored by the lines of ICO guarantees despite the pandemic (CESGAR 2021: 13-24). Therefore, a public bank is needed to meet the financial needs of 99.9% of the country's business fabric.

b) Ecological transition and response to the climate emergency. As we have already seen, the role of public banks in this decisive issue is central. Nevertheless, it is imperative to finance strategic sectors like energy transition and water as well as all measures to combat desertification, which is particularly serious in Spain.

c) Depopulated rural areas. The phenomenon of depopulation is very intense in Spain, where there are large areas with a population density of less than ten inhabitants/ km2. This causes a never-ending circle of loss of not only public and private services but also depopulation. Interestingly, this, together with the low profitability of investments and the small size of the business fabric, constitutes an obstacle to the economic development of rural areas, as productivity is limited, and small companies tend to show greater difficulties when it comes to incorporating human and technological capital, developing innovative processes, internationalizing their activity, or accessing financing. (CES 2021: 35).

The EC (2021) seeks to address the problems of investment, business development, communications, digitalization. Although it does not explicitly refer to national public banks, it considers that Member States should use the European Investment Bank to address current investment gaps in rural areas.

Other issues worth highlighting are the problems of financial exclusion faced by residents in rural areas, as we will argue in the following section.

d) Financial exclusion and channeling of savings. The inability or difficulty of having access to services and/or financial products in the market that respond to the needs of citizens is a growing problem, especially in some of its manifestations. As EAPN (2021) points out, there are three significant issues. Firstly, geographical exclusion and de-banking, led to the closure of 50% of private banking offices, especially in rural areas. Secondly, the digital divide, resulting in a lack of resources and tools for digital procedures. Thirdly, the exclusion in access to banking services of certain people whose profile is considered high risk due to their limited resources.

e) The role of public banks in reducing financial exclusion is essential, as it would mean having the capacity to take deposits.

f) Women's entrepreneurship. This public banking's area of action is transversal, and thus, it has a direct effect on the previous points. Therefore, it is treated independently, as we consider that public banking can also contribute to an effective equality between women and men. In addition, the potential of women in the creation of employment and entrepreneurship is very high, and one of the obstacles faced by women is access to bank financing.

By contrast, EC (2021) highlights that support for women's entrepreneurship in rural areas would contribute to improving the integration of women into the labor market and the fight against the depopulation of women, which is more intense than that of men.

g) Financing for development. The ICO currently manages as a State Financial Agency the Fund for the Promotion of Development (FONPRODE) and the Cooperation Fund for Water and Sanitation, instruments of Spanish development cooperation. However, we believe that it could play a more significant role in this area.

It is necessary to highlight that a public bank engaging in the aforementioned activities requires comprehensive operational structure, offices, and personnel to function efficiently while minimizing reliance on private banking for credit operations. Establishing such a network of offices would be a complex and time-consuming process, especially in terms of cost. However, an initial consideration could be the use of existing physical and administrative infrastructure at other levels of governance. In this sense, there would be public institutions at the regional level that can channel funds for industrial, business, or rural development that favors economic growth and employment.

The funds come from their respective regional governments, the State Administration, or the European Union (EU) and are intended for reimbursable or non-reimbursable financing (grants or other aids). However, the diverse legal forms and capacities of these institutions, combined with the complex political management of the state government in Spain, may pose challenges in creating a coordinated regional public banking network coordinated by the "new ICO".

Apart from using available physical and administrative infrastructure, a second consideration is the existing network of 2400 post offices throughout the Spanish territory. Traditionally, these post offices have provided financial services to citizens first through the Postal Savings Bank which had branches in all post offices and then, through agreements with private banks that have intensified and expanded over the last two years. However, these agreements have revealed serious issues of financial exclusion of many municipalities with low populations, as private banks closed branches in these areas. Yet, the specific terms of the agreements that some banks have signed with Correos and the economic compensation for the use of public post offices as private banking branches remain undisclosed.

The concept of a public bank with the capacity to reach citizens and the business fabric of the entire territory physically, rather than solely relying on digital means, would enhance its capacity for action and the scope of financing. However, this endeavor goes beyond merely establishing offices nationwide; it also requires the creation of qualified professionals with a commitment to public service, and expertise in financial risk management, corporate governance, and control. Such measures would safeguard against malpractice in financial investment, preventing the burden of bankruptcy from falling on citizens.

VI. DISCUSSION

This article examines the main functions attributed to public banks in the literature. As regards its conceptual delimitation, the scope is very broad because it compares development banks with other deposit-taking banks and multilateral organizations. If reduced to the national level, the most widespread model is that of development banks. In addition to financing innovations and supporting priority sectors, regions, and exports, public banks also play a countercyclical role during crises, as evidenced by the pandemic. Therefore, countries that owned this public bank have been able to fulfill this role effectively.

Transitioning towards a model with a greater margin of action of public banks in a country, which implies a greater volume of assets on the balance sheet, employees, or changes in the branch network, requires further critical reflection. In particular, in terms of the elements that act as a barrier against change that is linked to the correlation of social and political forces that defend prevailing economic interests. Consequently, it is necessary to find alternatives to prevent the model from failing in social terms. This would be done either by favoring the interests of companies or individuals over the statutory social objectives or by avoiding corrupt practices, reducing the prestige of these institutions.

In addition, having senior officials with a clear public vocation, particularly, those who believe in the virtues of the model and possess the necessary skills to carry out their missions, is crucial. However, the educational model of the economy in universities will be a clear impediment to this. Therefore, it is necessary to critically counterweight this model promoted by the academy.

Spain's public banking model is one of the European models with the smallest network and size based on credit volume, except during crises. Against this background, we propose an alternative model that significantly expands the scope of action beyond its current limitations. This could involve designing new lines of action related to environmental policies, financial inclusion, rural depopulation, and female entrepreneurship. Relatedly, establishing a network of offices throughout the country would reduce intermediation through financial institutions and address financial exclusion, thus requiring well-trained staff to perform their duties effectively.

The potential for Spanish public banks to capture deposits also needs to be considered from a dual perspective, especially in a dynamic environment where central banks redefine currency, such as the digital euro. First, it is crucial to analyze the extent to which certain regions or demographics lack access to banking services. Second, attention should be directed toward combating the exploitation of fees by commercial banks. While establishing a public bank capable of accepting deposits may be a plausible solution, strong supervision by central banks is essential for regulating bank misconduct. Unfortunately, in certain countries, such as Spain, the banks' interests are often prioritized over those of depositors, necessitating stricter oversight.

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