

**THE SPANISH BALANCE  
OF PAYMENTS AND  
INTERNATIONAL  
INVESTMENT POSITION**

**2005**

**BANCO DE ESPAÑA**  
Eurosystem



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AND INTERNATIONAL INVESTMENT POSITION 2005

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## ABBREVIATIONS AND CONVENTIONAL SIGNS

bn	Billions (10 <sup>9</sup> ).
m	Millions.
ESP	Pesetas.
EUR	Euro.
Ø	Annual (1970 Ø) or quarterly data with this sign are averages of the monthly data of the year or quarter; series of monthly, thrice-monthly or weekly data are averages of the daily data for such periods.
...	Data not available.
–	Nil, non-existence of the event considered or insignificance of changes when expressed as rates of growth.
»	Amount less than half of the last digit indicated in the series.
*	Seasonally adjusted data.

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## 1 OVERVIEW

## 1 Overview

Following the revision of the Balance of Payments time series for the period 1995-2004 presented in the 2004 edition of this Report, improvements to the reporting system used to prepare foreign sector statistics continued during 2005. These improvements had much less of an impact on the data than the aforementioned revision, though they affected significant headings such as Travel and Workers' remittances. As usual, advances in the reporting system have enabled the degree of detail of the information made available to users to be increased.

The following is a summary of, firstly, the key developments in the Balance of Payments and the International Investment Position (IIP) in 2005 and, secondly, of the above-mentioned improvements introduced.

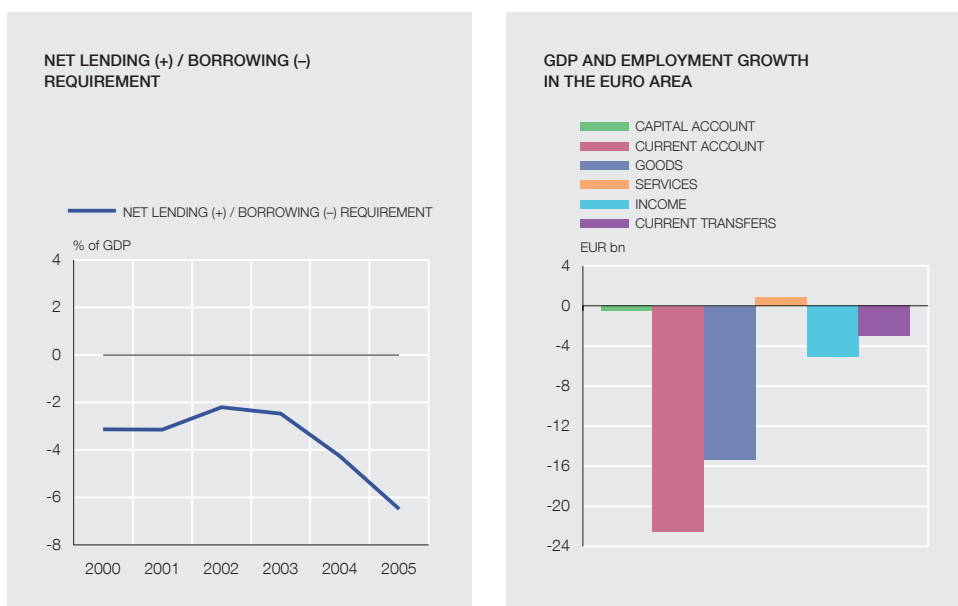
In 2005 the world economy continued to grow at a significant pace, against a background of favourable international financial conditions, despite the rises in the key monetary policy interest rates in the main economic areas, the persistent rise in oil prices, the widening of global imbalances and continuing geopolitical uncertainties. Against this backdrop, real and financial global transactions continue to increase albeit, in the case of trade in goods, at a more moderate rate than the previous year (7.6% compared with 11.2% in 2004, on IMF data). The international economic expansion did not spread with the same intensity to all areas. The emerging economies (especially China) and the United States continued to drive the world economy, while the euro area, in gradual recovery, grew modestly. The growth rate of the Spanish economy rose, increasing by 0.3 pp in 2005, thanks to the momentum of domestic demand which offset the strong negative contribution of external demand.

In this scenario the Spanish economy's borrowing requirement vis-à-vis the rest of the world once again increased notably, climbing to 6.5% of GDP (4.3% in 2004) on Balance of Payments figures. The increase in the borrowing requirement as a percentage of GDP reflected the decline in gross national saving, against a background of expanding gross capital formation.

The widening of the borrowing requirement was essentially due to the substantial increase in the current account deficit, which rose from 5.3% of GDP in 2004 to 7.4% in 2005, and to a lesser extent to the reduction, by 0.1 pp of GDP, in the surplus on the capital account to 0.9%. The main current account components contributed to the aforementioned increase in the deficit, in particular the trade deficit. Also significant, albeit on a lesser scale, were the deteriorations in the income and current transfers balances.

The increase in the trade imbalance, which took place against the backdrop of a sharper increase in imports than in exports, amounted to 7.6% of GDP (6.4% in 2004), a figure close to the high recorded during the oil crisis in the 70s. The deterioration in the trade balance was extensive to virtually all geographical areas and to all product groups, especially energy products.

The pattern of trade flows between Spain and abroad can be explained by the strength of Spanish domestic demand, in contrast to the moderate growth of the euro area as a whole, and by the Spanish economy's cumulative losses in competitiveness. These continued in 2005 against the background of the relative stability of the exchange rate of the euro over the year as a whole, and they were due to the emergence of new competitors, to export specialisation by geographical region and by productive branch, and to the dependence of Spanish industry on the external sector, in terms both of energy and inputs. Real imports in-



SOURCE: Banco de España.

creased by 6.4%, appreciably down on the previous year (9.8%), despite the rise in capital goods purchases and the increase in import prices. Real exports were virtually flat (growing by 0.2% against 5.2% in 2004), meaning that the slide in their share on world markets dating back to 2004 continued.

As regards the services balance, tourist receipts improved notably in the second half of 2005, taking their growth for the year as a whole to 5.8% and building on their modest recovery in the previous year (3.8%). The numbers of tourists entering Spain in 2005 increased faster than in 2004, which is in contrast to the easing off of global tourist flows in circumstances of uncertainty (terrorist attacks, natural disasters and avian flu) and of dearer oil which, probably, was conducive to the re-channelling of tourist flows towards Spain. In any event, the profile of tourists entering Spain continued to change, with declines in real expenditure and average stays. For their part, tourist payments remained considerably buoyant. As a result, the travel surplus declined by 0.3 pp of GDP to 2.9%. The considerable narrowing of the deficit on other services was unable to prevent a slight slide of 0.1 pp in the overall services surplus to 2.5% of GDP.

The income and current transfers balances worsened significantly in 2005. The deficit on the former widened strongly once again, by 0.5 pp of GDP, to 1.9%, in line with the increase in the net debit International Investment Position of the Spanish economy. By sector, the increase in the deficit of Other Resident Sectors (ORS) and, in particular, in that of Monetary Financial Institutions (MFIs), which were offset only partly by the slight decline in that of General Government, accounts for the increase in the income deficit. In terms of instruments, all contributed to the widening of the deficit, although portfolio investment did so to a much greater extent, following the strong increase in the net liabilities of this type of investment over the past two years. The balance on current transfers continued to deteriorate, and, after having posted a deficit for the first time in 2004, this rose to 0.3% of GDP in 2005. The reduction in the surplus with the EU and the increase in immigrants' fund transfers to their countries of origin explain why this heading has ceased to offset the trade deficit as it had traditionally done. Finally, the surplus on the capital account, which depends essentially on capital transfers with the EU, fell off slightly by 0.1 pp of GDP to 0.9% of GDP.

% of GDP						
	2000	2001	2002	2003	2004	2005
<b>NET LENDING (+) / BORROWING (-) REQUIREMENT</b>	<b>-3.1</b>	<b>-3.2</b>	<b>-2.2</b>	<b>-2.5</b>	<b>-4.3</b>	<b>-6.5</b>
<b>Current account</b>	<b>-4.0</b>	<b>-3.9</b>	<b>-3.3</b>	<b>-3.5</b>	<b>-5.3</b>	<b>-7.4</b>
Goods	-6.4	-5.7	-5.0	-5.1	-6.4	-7.6
Services	3.3	3.4	3.1	3.0	2.6	2.5
<i>Travel</i>	4.1	4.0	3.5	3.5	3.2	2.9
<i>Other services</i>	-0.8	-0.6	-0.4	-0.5	-0.6	-0.4
Income	-1.2	-1.8	-1.7	-1.3	-1.4	-1.9
<i>Of which: reinvested earnings</i>	0.3	-0.2	-0.2	0.0	0.0	0.1
Current transfers	0.3	0.2	0.3	-0.1	0.0	-0.3
<b>Capital account</b>	<b>0.8</b>	<b>0.8</b>	<b>1.1</b>	<b>1.0</b>	<b>1.0</b>	<b>0.9</b>
<b>FINANCIAL ACCOUNT (a)</b>	<b>3.1</b>	<b>3.2</b>	<b>2.1</b>	<b>2.3</b>	<b>4.2</b>	<b>6.6</b>
<b>Excluding Banco de España</b>	<b>4.1</b>	<b>0.6</b>	<b>1.6</b>	<b>2.1</b>	<b>5.8</b>	<b>6.8</b>
Direct investment	-3.2	-0.8	0.9	-0.3	-3.4	-1.4
Portfolio investment	-0.2	-2.8	0.6	-3.4	10.2	6.4
Other investment	7.2	4.2	0.7	6.3	-1.0	1.8
Financial derivatives	0.3	-0.1	-0.7	-0.4	0.0	0.0
<b>Banco de España (b)</b>	<b>-1.0</b>	<b>2.6</b>	<b>0.5</b>	<b>0.2</b>	<b>-1.7</b>	<b>-0.2</b>
<b>ERRORS AND OMISSIONS</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>-0.1</b>

SOURCE: Banco de España.

a. Change in liabilities minus change in assets.

b. A negative (positive) sign denotes an increase (decrease) in Banco de España foreign assets.

The Spanish economy's net borrowing requirement, adding to which were the net outflows of direct investment, was covered by capital inflows in the form of other investment (loans, deposits and repos, in the main) and, above all, portfolio investment, chiefly in the form of debt securities.

The evolution of Spanish capital flows<sup>1</sup> in 2005 took place, as mentioned, against a background marked by the gradual improvement in the international economic environment and by the favourable behaviour of the Spanish economy. The favourable financial conditions were reflected in the rise in stock market prices and in the fact that corporate risk premia generally held at lower levels, despite increases in official rates in the euro area and United States, and the persistence of the US current-account and budget imbalances.

For the third year running, there were net outflows of foreign direct investment (FDI), although these were appreciably lower than in 2004 (1.4% of GDP compared with 3.4%) in an international setting in which the recovery in international flows took root (that said, although they increased in the developed economies as a whole, they declined strongly in the euro area). Spanish direct investment abroad fell in 2005, although bearing on this reduction were the significant investment operations abroad by resident MFIs in 2004. Meanwhile, the rate of decline of foreign direct investment in Spain eased in 2005. As regards foreign equity holding companies (ETVE by their Spanish name), the fall-off in their activity which had begun in 2003 continued in 2005.

Net inflows of portfolio investment in 2005 declined considerably after the all-time high reached the previous year (6.4% of GDP against 10.2%). Nonetheless, they remained the chief instru-

1. This summary of developments in the Financial Account refers to the figures in tables 6.1.1, 6.2.1 and 7.1.1, i.e. to the fact that the operations of the Banco de España are grouped in "Net assets of the Banco de España" and excluded from the other headings.

ment for capturing funds from abroad. This was the result of a sharper increase in Spanish portfolio investment abroad than that in foreign investment in Spain, both of which attained all-time highs (of 8.7% and 15.1% of GDP, respectively). The increase in Spanish portfolio investment outflows essentially took the form of purchases of bonds and notes. All the institutional sectors contributed to the above-mentioned increase, especially MFIs. Foreign portfolio investment inflows in Spain were also centred on bonds and notes, with asset-backed securities and issues by the subsidiaries of MFIs accounting for a significant share. In this context, purchases by non-residents of these instruments, issued by MFIs and, above all, by ORS, increased notably compared with the fall in those issued by general government against the background of the decline in Treasury issues.

Under the Other investment heading there were net inflows in 2005 accounting for 1.8% of GDP, in contrast to the outflows the previous year (1% of GDP). As a result, this item once again contributed to the financing of the external deficit, following its negative contribution in 2004. As is habitual, MFIs' operations (the most significant ones under this heading) were concentrated in short-term instruments, while ORS obtained financing basically through long-term loans and deposits, in a setting of increasing corporate debt levels. Under the general government heading, there were net outflows, in step with their lower borrowing requirements.

The capital inflows generated by Spain's sizeable foreign financing needs during 2005 increased the debit balance of the International Investment Position. Excluding the Banco de España, this balance amounted to 54.6% of GDP in 2005 (51.2% in 2004). When the Banco de España is included, the debit balance falls to 46.7% of GDP in 2005 (43.1% in 2004). These developments took place against the background of the appreciable depreciation of the euro against the dollar during the year (in annual average terms it held stable) and rises on stock markets, the effective which was a further widening of the debit balance, albeit much less than that which the capital inflows brought about. The increase therefore came about fundamentally in the two sectors which raised most funds during the year, namely FMIs and ORS, which placed their net debit position at 31% and 1.8% of GDP, respectively. ORS posted a net debit position for the first time since 1999. Conversely, the net debit position of general government diminished by 1.2 pp to 21.8% of GDP, in step with the net outflows of funds the sector recorded during the year. Finally, the net credit position of the monetary authority, though it increased in absolute terms, slipped by 0.1 pp in terms of GDP to 8%. As a result, there was a resumption in the decline in this balance as a percentage of GDP, which started in 2001 and was interrupted in 2004. The increase in the Monetary Authority's position was in response to the strong increase in other net assets which, along with a slight rise in reserves, offset the significant decline in claims on the Eurosystem.

As to the changes in this present edition of the report, it should first be said that headway has been made in introducing improvements into the reporting system and into the calculation procedures for the following Balance of Payments headings: Travel, Income from work, Portfolio investment income, Workers' remittances and Other private sector transfers.

As indicated, the repercussions of these improvements on the data is much less than that of the revision of the time series made in 2004 and, in most cases, their scope is confined to the period covered by this report. Nonetheless, these improvements are a further step towards enhancing the consistency of the Balance of Payments data with those of the National Accounts Rest of the World Account. The related section in this report explains in greater detail the changes made, including most notably the use of the Tourist Expenditure Survey as the sole source for estimating Travel receipts, estimating all portfolio investment income according

to the accrual criterion and, finally, altering the calculation procedure for workers' remittances payments in order to reflect more correctly developments in this item, as a result of the significant immigration witnessed in Spain in recent years.

The improvements to the procedures mentioned in the foregoing paragraph have enabled the frequency of dissemination, or the breakdowns, of specific Balance of Payments headings to be increased. The year 2005 thus saw the dissemination on the Banco de España website (freely accessible on the Internet) of the quarterly breakdown of the heading Other services, along with the attendant breakdown by counterpart country. In addition, this publication disseminated for the first time the breakdown of workers' remittances payments in the Balance of Payments on the basis of the country of final destination.

## 2 THE BALANCE ON CURRENT AND CAPITAL ACCOUNTS IN 2005

## 2 The balance on current and capital accounts in 2005

### 2.1 Introduction

In 2005 the Spanish economy continued the phase of growth initiated in the mid-1990s, against a world economic background characterised by general buoyancy, the extent of which, however, varied from one area to the next. According to the IMF, the world GDP slowed moderately in 2005 (4.8%, against 5.3% in 2004), against a backdrop of progressive oil price rises and of persistent imbalances in the world economy, which are manifested in the significant current account deficit of the United States and which continue to constrain financial flows at the global level. As in the previous year, international expansion was underpinned by the emerging economies, especially China, and by the United States, which grew at annual rates of 9.9% and 3.5%, respectively, in 2005. The recovery of the Japanese economy firmed, while the euro area grew moderately, although signs of a recovery were discernible in the second half. The buoyancy of the world economy was reflected in international trade in goods, which increased by 7.6%<sup>1</sup>, a lower rate than in the previous year (11.2%). Spain's main export markets grew by 5.8%, which was less than the global rate. The financial conditions continued to be conducive to world economic growth despite the progressive rises in the key monetary policy rates, which were less pronounced in the euro area than in the United States. Against a background of high liquidity, long-term interest rates remained low, although they edged up somewhat towards the end of the year. These low interest rates can be attributed only in part to macroeconomic fundamentals, since they mostly reflect other factors primarily related to the unusually high demand for long-term bonds and the abundant liquidity in the global financial system<sup>2</sup>. The world stock exchanges performed positively, buoyed by the economic trend and the improved corporate earnings. Finally, the dollar appreciated noticeably against the euro during the year, although the average exchange rate held relatively steady with respect to 2004.

The Spanish economy continued its expansionary phase and the GDP growth rate increased by 30 bp to 3.4%, widening the growth differential with the euro area. The expansion was again underpinned by domestic demand, whose contribution to GDP growth amounted to 5.3 percentage points (4.9 in 2004), thanks to the pick-up in gross fixed capital formation (7.2%, against 4.8% in 2004), which was driven particularly by investment in capital equipment and which offset the moderate slowdown in final consumption (4.4%, against 4.8% in 2004). In any event, the growth rate of the components of national demand moderated somewhat in 2005. For its part, the negative contribution of external demand increased by 0.1 pp to 1.9 percentage points, against a backdrop of sharper relative slowdown in exports than in imports of goods and services. Inflation performed more unfavourably than in 2004, spurred by higher energy costs. Hence inflation as measured by the CPI stood at 3.4% (3% in 2004), although the CPI excluding unprocessed food and energy remained steady at 2.7%. The average annual inflation differential with the euro area widened in 2005 by 0.2 pp to 1.2%, against a background of relative stability of the euro. All this was reflected in a deterioration in competitiveness, on top of that accumulated in prior years, which was more pronounced vis-à-vis the euro area than with respect to the other developed countries.

One of the major features of Spain's current economic expansion is the significant increase in the Spanish economy's net borrowing from the rest of the world, which has been particularly sharp in the last two years. On balance of payments data, this borrowing amounted to €58,655 million in

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1. See IMF (2006), *World Economic Outlook*, April, IMF. 2. See the Box "Recent developments in long-term real interest rates", *Monthly Bulletin*, April 2005, European Central Bank.



**TRADE BALANCE**  
**Nominal rate of change**

TABLE 2.1

	AVERAGE 1994-2001	2002	2003	2004	2005	2005			
						Q1	Q2	Q3	Q4
Receipts (exports)	13.6	2.7	3.7	6.6	5.0	-0.9	5.7	8.5	6.8
Payments (imports)	14.2	0.9	4.8	12.8	11.2	7.2	12.3	13.2	11.9

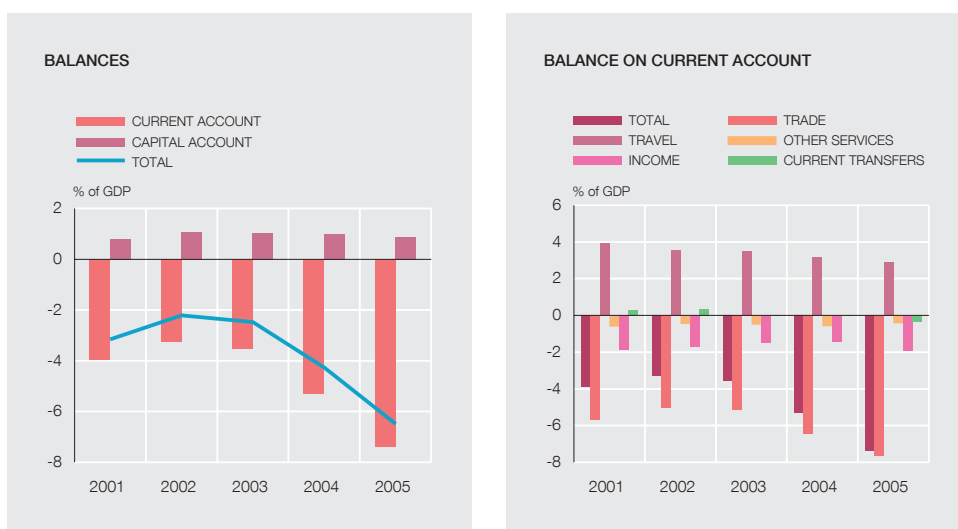
SOURCE: Banco de España.

2005, against €35,736 million in 2004, which affirmed the trend initiated in the previous year. This increase basically arose from the widening of the current account deficit, a contributing factor to which is the increasingly negative trade balance and, to a lesser but also significant extent, the deteriorating income and current transfers balances. Hence, as a percentage of GDP, net borrowing stood at 6.5% (against 4.3% in 2004), which was a historical high. This level is comparable to that of the United States and among the highest in the euro area, exceeded only by that of Portugal<sup>3</sup>. The recourse to external saving reflects the insufficiency of domestic saving to finance expansion of gross fixed capital formation, particularly investment in construction and housing, which in 2005 was the highest for the last 25 years (nearly 29% of GDP) against a background of slightly declining gross domestic saving, which stood at 23.2% of GDP.

The current account deficit widened substantially in 2005 (50.9%), following an appreciable increase in 2004 (of 60.7%). As a result, the current account deficit expressed as a percentage of GDP amounted to 7.4%, against 5.3% of GDP in 2004. Meanwhile, the capital account surplus decreased moderately by 5.4% in 2005 to stand at 1% of GDP, 0.1 pp less than in 2004. As remarked above, the increase in the current account deficit resulted, firstly, from the sharp widening of the trade imbalance, fuelled by import growth which, despite a slowdown, outstripped export growth (see Table 2.1). As a percentage of GDP, the trade deficit rose from 6.4% in 2004 to 7.6% in 2005, near the high reached in the 1970s. The services surplus recovered partially following the decrease in the previous year, although as a percentage of GDP it slipped back 0.1 pp to 2.5%. The behaviour of the services balance was a result of the 23% reduction of the deficit on *other services*, which offset the slight deterioration in the *travel* surplus. The higher income deficit was the second factor, by order of importance, in the widening of the current account deficit, since it rose from 1.4% of GDP in 2004 to 1.9% in 2005 (see Chart 2.1). The deficit on current transfers also increased notably from €117 million to €3,084 million, and represented 0.3% of GDP in 2005.

The change in the goods deficit in 2005 basically reflected the widening of the trade deficit in real terms, although also contributing was the deterioration in the real terms of trade. Imports played a basic part in the widening of the trade deficit, since their growth rate exceeded that of exports. The growth of imports reflected the buoyancy of final demand, the oil price rises in the last two years<sup>4</sup> and the cumulative loss of competitiveness by the Spanish economy since it became a member of the euro area, as a result of Spain's positive inflation differential vis-à-vis its main competitors<sup>5</sup> and the strong appreciation of the euro exchange rate in the period

3. See L.A. Maza and A. del Río (2006), "La Financiación del déficit exterior de la economía española (The financing of Spain's external deficit)", *Boletín Económico*, March, Banco de España. 4. Unlike in previous periods, this price rise has been characterised by its persistence, which is basically due to the expansion of world demand for oil. 5. The empirical evidence suggests that this inflation differential mainly reflects the existence of rigidities in price and wage adjustments. See J.D. López-Salido and F. Restoy (2006), "Inflation differentials in the euro area: the case of the Spanish economy", *Economic Bulletin*, January, Banco de España.



SOURCE: Banco de España.

2001-2005<sup>6</sup>, although it was relatively stable in 2005. These factors operate in an industrial setting with a significant dependence on the foreign markets as evidenced by the demand for energy, the high share of imported goods in capital goods investment in general and, as inputs, in some of Spain's main branches of exports, such as motor vehicles. Exports also grew by less than the international markets. In this respect, Spain's exports were constrained by the loss of competitiveness and the moderate growth of the euro area, its main export market. Hence the share in real terms of Spanish exports in the world markets diminished in 2004 and 2005, against a background marked by the growing competitiveness of new areas such as the Asian economies and central and eastern Europe. In fact the presence of these new competitors (whose sectoral specialisation is, in certain cases, similar to that of Spain) increased notably in Spain's main export markets<sup>7</sup>. Spain's trade structure, centred on medium-technology goods in which certain emerging countries and the central and eastern European countries are specialising, heightens the unfavourable impact of the aforementioned factors on Spain's exports, which failed to benefit clearly from the recovery of the international markets. All this highlights the need to improve the competitiveness of the Spanish economy through greater productivity and through specialisation in the most buoyant sectors which, in principle, are less sensitive to differences in relative costs and prices.

The other components of the current and capital accounts also contributed to the increase in net borrowing, as mentioned above. This phenomenon is at least partially due to structural factors. Thus the worsening of the income balance is influenced by the simultaneous process of escalation of the net debtor position of the Spanish economy. For its part, the deterioration of the current transfers balance, which traditionally offsets the trade deficit, is linked to the strong growth of workers' remittance payments in the last few years and to the decrease in current transfers from the EU<sup>8</sup>, this latter factor exerting a similar effect on the capital account. Finally, the last few years have seen a slowdown in travel receipts, although they rebounded in 2005, and a high buoyancy of payments, against a backdrop marked not only by conjunctural factors, but also by a changing profile of foreign tourists in Spain towards lower expend-

6. It should be noted that the impact of the euro is reduced because in 2005 approximately 50% of Spain's imports and less than 60% of its exports were from/to the euro area. 7. See *Annual Report*, Banco de España, 2004. 8. Unless expressly stated otherwise, references to the EU in this text are to the EU 25, i.e. the 10 member countries which joined in the latest enlargement are included.

iture and shorter average stays, and the appearance of new competitors with price and cost advantages.

Although the appreciable growth of net borrowing is not a new phenomenon for the Spanish economy, and has characterised most cyclical upturns in the last few decades, what is new is the size of this increase. On previous occasions, for example, in the late 1980s and early 1990s, the deterioration of the external balance used to be reversed when significantly lower levels were reached, customarily through exchange rate devaluations. By contrast, in the current situation, membership of the euro area permits higher external imbalances to be financed because exchange rate risk vis-à-vis the rest of the area is eliminated and the course of non-euro area financial variables is determined by aggregate factors based on the total euro area. For this reason, the ability of the Spanish economy to attract external funds depends on the credit quality of the borrowers, and on the relative attractiveness of the instruments used<sup>9</sup>.

The change in net lending or net borrowing by sector also reveals another difference between the current widening of the external deficit and that of prior periods in which it was also significant. Firstly, the recent correction of the general government deficit contrasts with the behaviour of this sector in the past. Specifically, the deficit of 6.5% of GDP in 1995 switched to a surplus of 1.1% in 2005. This could not offset the increased financing needs of non-financial corporations, which went from net lending in the mid-1990s to net borrowing of 6.4% of GDP in 2005. But the most notable change is the appearance, since 2003, of the growing net borrowing of households, against a background of prolonged vigorous growth in residential investment.

The foregoing analysis suggests that the increase in Spain's net borrowing is at least partially due to structural factors and that, although its financing poses no problems at present, it might be a symptom of the deterioration of Spain's competitiveness in both trade and tourism. Given our membership of the euro area, this deterioration cannot be corrected by a depreciation of the nominal exchange rate or a rise in interest rates, and may end up affecting the process of real convergence with the EU. In this respect, the empirical evidence in industrial countries indicates that high current account deficits entail longer adjustment periods and sharper reductions in economic growth than when the deficits are small<sup>10</sup>. In addition, it is difficult to maintain the Spanish economy's high debt growth without raising the vulnerability of agents to economic or financial shocks.

## **2.2 The current account balance**

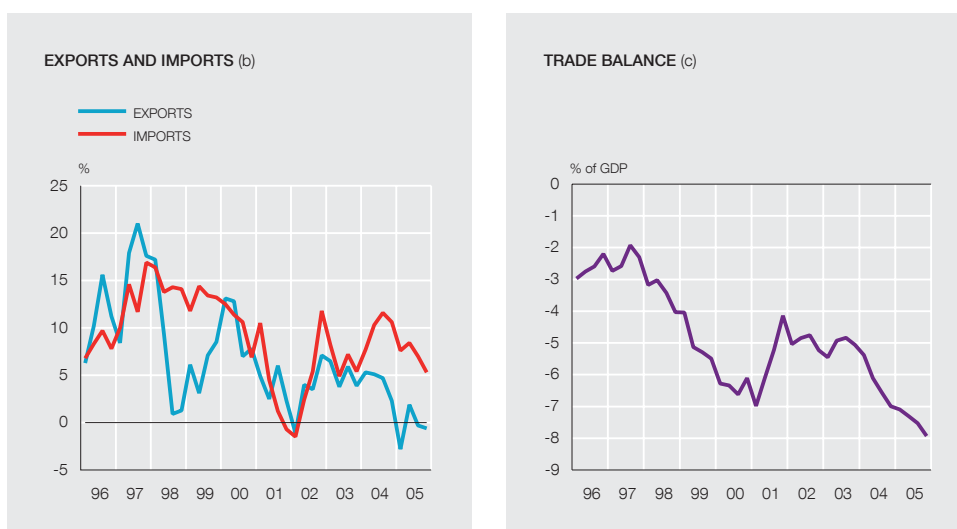
### **2.2.1 TRADE BALANCE**

According to balance of payments data, the deficit on the goods balance increased appreciably in nominal terms in 2005 (28.5%) to €68,969 million (7.6% of GDP). This continued the sharp expansion of the trade imbalance initiated in 2003 following the correction in 2001 and 2002. Table 2 .1 shows that the deterioration in the trade balance in nominal terms resulted from the significant growth of imports (11.2%), which appreciably exceeded that of exports (5%). The growth rate of both imports and exports moderated, although exports slowed more sharply than imports. Contributing significantly to this was the widening of the energy goods deficit. However, the growing trend towards trade imbalance moderated during the year, influenced by the high level of deficit reached in the second half of 2004.

On Quarterly National Accounts (QNA) data, the growth rate of goods imports in real terms moderated by 3.1 percentage points with respect to 2004 to stand at 7%, a rate which, in any

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9. See Chapter 1 of the *Annual Report*, Banco de España, 2005. 10. See C. Freund and F. Warnock (2005), "Current Account Deficits in Industrial Countries: the Bigger They Are, the Harder They Fall?", *NBER Conference G7 Current Account Imbalances: Sustainability and Adjustment*.



SOURCE: Instituto Nacional de Estadística.

- a. Seasonally and calendar adjusted data. Base year 2000.  
 b. Year-on-year rate of change. In real terms.  
 c. In nominal terms.

event, exceeded those of 2003 and 2002. Imports were again underpinned by the buoyancy of domestic demand, the growth rate of which increased moderately in 2005 to 5.1%. As regards the euro, the annual average of its effective exchange rate *viz-à-viz* the developed countries depreciated modestly in both nominal and real terms (0.8% and 0.7%, respectively). Exports performed weakly, to the point of falling off by 0.4%, in contrast to the growth of 4.4% posted in 2004. This decrease occurred in a year in which world markets grew by 7.6% (11.2% in 2004)<sup>11</sup>, thereby exacerbating the loss of market share of Spanish exports initiated in 2004. Factors bearing on this lower penetration of Spanish products in the world markets were the Spanish economy's cumulative loss of competitiveness, the appearance of new competitors and the lag in the cyclical position of the euro area, which is Spain's principal export market. According to the World Trade Organisation (WTO), total exports of the EU were less buoyant in 2005, with a year-on-year increase of 3.5%.

Consequently, in 2005 the Spanish export cover rate<sup>12</sup> decreased more sharply to stand at 69.4% (73.5% in 2004), this being the lowest level since 1992 and contrasting with the high reached in 1997 (88.3%). Conversely, the penetration ratio for goods imports expressed in nominal terms<sup>13</sup> rose to 24.6% of GDP (23.9% in 2004). As regards the year-on-year change in real trade flows in 2005, imports slowed in the second half of the year. For their part, exports showed weakness throughout the year, dipping particularly significantly in Q1. The rebound in Q2 did not offset the decreases of the first and last quarters (see Chart 2.2).

As in previous years' reports, detailed analysis of the trend and structure of foreign trade<sup>14</sup> is based on the figures published by the Customs and Excise Department, which is the primary source of information for compiling the goods balance in the balance of payments and the QNA. Its trend in nominal terms, broken down by product group and geographical area, is shown in

<sup>11</sup>. The growth rate in real terms of world imports according to the IMF. <sup>12</sup>. Defined as the ratio of goods exports to imports in balance of payments terms. <sup>13</sup>. Defined as the ratio of goods imports (QNA estimate) to nominal GDP. <sup>14</sup>. Appendix I to this publication reports the Spanish foreign trade time series for the period 1994-2005, drawing on Customs figures. They are broken down by product group and geographical area and are in greater detail than is the case in this chapter.

	TOTAL			CONSUMER GOODS			CAPITAL GOODS			NON-ENERGY INTERMEDIATE GOODS			ENERGY INTERMEDIATE GOODS		
	Ø 91-03	2004 (a)	2005 (a)	Ø 91-03	2004 (a)	2005 (a)	Ø 91-03	2004 (a)	2005 (a)	Ø 91-03	2004 (a)	2005 (a)	Ø 91-03	2004 (a)	2005 (a)
<b>EXPORTS:</b>															
<b>TOTAL</b>	<b>11.4</b>	<b>6.3</b>	<b>4.8</b>	<b>12.3</b>	<b>2.4</b>	<b>-0.2</b>	<b>7.6</b>	<b>12.3</b>	<b>13.4</b>	<b>12.5</b>	<b>8.0</b>	<b>6.7</b>	<b>7.2</b>	<b>22.9</b>	<b>22.1</b>
<b>OECD</b>	<b>11.6</b>	<b>5.8</b>	<b>2.9</b>	<b>12.2</b>	<b>2.4</b>	<b>-1.3</b>	<b>7.2</b>	<b>10.0</b>	<b>12.6</b>	<b>12.5</b>	<b>8.1</b>	<b>4.8</b>	<b>10.1</b>	<b>20.1</b>	<b>16.4</b>
<b>EU</b>	<b>...</b>	<b>4.8</b>	<b>2.3</b>	<b>...</b>	<b>0.9</b>	<b>-2.4</b>	<b>...</b>	<b>11.1</b>	<b>7.3</b>	<b>...</b>	<b>7.4</b>	<b>5.4</b>	<b>...</b>	<b>20.2</b>	<b>16.2</b>
<b>EU 15</b>	<b>11.5</b>	<b>5.0</b>	<b>2.0</b>	<b>12.4</b>	<b>0.8</b>	<b>-2.6</b>	<b>6.5</b>	<b>12.0</b>	<b>8.7</b>	<b>12.2</b>	<b>8.0</b>	<b>4.9</b>	<b>11.4</b>	<b>20.2</b>	<b>17.0</b>
Euro area	11.3	5.1	1.7	12.1	0.8	-2.8	6.5	13.3	11.8	12.3	8.4	4.8	8.4	11.4	-3.3
Germany	10.4	3.7	2.6	11.0	-1.1	-1.2	1.6	7.2	5.7	11.9	7.6	5.9	22.9	37.4	-36.5
France	10.8	7.3	4.1	11.3	3.6	0.3	6.3	27.1	13.8	11.9	8.3	6.6	5.8	4.2	-14.4
Italy	10.6	-1.4	-2.7	11.6	-7.8	-10.5	9.3	5.0	12.5	11.7	6.0	3.6	1.3	-42.5	-2.6
United Kingdom	8.6	4.4	-1.6	10.7	-3.3	-10.7	8.5	-13.8	8.0	8.4	17.7	3.3	-1.5	2.3	38.5
<b>US</b>	<b>11.6</b>	<b>7.6</b>	<b>-2.0</b>	<b>13.8</b>	<b>9.5</b>	<b>-13.7</b>	<b>6.2</b>	<b>-7.3</b>	<b>22.1</b>	<b>11.1</b>	<b>10.4</b>	<b>4.1</b>	<b>16.5</b>	<b>-31.7</b>	<b>71.0</b>
<b>OPEC</b>	<b>15.4</b>	<b>7.9</b>	<b>2.7</b>	<b>16.6</b>	<b>3.3</b>	<b>3.7</b>	<b>9.0</b>	<b>11.0</b>	<b>17.1</b>	<b>16.2</b>	<b>9.7</b>	<b>1.9</b>	<b>16.2</b>	<b>24.0</b>	<b>-12.3</b>
<b>CIS and other central and eastern European countries</b>	<b>16.0</b>	<b>15.2</b>	<b>5.2</b>	<b>15.4</b>	<b>11.4</b>	<b>20.3</b>	<b>20.4</b>	<b>24.5</b>	<b>-20.2</b>	<b>15.0</b>	<b>14.5</b>	<b>6.7</b>	<b>12.5</b>	<b>-47.5</b>	<b>13.2</b>
<b>Rest of the Americas</b>	<b>13.5</b>	<b>1.9</b>	<b>2.8</b>	<b>14.0</b>	<b>7.1</b>	<b>-2.5</b>	<b>6.0</b>	<b>-1.4</b>	<b>19.8</b>	<b>15.4</b>	<b>-3.4</b>	<b>6.5</b>	<b>33.8</b>	<b>-0.7</b>	<b>177.6</b>
<b>NICs</b>	<b>10.7</b>	<b>7.7</b>	<b>9.1</b>	<b>13.2</b>	<b>4.8</b>	<b>10.1</b>	<b>10.0</b>	<b>19.7</b>	<b>24.6</b>	<b>8.7</b>	<b>-1.1</b>	<b>4.0</b>	<b>10.1</b>	<b>595.3</b>	<b>-3.5</b>
<b>Rest of the world</b>	<b>15.4</b>	<b>8.0</b>	<b>-5.0</b>	<b>19.7</b>	<b>9.4</b>	<b>-9.3</b>	<b>9.0</b>	<b>7.3</b>	<b>-0.2</b>	<b>13.7</b>	<b>5.9</b>	<b>2.0</b>	<b>5.6</b>	<b>-18.8</b>	<b>22.7</b>
<b>IMPORTS:</b>															
<b>TOTAL</b>	<b>10.0</b>	<b>12.5</b>	<b>11.7</b>	<b>12.5</b>	<b>13.8</b>	<b>9.0</b>	<b>4.6</b>	<b>12.3</b>	<b>21.6</b>	<b>11.0</b>	<b>10.3</b>	<b>4.6</b>	<b>9.0</b>	<b>21.1</b>	<b>38.0</b>
<b>OECD</b>	<b>9.8</b>	<b>11.3</b>	<b>5.5</b>	<b>12.2</b>	<b>14.1</b>	<b>6.7</b>	<b>4.4</b>	<b>11.9</b>	<b>11.3</b>	<b>10.8</b>	<b>8.6</b>	<b>2.0</b>	<b>9.4</b>	<b>29.6</b>	<b>21.1</b>
<b>EU</b>	<b>...</b>	<b>9.8</b>	<b>5.2</b>	<b>...</b>	<b>11.6</b>	<b>7.0</b>	<b>...</b>	<b>13.0</b>	<b>8.8</b>	<b>...</b>	<b>7.7</b>	<b>2.3</b>	<b>...</b>	<b>16.2</b>	<b>14.6</b>
<b>EU 15</b>	<b>10.2</b>	<b>9.6</b>	<b>5.0</b>	<b>12.0</b>	<b>11.5</b>	<b>6.9</b>	<b>5.2</b>	<b>12.1</b>	<b>7.0</b>	<b>10.9</b>	<b>7.3</b>	<b>2.6</b>	<b>13.7</b>	<b>20.7</b>	<b>13.6</b>
Euro area	10.4	10.2	5.1	12.0	12.0	5.8	5.6	12.9	5.5	11.0	7.8	3.6	13.6	27.3	21.5
Germany	10.0	11.0	1.3	12.9	16.9	0.1	4.9	9.3	-0.6	10.5	7.7	1.6	13.1	55.6	48.1
France	10.8	6.5	3.7	14.0	5.8	6.9	5.0	24.5	5.5	10.7	3.3	0.4	14.1	5.6	7.1
Italy	9.1	11.9	5.8	8.5	12.4	9.3	3.7	8.1	5.3	11.4	12.0	3.7	17.5	18.6	10.6
United Kingdom	10.7	14.8	10.5	10.4	20.0	8.1	12.4	20.4	14.3	10.6	7.9	9.1	4.9	84.8	41.6
<b>US</b>	<b>10.2</b>	<b>16.2</b>	<b>11.3</b>	<b>10.4</b>	<b>24.8</b>	<b>13.7</b>	<b>8.8</b>	<b>-6.8</b>	<b>11.1</b>	<b>10.8</b>	<b>16.1</b>	<b>9.8</b>	<b>2.9</b>	<b>45.4</b>	<b>16.2</b>
<b>OPEC</b>	<b>12.2</b>	<b>13.8</b>	<b>10.3</b>	<b>11.0</b>	<b>10.6</b>	<b>12.7</b>	<b>8.9</b>	<b>-5.5</b>	<b>10.9</b>	<b>13.4</b>	<b>15.2</b>	<b>5.7</b>	<b>15.6</b>	<b>95.9</b>	<b>68.2</b>
<b>CIS and other central and eastern European countries</b>	<b>16.0</b>	<b>6.7</b>	<b>25.6</b>	<b>15.0</b>	<b>0.5</b>	<b>12.8</b>	<b>7.2</b>	<b>77.8</b>	<b>36.3</b>	<b>18.6</b>	<b>-0.7</b>	<b>32.6</b>	<b>114.8</b>	<b>42.5</b>	<b>-97.9</b>
<b>Rest of the Americas</b>	<b>11.5</b>	<b>9.1</b>	<b>-6.9</b>	<b>12.5</b>	<b>4.7</b>	<b>-22.6</b>	<b>7.3</b>	<b>15.3</b>	<b>-0.5</b>	<b>12.8</b>	<b>9.3</b>	<b>-2.7</b>	<b>2.5</b>	<b>-35.5</b>	<b>511.7</b>
<b>NICs</b>	<b>10.1</b>	<b>-4.1</b>	<b>2.0</b>	<b>23.4</b>	<b>-34.5</b>	<b>26.9</b>	<b>10.3</b>	<b>-17.7</b>	<b>10.0</b>	<b>8.6</b>	<b>4.7</b>	<b>-5.4</b>	<b>61.8</b>	<b>11.8</b>	<b>881.3</b>
<b>Rest of the world</b>	<b>10.3</b>	<b>-6.1</b>	<b>19.2</b>	<b>16.5</b>	<b>-13.0</b>	<b>9.7</b>	<b>6.3</b>	<b>-9.5</b>	<b>-11.2</b>	<b>10.2</b>	<b>13.8</b>	<b>5.1</b>	<b>-0.2</b>	<b>-64.0</b>	<b>659.4</b>

SOURCE: Departamento de Aduanas.

a. Provisional data.

Table 2.2. Table 2.3 summarises the behaviour of imports and exports in terms of volume and prices, approximated by the unit value indices (UVIs) compiled by the Subdirectorate General of Macroeconomic Analysis of the Ministry of Economy and Finance. Finally, Table 2.4 shows the related percentage breakdown in nominal terms by geographical area and product group.

Throughout the text, comparisons between 2004 in 2005 data are carried out using the provisional series, since the final data for 2005 were not available when this report went to press.

According to Customs data, the nominal trade deficit continued to widen in 2005 at a pace that was significant (28.3%) although slightly lower than in 2004 (31.1%). As a percentage of GDP, the trade deficit increased by 1.4 percentage points to 8.6%. This was a result of the greater buoyancy of nominal imports, which grew by 11.7% (12.5% in 2004), as against the 4.8% rise in exports (6.3% in 2004). In the EU as a whole, nominal exports rose by 10.3% and imports by 13.8% in 2005, according to Eurostat data. In the case of Spain, the sharp increase in nominal purchases was due to the buoyancy of both energy products and capital goods, in

		AVERAGE 1994-2003	2004 (a)	2005 (a)
<b>IN REAL TERMS</b>	EXPORTS			
	<b>Total</b>	<b>9.5</b>	<b>5.2</b>	<b>0.2</b>
	Capital goods	12.6	12.9	6.2
	Consumer goods	8.1	2.3	-2.0
	<i>Food</i>	7.8	0.7	-0.7
	<i>Non-food</i>	8.3	3.0	-2.6
	Intermediate goods	9.5	6.3	0.9
	<i>Non-energy</i>	10.0	6.1	1.5
	<i>Energy</i>	3.9	10.1	-9.2
	IMPORTS			
	<b>Total</b>	<b>9.8</b>	<b>9.8</b>	<b>6.4</b>
	Capital goods	11.5	14.9	20.4
	Consumer goods	9.4	13.4	7.9
	<i>Food</i>	8.1	7.8	4.7
<i>Non-food</i>	9.9	15.0	8.7	
Intermediate goods	9.5	7.1	3.0	
<i>Non-energy</i>	11.3	6.6	1.6	
<i>Energy</i>	3.8	9.7	9.4	
<b>UNIT VALUE INDICES</b>	EXPORTS			
	<b>Total</b>	<b>1.8</b>	<b>1.0</b>	<b>4.7</b>
	Capital goods	-3.1	-0.6	6.8
	Consumer goods	3.2	0.1	1.9
	<i>Food</i>	3.0	-0.3	3.9
	<i>Non-food</i>	3.2	0.2	1.0
	Intermediate goods	2.1	2.1	6.5
	<i>Non-energy</i>	1.7	1.6	5.0
	<i>Energy</i>	8.3	11.7	34.4
	IMPORTS			
	<b>Total</b>	<b>1.8</b>	<b>2.5</b>	<b>5.0</b>
	Capital goods	0.1	-2.2	1.0
	Consumer goods	2.3	0.4	1.1
	<i>Food</i>	1.6	-0.1	1.3
<i>Non-food</i>	2.5	0.6	1.1	
Intermediate goods	2.1	4.5	8.0	
<i>Non-energy</i>	0.4	3.2	3.4	
<i>Energy</i>	7.6	10.4	26.2	

SOURCES: Departamento de Aduanas and Ministerio de Industria, Turismo y Comercio.

a. Provisional real export and import data.

contrast with the significant moderation of consumer goods imports. A product-by-product analysis of nominal exports shows that the growth of capital goods was unable to offset the fall-off in consumer goods sales and the slight moderation of intermediate products sales, in spite of the trend in energy goods (see Table 2.2). The widening of the nominal trade deficit is largely explained by the trade imbalance in real terms, which increased by 20.3% in 2005 (21.8% in 2004), driven by real imports and the practical stagnation of exports. The real terms of trade (calculated using export and import UVIs) contributed modestly to the increase in the nominal trade deficit, since they only worsened by 0.4%, against a background of export and import price rises the final result of which was to soften the impact of the oil price rises.

The widening of the trade deficit extended to practically all product groups and geographical areas, although to varying degrees (see Chart 2.3). As regards product groups, the balance of

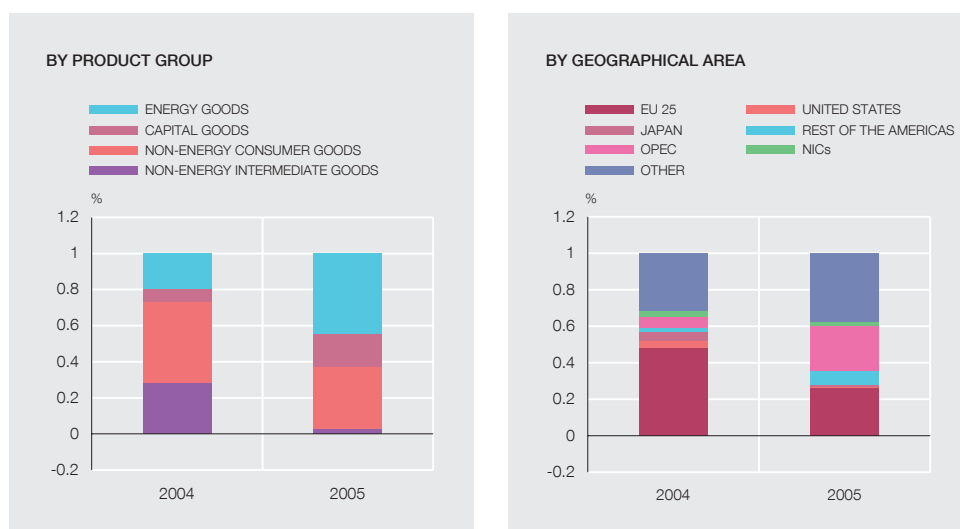
	SHARE IN TOTAL TRADE		BREAKDOWN OF TRADE IN THE AREA (a)					
	2004	2005 (b)	2004			2005 (b)		
			Consumer goods	Capital goods	Intermediate goods	Consumer goods	Capital goods	Intermediate goods
EXPORTS:								
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>40.7</b>	<b>9.0</b>	<b>50.3</b>	<b>38.8</b>	<b>9.7</b>	<b>51.5</b>
<b>OECD</b>	<b>84.2</b>	<b>82.7</b>	<b>43.5</b>	<b>7.8</b>	<b>48.7</b>	<b>41.9</b>	<b>8.5</b>	<b>49.6</b>
<b>EU</b>	<b>73.9</b>	<b>72.1</b>	<b>44.6</b>	<b>7.5</b>	<b>47.9</b>	<b>42.8</b>	<b>7.8</b>	<b>49.4</b>
<b>EU 15</b>	<b>71.0</b>	<b>69.1</b>	<b>44.8</b>	<b>7.4</b>	<b>47.7</b>	<b>42.9</b>	<b>7.9</b>	<b>49.2</b>
Euro area	59.4	57.7	44.2	7.4	48.4	42.3	8.1	49.6
Germany	11.6	11.4	43.4	5.3	51.4	42.0	5.4	52.6
France	19.4	19.2	45.9	9.3	44.7	44.2	10.2	45.6
Italy	9.0	8.4	46.8	7.1	46.2	43.2	8.0	48.7
United Kingdom	9.0	8.5	53.7	7.3	39.0	53.1	7.2	39.7
<b>US</b>	<b>3.9</b>	<b>4.0</b>	<b>31.6</b>	<b>7.1</b>	<b>61.3</b>	<b>32.5</b>	<b>7.5</b>	<b>60.0</b>
<b>OPEC</b>	<b>2.6</b>	<b>2.7</b>	<b>25.0</b>	<b>21.4</b>	<b>53.6</b>	<b>24.8</b>	<b>19.9</b>	<b>55.2</b>
<b>CIS and other central and eastern European countries</b>	<b>1.4</b>	<b>2.1</b>	<b>35.9</b>	<b>13.7</b>	<b>50.3</b>	<b>38.5</b>	<b>10.2</b>	<b>51.3</b>
<b>Rest of the Americas</b>	<b>3.0</b>	<b>3.2</b>	<b>25.9</b>	<b>20.0</b>	<b>54.2</b>	<b>23.3</b>	<b>24.5</b>	<b>52.2</b>
<b>NICs</b>	<b>0.9</b>	<b>1.0</b>	<b>23.6</b>	<b>8.5</b>	<b>67.9</b>	<b>23.7</b>	<b>11.5</b>	<b>64.8</b>
<b>Rest of the world</b>	<b>6.5</b>	<b>6.9</b>	<b>23.5</b>	<b>14.6</b>	<b>61.9</b>	<b>21.4</b>	<b>14.1</b>	<b>64.5</b>
IMPORTS:								
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>29.6</b>	<b>10.9</b>	<b>59.5</b>	<b>29.0</b>	<b>11.8</b>	<b>59.2</b>
<b>OECD</b>	<b>77.1</b>	<b>72.9</b>	<b>30.3</b>	<b>12.8</b>	<b>56.9</b>	<b>30.6</b>	<b>13.5</b>	<b>55.9</b>
<b>EU</b>	<b>64.5</b>	<b>60.8</b>	<b>30.6</b>	<b>12.9</b>	<b>56.6</b>	<b>31.1</b>	<b>13.2</b>	<b>55.7</b>
<b>EU 15</b>	<b>62.3</b>	<b>58.6</b>	<b>30.7</b>	<b>13.0</b>	<b>56.3</b>	<b>31.2</b>	<b>13.2</b>	<b>55.6</b>
Euro area	54.1	51.0	30.4	13.2	56.4	30.6	13.2	56.2
Germany	16.0	14.6	32.4	14.3	53.3	32.1	14.3	53.7
France	15.3	14.2	32.2	11.4	56.4	33.2	11.5	55.3
Italy	9.1	8.6	25.4	14.7	60.0	26.2	14.4	59.4
United Kingdom	6.1	5.7	35.4	10.3	54.3	38.5	11.6	49.9
<b>US</b>	<b>3.6</b>	<b>3.4</b>	<b>16.0</b>	<b>16.8</b>	<b>67.2</b>	<b>16.4</b>	<b>21.2</b>	<b>62.3</b>
<b>OPEC</b>	<b>6.3</b>	<b>7.6</b>	<b>5.8</b>	<b>0.3</b>	<b>93.9</b>	<b>3.2</b>	<b>1.8</b>	<b>95.0</b>
<b>CIS and other central and eastern European countries</b>	<b>2.6</b>	<b>3.7</b>	<b>4.9</b>	<b>0.4</b>	<b>94.7</b>	<b>7.4</b>	<b>2.4</b>	<b>90.2</b>
<b>Rest of the Americas</b>	<b>3.0</b>	<b>3.5</b>	<b>38.7</b>	<b>1.1</b>	<b>60.2</b>	<b>32.0</b>	<b>13.2</b>	<b>54.8</b>
<b>NICs</b>	<b>2.1</b>	<b>2.1</b>	<b>44.2</b>	<b>20.9</b>	<b>34.8</b>	<b>45.4</b>	<b>15.7</b>	<b>39.0</b>
<b>Rest of the world</b>	<b>9.9</b>	<b>11.3</b>	<b>43.9</b>	<b>6.6</b>	<b>49.5</b>	<b>41.9</b>	<b>9.4</b>	<b>48.7</b>

SOURCE: Departamento de Aduanas.

- a. The figures show the structure of trade flows with each of the areas specified.  
b. Provisional data.

non-energy goods accounts for most of the increase in the nominal trade deficit, i.e. 55.2%, although energy products contributed to that trade deficit very significantly (44.8%), against a background of strong oil price rises. In 2004, the percentage of the increase in the trade deficit explained by energy goods was considerably lower (19.6%). Consumer goods also accounted for a good part of the rise in the deficit, namely 34%, although in the previous year this percentage was appreciably higher (45.1%). By contrast, capital goods went from accounting for 7.1% of the deterioration in the trade balance in 2004, to 18.1%, as a result of strong growth of nominal imports of capital goods, the buoyancy of which exceeded that their exports. The contribution of non-energy intermediate goods decreased appreciably from 28.2% of the total change in the trade deficit in 2004 to 3.1%, against a background of sharper growth in nominal exports than in imports.

In line with the behaviour described above, the geographical breakdown of the trade balance reveals the major role played by the OPEC, which went from accounting for 3.5% of the in-



SOURCE: Departamento de Aduanas.

a. Percentage of total change in nominal goods deficit accounted for by each caption.

crease in the deficit in 2004 to 24.9% in 2005. The participation of Latin America also increased. These developments took place at the expense of the EU, which accounted for 26.3% of the increase in the deficit, a considerably smaller share than in 2004 (48.5%). Within the euro area, it should be mentioned that the bilateral balance with Germany, which accounts for more than 54% of the deficit with the EU, improved very slightly in 2005, thanks mainly to the correction of the deficits on industrial intermediate products, transport equipment and motor vehicles. Further, the bilateral imbalance with France decreased by 5% due to the correction of the deficits on capital goods and on intermediate products, which offset the decline in consumer goods. Also, in 2005 the bilateral balance with France amounted to 10.6% of the total deficit with the EU. It should be pointed out that Spain's bilateral deficit with Germany had been growing since the mid-1990s (in 2004 it amounted to around 18.8% of the total increase in the trade deficit). Also notable was the deterioration in the balance with the United Kingdom, which returned to deficit after three years of surplus, due particularly to the decrease in the surplus on consumer goods because of the effect of consumer durables. Outside the EU, and apart from the OPEC countries, there was a general deterioration in the trade balance, most notably with Latin America and China. The bilateral deficit with China again increased significantly by 38.1% (it now accounts for more than 12% of the total), in a year in which the liberalisation of the international textile trade initiated in 1995 was completed and which saw a quickening of the process of loss of textile export shares, not only those of Spain but also of the EU as a whole. Note that the textile sector's weight in the Spanish economy is higher than the EU average<sup>15</sup>.

#### a. Exports

The growth rate of exports in real terms slowed appreciably in 2005 (see Table 2.3), practically coming to a standstill (0.2%, against 5.2% in 2004), despite the expansion of the world markets and the favourable developments in the international economic environment. The slowdown explains the aforementioned moderation in the growth rate of nominal exports,

15. See S.M. Barriol (2005), "El sector textil de la UEM ante la eliminación de contingentes en el comercio exterior (The euro area textile sector and the removal of foreign trade quotas)", *Boletín Económico*, February, Banco de España; and the box "Trade liberalisation and its impact on the euro area textile and clothing sectors", *Monthly Bulletin*, October 2005, European Central Bank.



since export UVIs rose considerably to 4.7% (1% in 2004). Similarly, the QNA data show a sharp increase in the growth rate of the goods exports deflator, which was up by 5.2% in 2005, against 1.7% in 2004.

The practical stagnation of real exports was due to the behaviour of all its components, especially to the fall-off of 2% in consumer goods sales, which exacerbated the slowdown recorded in 2004, when they only rose by 2.3%. This fall-off was seen in all consumer goods components, particularly non-food items (-2.6%), under the influence of the sharp drop of 10.3% in consumer durables. This drop was largely due to a decline in motor vehicle sales, which account for nearly one-quarter of manufactured exports and which decreased by 3.2% in nominal terms. Indeed, in 2005 this item showed a deficit for the first time, after the cumulative deterioration of the last few years against a background of weak demand from the euro area<sup>16</sup>. Meanwhile, capital goods exports increased by 6.2% in real terms, against 12.9% in 2004. Additionally, the growth rate of real exports of intermediate goods moderated appreciably to 0.9%, against 6.3% in 2004. This was due both to non-energy products (1.5%, against 6.1% in 2004) and to energy products, which fell off by 9.2%.

There was a general slowdown in real exports across all geographical areas. In the case of the EU, it amounted to 1.4%, compared with an increase of 3.4% in 2004. Also, sales to the euro area also decreased (by 1.3%), as opposed to moderate growth in the previous year (4.2% on). Exports to the rest of world grew by 4.2%, considerably less than in 2004 (10%). These developments were set, nonetheless, against a background of buoyancy of the international economy, although the euro area grew modestly (1.3% in real terms, against 2% in 2004). As regards countries, there was a general slowdown in nominal exports among EU member countries, particularly noteworthy in the cases of Portugal, Italy and the United Kingdom. Indeed, exports to the latter two countries fell off by 2.7% and 1.5%, respectively, as a result of declining sales of consumer goods, particularly durables. Exports to Germany and to France grew at moderate rates. In the rest of the world, nominal exports picked up appreciably to central and eastern Europe, Asia (particularly China) and, to a lesser extent, Latin America. By contrast, those to the OPEC countries and Japan declined. Finally, exports to the United States grew moderately.

The growth of export prices was basically due to the UVIs of energy products (27.6%) and to those of capital goods and non-energy intermediate goods, whose UVIs increased by 6.4% and 5% in 2005, respectively (-0.7% and 1.6% in 2004). Meanwhile, consumer goods prices increased more moderately by 1.9%, following the stagnation of the previous year. The most buoyant component of this heading was the prices of durable goods, although their growth rate was down on 2004 (4.6%, against 5.4%). Geographical analysis of UVIs shows rises in those of sales to the EU and in those of exports to the rest of the world, although the increase was significantly less in the first case (3.7% and 7.4%, against 1.3% and 0.3% in 2004, respectively). Indeed, the rise in export UVIs explains the pick-up in nominal terms of the related exports since, as noted above, they slowed in real terms. This behaviour of export prices, the growth of which outstripped that recorded by Spain's competitors, indicates that in 2005 the inflation differential was not offset, as in previous years, through the reduction of export margins observed from 2001 to 2004 (11.2% in the period as a whole), against a background of significant appreciation of the euro. Goods export margins increased by 1.1% in 2005, a rate considerably higher than that of the unit margin of manufactures as a whole (0.7%). The rise in export prices in 2005 might indicate that Spanish exporters opted to partially recover their margins, albeit at the cost of losing competitiveness and

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<sup>16</sup> Imports of these products are favoured by Spain's productive specialisation, which focuses more on exporting than on catering for the domestic demand skewed towards motor vehicles at the high end of the range.

export share, in a setting of relative stability of the exchange rate, higher prices of imported inputs and incipient increases in the cost of capital.

Finally, in terms of levels of technological intensity, the most buoyant exports in nominal terms were medium-low technology products (14.7%), influenced by the oil price rises. High-technology exports, which represent a minority of the total<sup>17</sup>, grew moderately, although at a pace above the average, thanks to pharmaceuticals. The behaviour of exports of medium-high technology manufactures was mixed: positive in the cases of machinery and electrical equipment, railway locomotives and rolling stock and other transport equipment, but, as mentioned above, negative in the case of motor vehicle exports, reflecting competition from central and eastern Europe. Finally, the low-technology branches grew modestly, by only 1.9%, constrained by the increasingly strong new competitors, particularly the Asian emerging economies. Low and medium-low technology manufactured exports represent a significant fraction of the total. The characteristics of Spanish firms, which are significantly less innovative than the EU average<sup>18</sup>, reinforce this pattern. This means that Spanish products are more sensitive to changes in relative prices and costs and limits their presence in the more buoyant markets, against a background of growing competitive pressure, which influences the performance of export shares.

#### b. Imports

According to Customs statistics, the growth rate of imports also moderated in 2005 in both nominal and real terms, albeit considerably less so than exports (see Table 2.2). Nominal purchases grew by 11.7%, slightly less than in 2004 (12.5%). This slowdown was sharper in real terms, with an increase of 6.4%, against 9.8% time in 2004 (see Table 2.3). The pattern throughout 2005 was one of moderation, despite the rise in Q2. These developments took place against a background of increases in import UVIs, driven by the energy component, to 5.1%, confirming the previous year's recovery (of 2.4%) after a cumulative decrease in the period 2000-2003. This rise was in line with the QNA data: the import deflator grew by 3.7% (1.8% in 2004), against a background of growth in developed countries' export prices and of euro exchange rate stability. Consequently, the loss of competitiveness of national products with respect to imports was more moderate than in previous years.

In terms of product groups, the most buoyant item in real terms was, as has been the case in recent years, capital goods. Their growth rate rose to 20.4% (14.9% in 2004), while their prices returned to positive, albeit moderate, growth rates (0.7%, against -2% in 2004). Despite this rise, the growth rate of total imports moderated due to the deceleration of the other items. Real purchases of consumer goods increased by 7.9%, against 13.4% in 2004. This slowdown extended to all components of this heading, especially to durable non-food goods (6.1%, against 16.8% in 2004). Unlike the course followed by private consumption, the buoyancy of consumer goods purchases increased in the second half. Imports of intermediate goods increased by 3%, against 7.1% in 2004, basically as a result of the slowdown of non-energy products, the growth rate of which declined to 1.6% (6.6% in 2004). Meanwhile, purchases of energy goods moved up by 9.4%, a similar rate to that in 2004. This took place against a background of a slight recovery in activity in industry and energy, which depend significantly on imported intermediate inputs. According to the QNA, this branch grew by 1.1%, in line with the rate of 2003, following the slowdown seen in 2004. The most buoyant activity was in energy, the GVA of which posted a real growth rate of 4.4% (2% in 2004), while the growth rate of industry only increased by 0.3 pp to 0.6%, and hence continued to perform relatively weakly. As in the case of capital goods imports, growth moderated during the year.

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17. See Chapter 2 of the 2004 edition of this report. 18. See E. Gordo (2005), "Características de la innovación tecnológica de las empresas españolas (Characteristics of technological innovation by Spanish firms)", *Boletín Económico*, June, Banco de España.

The growth pattern of real imports across product groups is consistent with the behaviour of the components of final demand, although it should be mentioned that, overall, final demand was more buoyant than in 2004. This growth was underpinned by gross fixed capital formation, the rise in which (7.2%, against 4.9% in 2004) offset the moderation in the growth rate of final consumption (4.4%, against 4.8% in 2004) and of exports (1% and 3.3%, respectively). These developments may explain the buoyancy of capital goods imports, which, unlike other items, rose in 2005, as well as their moderating profile during the year, in line with the behaviour of gross fixed capital formation, the growth rate of which weakened during 2005.

Geographical analysis shows that goods imports from non-EU countries grew in real terms more rapidly than those from the EU (12.8% and 2.5%, respectively), against a background of relative stability of the euro exchange rate in average annual terms, which appreciated very slightly against the dollar (by 0.1%), although in nominal effective terms it depreciated modestly against the developed countries as a whole (by 0.8%). Imports from both areas grew more moderately in the second half of 2005, particularly those from the EU. Imports from the euro area behaved similarly to those from the EU as a whole, increasing by only 2.4%, against 7.7% in the previous year. The country breakdown shows a general slowdown in nominal terms within the EU, particularly for Germany (in this latter case affecting nearly all items, particularly consumer durables, which even fell in absolute terms). Notable as regards the rest of the world were the rises in nominal purchases from central and eastern Europe, the OPEC, China and Latin America, which offset the moderation of other countries, most significantly Japan.

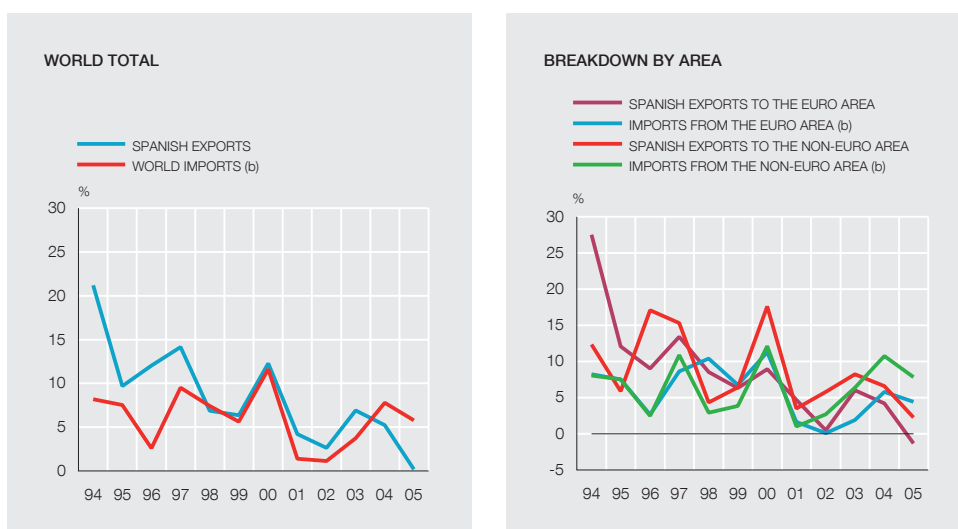
As remarked above, in 2005 the recovery of import UVIs initiated in 2004 gained strength against a background of rising raw materials prices, particularly of imported oil<sup>19</sup> (36.4%, valued in euro) and of relative exchange rate stability in the year as a whole with respect to 2004, despite the depreciation in 2005, particularly against the US dollar<sup>20</sup>. The disaggregation by product group shows that the rise in import prices was basically due to energy products, the price of which increased by 25.9% (10.1% in 2004), since the UVIs of other products grew moderately, and less than the corresponding export items. The change in capital goods prices was notable, since they went from a fall of 2% in 2004 to a rise of 0.7% in 2005. In line with the behaviour of product groups, the rise in import UVIs was particularly significant in the case of non-EU imports, which include those from oil-producing countries (9.6%, against 2.8% in 2004), after a period in which the cumulative appreciation of the euro in recent years was not fully passed through to prices. The growth of EU import UVIs was more moderate at 2.7%, a slightly higher rate than in 2004 (2.3%). Overall, the rise in import prices coexisted, as mentioned above, with a slight loss of competitiveness of Spanish products with respect to imports, which is reflected in the increased penetration of imports in the Spanish market.

c. Structure, market share and competitiveness

The overall structure of Spanish foreign trade in nominal terms, by geographical destination and by product group, underwent relatively insignificant changes in 2005 (see Table 2.4). The lesser buoyancy of nominal exports to the EU was reflected in a decrease in their weight to 72.1% of the total, and extended to both the euro area and the rest of the EU, while in the rest of the world there were no significant changes, with China and Latin America gaining slightly. In terms of product groups, intermediate goods remained the main item, with 51.5% of the total, and, accordingly,

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<sup>19</sup>. As in the case of exports, import prices are approximated via the unit value indices (UVIs) calculated by the Ministry of Economy and Finance. <sup>20</sup>. It should be noted that the degree of pass-through of exchange rate movements to the price of Spanish imports, both in the long term and in the short term, is higher than the euro area average. Indeed, in the long-term the pass-through would be full. See J.M. Campa and J.M. Mínguez González (2004), "Has the pass-through of movements in the euro exchange rate to import prices changed since the start of EMU?", *Economic Bulletin*, Banco de España, January 2005.



SOURCES: OECD, Ministerio de Economía y Hacienda and Banco de España.

a. Year-on-year real rates of change.

b. Series weighted by these countries' share in Spanish exports.

together with consumer goods, they represented 90.3% of total exports. The growth of intermediate and capital goods sales was reflected in an increase in their weight in the total, to the detriment of consumer goods, whose relative importance decreased moderately under the effect of the slightly lower nominal exports of them. On the imports side, the most significant changes were in the geographical distribution. The relative weight of the EU decreased by 3.7 percentage points, basically due to the slowdown in nominal purchases from the euro area, whose share in the total dropped to 51% (54.1% in 2004). The headway made by the rest of the world was mainly concentrated in the OPEC (its relative weight increased to 7.6%), Latin America and China, which now accounts for 5% of total Spanish imports. By product group, intermediate goods were again easily the most important item, accounting for 59.2% of total, against a background of recovery of industrial activity in Spain. Their relative weight, and that of consumer goods, fell off slightly in favour of capital goods imports, which were buoyant.

As indicated above, all the signs are that the behaviour of Spanish goods exports may have led to a further reduction in the share of Spanish products in real terms in the world markets in 2005, on top of the decline recorded in the previous year. As in other developed economies, in recent years Spanish exports have found it hard to keep gaining market share. This reflects the exhaustion of the positive factors arising from membership of the EU and from the lower levels of prices and costs with respect to the euro area as a whole, which had permitted Spanish exports to outperform those of the other major euro area countries in the period 1999-2005<sup>21</sup>. The geographical specialisation of Spanish exports had a negative influence, since in 2005 nearly 58% were to the euro area. Goods imports from the euro area increased by 4.8% according to aggregate National Accounts data of the euro area (7.6% in 2004), against a 7.6% rise in goods imports from world markets, according to the IMF (11.2% in 2004). However, as illustrated by Chart 2.4, the weight of Spanish exports in the euro area has gradually decreased in the last few years, as a result of the higher buoyancy of Spanish sales to the rest of the world. Moreover, the specialisation of Spanish exports by product group<sup>22</sup> may also

21. See Task Force of the Monetary Policy Committee of the European System of Central Banks (2005), *Competitiveness and the Export Performance of the Euro Area*, ECB Occasional Paper no. 30, June. 22. The available evidence shows that this factor at least partially explains why it has been so difficult for the Spanish export share to grow in the last few years. See S. Bravo and C. García (2004), "Spanish export market share in the past decade", *Economic Bulletin*, April, Banco de España.

The widening of the trade imbalance in recent years reflects both the strong surge in imports and, particularly since 2004, the weakness of exports, the growth of which has been clearly below that of world trade. Thus the share of Spanish products in the external markets has been falling off since that year.

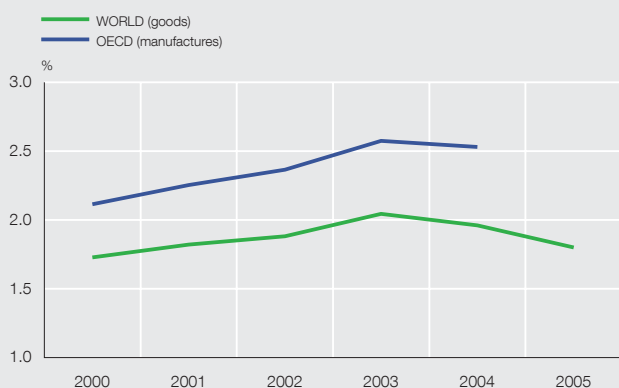
This situation unquestionably reflects the worsening of price and cost competitiveness in recent years, to which can be added other factors related to trade specialisation which may have hindered the growth of exports. In this respect, the so-called shift-share technique is used in this Box to evaluate how the geographical and sectoral structure of foreign trade influences exports and the ability of the economy to adapt to changes in the composition of world demand. In this technique, the change in the share of Spanish products in a certain market (approximated by taking the difference between the growth of Spanish exports and that of the imports of a country or group of countries) is broken down into two elements: one associated with the characteristics of the pattern of geographical and sectoral specialisation (known as the structural effect); and a second effect of a residual nature which measures competitiveness in the broad sense by reflecting the ability of Spanish exports in each sector to grow at a rate exceeding that of their markets. A further distinction within the structural component can be made between variations due to geographi-

cal structure (*market effect*), to sectoral specialisation (*product effect*) and to a mixed effect deriving from the interaction between the geographical structure and the sectoral structure<sup>1</sup>. The figures used refer only to the Spanish share in OECD countries<sup>2</sup>, and thus exclude the emerging economies (such as China or India) and some of the new Member States of the EU<sup>3</sup>.

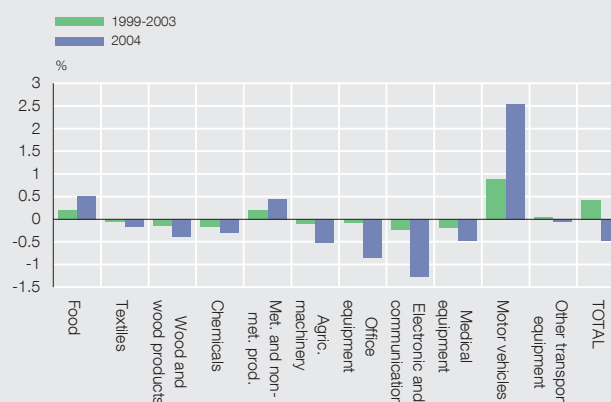
As shown in the first panel of the accompanying chart, the behaviour of the export share of Spanish manufactures in the OECD market is very similar to that of the world markets. Its upward path since the beginning of the current decade was interrupted in 2004 by a fall-off in the share which steepened in 2005. Although the available information only enables the change in share to be analysed up to 2004, the calculations for that year may give some idea of the reasons for this adverse behaviour of the export share in 2005.

1. For a more detailed analysis of this technique and of its formulation, see *Competitiveness and the export performance of the euro area*, Occasional Paper no. 30, European Central Bank. 2. The figures used in this Box are those on bilateral trade in manufactures by branch of activity published by the OECD in its STAN bilateral trade database, expressed in nominal terms. 3. Note that Poland, Hungary, the Czech Republic and Slovakia are included, as they belong to the OECD.

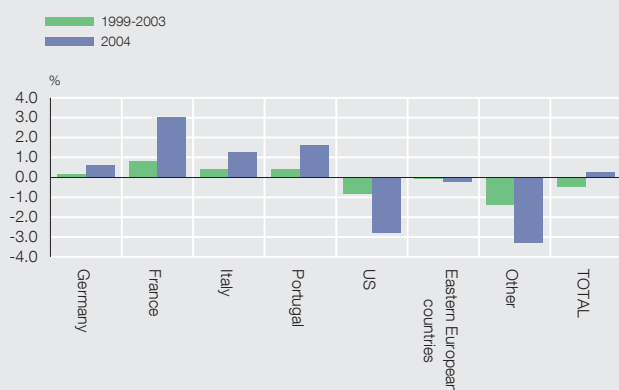
**SPANISH EXPORT SHARES**  
Nominal terms



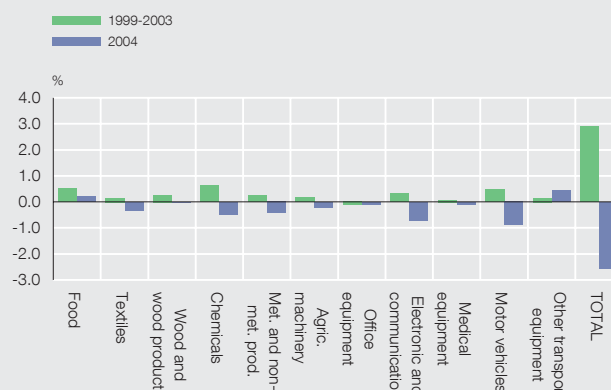
**STRUCTURE EFFECT BY PRODUCT**  
Contribution of each sector



**STRUCTURE EFFECT BY MARKET**  
Contribution of each country



**COMPETITIVENESS EFFECT BY PRODUCT**  
Contribution of each sector



SOURCES: OECD and Banco de España.

As can be seen in the accompanying table, in the period 2000-2003 all the factors considered contributed positively, albeit to differing extents, to the performance of the export share of manufactures in the OECD. Thus the structural factor made a positive contribution in that period, although the competitiveness factor was much more significant. Also, the fall-off in Spanish exports in 2004 is mainly due to the change of sign of the competitiveness factor, since the structural element continued to make a positive contribution.

Disaggregated analysis of each of these components provides significant information on the factors influencing the behaviour of exports in the period analysed. As regards the product effect, which is related to the sectoral specialisation structure, the most notable feature is the high contribution of the motor vehicle sector, which represents nearly one-third of total Spanish exports of manufactures and whose demand showed high relative growth during the whole of the period analysed (see accompanying chart). By contrast, the scant presence of high-technology branches, the products of which enjoy more buoyant demand, constrained export growth. As regards the market effect, the negative contribution of the demand from outside the euro area is a consequence of the scant focus of Spanish sales on these markets, which in recent years have shown higher comparative growth rates than those of the euro area. Also, it should be kept in mind that this analysis does not take into account the emerging markets, where demand has expanded notably in recent years and the presence of Spanish products is still modest. Finally, the change of sign of the competitiveness element is across the board, although quantitatively more significant in the medium-high technology sectors such as motor vehicles and chemicals. The persistence of positive growth differentials in prices and costs vis-à-vis the developed countries and the strong appreciation of the euro from 2001 to

2004, particularly against the US dollar, also help to explain this result. In addition, the appearance of new competitor countries with high export capacities may have had a significant influence insofar as it extended this phenomenon to other developed economies, judging from the falling export shares of certain EU countries in those years.

In sum, the pattern of specialisation of the Spanish economy has certain features that constrain the expansion of Spanish products in foreign markets, such as the scant presence of products with a higher technological content, which enjoy more buoyant demand, and the lesser focus on markets outside the euro area. To this may be added the genuine loss of competitiveness of Spanish products, which explains the fall in export share in 2004, and possibly in 2005, and could indicate that the loss of price competitiveness in recent years, against a background marked by the emergence of new competitors with much lower costs and prices than those of the Spanish economy, is being reflected in a fall in demand.

#### DISAGGREGATED ANALYSIS OF THE EXPORT SHARE OF SPANISH MANUFACTURES IN THE OECD

%	2000-2003 (a)	2004
Growth differential	3.6	-2.0
Structure effect	0.7	0.5
By product	0.4	-0.5
By geographical area	0.0	0.2
Mixed	0.3	0.7
Competitiveness effect	2.9	-2.5

have contributed to the deterioration of Spain's market share. Most of Spain's exports fall in the medium-high and medium-low technological intensity branches, while the weight of the high technological intensity branches is appreciably lower than the EU average. As a result, Spanish products face growing competition from the Asian economies and from the central and eastern European countries<sup>23</sup>. Additionally, the background against which Spanish products have lost market share in 2004 and 2005 is one marked by cumulative loss in competitiveness by Spain. Unlike in previous years, in 2005 such losses did not lead to a containment of export prices, but rather these rose appreciably, which may point to the need for Spanish export companies to recover lost ground in their margins. The available empirical evidence indicates that the sensitivity of Spanish exports to euro exchange rate fluctuations is higher than the euro area average<sup>24</sup>. Box 2.1 analyses how these factors have affected the market share of Spanish exports in the present decade. The outlook for exports is shaped by the impact of the aforementioned geographical and productive specialisation and by the behav-

23. The new members of the EU have a similar trade specialisation pattern to that of Spain, with a somewhat higher weight in the high and medium-high technology branches. See E. Gordo (2004), "The effects of EU enlargement on the Spanish economy: productive structures and trade flows", *Economic Bulletin*, July, Banco de España. 24. See Box III.1 of the Banco de España Annual Report 2002, "Differential effect of the euro's appreciation on exports by euro area countries".

## Rates of change, annual averages (a)

	NOMINAL COMPONENT	RELATIVE PRICES					COMPETITIVENESS INDICES				
		Unit labour costs	Consumer prices	Unit labour costs (manuf.)	Producer prices (manuf.)	Export prices	Unit labour costs	Consumer prices	Unit labour costs (manuf.)	Producer prices (manuf.)	Export prices
<b>Vis-à-vis the developed countries</b>											
2000	-3.0	1.4	1.5	2.2	1.0	0.9	-1.7	-1.5	-0.9	-2.0	-2.2
2001	0.5	1.1	0.7	0.6	0.8	-0.9	1.7	1.2	1.2	1.3	-0.4
2002	0.9	1.0	1.7	0.9	0.9	0.2	1.9	2.6	1.7	1.8	1.0
2003	3.0	1.4	1.3	2.0	0.8	-0.4	4.4	4.3	5.1	3.8	2.6
2004	0.8	2.2	1.2	3.9	1.1	-0.5	3.0	1.9	4.6	1.9	0.2
2005	0.1	1.1	1.4	2.8	1.7	0.0	1.2	1.5	3.0	1.9	0.1
Cumulative change on December 1998											
Dec-00	-5.2	2.2	3.0	2.5	2.2	4.2	-4.0	-2.3	-3.8	-3.1	-1.2
Dec-01	-4.5	3.0	3.8	2.6	2.6	2.3	-1.9	-0.8	-2.3	-2.0	-2.2
Dec-02	-2.8	3.9	5.9	4.5	3.5	1.5	0.5	2.9	1.0	0.7	-1.3
Dec-03	0.0	6.0	6.9	5.8	4.3	1.6	5.3	6.9	5.1	4.3	1.6
Dec-04	0.8	7.9	8.2	10.6	5.9	0.8	8.2	9.0	10.8	6.7	1.6
Dec-05	-0.4	9.2	10.0	11.8	8.1	0.5	8.5	9.6	11.1	7.7	0.1
<b>Vis-à-vis the euro area</b>											
2000	0.0	1.6	1.4	2.1	0.3	0.2	1.6	1.4	2.1	0.3	0.2
2001	0.0	1.2	0.4	0.6	0.4	-0.7	1.2	0.4	0.6	0.4	-0.7
2002	0.0	0.7	1.4	0.3	0.8	0.2	0.7	1.4	0.3	0.8	0.2
2003	0.0	1.1	1.1	1.0	1.0	0.8	1.1	1.1	1.0	1.0	0.8
2004	0.0	2.2	1.0	3.5	1.3	-0.1	2.2	1.0	3.5	1.3	-0.1
2005	0.0	1.3	1.4	3.3	1.9	0.6	1.3	1.4	3.3	1.9	0.6
Cumulative change on December 1998											
Dec-00	0.0	2.7	2.7	1.9	1.2	3.0	2.7	2.7	1.8	1.2	3.0
Dec-01	0.0	3.2	3.2	1.9	1.4	1.0	3.2	3.2	1.8	1.4	1.0
Dec-02	0.0	3.9	5.1	2.8	2.3	1.1	3.9	5.1	2.8	2.3	1.1
Dec-03	0.0	5.7	5.9	3.1	3.4	2.1	5.7	5.9	3.1	3.4	2.2
Dec-04	0.0	7.8	7.0	7.8	4.9	2.0	7.8	7.0	7.8	4.9	2.0
Dec-05	0.0	9.4	8.8	9.8	7.4	1.9	9.3	8.8	9.7	7.4	1.9
<b>Vis-à-vis the newly industrialised countries (b)</b>											
2000	-14.7	-	1.7	-	1.5	-	-	-13.3	-	-13.4	-
2001	3.8	-	0.9	-	3.0	-	-	4.8	-	7.0	-
2002	4.9	-	2.5	-	0.5	-	-	7.6	-	5.4	-
2003	18.4	-	1.7	-	-1.4	-	-	20.5	-	16.8	-
2004	7.6	-	0.9	-	-2.8	-	-	8.5	-	4.6	-
2005	-3.9	-	1.3	-	0.4	-	-	-2.7	-	-3.5	-
Cumulative change on December 1998											
Dec-00	-22.9	-	3.1	-	4.0	-	-	-20.4	-	-19.8	-
Dec-01	-19.5	-	5.1	-	7.2	-	-	-15.4	-	-13.7	-
Dec-02	-8.8	-	7.3	-	4.7	-	-	-2.2	-	-4.6	-
Dec-03	8.6	-	8.6	-	3.1	-	-	17.9	-	12.0	-
Dec-04	11.7	-	9.8	-	2.0	-	-	22.6	-	13.9	-
Dec-05	-0.8	-	11.3	-	3.1	-	-	10.4	-	2.2	-

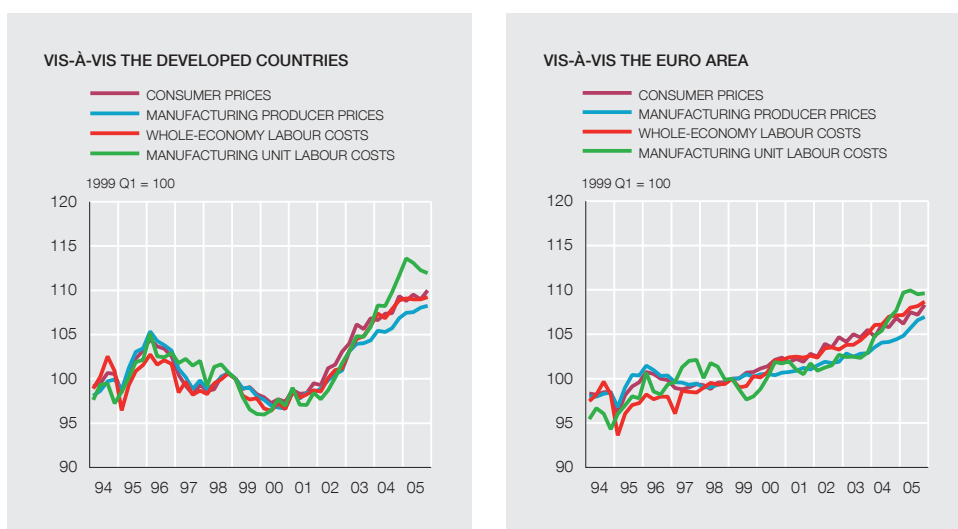
SOURCE: Banco de España.

a. Annual averages. A positive (negative) rate of change denotes a loss (gain) in competitiveness.

b. Includes newly industrialised countries, namely Mexico, Korea, Singapore, Taiwan, Thailand, Hong Kong and Malaysia, not included in the group of developed countries.

four of export prices, especially if there is a sustained recovery of margins in the sector. Finally, it should be noted that the growing productive globalisation reduces the direct link between market shares and competitiveness, since the internationalisation of companies may lead to exports being replaced by FDI, as is occurring, for example, in the case of Japan and the rest of Asia<sup>25</sup>, or it may spur intra-industrial trade.

25. See footnote 5.



SOURCE: Banco de España.

a. An increase in the index denotes a loss in competitiveness, a decrease a gain.

On the imports side, the significant momentum of imports prompted a further increase in their import penetration index in nominal terms to 24.9% of GDP (according to balance of payments data), after the 2001-2003 fall in this index which, in any event, is still below the level of 26.3% of GDP reached in 2000. This development may indicate that national production is being ousted by foreign products. On the other hand, it also reflects structural characteristics of the Spanish productive sector, such as the dependence on foreign energy, the acquisition of embedded technology via imports and the significant weight in Spanish exports of branches of activity which, like the automobile industry<sup>26</sup>, use a large quantity of imported intermediate goods. Finally as noted above, the completion of the process of liberalisation of the international textile trade in 2005 fuelled the penetration in this sector of imports from the emerging economies, especially China, in a phenomenon which affects not only the period under analysis, but also prior years.

In 2005 the Spanish economy recorded further losses in competitiveness vis-à-vis both the euro area and the rest of the world, derived from the persistence of positive price and cost growth differentials with respect to most of our competitors. The euro exchange rate remained relatively steady on average during the year, in contrast to the significant appreciation in the immediately preceding years. However, according to the available microeconomic empirical evidence, the impact of exchange rate movements on exports may be asymmetrical, since an appreciation may entail a loss of market segments that subsequently cannot be recovered due to the presence of other suppliers<sup>27</sup>. It should be pointed out that, depending on the index chosen, the changes in Spain's competitive position in the last few years, although evidencing a general deterioration, may differ noticeably in magnitude (see Table 2.5 and Chart 2.5). In general terms, in 2005 the behaviour of competitiveness did not differ much between the euro area and the developed countries as a whole, because of the stability shown by the euro in annual average terms. Thus the loss of competitiveness vis-à-vis the euro area was greater than that vis-à-vis the developed countries as a whole if it is measured using indices based on

26. Additionally, in this branch Spain's productive specialisation focuses on the export of products in the medium-low range, while national demand is largely for imported vehicles at the high of the range. See Box 4.5 "Import penetration in the Spanish economy", *Annual Report 2005*, Banco de España. 27. See A. Buisán and P. L'Hotellerie (2005), "Efectos del tipo de cambio sobre la inflación, la actividad y el comercio" (Effects of the exchange rate on inflation, activity and trade", *Boletín Económico*, October, Banco de España.



unit labour costs, and particularly on export UVIs, although it was somewhat less if measured using consumer prices. According to this latter index, the cumulative loss of competitiveness vis-à-vis the euro area since 1999 amounts to 8.8%. The most notable feature is the significant deterioration of the competitiveness indicators based on unit labour costs (ULCs), which, reflecting as they do the greater relative wage growth and moderate productivity gains in Spain in 2005, are those which show the greatest losses in competitiveness, both vis-à-vis the euro area and vis-à-vis the developed countries as a whole. By contrast, the index showing the smallest competitiveness losses was that based on export UVIs, although it did deteriorate, in contrast to the correction recorded in 2004. In this respect, it should be noted that the QNA goods exports deflator grew significantly by 5.2% (1.7% in 2004), outpacing domestic prices and costs, which explains the widening of export margins in 2005.

The previous edition of this report highlighted the effect on the competitiveness of the Spanish economy exerted by the widening of the ULC growth differential in 2004, as a result of the nominal stickiness of wage setting in Spain and extension of wage indexation clauses, which may lead to upward readjustment of employee compensation<sup>28</sup>, which in turn fuels inflationary pressure. The impact on competitiveness of phenomena of this type is even more important if the Spanish economy's pattern of specialisation is taken into account. Indeed, the recent qualitative information contained in the Export Survey indicates that international price competition and the exchange rate are the two main factors affecting Spanish export performance, although the impact of the exchange rate is influenced by the high proportion of trade with the euro area. The empirical evidence confirms this, since the price-elasticity of Spanish exports in the euro area is second only to that of Finnish exports, despite having decreased since the creation of the euro area as a result of the higher relative weight of the euro area in Spain's export sales<sup>29</sup>. In the medium term, the competitive position is related to structural factors -- such as productivity, investment in R&D and human capital endowment -- in which Spain has a significant unfavourable gap with the EU 15. In this respect, the Spanish economy's modest productivity growth constrains the competitiveness of its exports.

In sum, the key feature of the performance of foreign trade flows in 2005 was the substantial widening of the trade deficit to 7.6% of GDP, very near the historical high reached in the 1970s oil crisis. This increase was mainly due to the rise in real imports and to the significant jump in the energy deficit, against a backdrop of appreciably higher oil prices. Exports grew by less than the world markets, prompting a fall-off in Spain's share of trade in 2005. Influencing this fall-off were the geographical and product specialisation of Spain's foreign trade, whose presence in the more buoyant markets in recent years has been limited, the strength of the euro and persistent inflation differential, which have led to an appreciable deterioration in Spain's competitiveness index vis-à-vis the developed countries (10.7% between 2001 and 2005, according to the index based on consumer prices). These factors would seem to explain why Spanish exports have struggled to gain, or at least hold, market share. All this points to the need for more active policies to boost productivity and specialisation in the more buoyant markets and branches of demand, which are less sensitive to price competition. Against this background, the process of recovery of the euro area and the continuing buoyancy of world trade<sup>30</sup> would favour Spanish foreign trade, provided that the risks of the international scenario do not inhibit global economic behaviour. However, in the short term, the aforementioned structural factors will limit the Spanish economy's participation in the benefits of world economic growth. Finally, imports remained buoyant, which caused the trade imbalance to

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28. Specifically, it is estimated that the application of wage indexation as a result of the upturn in inflation in 2005 may involve an ex post increase in wages of 0.8 percentage points. See Box 3, "The effect of wage indexation", in the Banco de España *Economic Bulletin*, October 2005. 29. See Footnote 26. 30. On IMF estimates, world goods imports in 2006 will grow at a somewhat higher rate than in 2005 (8.2%, against 7.6%, respectively).

widen against a background of growing domestic demand, oil price rises, energy dependence and imported inputs in the productive sector.

## 2.2.2 BALANCE OF SERVICES

In 2005 the surplus on the balance of services increased by 4.1%, after the fall-off in 2004 (of 6.6%), to a figure of €22,635 million. However, the balance again fell as a percentage of GDP, this time by 0.1 pp less than in the previous year, to stand at 2.5%. The moderate improvement in the balance of services was due to the decrease (of 23%) in the deficit on non-travel services to €3,735 million, which offset the slight fall-off (of 0.9%) in the travel surplus, which stood at €26,370 million. As a percentage of GDP, the travel surplus decreased by 0.3 pp to 2.9%, the lowest level in recent years, while the deficit on other services was corrected by 0.2 pp to 0.4%. This performance of services as a whole took place against a background of faster growth of receipts (8.7% in 2005, against 5.6% in 2004) and of certain moderation in the growth of payments (10.9% in 2005, against 12.3% in 2004). However this pattern did not extend to the whole of services, since in the case of travel, both payments and receipts quickened, although the growth rates of the former continued to be much higher (24.1% in 2005, against 22% in 2004) than the latter (5.8% in 2005, against 3.8% in 2004). By contrast, in other services, receipts were more buoyant than payments (11.9% and 7.5%, respectively), against a backdrop of moderation in the growth rate of the latter with respect to the previous year. The information furnished by the QNA shows that both exports and imports of services grew faster in 2005 than in 2004 (4% and 7.5%, against 1.2% and 6.2% in 2004, respectively).

The gradual recovery of travel receipts in absolute terms continued in 2005, with growth of 5.8%, against 3.8% in 2004, thanks to the improvement in the second half, particularly in Q3. This enabled their weight in GDP to remain steady at 4.3%, after several consecutive years of decline. In any event, the growth rate in 2005 continued to be considerably lower than in the second half of the 1990s. As regards nominal payments, 2005 saw a continuation of the high buoyancy of 2004, with year-on-year growth of 24.1%, and their weight in GDP increased by 0.1 pp to 1.3%. The buoyancy of payments reflected the favourable performance of disposable income and of the outlook for the Spanish economy. The QNA data confirm this picture, with a recovery of real receipts in 2005 (1.9%), after the weakness of previous years (in 2004 they decreased by 0.1%), thanks to the upturn in Q3. In any event, the 2005 growth rate continues to be considerably lower than in the second half of the 1990s.

The procedure for estimating travel receipts in the balance of payments used since the introduction of the euro until 2005 combined a set of supply-side and demand-side indicators. Among them, an important role has always been played by the Tourism Expenditure Survey (EGATUR<sup>31</sup>). In April 2006, the EGATUR survey became the sole source of data as from January 2005 for estimating travel receipts. The changes introduced in the EGATUR survey, and in the sample design and sample elevation procedure, have improved the quality of the survey results and enable it to be used as the only source of travel receipts data. This represents a significant advance in the convergence of the two sources of statistical information on the tourism spending of non-residents in Spain. However, given the importance of the tourism sector in Spain's economy, it is appropriate to monitor the other indicators providing information on tourism demand by non-residents, in order to help assess the actual or underlying situation of the sector, thereby complementing the information published in the balance of payments. To this end, a synthetic indicator of real tourism expenditure by non-residents in Spain (IST-BP) was constructed for the period 1995-2005, the main features of which are described in Box 2.2 of this report.

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**31.** Set of statistics compiled by the Instituto de Estudios Turísticos (IET), which constitutes the basic statistical source for analysing the spending and tourism behaviour of visitors (tourists and excursionists) non-resident in Spain who enter the country by road or through airports. This survey has introduced methodological changes to further unify the EGATUR methodology with balance of payments travel receipts data. However, the latter do not include international passenger transport or the portion of services provided to visitors in their places of origin and not returned to Spain.

The weight of the tourism sector in the Spanish economy and its traditional role as a source of funds for financing Spain's persistent trade deficit constitute reasons for conducting an exhaustive analysis of the sector at a time when the borrowing of the Spanish economy has reached a historical high. This deterioration in the borrowing position has coincided with a decrease in the surplus on the travel heading<sup>1</sup>, which, after peaking at 4.1% of GDP in 2000, decreased to 2.9% in 2005. Contributing to this decline were both the performance of receipts, which fell as a percentage of GDP (from 5.1% in 2000 to 4.3% and in 2005) and that of spending, which rose from 1% of GDP in 2000 to 1.3% in 2005. Against this background, the availability of statistics that accurately reflect the behaviour of the tourism sector and, in particular, the spending of non-residents (residents) in Spain on their trips to Spain (abroad), is crucial.

The basic macroeconomic statistics for analysing the economic importance of tourism in the Spanish economy are the National Accounts, the tourism satellite account and the balance of payments. The three differ in their methodology, frequency and availability. The National Accounts<sup>2</sup>,<sup>3</sup>, whose frequency is quarterly, and the satellite account, which has an annual frequency, can be used to analyse the impact of total tourism (domestic, inbound and outbound) on the economy and the relationships between tourism supply and demand. The balance of payments, which provides monthly information, reflects expenditure by non-residents on their trips to Spain and by residents on trips abroad. Its greater frequency and rapid availability make this statistic the basic benchmark and the main source of information for analysis of inbound and outbound tourism. Its contribution is particularly significant in the case of inbound tourism, given that the latter continues to be more important than outbound tourism (5.3% of Spain's GDP on average for the period 2000-2004 according to the tourism satellite account).

Since in 2001 the introduction of euro-denominated banknotes and coins did away with one of the sources of information for calculating travel receipts in the balance of payments (data on foreign banknotes exchanged for pesetas by travellers), use has been made of a set of statistics among which the information provided by the Tourism Expenditure Survey (EGATUR) has always been important. Until 2005, this information was supplemented with other indicators of tourism spending by non-residents. However, since that year, after a new questionnaire was introduced and the quality of its results checked, EGATUR has been the only source of information for estimating receipts under the travel heading of the Spanish balance of payments<sup>4</sup>.

However, given the importance of the tourist sector in the Spanish economy, it is appropriate to monitor the behaviour of the other indicators providing information on tourism demand by non-residents, in order to help assess the actual or underlying situation of the sector by supplementing and checking the information published in the balance of payments. For this purpose, a synthetic indicator of real non-resident tourism expenditure in Spain (IST-BP) was constructed for the period 1995-2005. This indicator summarises the information provided by a number of partial indicators that show a high correlation with the variable under study. It therefore constitutes a basic tool for analysing the behaviour of receipts under the travel heading in real terms<sup>5</sup>.

The construction of a synthetic indicator requires the selection, firstly, of the partial indicators of which it is comprised, and, secondly, of the aggregation procedure. The task of selection of partial indicators is particularly complex in the case of travel because, unlike other sectors, it cannot be directly identified with a type of product or production unit. The IST-BP thus has to be constructed by combining indicators of supply and demand<sup>6</sup>, mostly of a conjunctural nature. Taking into account the above considerations, the selection of the partial indicators forming the IST-BP is based on their availability (frequency, time-period coverage and promptness of publication), their statistical properties (volatility and quality), and their relationship with the variable under study. As regards their availability, the monthly nature of the IST-BP and the need to have a sufficiently long series that to some extent leads the variable under study, not only conditions the selection of partial indicators, but also on occasions means that the selected indicators have to be processed before they can be aggregated<sup>7</sup>. As regards the correlation with the variable under study, it was decided to include indicators which, although not showing a particularly high correlation with real receipts because of their more structural nature, do reflect changes in the tourist profile (e.g. direct investment in real estate by non-residents).

In accordance with the aforementioned selection criteria, 13 partial indicators<sup>8</sup> were chosen which can be classified in two groups. The first comprises the partial indicators directly related to activity and demand in the tourism sector: a) foreign residents lodged and staying overnight in hotels (EOH); b) inbound tourists and excursionists crossing borders (FRONTUR); c) passengers on international flights (total of scheduled and non-scheduled flights); d) foreign direct investment in real estate in real terms<sup>9</sup>; e) municipal house construction permits in the regional (autonomous) communities that are most important in

1. The definition of *travel* in the balance of payments (fifth edition of the Balance of Payments Manual, Chapter XII, paragraph 242) comprises primarily the goods and services acquired from an economy by travellers during visits of less than one year in that economy. The goods and services are purchased by, or on behalf of, the traveller or provided, without a quid pro quo, for the traveller to use or give away. Excluded is the international carriage of travellers, which is covered in passenger services under *transportation*. 2. System of National Accounts SNA 93 (paragraph 14.110). 3. The goods and services acquired in Spain by non-residents on their trips to Spain represent an export of services and are recorded in the rest of the world account as an application under the heading final consumption of non-residents. This rule has some exceptions, such as the goods and services acquired by business travellers when the employer bears the expense and their treatment as final consumption of the traveller or as intermediate consumption of the employer. The expenses incurred for international transport and lodging (essential for carrying out the productive activity) are considered to be intermediate consumption of the company and other expenses are considered to be final consumption of the traveller. 4. See Chapter 5, "The balance of payments and international investment position: methodological note", of this publication.

5. The price index of the heading *travel and hotels and restaurants* was used in the deflation. 6. See A. Cañada (2004), "Instrumentos de medida del turismo: La Cuenta Satélite de Turismo (Tools for measuring tourism: the tourism satellite account)", *Papeles de Economía Española*, nº 102, pp. 2-28. 7. First, the existence of significant lags in the publication of certain of the selected indicators means that forecasts have to be based on data that have yet to be observed and, second, the use of data with a less than monthly frequency results in a need for data interpolation. Additionally, the breaks in the series have been corrected to ensure that the time series is homogeneous and stable. 8. Also considered were other indicators initially not included in the index, such as the level of hotel occupancy, the GDP growth rate in the EU and a competitiveness index calculated using harmonised hotel and restaurant prices for countries that are sources of tourists travelling to Spain. 9. The series was deflated using the price index of unsubsidised housing (weighted average price per square metre of new and second-hand housing) drawn from the housing price statistics of the Ministry of Housing (homogenous series with base year 2005).

tourism by non-residents<sup>10</sup>; f) employees of hotels in the regional (autonomous) communities that are most important in tourism by non-residents (EOH)<sup>11</sup>; and g) Social Security contributors in the hotels and restaurants sector. Along with these indicators, which are mostly conjunctural, the second group includes variables which theorists believe to be the main determinants of tourism demand by non-residents. These determinants are in turn grouped according to their characteristics under the following headings: socioeconomic and demographic factors, sector competitiveness (as measured by prices) and quality of supply. As regards the former, per capita income of the main source-countries of tourists is considered to be one of the main determinants. However, this information is only available annually, so its behaviour has to be approximated by using other monthly variables with which it has a high correlation. Specifically, two indicators have been used: the harmonised monthly unemployment rate of the main source-countries of tourists to Spain in the euro area (United Kingdom, France, Germany, Italy and the Netherlands)<sup>12</sup> and a confidence index in these countries, both constructed as weighted averages of the unemployment rates and consumer confidence indices in said countries<sup>13, 14</sup>. To approxi-

mate Spain's level of competitiveness with respect to other countries, two types of competitiveness indices were used, one for source-countries of tourists<sup>15</sup> and another for competitor countries<sup>16</sup>. Finally, no promptly published monthly indicator was found to adequately approximate the quality of tourism supply in Spain, so it was preferred not to include any indicator of this type in the final IST-BP.

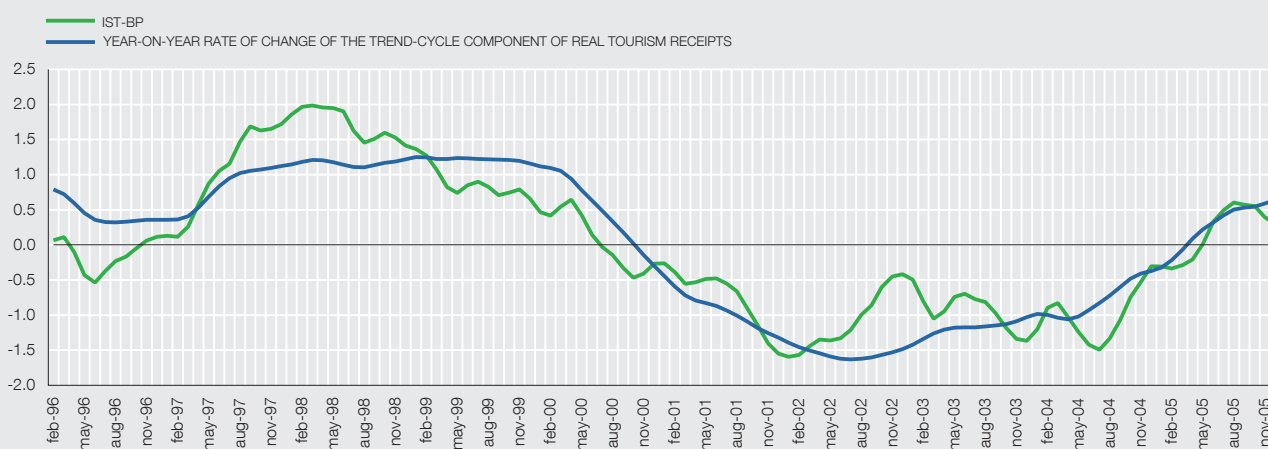
Of all these indicators, the variables correlating most closely with real receipts under the travel heading for the period 1995-2005 are as follows: tourist arrivals at borders (0.93), overnight stays in hotels (0.91), foreign residents lodged at hotels (0.9), passengers on international flights (0.89) and personnel employed in hotels in the regional (autonomous) communities that are most important in non-resident tourism (0.88).

Once the partial indicators have been selected, the indicator is constructed in two stages. In the first stage, indicators are transformed in order to obtain a stable statistical signal reflecting actual demand. This process entails the seasonal adjustment of the series and the

**10.** The regional (autonomous) communities considered are: Andalusia, Murcia, Valencia, Catalonia, Balearic Islands and Canary Islands. These regions received an average of 87% of the total tourists who arrived in the period 1997-2005, according to FRONTUR. **11.** See footnote 10. **12.** The countries were selected on the basis of importance in terms of inbound tourism according to FRONTUR (on average, 72% for the whole of the period 1997-2005) and of receipts under the travel heading of the balance of payments (on average, 73.3% for the period 1997-2004). **13.** The confidence index measures consumer expectations in the coming 12 months with respect to four variables: financial situation, general economic situation, unemployment and saving. The indicator is defined as the difference between positive responses and negative responses (as a percentage of total responses). **14.** The weights are based on the average number of arrivals of each nationality according to FRONTUR in the period 1995-2005, and the level of income per capita of the residents of each country approximated by the GDP per capita of each country (adjusted for purchasing power parity) following the method used by A. Buisán and E. Gordo (1997), "El sector exterior en España (The external sector in Spain)", Estudios Económicos, nº 60, Banco de España.

**15.** This group of countries consists of the United Kingdom, France, Germany, Italy and the Netherlands. The competitiveness index is calculated using the relative harmonised consumer price indices of the countries, controlling for each country's exchange rate against the euro (and, prior to the introduction of the euro, against the peseta). This index of the real effective exchange rate is calculated as the weighted geometric mean of relative prices, controlling for exchange rate and using weights that take into account the per capita income of the visitors of each nationality and the number of arrivals according to FRONTUR (see footnote 14). **16.** Using the travel payment information of source-countries of tourists to Spain and other information sources (Alianza para la Excelencia Turística, EXCELTUR), the following competitor countries of Spain are considered: Tunisia, Egypt, Morocco, Turkey, Mexico, Croatia, Greece, France, Italy and Portugal. In this case, the competitiveness index is also calculated as the geometric mean of the relative consumer price indices of the countries, controlling for each country's exchange rate against the euro (and, prior to the introduction of the euro, against the peseta).

### SYNTHETIC INDICATOR (IST-BP) AND YEAR-ON-YEAR RATES OF CHANGE OF THE TREND CYCLE COMPONENT OF REAL TOURISM RECEIPTS (a)



SOURCE: Banco de España.

a. In both cases, to make them comparable, the series have been standardised (converted to a series with a mean of zero and a variance of one).

control of irregular effects<sup>17</sup> in seasonal series, and the application of certain transformations to the series<sup>18</sup>. Finally, the transformed series are standardised (converted to series with a mean of zero and a variance of one) to enable them to be aggregated. In a second stage, the transformed series are aggregated using the method of principal components, which is the approximation proposed by Stock and Watson (1999)<sup>19</sup>. The principal components method enables a broad group of partial indicators to be optimally represented in terms of a linear combination or combinations of the mutually orthogonal original variables (principal components) which represent a high percentage of the variability in the set of indicators<sup>20</sup>, thereby condensing the information contained in those indicators. An advantage of this method over other methods of aggregation (for example, a simple or weighted average of partial indicators based on simple or partial correlation coefficients) is that weights are assigned directly according to the statistical properties of the partial indicators<sup>21</sup>. Additionally, in this case, the correlation of the aforementioned alternative synthetic indicators with the variable under study (i.e. travel receipts in real terms in the balance of payments) is lower than that according to the IST-BP<sup>22</sup>. A drawback is that, while it may allow changes in the variable under study to be foreseen, it is not adequate for making predictions (e.g. of nominal receipts under the travel heading).

17. Seasonal adjustment is carried out using the TRAMO-SEATS estimation program. In this phase it is also attempted to control for atypical values, calendar effects and Easter week, and changes of level in the series. The need to seasonally adjust partial indicators, which is implicit in the methodology of the Spanish National Statistics Institute for constructing synthetic indicators, derives from the fact that a combination of series with different seasonal behaviour may give rise to a synthetic indicator with a seasonal pattern does not coincide with that of the variable under study. 18. These transformations basically consist of applying logarithmic first differences of the series. 19. J. Stock and M. Watson (1999), "Forecasting inflation", *Journal of Monetary Economics*, 44, pp. 293-335. 20. In practice, principal components are calculated using standardised series (mean of zero and variance of one) such that the components maximise the overall correlation of the variables. The calculation of components using standardised series is recommendable when significant differences in variability between variables may distort analysis of the components. 21. A problem with indicators constructed as a simple arithmetic mean of partial indicators is that they assign the same weight to all the variables and may be affected by outliers. An additional limitation of this method of aggregation is that the growth rate of the variable under study cannot be approximated, but rather only qualitative changes in it. Furthermore, an indicator that assigns weights according to simple correlation with the variables under study has the drawback that the weights may be highly unstable and reflect spurious relationships between the variables. 22. In particular, the contemporaneous correlation of the indicators calculated as the average and weighted average of partial indicators with year-on-year rates of change of real travel receipts is 0.5 and 0.6, respectively, while in the case of the principal components indicator obtained using trend cycle components the correlation is 0.7.

The data finally used to estimate the IST-BP have not only been seasonally adjusted, but also adjusted for the irregular component, i.e. the trend cycle component. However, the synthetic indicator was also obtained from seasonally adjusted data, thereby enabling a check on the suitability of the transformation finally chosen. The first two standard principal components (mean of zero and variance of one) associated with a series of transformed partial indicators controlling for seasonal and irregular effects explain in total 35% of the total correlation of the series. The first standard principal component (which explains 22% of the total correlation) shows smaller fluctuations than the second component and a greater correlation with the month-on-month rates of change of the trend cycle component of real travel receipts (correlation of 0.7, against 0.01 for the second component)<sup>23</sup>.

The chart shows the year-on-year rates of change of the trend cycle component of real receipts under the balance of payments travel heading and of the synthetic indicator (IST-BP), defined as the aggregate of the related monthly values of the first principal component represented in the chart for the period February 1996-December 2005<sup>24</sup>.

As can be seen, the indicator shows a high correlation with the year-on-year rate of change of the trend cycle component of real travel receipts for different leads (lags) of the indicator (see accompanying table).

The correlation of the indicator calculated from the seasonally adjusted series with the related signal (year-on-year rates of change of seasonally adjusted receipts) is lower than in the case of the indicator calculated from trend cycle components. The degree of synchrony between the series, measured by the percentage of coincidences between positive (negative) values of the year-on-year rate of change of the trend cycle component of receipts and positive (negative) values of the indicator is also high (79% coincidence, against a percentage of coincidences of 71% in the case of the indicator calculated using seasonally adjusted data). In view of all this, the synthetic IST-BP indicator can be considered a useful tool for monitoring the trend of real travel receipts in Spain.

23. In the case of seasonally adjusted partial indicators, the first two principal components, which explain 20% and 13% of the overall correlation, respectively, show correlations of 0.47 and 0.09 with the respective signal (series of month-on-month rates of change of seasonally adjusted real travel receipts). 24. In both cases, for the sake of comparability, the series have been standardised (mean of zero and variance of one).

#### MONTHLY CORRELATION BETWEEN THE SYNTHETIC INDICATOR (IN t) AND LEADS (LAGS) IN THE YEAR-ON-YEAR RATE OF CHANGE OF THE COMPONENTS (TREND CYCLE AND SEASONALLY ADJUSTED) OF REAL TOURISM RECEIPTS (a)

	t-4	t-3	t-2	t-1	t	t+1	t+2	t+3	t+4
Trend cycle (in t)	0.84	0.86	0.88	0.89	0.90	0.90	0.90	0.90	0.89
Seasonally adjusted (in t)	0.66	0.69	0.73	0.79	0.72	0.68	0.68	0.71	0.70

SOURCE: Banco de España.

a. The synthetic indicator has been calculated using trend cycle series, in the first case, and seasonally-adjusted series, in the second.



SOURCES: World Tourism Organisation, Instituto de Estudios Turísticos, Ministerio de Economía y Hacienda and Banco de España.

- a. In nominal terms.  
b. Year-on-year rate of change.

To provide a more complete view of the behaviour of the tourism sector in 2005 and offer a framework in which to analyse the balance of payments data, we describe below the behaviour of some of the main indicators of the tourism sector. Specifically, we discuss the world tourism flows as per the data of the World Tourism Organisation (WTO), the figures on hotel stays of foreign visitors drawn from the Hotel Occupancy Survey (EOH)<sup>32</sup>, the statistics on tourists crossing borders (FRONTUR<sup>33</sup> and FAMILITUR) and, finally, the Tourism Expenditure Survey (EGATUR).

In 2005 the growth rate of the numbers of inbound foreign travellers increased to 7.1%, against 4.4% in the previous year, according to FRONTUR. This upturn was particularly noticeable in the case of tourists<sup>34</sup>, the number of which increased by 6% (3.1% in 2004) thanks to the positive behaviour in Q1 and Q3, and despite the moderation in Q4. The growth in 2005 was the strongest recorded since 1999. For their part, the number of excursionists continued to be more buoyant, with growth of 8.9% in 2005, against 6.6% in 2004. This confirms that tourist inflows into Spain have recovered following the fall-off in 2003, since a new historical high of more than 55.6 million was reached in 2005. Spain thus retained its position as the second world tourist destination in terms of both receipts and tourist numbers, according to WTO data.

Foreign tourist inflows into Spain behaved more buoyantly than at world level. In 2005, international tourist flows continued the recovery initiated in the previous year, albeit at a more moderate growth rate (5.5%, against 10% in 2004)<sup>35</sup>. This performance was constrained by the higher oil prices, which affected all countries generally<sup>36</sup>, and by specific factors in particular areas or countries (terrorist attacks in London, Bali, Egypt and Turkey; natural disasters in the United States, Mexico, Central America, Western Europe and Asia; and the uncertainty

<sup>32</sup>. Hotel Occupancy Survey conducted by the INE primarily to ascertain the behaviour of a series of variables allowing the essential features of the hotel industry to be known. <sup>33</sup>. Compiled by the IET in order to quantify and analyse inflows and outflows of tourists at Spanish borders. <sup>34</sup>. In 2005 tourists represented 60.3% of foreign visitors to Spain, a noticeably lower proportion than that in the year 2000 (66.2%). <sup>35</sup>. See World Tourism Organisation (2006), *World Tourism Barometer*, volume 4, No. 1, January. <sup>36</sup>. The impact of oil was dampened by the intense competition between airlines due to the activity of low-cost companies.

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Nominal income	9.4	12.1	12.5	12.7	10.3	5.5	-1.9	4.4	3.8	5.8
Real income (a)	5.7	9.1	9.2	8.5	4.9	0.4	-6.5	0.4	-0.1	1.9
Nominal payments	13.5	7.4	14.5	16.5	17.0	13.1	5.4	4.2	22.0	24.1
Real payments (a)	8.7	1.2	11.5	14.2	10.9	11.0	1.8	5.0	20.6	22.2
Competitiveness index vis-à-vis the developed countries measured in terms of consumer prices (b)	2.3	-4.1	0.3	-0.5	-1.5	1.2	2.6	4.3	1.9	1.5
- Nominal component	0.8	-4.3	-0.3	-1.6	-3.0	0.5	0.9	3.0	0.8	0.1
Developed countries' GDP (c)	-0.9	-2.9	0.2	4.1	-0.2	-2.7	2.4	10.1	8.9	2.4
MEMORANDUM ITEMS										
Number of foreign visitors lodged in Spanish hotels	4.4	7.3	10.7	32.7	1.3	-0.5	-1.5	2.4	1.4	5.3
Overnight stays by foreigners in Spanish hotels	-1.0	5.2	6.0	33.4	-3.5	-0.2	-5.3	0.8	-1.6	3.4
Number of tourists (FRONTUR)	3.7	9.2	9.7	7.8	2.4	4.6	4.5	-2.8	3.1	6.0

SOURCES: OECD, IMF, Instituto Nacional de Estadística, Instituto de Estudios Turísticos and Banco de España.

a. Spanish Quarterly National Accounts figures, base year 2000.

b. Developed countries: Germany, Australia, Austria, Belgium, Canada, Denmark, United States, Finland, France, Greece, Netherlands, Italy, Ireland, Japan, Luxembourg, Norway, New Zealand, Portugal, United Kingdom, Sweden and Switzerland.

c. Aggregate GDP in dollars of all developed countries, applying the annual average exchange rate based on daily data.

produced by bird flu). Consequently, tourist flows were not equally buoyant in all areas. Those most affected by the aforementioned events were, in order of decreasing intensity, Asia, the Middle East and America. These events were conducive to the redistribution of tourist flows towards Spain, which benefited from its status as a safe destination.

Comparative analysis reveals that tourist inflows into Spain grew more quickly than those to Europe as a whole, which increased modestly by 4.3%, and than those to the main European countries around the Mediterranean (such as Italy, Greece, Portugal and France). By contrast, they grew less than those recorded by competitors in north Africa and the eastern Mediterranean (see Chart 2.6), which exhibited significant buoyancy. Spain thus lost market share to these alternative destinations competing in the “sun-and-sand” segment, which enjoy comparative advantages in prices and costs and which are engaging in considerable promotion and appreciable expansion of infrastructure and services. Particularly noteworthy is Turkey, where tourist inflows increased by 20% to more than 20 million. This country is attracting significant tourist flows from the United Kingdom and Germany, the two main sources of tourists to Spain.

Disaggregated analysis of the FRONTUR statistics shows that tourist inflows from the EU 15 continued to recover, with growth of 5.6%, an appreciably higher rate than in 2004 (2.7%), following the fall-off in 2003. The improvement in inflows from the rest of the world seen in 2004 following three years of decline also continued in 2005, with an increase of 8.6% (5.2% in 2004). In any event, tourist inflows from non-EU 15 countries account for less than 15% of the total inflows into Spain. Distinguishing by country of origin within the EU, the visitors from the French, Dutch and Italian markets, which in 2005 represented nearly 26% of total tourism demand<sup>37</sup>, were the most buoyant, with growth of 13.3%, 8.4% and 7.3%, respectively<sup>38</sup>. The

<sup>37</sup> French tourism represents 15.8% of the total, Italian 5.4% and Dutch 4.5%. <sup>38</sup> The average expenditure per tourist in real terms of French tourists is the lowest among the major nationalities of tourists to Spain (in 2004, €561, compared with an average of €872), whereas Italy, with €954, was considerably above the average. The average expenditure by Dutch tourists is somewhat lower than the average, similar to the level of the UK.

buoyancy of the French market came after two consecutive years of decline and against a backdrop of more vigorous private consumption than the euro area average. Also noteworthy was the growth of Spain's two main markets, namely the UK and Germany, which account for nearly 47% of total inflows, although their relative importance is less than in the late 1990s. The number of tourists from Germany increased for the second year running (4.1%, against 2.5% in 2004), signalling the gradual recovery of this source market after the significant fall-off of the past four years. Inflows of British tourists continued to grow moderately by 3.1%, a rate significantly lower than the average for the period 1998-2002 (7.7%). Notable among the non-European markets was the expansionary tone of tourist inflows from Latin America and the rebound of Japan, which increased for the first time since 1999. Finally, the US market declined for the fifth year running.

In general, the other main tourism indicators improved in the second half of 2005, reflecting the stronger foreign tourism demand following the sluggishness of previous years. However, it must be emphasised that the increase in tourist inflows is not passing through fully to receipts or to overnight stays, as a result of the change of tourist profile. This change is resulting in a larger number of trips during the year, shorter stays and greater use of non-hotel accommodation. The expansion of low-cost airlines (passenger numbers of these airlines again grew in 2005, this time by around 31% per annum) is facilitating this change of profile. These changes, which have not been offset by the increased number of tourists, explain the gradual decrease in average daily stay and expenditure and suggest a possible structural change in demand, which, if it becomes entrenched, would raise the percentage of tourists that spend less. As a consequence of this tendency, the EOH data on hotel stays show that they gradually lost relative weight in total inflows (in 2005 they accounted for 63% of the total, against 67% in 2001). Thus the recovery in the number of travellers staying in hotels (5.3%, against 1.4% in 2004) was not reflected in the same proportion in overnight stays, since these grew by only 3.4%, although they do contrast with the decrease of 1.6% in the previous year (see Table 2.6). These developments shaped the behaviour of average hotel stays, which held on their downward path in 2005, decreasing by 2%. Meanwhile, in non-hotel lodgings, costless accommodation (i.e. own housing or that of friends or family) has followed an upward path since 1997, accounting for more than 22% of the total in 2005, against 20% in 2001.

The decrease in average stay prompted by the factors underlying the aforementioned change of tourist profile was what determined the trend of the total tourist spending data provided by the EGATUR survey (this statistic includes international transport). Real average expenditure per tourist fell off by 2.1%, as compared with no change in 2004, influenced by the significant decrease in average stay (of 6.2% in 2005) and despite the good behaviour of real total expenditure and, in particular, of the real daily average expenditure of tourists, which rose by 4.4% and 4.8% (3.2% and 0% in 2004, respectively). During the year the decrease in average spending moderated. However, given the existence of one-off factors that could account for part of this recovery, it is difficult to gauge its persistence in the future.

As regards tourism price indicators, the pattern of recent years continued in 2005, although with a growing trend throughout the year. The CPI of the heading travel and hotels & restaurants grew by much the same as in the previous year (4% and 3.8% in 2004), and the differential with the overall CPI remained positive. Disaggregated analysis of the components of the CPI for travel and hotels & restaurants showed that price rises in package tours and hotel accommodation moderated in comparison with the rate in 2004, a trend which was strengthened by the indices of hotel prices and receipts (1% and 1.6%, respectively). Meanwhile, the prices of complementary services (restaurants, bars and cafes) showed greater growth, exceeding even that in 2004 (4.3%, against 4.1%). In the first two cases, the price containment



may reflect the efforts by the tourism industry to respond to competition from alternative destinations with price and cost advantages. According to the information used to prepare the IST-BP indicator<sup>39</sup>, the relatively stable euro exchange rate cushioned the tourism sector's loss of competitiveness with respect to recent years vis-à-vis customer countries and even corrected it partially vis-à-vis Spain's competitors.

According to balance of payments data, nominal travel payments grew by 24.1% 2005, slightly more than in the previous year (22%), confirming the high buoyancy of this heading. In real terms, according to QNA figures, travel payments in 2005 bettered the already high buoyancy of the previous year (22.2%, against 20.6% in 2004), in line with the balance of payments data. This growing trend of tourism payments was set against a backdrop of euro exchange rate stability and of expansion of the Spanish economy characterised by job creation and rising gross disposable income in real terms. The impact of the oil price rises on air fares was limited by the competition in the air transport sector.

The outlook for the tourism sector, which is set forth in the EXCELTUR reports, is that the overall 2005 trend will continue, with a more favourable macroeconomic situation in the short term in Spain's main source markets providing inbound tourists. Additionally, the geopolitical uncertainties in the Middle East may cause a shift in tourist flows that is favourable to Spain. However, despite these relatively favourable expectations, the changing trend in the profile of foreign tourists will continue, with decreases in average spending and length of stay.

In sum, the second half of 2005 saw an improvement in tourism receipts in Spain, in line with the general behaviour of real tourism indicators and the recovery of global tourist flows. Against this background, a number of events helped to redirect tourist flows towards Spain. Tourist numbers reached a new historical high, with the recovery of German tourist inflows after the fall-off in the period 2000-2003. Nevertheless, tourism activity continued to develop in a scenario of changing profile of foreign tourists entering Spain and of growing international competition, particularly from eastern Mediterranean countries. The outlook for Spain's tourism sector depends on its ability to maintain its appeal in the face of growing international competition. In recent years, the Spanish tourism sector has lost competitiveness due to rising prices, particularly in complementary services by hotels & restaurants, and to the strength of the euro, although in 2005 the decline in competitiveness was less sharp.

Turning to receipts and payments relating to non-travel services, although in 2005 the growth rate of receipts increased appreciably thanks to the momentum of 2005 Q2 and Q3, it continued to be below that of the late 1990s. As mentioned above, receipts from non-travel services increased by 11.9% (7.6% in 2004), while payments moderated to a growth rate of 7.5% (10% in 2004). As a result, the share of receipts from non-travel services in GDP increased by 0.2 pp to 4.1%, thereby recouping the percentage reached in 2001. The relative share of payments in GDP remained steady at 4.5%, below the figure reached in the period 2000-2002 (between 4.6% and 4.7%).

These developments were set against an international background in which world exports of services slowed appreciably in nominal terms, posting growth of 11% in 2005, against 19% in 2004, according to WTO figures<sup>40</sup>. In any event, this growth rate exceeds the average for the period 2000-2005 (10%). The lower economic buoyancy of the EU was also reflected in more modest growth of purchases of services, with an annual rate of 7%. In contrast, the emerging economies showed stronger behaviour, particularly China, whose nominal sales of services

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<sup>39</sup>. See Box 2.2. <sup>40</sup>. This rate is calculated from data expressed in dollars. If data expressed in euros are used, the increase in 2005 was 7.5%, slightly less than in 2004.

International trade in services, unlike that in goods, was not considered a basic part of multilateral negotiations on trade agreements until the late 20th century<sup>1</sup>. The very nature of services largely explains this scant attention despite their importance in the developed economies in terms of both production and employment (exceeding, in both cases, 70% of the OECD total and 65% of the Spanish total, on average), and despite their favourable growth prospects compared with the manufacturing sector<sup>2</sup>.

According to the definition in the SNA-93, which coincides with that of the fifth edition of the *Balance of Payments Manual*, services are intangible goods that cannot be traded separately from their production, which requires a certain proximity between the supplier and the consumer of the services<sup>3</sup>. These characteristics hinder the international trading of services and, therefore, it is not surprising that until very recently the expected benefits of trade in services were considered to be small<sup>4</sup>. This, together with the low productivity attributed to this sector and its lower technological intensity than the manufacturing sector, led international trade in services to be relegated to second place until the Uruguay Round<sup>5</sup>, when it was decided to include this sector in multilateral negotiations on trade agreements. This Round saw the adoption in 1995 of the General Agreement on Trade in Services (GATS)<sup>6</sup>.

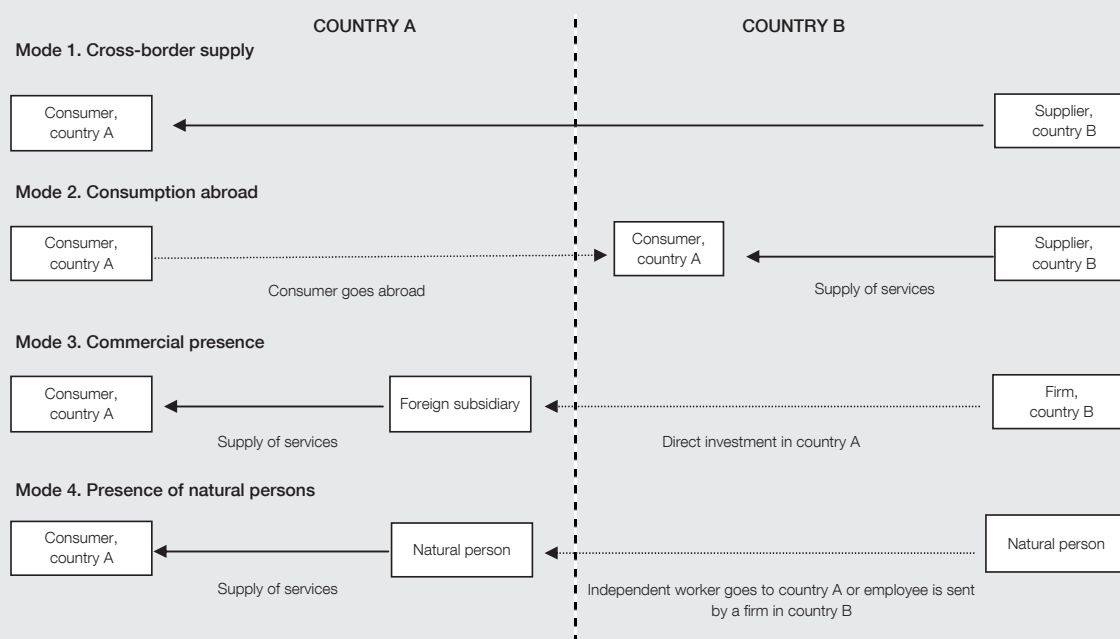
1. The General Agreement on Tariffs and Trade (in goods) dates from 1947. 2. The income elasticity of services is higher than that of manufactures. 3. For an exhaustive description, see the System of National Accounts 1993 (SNA-93), paragraphs 6.8 to 6.13. 4. In contrast, the most recent empirical work suggests that the expected benefit may exceed even that derived from the liberalisation of goods trade and many be even more important for developing countries. See OECD (2002), *GATS: The case for open services markets*. 5. This round of multilateral negotiation began in 1986 and ended in 1993.

Subsequently, from 1997 several rounds of multilateral negotiations have been held to push ahead with the liberalisation of international trade in services<sup>7</sup>.

Various factors have contributed to the services sector becoming more important. First, structural changes and technological progress have altered the traditional view of low productivity of services, to the point that this sector is currently considered to include some of the activities with the greatest potential for growth and job creation in the developed economies, such as information technology (IT), communications, business services and financial services. Additionally, these advances, principally in the field of communications and information (for example, Internet and e-commerce), along with privatisation, market liberalisation and the lifting of restrictions on the free movement of capital, have permitted the recent incorporation of services into the process of productive globalisation, as reflected in the growth of international investment and in the buoyancy of international trade in services. The processes of deregulation of the services sector initiated by most

6. The GATS is the first set of legally binding rules and disciplinary provisions negotiated at world scale which encompasses international trade in services. See World Trade Organisation (1995), *The Results of the Uruguay Round of Multilateral Trade Negotiations: the Legal Texts*, appendix AB. 7. The GATS excludes air traffic rights and directly related services, which are regulated by the Chicago Convention (1944). The negotiations on maritime transport services have been suspended since 1996. As for financial services, the Member States may prudently apply the principles of the GATS based on the stability and integrity of the financial system. In telecommunications, it is permitted to set reasonable conditions for access and service provision. In particular, developing countries are permitted to refrain from applying the principles of the GATS to strengthen domestic infrastructure.

## MODES OF SUPPLY



SOURCES: Instituto Nacional de Estadística and Banco de España.

developed countries<sup>8</sup> confirm the growing importance attributed to this sector.

In this new context, it is increasingly important to have statistics on international trade in services to, among other objectives, point multilateral negotiations in the right direction. The information on the headings concerned with services trade in the balance of payments, which record the trade between residents and non-residents, offers a measure of trade in services that is narrower than the scope of the GATS.

In view of the growing importance of the provision of services, both through subsidiaries established abroad and through the relocation of people from the economy in which they reside to another in which the consumer resides, the GATS identifies four modes of supply of services (see accompanying diagram)<sup>9</sup>: cross-border services (mode 1; e.g. transport, communications), consumption abroad (mode 2; e.g. travel), commercial presence (mode 3; e.g. construction services) and presence of natural persons (mode 4; e.g. certain personal and business services). The balance of payments statistics cover the first two modes and a good part of the fourth, but not the third<sup>10</sup>. Accord-

**8.** In the EU, the Lisbon European Council in 2000 assigned, within the framework of the economic reforms envisaged in the Lisbon strategy, an important role to fostering the single market in services. In this vein, a draft Directive was submitted in 2004 on services in the internal market. Known as the Bolkenstein Directive, it was not applicable to services of a public nature or others already covered by specific legislation, such as financial services, telecommunications and transport. In 2006 the European Parliament amended the original draft Directive by enlarging the range of services excluded from its scope and strengthened the supervisory powers of the countries in which the services are provided. See the box "The single services market in the euro area" in the Annual Report of the Banco de España (2005). **9.** This broad interpretation of international trade in services is contained in the *Manual on Statistics of International Trade in Services* (2002), published by the UN, the IMF, the European commission, the OECD, the UNCTAD and the WTO. **10.** Note that some construction services are included in balance of payments data on trade in services, namely when short-term construction work is carried out through a local office not organised as a company. See paragraph 2.85 of the *Statistics Manual for International Trade in Services*.

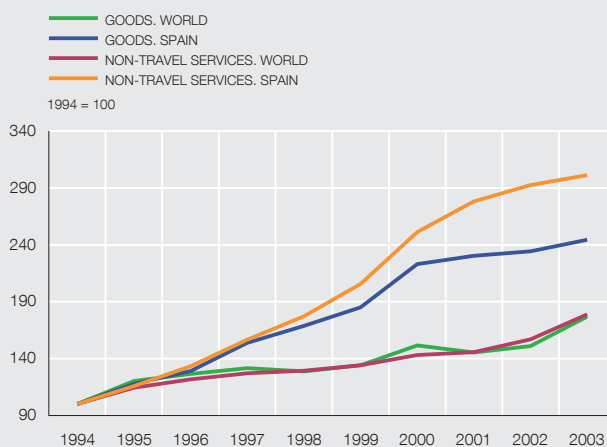
ingly, alternative and supplementary statistics are required on commercial presence and, in part, on the movements of natural persons. Given that the establishment of a commercial presence usually involves foreign direct investment (FDI), these statistics and others related to them, such as data on multinational enterprises and, in particular, those on trade in services by foreign subsidiaries (*foreign affiliate trade statistics*, FATS)<sup>11</sup>, may provide significant information on internationalisation of services. FDI statistics have been supplemented with data on international enterprises and FATS because the sales by the subsidiaries of multinational enterprises in the country where they operate are not recorded in the balance of payments, which only includes the financial transactions between firms having an FDI relationship and the income that arises from this relationship.

In recent years there has been a significant jump in international transactions in mode 1 services (see accompanying chart) which, however, was somewhat smaller than that in goods trade (between 1994 and 2003, they grew by 70.3% and 76.8%, respectively). If travel, which was affected by the economic developments and international geopolitical scenario at the beginning of this decade, is excluded, the other services were slightly more buoyant than goods (78.9%), driven, in the OECD countries, by insurance, IT and financial services. Within non-travel services, the degree of openness to trade varies significantly. The heaviest international trade is in transport and communications, and as much as 20% of the total production of some countries is sold on the international market. On examination of the countries, the United States and the United Kingdom stand out in comparison with Germany and Japan, which have a greater weight in goods trade. The emerging economies are moving strongly into international trade in services, particularly China and India. Hence, between 1998 and 2003, while OECD annual exports and imports increased on average

**11.** Foreign affiliate trade in services statistics cover diverse variables, including: sales, production, employment, value added, exports and imports, number of firms, net assets, profits and investment. These statistics may include supplementary information on associated firms that can be considered to be under effective foreign control.

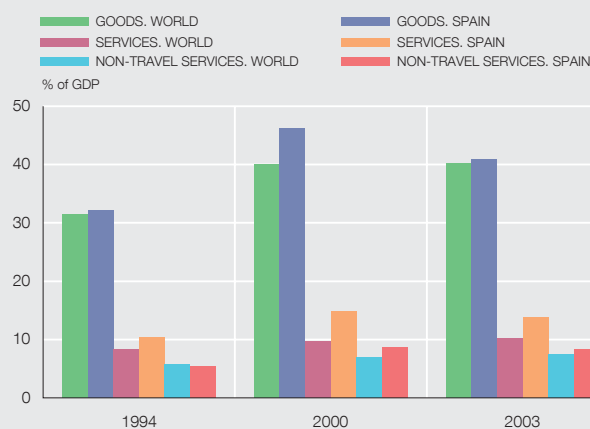
## INTERNATIONALIZATION OF THE SERVICES SECTOR

### GROWTH OF TRADE



SOURCES: OECD and Banco de España.

### RELATIVE WEIGHT OF TRADE IN GOODS AND SERVICES



by 5.6% and 6.4%, those of China rose by 14.4% and 15.7%. The average growth rate of Indian exports was 19.4% and that of imports was 14.1%. In any event, services continue to be a minority of total trade (see accompanying chart), because, first, a good part of the sector's activity does not easily lend itself to being traded internationally, and second, the internationalisation of its production, which is helping to boost international trade in services, is a recent phenomenon. In this connection, only 10% of services are produced for international trade, against 50% in the case of manufactures. Thus the world level of trade in goods practically quadrupled that of services (40.3% and 10.2% of GDP, respectively, in 2003).

The Spanish economy has participated in this process of growth of international trade in services. Between 1994 and 2003 services grew more rapidly than goods (see accompanying chart), even when travel is included, reflecting Spain's real convergence with the more developed countries. Within non-travel services, the main captions are transport and business services, due both to their weight in the total (in 2005, they accounted for 73.6% of total receipts and payments) and to their appreciable buoyancy. Also notable were construction, financial, IT and communications services. As expected, Spain has a higher relative weight in international trade in services than in goods, due to the importance of travel. Also, the difference between the magnitude of foreign trade in goods and that in services is less than in other countries. Thus Spanish exports and imports of services are around one-third of those of goods (42.2%, against 14.2% of GDP, in 2005) and non-travel services represent a slightly higher percentage of GDP in Spain than in the world total (in 2003, 8.3%<sup>12</sup>, against 7.4%, respectively).

12. In 2005, non-travel services in Spain represented 8.6% of GDP.

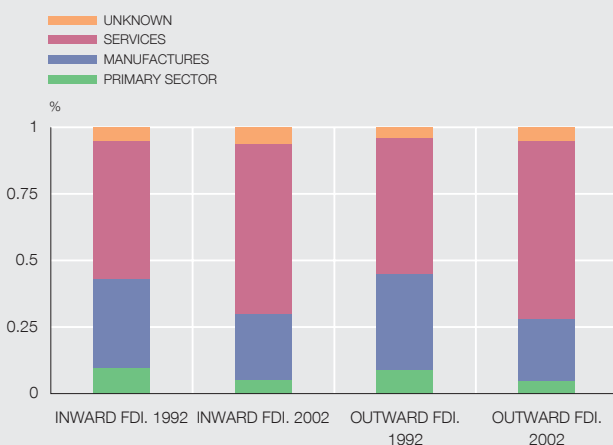
The internationalisation of services is reflected not only in commercial transactions, but also, as mentioned above, through FDI or outsourcing. Technological progress has made a significant part of services more readily tradeable. This has encouraged the fragmentation of their productive process through, for example, the relocation of services not essential for business activity to different production units. This process can occur within the confines of the firm, through the creation of subsidiaries (captive outsourcing), or through the externalisation of services by subcontracting them to another company (outsourcing). These strategies are reflected in FDI (financial transactions and income) or in services trade in the balance of payments, if the services provider is located abroad and the parent company provides it with financial capital.

Sales by subsidiaries play a significant role in the internationalisation of services. For example, in the United States the total transactions of subsidiaries, both outward and inward, exceed by 65% the exports and imports of services in the balance of payments, although in most of the countries in which data are available, the subsidiaries have a greater relative share in manufactures than in services (see accompanying chart). Nonetheless, services are gaining weight in international FDI flows in branches such as finance and telecommunications, which are particularly active in mergers and acquisitions. At present, the bulk of world FDI flows relates to the services sector (67% in 2001-2002), particularly in the developed economies (73%, against 50% in developing countries), and this is reflected in sectoral breakdown of direct investment positions at international level (see chart on following page)<sup>13</sup>. The investor countries are concentrated in the developed areas, whereas

13. These figures may be biased upwards because of financial holding companies (known in Spain as *empresas de tenencia de valores extranjeros*), which are classified in the services sector.

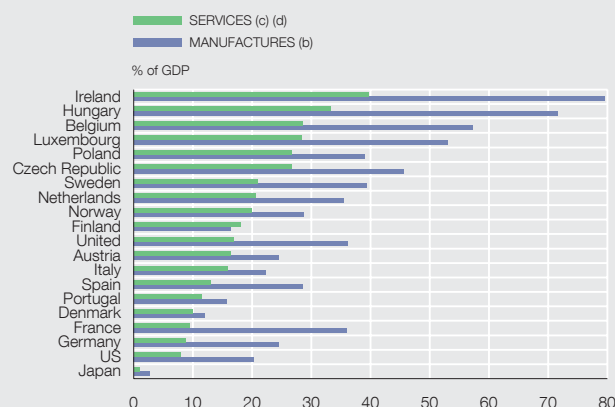
## DIRECT INVESTMENT AND MULTINATIONAL AFFILIATES

### BREAKDOWN OF OECD STOCKS OF FDI



SOURCE: OECD.

### SHARE OF FOREIGN AFFILIATES IN TOTAL SALES (a)



a. Data on manufactures relate mainly to 2001, while data on services relate to 2002.

b. In the case of manufactures, production instead of total sales in Canada and Ireland.

c. Excluding (totally or partially) financial intermediation sales of all countries, except the Czech Republic and France. Also excluding community, social and personal services in Austria, Denmark, Germany, Portugal and the United Kingdom.

d. In Ireland, services data relate to enterprises with 20 or more employees.

the countries receiving investment are much less concentrated (developing economies account for around 30% of the total). Sectorally, financial services accounted for the bulk of investment until the 1990s, subsequently giving way to communications, business services and water and electricity supply. In Spain, the situation is similar: in the period 1995-2004, manufactures represented on average one-quarter of outward FDI and 20% of inflows. Notable within services, particularly in recent years, are finance and real estate and, in outward FDI, communications. In fact, these two sectors exceeded, on average, 50% of Spanish investment abroad in the period 2000-2004.

The externalisation of services, known as offshore outsourcing when it is to a non-resident firm, has great potential for development, since the new technologies facilitate the standardisation of business, IT, communications, and even certain financial, services. In this connection, the economies that will benefit most are those like India which have a relative advantage in labour costs (repeatedly identified as the most significant variable in business surveys) and the required regulatory environment, infrastructure and human capital. This phenomenon is still in its initial phase, since it represents only about 2% of total externalisation<sup>14</sup>, although it is developing rapidly. International outsourcing of services is more extended in the English-speaking world, particularly the US, which in 2004 accounted for 60% of these projects. The services were outsourced to a relatively small

14. It is difficult to measure because the available data are based on private surveys and on anecdotal evidence.

number of countries, with Ireland, India, Canada and Israel receiving more than 70% of total. More than 50% of outsourcing is to developed economies.

In sum, services can be supplied internationally in different ways, which range from traditional trade to the outsourcing of services to other countries, and include the creation of subsidiaries abroad. Technological progress and the structural changes in services have spurred their recent globalisation, and this trend that will foreseeably continue since their degree of internationalisation continues to be lower than that of manufactures. This phenomenon, together with the difficulties of measuring the internationalisation of services, poses the need to develop new statistics on these matters and to improve the existing ones. In Spain, services have significant potential for expansion, since their weight in the total economy is lower than in other advanced economies, especially in the more buoyant branches (IT, R&D and business services), and because of the relatively small size of Spanish firms<sup>15</sup>. This situation has coexisted with an intense buoyancy of foreign trade in services in Spain, although the aforementioned structural characteristics pose the need to achieve a greater presence in the more buoyant activities, which would strengthen the competitiveness of services and the potential growth and job creation capacity of the economy.

15. See E. Gordo, J. Jareño and A. Urtasun (2006), "Algunos rasgos estructurales del sector servicios en España (Some structural features of the services sector in Spain)", *Boletín Económico*, February, Banco de España.

increased by 31%, making it the world's eighth largest exporter (and seventh largest importer). Further, in 2005 the liberalisation of international transactions in services continued to progress at a more limited pace than the initial targets. Hence, in the case of the EU, the directive on services in the internal market (January 2004), known as the Bolkenstein Directive, proposed the extension to all services (except for those of a public nature, and others such as financial, telecommunications and transport services, already covered by specific legislation) of the principles of freedom of establishment of the provision of services by agents of the various EU Member States. After a long process, the scope of this project was significantly reduced through the exclusion of diverse services from its scope of application and the broadening of the possibilities of regulation by national authorities. Against this background, the availability of statistics offering a reliable measure of the various modes of provision of services at international level has had great significance in the taking of decisions. Box 2.3 analyses developments at world scale and the diverse forms that international trade in services may take.

The segregated analysis of non-travel services shows that most items contributed to the correction of the deficit (by 23%), following the significant widening of the previous year, despite an appreciable increase of 30.6% in the deficit on transport services to a historical high of €1,858 million as a result of payments increasing by more than receipts (9.7% and 7.2%, respectively). The performance of this item was affected by the oil price rises. Transport services, taken together with business services, represent more than 70% of total receipts and payments, although it should be noted that their relative weight decreased appreciably compared with the previous year

## Rate of change

	RECEIPTS			PAYMENTS		
	EU	SPAIN		EU	SPAIN	
	2005	2004	2005	2005	2004	2005
<b>Total services</b>	<b>8.1</b>	<b>5.6</b>	<b>8.7</b>	<b>7.9</b>	<b>12.3</b>	<b>10.9</b>
Travel	6.6	3.8	5.8	7.2	22.0	24.1
Other services	8.2	7.6	11.9	8.4	10.0	7.5
Transport	9.0	9.7	7.2	7.9	11.6	9.7
Communications	7.5	6.2	16.5	6.0	16.1	8.2
Construction	19.7	14.4	27.5	7.1	89.9	24.2
Insurance	-34.2	48.8	5.0	-7.9	25.3	-35.1
Financial services	19.7	-0.6	31.4	28.6	7.8	36.2
IT services	-1.0	-7.4	21.6	6.7	-8.2	17.3
Royalties and income from intangible assets	16.5	-14.1	10.4	3.7	9.6	-13.2
Business services	12.1	9.0	10.9	10.3	8.7	8.4
Cultural and leisure services	-3.8	8.2	13.2	-5.0	2.2	-8.7
Government services	-13.1	11.6	4.6	12.5	-3.3	6.6

SOURCES: Eurostat and Banco de España.

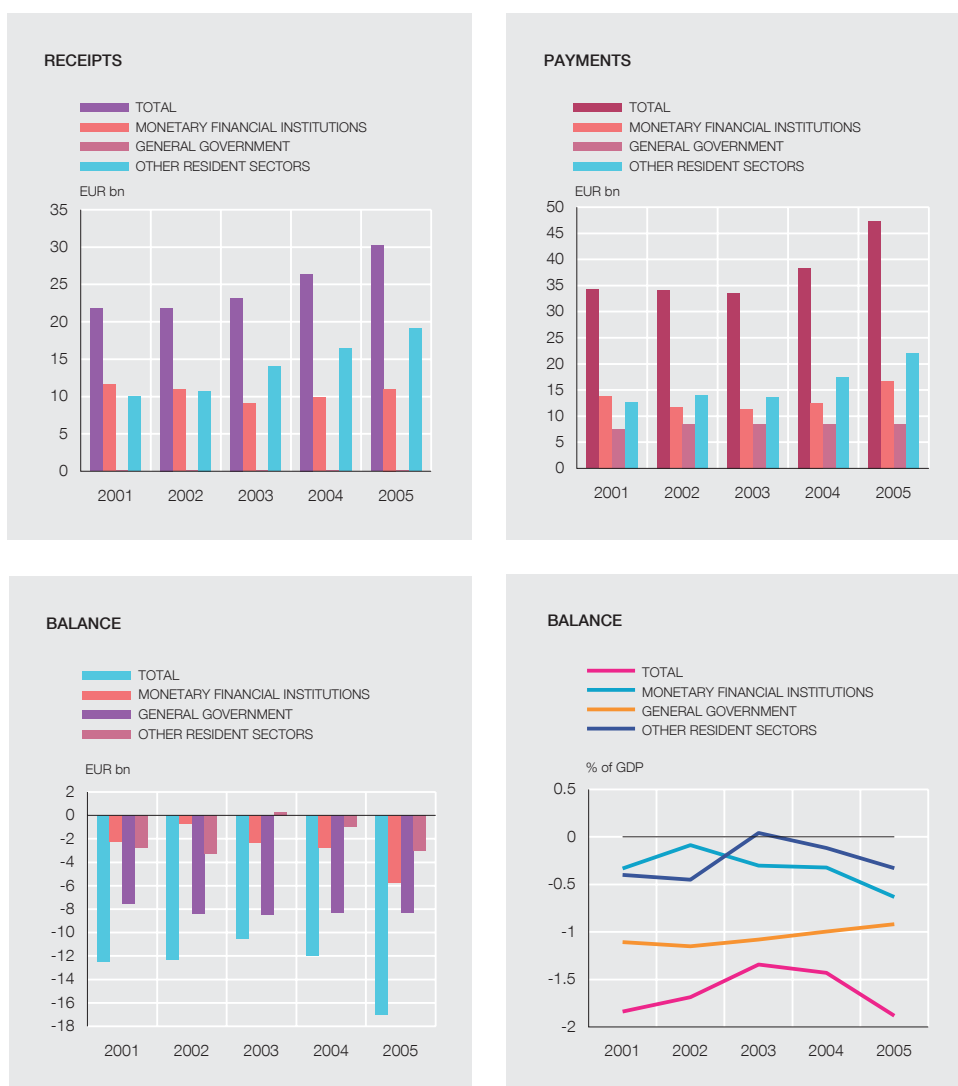
(more than 74% of receipts and 76% of payments). The behaviour of business services was positive, the deficit being corrected by 9.6% thanks to higher growth of receipts than of payments (10.9% and 8.4%, respectively), after the deterioration in 2004. There was a widespread improvement in the balances of other non-travel services (see Table 2.7), with the exception of financial services which, however, posted a very low deficit. The surplus on services associated with new technologies increased significantly by 27.4% thanks to stronger growth in receipts than in payments. The surplus on construction services also widened sharply by 33.7%, although without recouping the level reached in 2001, as a result of receipts increasing by more than payments, in line with the buoyancy shown by this sector. 2005 saw a correction of the deficit on royalties and insurance services, in both cases as a result of decreasing payments and growing receipts.

The information provided by the QNA shows that the market service branches grew somewhat faster in 2005 than in 2004 (4% in real terms, against 3.6%), thanks to their performance since Q2. The behaviour of the different branches was, in general terms, expansionary, with the exception of retail trade and repairs. Most notable was the growth of business activities and, above all, real estate activities, in line with the figures on trade in services. Meanwhile, the stronger performance of tourism spurred passenger transport, while the higher oil prices affected goods transport, a feature also highlighted by the CBSO figures.

### 2.2.3 BALANCE OF INCOME

In 2005 the deficit on the balance of income widened notably by 41.8% to €17,208 million, after increasing in 2004 following the correction that took place in 2002 and 2003. As a percentage of GDP, this figure amounts to 1.9%, 0.5 pp more than in 2004, which took it above the 2001 level. This increase was basically due to the greater buoyancy of payments, which grew by 23%, against the 14.7% rise in receipts. Hence the share of GDP represented by income receipts and payments moved up to 3.5% and 5.4%, respectively (3.3% and 4.7% in 2004).

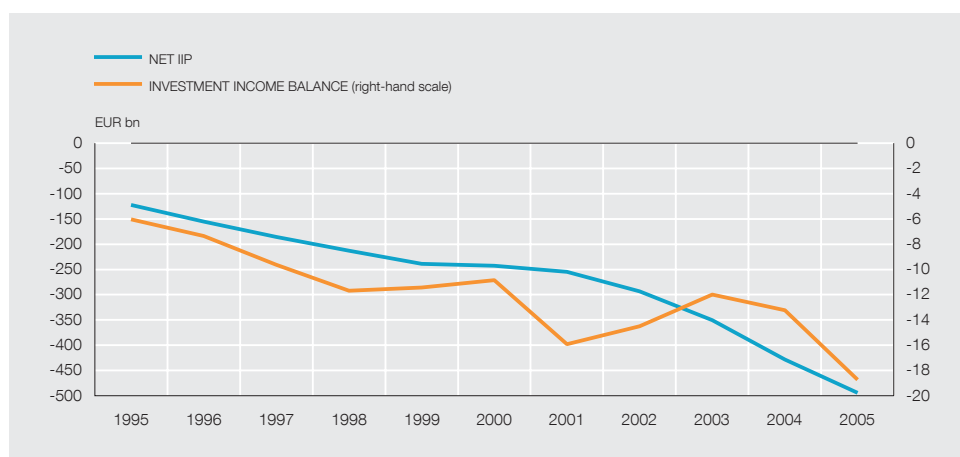
The notable widening of the deficit on income is, in general terms, in line with the growing trend of the Spanish economy's net debtor international investment position (IIP) (see Chart 2.7), which in 2005 amounted to 54.6% of GDP, excluding the Banco de España, as compared with 2001 when it represented 37.5%. This increase is reflected in the buoyancy of income pay-



SOURCE: Banco de España.

ments, particularly those relating to portfolio investment. According to IIP figures, the net debt-or balance of these investments has increased sharply in recent years to 30.1% of GDP (14.6% in 2001), against a background of growing debt of monetary financial institutions (MFIs) and of other resident sectors (ORS). The debtor position of the former increased from 21.3% of GDP in 2001 to 31% in 2005. Even more notable was the change in behaviour of ORS, which went from holding net creditor positions (6.3% of GDP in 2001) to a net debtor balance of 1.8% of GDP in 2005. This change in the IIP is reflected both in behaviour by type of investment instrument and in the behaviour of the institutional sectors of the income balance, since portfolio investment in the first case, and MFIs and ORS in the second case, explains a large part of the increase in the income deficit.

In effect, analysis by institutional sector reveals that the ORS and, in particular, MFIs contributed to the widening of the income deficit. The increase in the Banco de España's surplus and the slight fall-off in the general government deficit did not offset the aforementioned change of the other sectors (see Chart 2.8). The sharp increase in the income deficits of ORS and MFIs (by 210.1% and 88.7%, respectively) resulted from an increase in payments (27.1% in ORS and 33.1% in MFIs) which exceeded that in receipts (16.4% and 7.8%, respectively). By contrast, in the case of general government, receipts increased much more strongly than pay-



SOURCE: Banco de España.

a. Excluding Banco de España.

### INVESTMENT INCOME BY INSTRUMENT

#### Rate of change

TABLE 2.8

	AVERAGE 94-02	2003	2004	2005
<b>RECEIPTS</b>				
Total investment income	10.4	6.1	13.8	14.7
<i>Direct investment</i>	37.9	42.7	18.8	19.3
<i>Portfolio investment</i>	32.5	1.6	21.8	9.5
<i>Other investment</i>	-1.4	-20.6	-6.6	16.3
<b>PAYMENTS</b>				
Total investment income	12.6	-1.5	14.0	23.3
<i>Direct investment</i>	24.8	-11.0	31.6	22.4
<i>Portfolio investment</i>	12.5	9.3	13.3	31.9
<i>Other investment</i>	8.3	-5.4	3.0	13.0

SOURCE: Banco de España.

ments, which practically did not change in 2005 (92.9% and 0.6%, respectively). On this point, it should be noted that income receipts from investment by general government are very low (in 2005, €131 million, against payments of €8,447 million). As regards the Banco de España, the significant widening of its surplus by 37.2% was due to the increase of 87.4% in receipts linked to portfolio investment income.

Table 2.8 gives a breakdown of investment income flows by instrument<sup>41</sup>, which shows that all instruments contributed to the widening of the income deficit, particularly portfolio investment income, followed at some distance by other investment income and, in third place, by direct investment income. With the exception of other investment, the behaviour shown in 2005 was due to greater buoyancy of payments than of receipts. Thus the deficit on direct investment income increased notably from €141 million in 2004 to €499 million in 2005, as a result of a somewhat higher increase in payments (22.4%) than in receipts (19.3%). Despite this, the size

41. Except when expressly indicated otherwise, the analysis excludes the Banco de España.



of the negative balance is still far below that of previous years, especially that at the end of the 1990s, due to the correction in 2003. In 2005, dividend receipts grew significantly, influenced by the economic conditions in Latin America, where the investments of the major Spanish corporate groups are concentrated. Dividend payments also increased sharply in a year in which the dividends distributed by Spanish firms reached a new historical high<sup>42</sup>. This policy encouraged by the profits of recent years and by the corporate financial position, which shows no appreciable signs of weakness.

The deficit on portfolio investment income widened appreciably by 82.1% to €9,684 million. Portfolio investment income payments were up by 31.9%, much more than receipts (5.8%). The deterioration in the portfolio investment income balance extended both to shares and, in particular, to fixed-income securities. However, the sharp increase in fixed income payments is what mainly explains the sudden deterioration in the portfolio investment income of MFIs, which swung from a surplus of €513 million to a deficit of €2,688 million, and a large part of the fall-off in the surplus of ORS, which decreased by 59.7% to €883 million. In the last two years, inward foreign investment in bonds and notes of MFIs and, in particular, of ORS has increased significantly, against a background of financial market stability, growing recourse to mortgage asset securitisation and vigorous fixed income security issuance, especially by the subsidiaries of MFIs. The slight correction of the general government deficit by 0.2% to €8,316 million was insufficient to offset this. It should be mentioned that in 2005 the investment by non-residents in public debt decreased significantly, after the strong recovery of 2004 that followed the disinvestment of the previous year. In recent years the Treasury has followed a policy of Treasury debt management that has taken advantage of the low interest rates to reduce the debt burden<sup>43</sup>, all within a wider context of progressively healthier public accounts. Indeed, in 2005 gross issues decreased by around 13% with respect to the previous year, which, together with the higher redemptions, resulted in net issues of €600 million (€5,200 million in 2004). The downward trend in government debt as a percentage of GDP thus continued (43.2% in 2005, against 46.4% in 2004)<sup>44</sup>. Finally it should be mentioned that in 2005 outward portfolio investment by general government rose notably to €4,561 million (€872 million in 2004), as a result of the purchase of sovereign debt of euro area countries by the Social Security Reserve Fund.

The deficit balance of income from other investments (basically loans, deposits and repos) increased by 10% to €8,552 million, despite receipts having grown more strongly than payments (18.3% and 13%, respectively). This behaviour took place against a background of depreciation of the euro during the year and of rising resident sector debt, particularly in the case of MFIs, despite the higher growth of income received by MFIs with respect to 2004. Precisely this sector and, to a lesser extent, general government contributed to the widening of the deficit. The modest correction of the ORS deficit, against a background of falling ORS payments (down by 1.6%) could not offset the developments in the other sectors.

Finally, it should be pointed out that, in a setting marked by the growing net debtor position of the US economy, the apparent discrepancy represented by the US surplus on investment income has become a topic of international debate<sup>45</sup>. The only explanation is that the relative

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42. See *Informe de Mercado 2005* (Market Report 2005), Bolsa y Mercados Españoles. 43. The average interest rate on the State's outstanding debt has followed a downward path in recent years. Thus in 2004 it stood at 4.38%, against 4.61% in 2003. According to Treasury figures, interest payments as a proportion of GDP in 2005 were 1.6% (1.9% in 2004). 44. General government debt figures prepared using the methodology of the Excessive Deficit Protocol. 45. See, for example, M. Higgins, T. Klitgaard and C. Tille (2005), "The Income Implications of Rising US International Liabilities", *Current Issues in Economics and Finance*, vol. 11, no. 12, December, Federal Reserve Bank of New York.

return on foreign investment by US residents is much higher than that on investment in the United States by non-residents, or that some caption has been valued inappropriately<sup>46</sup>. In the case of Spain, where the IIP and the income balance generally move practically in unison, the implicit income on the assets side and on the liabilities side show few discrepancies, with the former being slightly higher than the latter. In both cases, the return shows a downward trend.

#### 2.2.4 BALANCE OF CURRENT TRANSFERS

The sharply worsening trend of the balance of current transfers continued in 2005, when the deficit of €1 17 million in 2004, which was the first year with a negative balance, jumped to €3,084 million. As a percentage of GDP, this deficit was 0.3 pp while the average for the period 1993-2004 previously stood at 0.4% of GDP. This situation was a result of the buoyancy of payments (19.1%), which amply exceeded the modest increase in the respective receipts (0.9%).

Analysis by institutional sector shows that the change in the balance on current transfers was due both to the widening of the general government deficit (by 30.4% to €7,421 million) and to a further decline, for the fourth year running, in the private sector surplus (by 22.2%, to stand at €4,337 million). In both cases, payments increased appreciably (21.7% and 15.8%, respectively), although those of the private sector decelerated in comparison with the previous year, unlike those of general government. As regards receipts, those of general government increased by 6.8%, after a notable rise in the previous year (31.3%), while those of the private sector fell off slightly by 0.6% (see Table 2.9).

The general government balance deteriorated despite an improvement in the surplus on transfers not linked to the EU<sup>47</sup>, against a background of similar growth of receipts and payments. Current transfers from the EU received by general government grew modestly by 2.3%. Receipts linked to the European Social Fund (ESF) amounted to €1,784 million. This increase of 0.6% with respect to 2004 was slightly below the cash forecast contained in the 2006 State budget<sup>48</sup> (1.7%). For their part, most general government payments relate to the EU (nearly 94% of the total, against 53% of receipts). Transfers to Community institutions increased by 22.6%, with growth in all items, especially the GNI<sup>49</sup> (gross national income) resource, which represents more than 65% of total payments and increased by 25.9% against a background of rising weight of Spain's GNI in the EU as a whole. All in all, the cash projections in the 2006 State budget were for a higher increase (29.5%). Coming next in terms of buoyancy is the VAT resource (with a relative weight of nearly 24%), driven by the strength of tax collection in Spain. This heading grew by 21.2%, after the decrease in 2004, which is consistent with the lower percentage applied to the VAT base in that year (down from 0.75% to 0.5%, this latter proportion remaining unchanged in 2005). The cash forecasts of the budget are for a more moderate increase of 8.8%. Finally, the buoyancy of traditional own resources (the main component of which is customs duties) moderated appreciably with respect to the previous year, their growth being 14.9%. This behaviour was partly due to the higher rates applied in 2004 to imports from the United States and to the suspension of the Generalised System of Preferences on goods from China. The cash forecasts in the budget were for a slight decrease of 1.5%. Finally, transfers to the EU under the European Development Fund (EDF) decreased by 25.3% to €103 million<sup>50</sup>, in contrast to the sharp increase of 45.3% envisaged in the 2006 State budget.

46. Specifically, the value of direct investment assets, for which market prices are not always available, may be underestimated. 47. This heading consists of receipts and payments relating to donations, taxes, Social Security and others. 48. The cash forecasts used are those of total transfers, including the funds channelled directly to regional (autonomous) government, local government and other economic agents. 49. The overall amount of the GNI-Resource is the difference between Community expenses and other receipts. The amount is distributed among the Member States in proportion to their respective GNIs. 50. This contribution is now included in the new Cotonu Agreement (which replaced the Lomé Conventions).

CURRENT AND CAPITAL TRANSFERS VIS-À-VIS THE EUROPEAN UNION  
EUR million

TABLE 2.9

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>RECEIPTS</b>	<b>10,714</b>	<b>10,591</b>	<b>10,675</b>	<b>12,216</b>	<b>13,536</b>	<b>11,150</b>	<b>12,013</b>	<b>15,567</b>	<b>16,518</b>	<b>16,289</b>	<b>14,498</b>
<b>Current transfers</b>	<b>6,150</b>	<b>5,873</b>	<b>6,675</b>	<b>7,112</b>	<b>7,289</b>	<b>6,619</b>	<b>7,135</b>	<b>8,423</b>	<b>8,094</b>	<b>8,543</b>	<b>7,985</b>
Public											
<i>ESF</i>	1,472	1,270	1,816	1,746	1,969	797	1,085	1,795	1,653	1,774	1,784
<i>Other</i>	56	51	56	55	63	48	53	78	79	68	100
Private											
<i>EAGGF (Guarantee) transfers</i>	4,622	4,552	4,802	5,312	5,258	5,775	5,997	6,550	6,362	6,702	6,101
<b>Capital transfers</b>	<b>4,564</b>	<b>4,718</b>	<b>4,000</b>	<b>5,104</b>	<b>6,247</b>	<b>4,530</b>	<b>4,877</b>	<b>7,144</b>	<b>8,425</b>	<b>7,746</b>	<b>6,513</b>
<i>ERDF</i>	2,691	2,521	2,547	2,823	3,727	2,819	3,381	4,046	5,344	4,712	3,851
<i>EAGGF (Guidance)</i>	850	932	731	1,096	1,410	514	628	978	1,274	1,127	1,270
<i>Cohesion Fund</i>	1,023	1,265	723	1,184	1,111	1,197	869	2,121	1,807	1,908	1,391
<b>PAYMENTS</b>	<b>3,702</b>	<b>4,443</b>	<b>5,412</b>	<b>5,915</b>	<b>6,324</b>	<b>6,558</b>	<b>6,676</b>	<b>6,603</b>	<b>7,942</b>	<b>8,098</b>	<b>9,929</b>
<b>Current transfers</b>	<b>3,702</b>	<b>4,443</b>	<b>5,412</b>	<b>5,915</b>	<b>6,324</b>	<b>6,558</b>	<b>6,676</b>	<b>6,603</b>	<b>7,942</b>	<b>8,098</b>	<b>9,929</b>
<i>Traditional own resources (a)</i>	712	600	630	741	819	918	905	585	753	955	1,097
<i>VAT resource</i>	2,152	2,474	2,746	2,617	2,842	2,889	3,135	2,525	2,656	1,921	2,329
<i>Additional resource (GNP)</i>	743	1,315	1,966	2,416	2,578	2,643	2,589	3,406	4,405	5,084	6,401
<i>EDF</i>	94	54	71	141	86	109	48	87	129	137	103
<b>BALANCE</b>	<b>7,012</b>	<b>6,148</b>	<b>5,264</b>	<b>6,300</b>	<b>7,213</b>	<b>4,591</b>	<b>5,336</b>	<b>8,963</b>	<b>8,576</b>	<b>8,192</b>	<b>4,569</b>

SOURCES: Dirección General de Presupuestos (Secretaría de Estado de Hacienda) and Banco de España.

a. 25% (10% until 2002) of the amount of this item is not actually paid, since it is the amount that the Spanish state receives for administering the collection of these funds. In the balance of payments, the gross payment is included in current transfers and the 25% referred to above in government services income.

Moving on to the private sector, the decrease in its surplus was set against a background of moderate recovery in receipts from workers' remittances, although the growth rate was appreciably lower than the historical average (2.7%, against 10.1%), and of fall-off in receipts from other private transfers, which were down by 2.2%. A significant factor in this fall-off was the drop of 9% in funds from the EU, which offset the increase of 20.3% in the others. Receipts linked to EAGGF-Guarantee aid fell by 9%, although the cash forecast in the 2006 State budget was for these funds to increase by 5%. On the payments side, the data on workers' remittances were revised for the period 2001-2004. This revision reflects a change in the calculation procedure, which until 2004 was based solely on the foreign receipts and payments reported by credit institutions to the Balance of Payments Department. The new series reflects more adequately the changes in migrant flows in recent years. According to the new data, the flows arising from workers' remittances grew by 10.2%, against a background of increased immigrant numbers and of job creation in Spain largely concentrated in this worker group<sup>51</sup>. All in all, the buoyancy of this heading moderated after several years of strong growth (the average growth rate between 1999 and 2004 was 37.7%). Thus payments of workers' remittances reached 0.5% of GDP (0.3% in 2001). The relative importance of receipts of workers' remittances has moved in the opposite direction, decreasing to 0.5% of GDP (0.6% in 2001). In 2004, for the first time there were net outflows of workers' remittances amounting to €4 million, which rose to €316 million in 2005.

The geographical disaggregation of remittance payments, which is included for the first time in this report, confirms that the final destination of the remitted funds is closely tied to the country of origin of the immigrant. Thus in 2005 Latin America was the leading recipient of remittances

51. According to the Official Spanish Labour Force Survey, the foreign population increased at an average year-on-year rate of 31.2% in the period 2001-2005.

from Spain, having received 70.9% of the total remittances sent by immigrants resident in Spain. According to the information reported directly by credit institutions resident in Spain to the Balance of Payments Department and according to the data sent by currency-exchange bureaux<sup>52</sup> (remitters) to the Financial Reporting and Central Credit Register Department, the five main destinations of remittances sent in 2005 were Colombia, Ecuador, Bolivia, Romania and Morocco, which together account for 65% of total remittances from Spain.

Finally, other payments of current transfers by the private sector (which accounted for 45.8% of the total in 2005) grew significantly by 23.4%, which was more than in the previous year and appreciably above the historical average of 12.7% for the period 1993-2004.

Traditionally the balance of current transfers has, along with the travel heading, offset the deficits on the other components of the current account. However, structural factors such as the increase in the number of immigrants in Spain and the enlargement of the EU, with the resulting impact on the Community budget, have been responsible for a progressive erosion of this role. As regards the enlargement of the EU, in December 2005 the financial perspectives of the EU for the period 2007-2013 were established. These take into account the EU's enlargement by 10 new members whose degree of real convergence with the EU as a whole is less than that of Spain. Hence the next few years will bring a significant reduction in EU funds received by Spain because its relative position in the enlarged EU has improved.

### **2.3 The capital account**

The surplus on the capital account, which in practice depends on the capital transfers to and from the EU in view of the scant significance of other transfers, decreased by 5.4% to €7,972 million, after four consecutive years of growth. As a percentage of GDP, there was a decrease of 0.1 pp to stand at 0.9%. The decrease in this surplus was a result of declines in both receipts and payments (of 5.4% and 5.3%, respectively), although the latter fell by less than in the previous year. Sectorally speaking, the decrease in receipts was concentrated in the transfers received by general government (6.4%), which were not offset by the increase in those received by the other sectors (4.3%). The decrease in payments was due to the disposal of non-produced non-financial assets<sup>53</sup>, which fell by 23.5%, in contrast to the growth of transfers paid (up by 8.8%) in general government and the rest of the sectors (11% and 8.1%, respectively).

The decrease in receipts from capital transfers was due to the behaviour of the funds from the EU. The most significant fall was in ERDF funds (aimed at reducing EU regional imbalances, which in terms of amount are the most important ones in the EU), which were down by 18.3% to €3,851 million, in contrast to the significant increase of 27.3% projected in the cash forecast of the 2006 State budget<sup>54</sup>. Also contributing was the decrease of 27.1% in the Cohesion Funds to €1,391 million, which was somewhat sharper than the cash forecast (of 21.2%). The change in these two headings was not offset by the increase in receipts received via EAGGF-Guidance funds aimed at promoting rural areas, which amounted to 12.7%, this growth rate exceeding the cash projections of the budget (9.6%).

Finally, it should be pointed out that, as a result of the EU enlargement, and in accordance with the Community financial perspectives for 2007-2013, the net transfers of capital received by Spain from Community institutions will gradually be decreased.

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<sup>52</sup>. Currency-exchange bureaux are required to report to the Banco de España and institutions responsible for supervising them. This information is available from 2002. <sup>53</sup>. This heading comprises the acquisition/disposal of non-produced tangible assets (land and subsoil resources) and the acquisition/disposal of non-produced intangible assets (patents, copyrights, trademarks, licences, etc. and leases and other transferable contracts). <sup>54</sup>. The high growth rate estimate may be partly because the initial years of the 2000-2006 planning period were used for approving the planning documents, resulting in a delay in the investment projects. Also, it should be noted that the cash forecasts in the State budget for 2006 are much higher than those for the previous year (€6,000 million, against €4,200 million).



### 3 The financial account in 2005

#### 3.1 Introduction

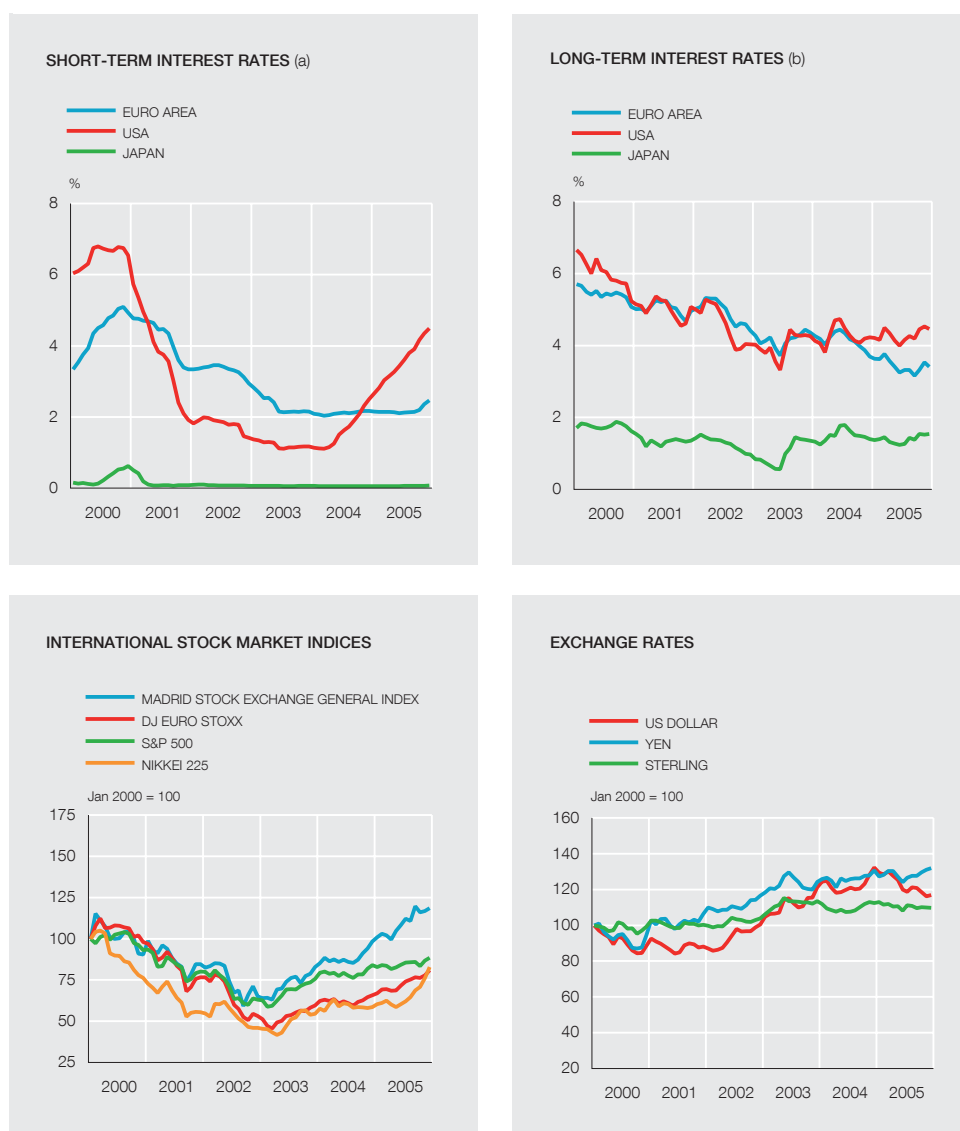
During 2005 international markets performed favourably, as indicated in Chapter 2. They did so against a background of generalised economic growth globally and despite the significant increase in oil prices. The world economy grew at an annual rate of 4.8%, underpinned by the emerging economies, especially the Asian countries, and by the United States. The euro area, for its part, continued to display moderate dynamism.

The Federal Reserve continued on its path of interest rate rises, raising the benchmark rate to 4.5% (2.5% in December 2004) against a backdrop of higher US inflation, which rose to 3.4% (2.8% in 2004), up on the average for the past decade (also 2.8%). In December 2005, the ECB raised its key interest rate by 0.25 pp to 2.25%, the first such rise in two years. Inflation in the euro area held stable in 2005 (at 2.2% according to the HICP, compared with 2.1% the previous year), in a setting of dearer energy (the price of Brent crude increased on average by 41.5% in 2005 to \$54.2 per barrel). This has not yet fed through to other prices, since underlying inflation stood at an annual rate of 1.5%. Short-term interest rates increased much more sharply in the United States (see Chart 3.1), where they climbed from 2.4% in December 2004 to 4.4% in the same month in 2005, than in the euro area (2.5% in December 2005, compared with 2.2% in the same month in 2004). By contrast, the rises in key monetary policy interest rates in both economies did not feed through significantly to long-term interest rates, which held at very low levels. Indeed, in the euro area they stood at much lower levels than in 2004. These developments were not only in response to macroeconomic factors, which failed to explain them in full, but also to the ample liquidity and strong demand for long-term bonds<sup>1</sup> in place. The long-term interest rate spread between the United States and the euro area widened appreciably, from 0.6 pp in early 2005 to 1.1 pp in December.

Corporate financing conditions remained easy, despite the transitory rise in corporate risk premia in Q1, centred on certain car manufacturers. As a result, the spread on high-grade European corporate bonds, which stood at 400 basis points in 2002, narrowed to around 100 basis points in 2004 and 2005. This environment encouraged companies to make bond issues, which increased by 16.8% worldwide on 2004<sup>2</sup>. European issuers performed dynamically, as they issued 20.5% more than in 2004. As to the emerging economies, sovereign risk premia stood at historical lows, encouraging buoyant bond issues on these markets, which increased by 25.5%.

Equity issues<sup>3</sup> broadly trended favourably, albeit unevenly across the different areas (see Chart 3.1). While in the United States the SP-500 index rose by less than 4%, the European broad Eurostoxx index performed very favourably, with a 23% increase in 2005 as a whole. In Spain, gains on the Madrid Stock Exchange were similar to the European average, with an increase of 21%. The pattern of behaviour on the US and European stock markets is in step with the interest rate spread between both areas, both at the short and long terms, and with the course of the exchange rate of the euro against the dollar, which depreciated considerably over the year. In addition, corporate profits grew significantly, both in the euro area and in Spain. In the former case, listed companies' earnings per share increased by around 20% in 2005, and expectations about the growth of earnings in this type of company over a five-year horizon are for around 10% per annum. In Spain, on data drawn from the quarterly survey of

1. See ECB (2006): *Annual Report 2005*, chapter 2. 2. See BIS (2006): *Quarterly Report*, March. 3. See ECB (2006): *Annual Report 2005*, chapter 5.



SOURCES: ECB and Bank of Japan.

- a. Three-month interbank market interest rates.  
b. Ten-year government bond yields.

the Banco de España Central Balance Sheet Data Office, the ordinary net profit of sampled companies grew by 12.5% (17.7% in 2004). Overall, the average return on investment amounted to 9.5% in 2005, 1 pp up on 2004. Against a background of high corporate profitability and relatively low interest rates, companies will likely prefer to raise finance via bond issues or loans and will have few incentives to also issue equity. Indeed, net equity issues in Spain declined by 78% in 2005 to €4,457 million.

As to the exchange rate of the euro, it depreciated significantly by 11.6% in 2005 (comparing December 2004 with December 2005) against the dollar (see Chart 3.1). As a result, the euro's appreciation in the second half of 2004 was corrected, whereby the exchange rate against the dollar scarcely altered on comparing the annual averages for 2005 and 2004, holding at around \$1.24 per euro.

In the setting described, net borrowing arising from the Spanish economy's non-financial transactions amounted in 2005 to €58,655 million (see Table 3.1). This figure entails a 64.1%

**BREAKDOWN OF THE FINANCIAL ACCOUNT  
OF THE BALANCE OF PAYMENTS**

TABLE 3.1

	2001	2002	2003	2004	2005
<b>CURRENT ACCOUNT PLUS CAPITAL ACCOUNT BALANCE</b>	<b>-3.2</b>	<b>-2.2</b>	<b>-2.5</b>	<b>-4.3</b>	<b>-6.5</b>
<b>FINANCIAL ACCOUNT BALANCE (a)</b>	<b>0.6</b>	<b>1.6</b>	<b>2.1</b>	<b>5.8</b>	<b>6.8</b>
<b>Change in external liabilities (b)</b>	<b>14.1</b>	<b>15.6</b>	<b>16.2</b>	<b>18.3</b>	<b>24.1</b>
Direct investment	4.7	5.7	2.9	2.4	2.0
<i>Monetary financial institutions</i>	0.0	0.1	-0.1	-0.1	0.0
<i>Other resident sectors</i>	4.7	5.7	3.0	2.5	2.0
Portfolio investment	4.6	4.9	5.0	13.5	15.1
<i>General government</i>	1.5	1.2	-1.0	2.7	0.2
<i>Monetary financial institutions</i>	1.4	2.0	3.4	5.9	6.2
<i>Other resident sectors</i>	1.6	1.7	2.5	4.8	8.7
Other investment	4.8	5.0	8.3	2.4	7.0
<i>General government</i>	0.1	0.2	-0.1	0.6	0.0
<i>Monetary financial institutions</i>	2.4	4.0	7.1	1.8	5.5
<i>Other resident sectors</i>	2.3	0.8	1.3	0.0	1.5
<b>Change in foreign assets (c)</b>	<b>13.4</b>	<b>13.4</b>	<b>13.7</b>	<b>12.4</b>	<b>17.3</b>
Direct investment	5.4	4.8	3.3	5.8	3.4
<i>Monetary financial institutions</i>	0.6	0.3	-0.9	1.6	0.2
<i>Other resident sectors</i>	4.8	4.5	4.1	4.2	3.3
Portfolio investment	7.4	4.3	8.4	3.2	8.7
<i>General government</i>	0.0	0.0	0.0	0.1	0.5
<i>Monetary financial institutions</i>	3.5	1.3	4.2	0.6	4.5
<i>Other resident sectors</i>	3.9	3.0	4.2	2.5	3.7
Other investment	0.6	4.3	2.0	3.4	5.1
<i>General government</i>	0.0	0.2	0.0	0.2	0.1
<i>Monetary financial institutions</i>	0.5	2.6	1.1	2.0	4.1
<i>Other resident sectors</i>	0.0	1.6	0.9	1.2	0.9
<b>Financial derivatives (d)</b>	<b>0.1</b>	<b>0.7</b>	<b>0.4</b>	<b>0.0</b>	<b>0.0</b>
<b>NET CHANGE IN FOREIGN ASSETS OF BANCO DE ESPAÑA (e)</b>	<b>2.6</b>	<b>0.5</b>	<b>0.2</b>	<b>-1.7</b>	<b>-0.2</b>
Of which:					
Reserve assets	0.2	-0.5	1.7	0.6	0.2
Assets vis-à-vis the Eurosystem	2.4	0.9	0.6	-1.6	1.6
Other net assets	0.0	0.1	-2.1	-0.6	-2.1
MEMORANDUM ITEMS:					
<b>FINANCIAL ACCOUNT BALANCE INCLUDING BANCO DE ESPAÑA</b>	<b>3.2</b>	<b>2.1</b>	<b>2.3</b>	<b>4.2</b>	<b>6.6</b>
<b>Errors and omissions (f)</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>-0.1</b>

SOURCE: Balance of Payments. Banco de España.

a. Excluding Banco de España.

b. A positive sign denotes an increase in liabilities, i.e. an inflow of capital

c. A positive sign denotes an increase in assets, i.e. an outflow of capital

d. They are recorded net of netted out amounts and have been allocated, by convention, to the net change in assets.

e. A positive (negative) sign denotes a decrease (increase) in Banco de España foreign assets.

f. A positive (negative) sign denotes a receipt (payment) not recorded in another balance of payments caption.

increase on 2004, when the resort to foreign financing increased, in turn, by 85.1%. The financial account, excluding the Banco de España<sup>4</sup>, recorded net incoming funds for a value of €61,812 million, 26.5% more than in 2004. As a proportion of GDP, foreign financing received by the Spanish economy stood at 6.8% (5.8% in 2004).

Drawing on data from the *Financial Accounts of the Spanish Economy*<sup>5</sup>, households and non-profit institutions, together with non-financial corporations, are the sectors that gave rise to this

4. Hereafter the Banco de España is excluded from the analysis unless otherwise indicated. 5. See Banco de España (2006): *Annual Report 2005*, chapter 5.



**NET CROSS-BORDER FINANCIAL FLOWS BY SECTOR.**  
**NCL – NCA (a)**

CHART 3.2

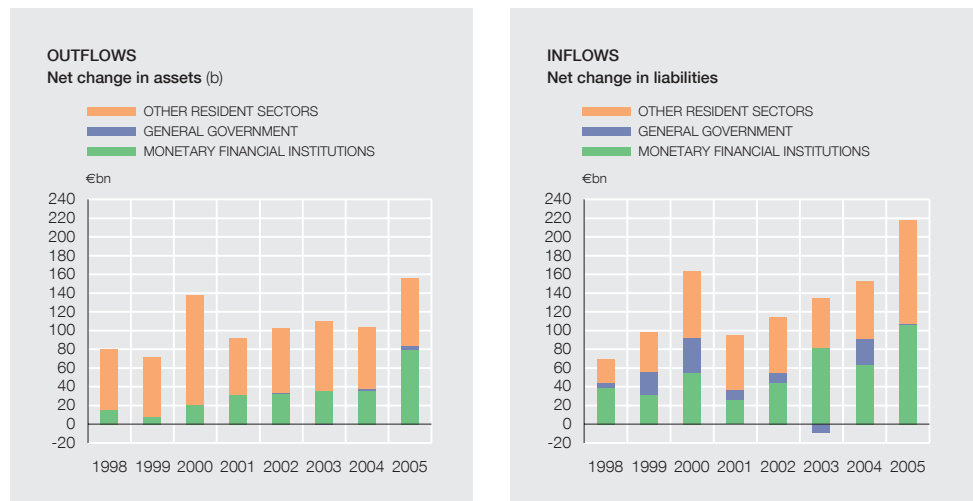


SOURCE: Banco de España.

borrowing requirement. The household sector, which has traditionally been a net saver, generated a debit balance in 2004 equal to 1.4% of GDP, to which non-financial corporations added a net debit balance of 7% of GDP. By contrast, the general government sector posted a fiscal surplus of 1.1% of GDP.

In 2005 there was a net direct investment outflow for a value of €12,693 million (1.4% of GDP), down on the figure for 2004 (€28,809 million, 3.4% of GDP). Foreign direct investment in Spain continued – though slackening – on the declining path initiated in 2001, dipping from €19,941 million in 2004 (2.3% of GDP) to €18,484 million in 2005 (2% of GDP). Spanish foreign direct investment also fell in 2005 by 36.0% to €31,777 million (3.4% of GDP), following its strong recovery in 2004 when it stood at €48,750 million (5.8% of GDP), a figure influenced by a highly significant operation by a resident bank. These developments were against an international background that confirmed the pick-up in global FDI flows which, on preliminary estimates from UNCTAD<sup>6</sup>, grew by 29% in 2005, a year in which the strength of in-

6. See UNCTAD (2006): UNCTAD Press Release of 23 January 2006.



SOURCE: Banco de España.

a. Excluding the Banco de España.

b. Including financial derivatives, which are recorded net of netted out amounts and have been allocated, by convention, to the net change in assets.

vestment in the emerging countries proved compatible with an even greater increase in flows to the developed countries. That said, FDI inflows into the euro area declined appreciably once again.

Though it remained the principal channel for raising funds from abroad (see Table 3.1), there was a 32.5% reduction in 2005 in net portfolio investment flows received by the Spanish economy to €57,890 million. However, net portfolio investment flows continued to account for a significant proportion of GDP (6.4%) in 2005, the result of funds raised via medium- and long-term bonds. These instruments accounted for the form of shares and participations in investment funds, equivalent to 2.5% of GDP. Moneyr 8.8% of GDP and offset the net outflows i market instruments gave rise to very low net inflows.

As regards other investment (essentially loans, deposits and repos), net inflows amounted to €16,598 million (1.8% of GDP) in 2005, compared with outflows of €8,212 million in 2004. Most of this increase in other investment flows into Spain was the outcome of repo transactions by non-residents, which amounted to 3.7% of GDP.

A disaggregated analysis by institutional sector also shows notable changes from 2004 to 2005 (see Charts 3.2 and 3.3). Accordingly, net inflows raised by Other Resident Sectors (ORS) – in contrast to the net outflows posted the previous year – and by Monetary Financial Institutions (MFIs) largely exceeded the net outflows recorded by general government (this sector posted net inflows in 2004).

MFIs' net inflows declined moderately by 4.6% in 2005 to €26,825 million (3% of GDP). This reduction took place against the backdrop of continuing buoyant household demand for credit, the results of a 24% increase in mortgage lending and a 13% rise in the demand for consumer credit, in a setting of low interest rates and high house prices. With these data, the gap between lending and deposits widened to €60,040 million, an increase of 42.5% on 2004. The sizeable demand on the private fixed-income markets, the high stock of mortgage debt and the low levels of long-term interest rates were reflected in MFIs' greater preference for bond issues as a means of financing the demand for credit. The decline in MFIs' net inflows can be

explained by the fact that banks sought during the year to diversify<sup>7</sup> their risks internationally by purchasing foreign assets and because banking groups resorted to financing via issues made by subsidiaries, which are included under the heading of ORS.

The behaviour of ORS changed notably in 2005. After having sent funds abroad for a value of €3,811 million in 2004, they received net inflows of €38,873 million in 2005. It should be pointed out that this sector includes not only non-financial corporations and households and non-profit institutions, but also non-monetary financial institutions, among which are collective investment institutions and securitisation special-purpose entities (SSPEs), and the subsidiaries of MFIs set up to make securities issues, especially preference shares<sup>8</sup>, which are increasingly more significant in respect of funds raised abroad.

Finally, having received funds totalling €24,542 million in 2004, the general government sector recorded net outflows of €3,886 million in 2005. According to the Spanish Ministry of Economy and Finance, the 14.1% growth in tax revenue exceeded initial forecasts. Under these conditions, the general government sector posted a surplus of 1.1% of GDP, which provided for an 18.3% reduction in net Treasury issues. These developments occurred in a year in which the overall euro area budget deficit stood at 2.4% of GDP, 0.4 pp less than in 2004.

### 3.2 Direct investment

During 2005, the recovering path of global FDI flows initiated the previous year firmed, with a 29%<sup>9</sup> annual increase according to preliminary UNCTAD estimates. Unlike 2004, the increase in FDI was sharper in the developed economies (38.2%) and, especially, in the EU-15 (76.2%), following the fall-off recorded in 2004 (6.1% and 28.1%, respectively). The pace of FDI inflows in developing countries eased in relation to the previous year (12.5% against 41.3%). In the euro area, net direct investment outflows amounted to 153,800 million, the result of a 36.9% decline in funds targeted on the area and of a 58.2% increase in investment abroad during the year.

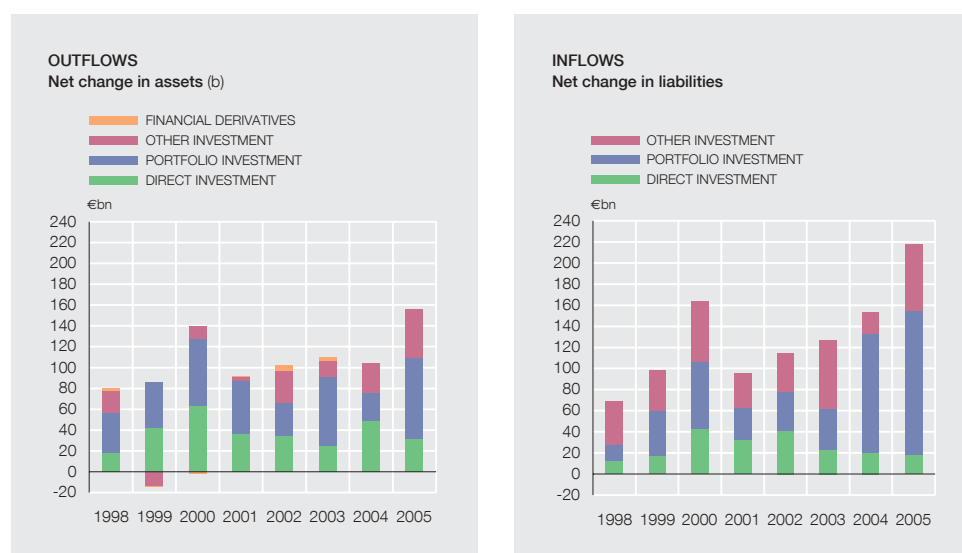
The growth of global FDI flows was driven by mergers and acquisitions (which increased by approximately 40%) and by specific large-scale operations, which placed the United Kingdom as the main recipient of global funds for the first time since 1977. In the United States, the main recipient worldwide in 2004, investment from abroad slowed appreciably. As earlier mentioned, the growth of FDI flows towards the developing countries, both in Latin America and in Asia, eased back. China recorded a slight fall, despite which it was the third biggest destination for FDI, albeit some distance behind the United Kingdom and the United States.

FDI towards the new EU Member States resulting from the latest enlargement is holding on a sustained growth path, and the outlook is favourable in view of their EU membership, their levels of human capital and their relatively low labour costs. The new members<sup>10</sup> have, since 1995, received<sup>11</sup> FDI flows amounting to between 2% and 6% of their GDP. In 2004, for example, the stock of FDI in Poland amounted to around 25% of GDP while in Hungary the related figure was close to 55%.

FDI perspectives for 2006 are broadly positive, insofar as a favourable economic environment is maintained. Specifically, the developing economies would benefit from the foreseeable expansion of multinationals in search of new markets, lower costs and access to

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7. See Banco de España (2006): *Annual Report 2005*, chapter 5. 8. See Banco de España (2006): Box 5.2 of the *Annual Report 2005*, chapter 5. 9. This figure corresponds to UNCTAD preliminary estimates and is based largely on projections of the 2004 figure and on the annualised figure for 2005 Q1. 10. Malta and Cyprus are excluded from the 10 countries involved in the latest EU enlargement. 11. See the box in the ECB *Monthly Bulletin*, October 2005.



SOURCE: Banco de España.

a. Excluding Banco de España.

b. Financial derivatives are recorded net of netted out amounts and allocated, by convention, to the net change in assets.

natural resources and strategic assets<sup>12</sup>. Asia is prominent here, especially China and India. In Latin America, recent economic trends might be a factor conducive to the recovery in direct investment, although uncertainty over regulations and economic policy measures may exert a negative influence in some cases. In the developed countries, mergers and acquisitions may encourage FDI flows. As to the outlook for Spain as an investment recipient, the economic improvement in the euro area will prove conducive to incoming FDI, although the growing competition to attract such funds and the dwindling of some of Spain's relative advantages (such as labour costs) mean the structural reforms needed to improve competitiveness and to make our economy more attractive in the medium and long run must be undertaken.

Spain saw net FDI outflows in 2005 amounting to €12,693 million, significantly down on 2004 (€28,809 million). This reduction was due to the fact that investment abroad declined by 36%, while foreign investment in Spain fell off by 7.3% (see Chart 3.4).

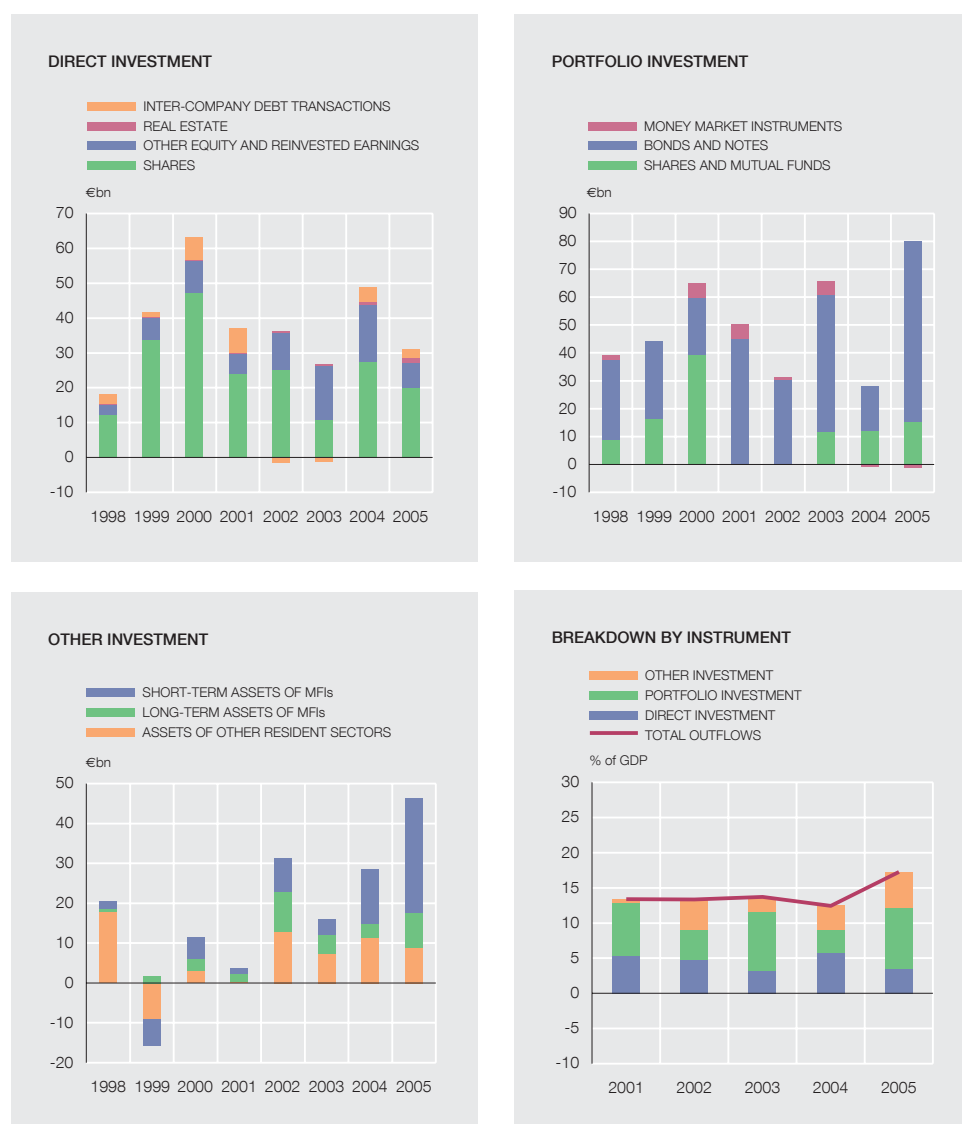
*Spanish foreign direct investment flows abroad* eased back to €31,177 million (3.4% of GDP, compared with 5.8% in 2004). This saw a resumption of the decline initiated in 2002 (see Chart 3.5), following the high of 10% of GDP in 2000. The decline was interrupted in 2004, when the investment behaviour of the MFIs was very dynamic. Specifically, a highly significant foreign investment operation undertaken by a resident financial entity appreciably influenced the results, meaning that Spanish FDI abroad increased by 91.5% in 2004, but this figure would be only 42% were this operation to be stripped out. Turning to 2005, if this operation were excluded, the fall in relation to 2004 would ease back to 13.9%.

The Spanish FDI data in the Balance of Payments include, on both the assets and liabilities sides, transactions by foreign-security holding companies (ETVE, by their Spanish acro-

12. See UNCTAD (2005): *World Investment Report 2005*, and UNCTAD (2004): *Prospects for Foreign Direct Investment and the Strategies of Transnational Corporations, 2004-2007*.

**CAPITAL OUTFLOWS (a)**  
**Net change in foreign assets**

CHART 3.5



SOURCE: Banco de España.

a. Excluidina Banco de España.

nym)<sup>13</sup>. Since 1999, and especially since the legislative amendments of 2000, these entities have been used by non-resident multinational groups to centralise in Spain their direct investments in third countries. A good number of the transactions by this type of company consisted of business restructurings implemented by means of the exchange of holdings, which gave rise to direct investment flows from Spain abroad and from abroad into Spain on the same scale, but which do not constitute actual provisions of funds and do not significantly affect the net amount of FDI.

**13.** Foreign-security holding companies, frequently set up in recent years by non-resident multinational groups to centralise the holding of their foreign direct investments in third countries. See Corporate Income Tax Law 43/1995 and Title IV of Law 6/2000 on measures designed to support corporate internationalisation (see Spanish Official State Gazette of 14 December 2000). To ensure that these transactions, which are difficult to estimate with the usual reporting system, are included in the Balance of Payments, information from the Investment Register of the Ministry of Industry, Tourism and Trade has begun to be used. This heading includes the transactions of other holding companies which are not strictly ETVE, but which, like them, have been established in Spain for the main purpose of channelling direct investment flows. The difficulties of identifying the transactions of these companies should be taken into account, and this may lead to subsequent significant revisions of direct investment data.

**DIRECT INVESTMENT FLOWS IN 2004 AND 2005**  
**Breakdown by economic sector**

TABLE 3.2

	SPANISH DIRECT INVESTMENT OUTFLOWS		SPANISH DIRECT INVESTMENT INFLOWS	
	2004	2005	2004	2005
<b>Total</b>	<b>48,750.1</b>	<b>31,177.0</b>	<b>19,941.4</b>	<b>18,484.4</b>
Agriculture, hunting, forestry and fishing	-41.9	83.1	-100.5	14.4
Mining and quarrying	643.0	339.8	346.1	104.8
Manufacturing	8,177.1	6,584.5	5,263.9	1,020.7
Electricity, gas and water supply	1,097.5	215.9	711.5	3,995.3
Construction	256.3	1,074.0	-80.3	-450.7
Wholesale and retail trade and repairs	1,586.2	1,692.9	-484.3	-969.2
Hotels and restaurants	327.9	466.4	-16.5	196.2
Transport, storage and communication	4,459.9	4,834.8	-1,470.1	1,176.2
Financial intermediation	18,881.3	2,341.2	2,356.8	286.1
Real estate and business activities	8,941.9	6,486.5	3,309.7	1,095.1
<i>Of which: ETVE (a)</i>	<i>4,643.3</i>	<i>1,865.9</i>	<i>2,476.5</i>	<i>181.9</i>
Other services (b)	572.3	845.4	-173.0	309.1
Unclassified	3,848.6	6,212.4	10,278.3	11,706.6
<i>Real estate</i>	<i>811.9</i>	<i>1,525.1</i>	<i>6,649.8</i>	<i>5,538.1</i>
<i>Other</i>	<i>3,036.8</i>	<i>4,687.3</i>	<i>3,628.5</i>	<i>6,168.6</i>

SOURCE: Banco de España.

a. Estimate based on CNAE classification. It includes the transactions of ETVE and other holding companies which are not strictly ETVE, but which, like them, have been established in Spain for the main purpose of channelling direct investment flows.

b. Other services include "Public administration, defence and compulsory social security", "Education", "Health and social work", "Other community, social and personal service activities", "Private households and employed persons" and "Extra-territorial organisations".

In 2005, the relative weight of transactions by ETVE continued to diminish, in line with the tendency initiated in 2003, once these companies were firmly established in Spain. In the case of Spanish FDI abroad, transactions by ETVE accounted for 5.9% of the total (€1,866 million, compared with €4,644 million in 2004), and contrast with the high attained in 2003, with 49.2% of the total. Consequently, if investment by ETVE is stripped out, Spanish FDI abroad continued to move in 2005 on a still-significant declining course, though on a lesser scale (33.5%). It should be borne in mind that ETVE feature in the data broken down by branch of activity, as a caption under the heading "Real estate activities: business services". In geographical terms, disinvestment amounting to €1,709 million was carried out by ETVE in the euro area. Nonetheless, the biggest volume of ETVE transactions was earmarked for Switzerland; in this connection, these companies invested €2,875 million, of total FDI flows amounting to €3,633 million.

The breakdown by instrument of Spanish FDI abroad shows significant changes in relation to 2004. In 2005, direct investment in equities fell by 27.8% to €19,883 million. Notwithstanding, and given the decline in other direct investment components, equities accounted over the year for 63.8% of the total, compared with 56.5% the previous year. Investment in other holdings fell off even more strongly by 62.6%, with outflows totalling €5,381 million, representing 17.3% of investment abroad, compared with 29.5% the previous year. Financing to related companies fell by 42.1% in 2005, leaving the corresponding volume at €2,373 million, i.e. 7.6% of total direct investment abroad. Investment in real estate increased in 2005 by 87.8%, rising to €1,525 million, although this continues to account for only a minor fraction of the total (4.9%).

Turning to the breakdown by economic activity, and excluding ETVE, there has been a discernible reduction in the degree of concentration of FDI outflows (see Table 3.2), which was high in 2004, in-

**DIRECT INVESTMENT FLOWS IN 2004 AND 2005**  
Breakdown by geographical area

TABLE 3.3

€m	SPANISH DIRECT INVESTMENT ABROAD				FOREIGN DIRECT INVESTMENT IN SPAIN			
	2004		2005		2004		2005	
	TOTAL	ETVE (c)	TOTAL	ETVE (c)	TOTAL	ETVE (c)	TOTAL	ETVE (c)
<b>WORLD TOTAL</b>	<b>48,750.1</b>	<b>4,643.3</b>	<b>31,177.0</b>	<b>1,865.9</b>	<b>19,941.4</b>	<b>2,476.5</b>	<b>18,484.4</b>	<b>181.9</b>
<b>European Union (a)</b>	<b>37,117.4</b>	<b>2,951.8</b>	<b>20,653.5</b>	<b>-1,360.9</b>	<b>17,791.5</b>	<b>2,060.8</b>	<b>15,602.3</b>	<b>850.5</b>
<b>Euro area</b>	<b>17,300.8</b>	<b>1,203.2</b>	<b>11,606.5</b>	<b>-1,709.3</b>	<b>11,504.7</b>	<b>2,021.6</b>	<b>12,059.1</b>	<b>193.9</b>
Germany	675.5	305.5	733.7	14.1	-1,331.5	62.2	-719.6	-410.6
France	3,745.8	293.9	7,527.3	34.3	-1,843.6	-852.4	-488.5	263.6
Netherlands	3,066.6	-1,369.4	211.4	104.6	-933.9	508.3	8,520.3	74.7
Luxembourg	3,709.2	1,510.0	2,211.3	795.8	6,370.1	2,100.2	2,243.1	-454.3
Portugal	2,350.1	-132.7	1,871.1	104.3	2,149.1	24.4	859.2	83.8
<b>United Kingdom</b>	<b>17,177.3</b>	<b>430.8</b>	<b>2,433.4</b>	<b>148.1</b>	<b>4,921.9</b>	<b>27.0</b>	<b>2,238.0</b>	<b>358.8</b>
<b>EU new members (b)</b>	<b>1,827.4</b>	<b>1,337.6</b>	<b>6,233.5</b>	<b>153.6</b>	<b>53.8</b>	<b>16.7</b>	<b>49.4</b>	<b>-46.7</b>
<b>Switzerland</b>	<b>1,516.0</b>	<b>1,185.5</b>	<b>3,633.6</b>	<b>2,875.1</b>	<b>1,109.4</b>	<b>1,720.6</b>	<b>-288.0</b>	<b>-460.1</b>
<b>United States</b>	<b>-407.9</b>	<b>-24.8</b>	<b>2,610.9</b>	<b>652.6</b>	<b>-351.0</b>	<b>-2,421.8</b>	<b>2,243.4</b>	<b>-88.0</b>
<b>Latin America</b>	<b>9,800.8</b>	<b>447.7</b>	<b>2,942.6</b>	<b>-259.9</b>	<b>836.9</b>	<b>182.9</b>	<b>-228.8</b>	<b>17.8</b>
Argentina	-1,403.6	-705.7	-1,389.5	-633.3	-59.3	0.2	7.2	0.0
Brazil	1,490.1	38.5	1,751.3	366.6	135.5	2.3	132.3	2.9
Chile	1,312.5	94.7	220.2	98.4	9.2	5.9	2.3	6.0
Mexico	7,340.6	986.1	2,251.6	-130.5	21.7	3.6	-384.8	3.4
<b>Morocco</b>	<b>57.2</b>	<b>2.4</b>	<b>106.9</b>	<b>2.7</b>	<b>-7.4</b>	<b>0.0</b>	<b>11.3</b>	<b>0.0</b>
<b>Japan</b>	<b>86.5</b>	<b>2.4</b>	<b>55.1</b>	<b>2.5</b>	<b>165.8</b>	<b>0.3</b>	<b>292.7</b>	<b>0.3</b>
<b>Australia</b>	<b>-713.0</b>	<b>6.1</b>	<b>39.3</b>	<b>8.7</b>	<b>31.0</b>	<b>0.5</b>	<b>12.7</b>	<b>0.5</b>
<b>MEMORANDUM ITEMS: OECD</b>	<b>43,208.2</b>	<b>3,781.5</b>	<b>26,828.4</b>	<b>1,844.7</b>	<b>19,419.4</b>	<b>2,279.8</b>	<b>17,797.2</b>	<b>213.8</b>

SOURCE: Banco de España.

a. European Union: International institutions of the European Union, European Central Bank, France, Belgium, Netherlands, Germany, Italy, United Kingdom, Ireland, Denmark, Greece, Portugal, Luxembourg, Austria, Finland, Sweden, Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovenia, Slovakia and their dependencies.

b. New member countries: Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovenia and Slovakia.

c. Estimate based on CNAE classification. It includes the transactions of ETVE and other holding companies which are not strictly ETVE, but which, like them, have been established in Spain for the main purpose of channelling direct investment flows.

fluenced by the aforementioned operation by a resident bank. In any event, the four most active sectors amassed 59% of FDI flows abroad. First among these sectors is "Manufacturing industry", which accounted for 22.5% of FDI outflows (18.5% in 2004). Secondly, mention should be made of the significance of investment in "Transport, storage and communications", which represented 16.5% of direct investment outflows, against 10.1% the previous year. In third position was "Real estate activities, business services", excluding ETVE, which accounted for 15.8% of Spanish investment abroad, as opposed to 9.7% in 2004. There were also increases in investment abroad in the construction and real estate investment branches, against a background of falling foreign FDI inflows in both sectors. In the opposite direction, the relative weight of direct investment abroad by the "financial intermediation" sector fell appreciably from 42.8% in 2004 to 8.0% in 2005. The high share achieved the previous year was essentially due to the aforementioned purchase by a resident bank in 2004.

The geographical distribution of Spanish FDI abroad in 2005 (excluding ETVE) underwent some significant changes in relation to the previous year (see Table 3.3), the data for which were influenced by the above-mentioned operation. The EU continued to be the main recipient of Spanish investment, with 75.1% of the total (77.5% in 2004). However, within the EU the relative significance of the euro area as a recipient of investment increased appreciably, rising from 36.5% in

**CAPITAL INFLOWS (a)**  
**Net change in foreign liabilities**

CHART 3.6



SOURCE: Banco de España.

a. Excluding Banco de España.

2004 to 45.4% of the total in 2005. To the fore in the euro area was France, with 25.6%. The relative share of the United Kingdom declined substantially during the year from 38% to 7.8%, a change associated with the operation referred to earlier in this section. As to the new EU members, Spanish investment in this area rose notably, amounting to 20.7% of the total (1.1% in 2004). Influencing this increase was a sizeable operation by a resident company in the telecommunications sector. The weight of the rest of the world increased moderately by 2 pp to 24.9%, thanks to the sharp increase in that of the United States (6.7%, compared with disinvestment of the order of 0.9% of the total in 2005). This was in contrast to the decline of Latin America (10.9% of the total, against 21.2% in 2004). As earlier mentioned, the Asian countries, especially China and India, have become major international recipients of direct investment, but the presence of Spanish capital in both countries remains very minor (see Box 3.1).

*Foreign direct investment in Spain* held in 2005 on the declining path initiated in 2001, with a fall of 7.3% on 2004 to €18,484 million, which accounts for 2% of GDP (see Chart 3.6). Incom-



The countries that have recently acceded to the European Union (EU-10) and the emerging Asian economies – in particular China and India<sup>1</sup> – have become the areas of greatest potential attractiveness for investment flows in recent years<sup>2</sup>. Latin America has also been a major recipient of foreign direct investment (FDI) in recent years, although the course of FDI in this area appears conditional upon the attractiveness of China and India, the two countries showing the greatest and growing capacity to attract investment flows from abroad. Among the factors behind the attractiveness of China are its huge domestic market, production cost advantages, and the presence of abundant and cheap labour. Similar reasons account for the attractiveness of India as a recipient of FDI flows, although factors such as its significant bureaucratic costs explain why FDI inflows have not come about on a massive scale, despite the level of skill of India's labour<sup>3</sup>. The favourable behaviour of FDI inflows into the EU-10 countries lies essentially in their having joined the EU, which has led to their greater political and institutional stability, in their geographical proximity to the area and in their lower labour costs compared with the other EU countries<sup>4</sup>. Accordingly, it is worth investigating the course of Spanish FDI abroad in these areas during the period 1995-2005, comparing it with that of investment flows from the rest of the world. To this end, this box uses Spanish Balance of Payments and UNCTAD data<sup>5</sup>.

The geographical breakdown of Spanish FDI abroad shows significant differences in relation to the global pattern, as observed in the adjoining table. The most notable differences are the size of FDI flows towards Latin America and the scant magnitude of flows to India and China. In the case of the EU-10, Spain's presence is also smaller, although the discrepancy is less marked.

The internationalisation of Spanish companies has had Latin America significantly in its sights. During the period 1995-2005, 31% of total Spanish FDI was directed towards this area, compared with the figure of 5.8% accounted for by Latin America in world flows. Spanish FDI

flows are particularly significant in this region. In 2000 they accounted for virtually 30% of the world total in this area, against the background of Spanish firms' internationalisation and of privatisations in the region, favoured by the close cultural and language links. As from that year, there was an appreciable reduction, in line with the contraction in worldwide FDI flows and with the economic and financial crises affecting the region, and further to Spanish companies' presence having taken firm root. Spanish FDI flows were predominantly into the services sector, especially finances and telecommunications, and also into the energy industry. Different strategies are discernible depending on the branches of activity involved. Investment in the financial sector shows greater geographical diversification than in the rest<sup>6</sup>, owing to the interest in gaining access to different markets, while that in the other two aforementioned sectors depends more on the privatisation of State-owned companies and on the localisation of strategic assets, such as raw materials.

The sluggishness of Spanish investment activity in China contrasts strongly with this country's weight in global FDI flows. China attracted 8.3% of such flows in the period 1995-2005, while India is witnessing spectacular growth in FDI inflows, although these still account for a modest portion (on average 0.5% of the total in the period 2000-2005). In contrast, Spanish FDI in China peaked in 2004 at €76 million, 0.16% of total Spanish FDI abroad and a virtually insignificant fraction of total investment inflows in this Asian economy. The main investors in China are the United States and Japan (8.8% and 8.4% of the total during the period 1995-2004), followed by regional neighbours such as South Korea, Singapore and Taiwan. As to the EU, though its investments are more modest, some countries account for a relatively significant portion of FDI in China, with Germany and the United Kingdom representing over 2% of the total. Spanish investment in India is very small (€3 million in 2004), the highest volume being recorded in 2000 (66 million)<sup>7</sup>. This is considerably in contrast to the outlook for the strong growth of FDI inflows into this economy, which represented 0.7% of the total in 2005.

Spanish investment in the EU-10 has increased appreciably in recent years, despite the temporary interruption in 2002; as a result, from 2000 to 2005 Spain's weight in investment flows abroad exceeded the world average, as can be seen in the second table. In any event, the relative significance of this region in Spanish FDI flows abroad continues to be less than in other euro area economies (71% of inflows in 2004 into the EU-10 corresponded to the euro area, with Germany and the Netherlands accounting for more than 40% of the total<sup>8</sup>). Spanish FDI flows went essentially towards Hungary, Poland and the Czech Republic<sup>9</sup>.

1. Excluding Hong Kong. 2. See UNCTAD (2005), *World Investment Report*, and IMF (2003), "Foreign Direct Investment in Emerging Market Countries", *Report of the Working Group of the Capital Markets Consultative Group*. 3. Nonetheless, Balance of Payments FDI statistics may not be reflecting the full activity of multinational companies, due to the fact that offshore outsourcing appears to be of a greater weight than in the other areas. 4. This group of countries is, however, very heterogeneous, and there are notable differences among them. 5. The Balance of Payments FDI data are characterised by the fact that they constitute a net figure (investment minus disinvestment), the geographical and sectoral classification of which are, respectively, undertaken in keeping with the criterion of first known counterpart, and with the sector of the investing company in its country of residence.

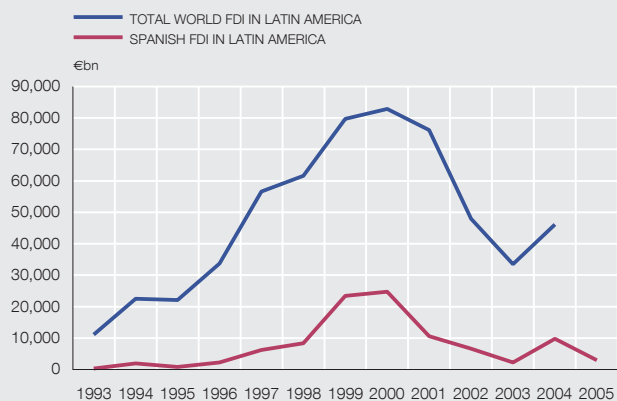
### SPANISH AND WORLD FOREIGN DIRECT INVESTMENT: GEOGRAPHICAL BREAKDOWN

	% of total					
	1995-2005		1995-1999		2000-2005 (a)	
	SPAIN	WORLD TOTAL	SPAIN	WORLD TOTAL	SPAIN	WORLD TOTAL
LATIN AMERICA (a)	31.0	8.5	43.2	8.2	20.9	7.0
EU-10	3.2	2.7	0.4	2.7	5.4	2.7
CHINA	0.1	7.4	0.1	10.0	0.2	6.7
INDIA	0.0	0.5	0.0	0.5	0.0	0.5

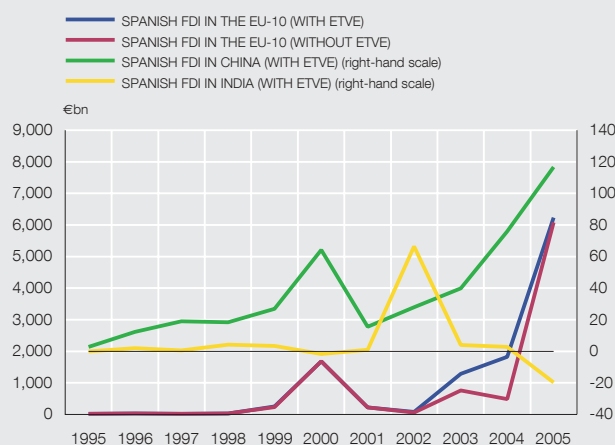
6. However, it is not possible to ascertain the degree of geographical diversification with precision, since FDI transactions, on being recorded, are assigned geographically on the basis of the residence of the non-resident company that is the subject of the investment, without considering the potential international diversification of such investment. 7. This figure relates, moreover, to a transaction by an ETVE, which means that Spanish FDI in India, excluding ETVE transactions, was virtually zero. 8. See ECB (2005), Box 1 "Recent developments in FDI in the new EU Member States in Central Europe", *Monthly Bulletin*, October. 9. The Spanish FDI figure in the EU-10, and particularly in the Czech Republic, is influenced by a significant transaction undertaken in the telecommunications sector.

FDI FLOWS IN LATIN AMERICA, CHINA, INDIA AND EU-10

TOTAL WORLD AND SPANISH FDI FLOWS IN LATIN AMERICA (a)



SPANISH FDI FLOWS IN THE EU-10, CHINA AND INDIA



SOURCES: UNCTAD and Banco de España.

a. There are no figures available on world FDI flows into Latin America for 2005.

In sum, Spanish investment activity in the main emerging regions shows significant differences in relation to the pattern of world flows. The weight of Latin America is appreciably greater for Spain, while the most dynamic destinations at present, such as China, India and the EU-10, play a lesser role, particularly the two Asian economies. This is despite the buoyancy shown in recent years by Spanish investment in the new EU Member States. These differences may be attributed, firstly, to cultural factors and to geographical distance, the latter being more relative in the case of the EU-10. The characteristics of Spanish multinational companies may also have been influential to some extent, as they belong in the main to the services (finance and telecommunications) and energy industries, whose primary goals are to establish a presence in internal markets or to control strategic assets, such as raw materials. Cultural proximity has thus played a relevant role. Further, much of the attractiveness of the foregoing areas lies in the fact that they are export platforms for manufacturing and, more recently, for services, although the access to their domestic markets is also important as is, in the case of the EU-10, the privatisation of State-owned companies as part of their ongoing convergence with the Union.

GEOGRAPHICAL BREAKDOWN OF FDI IN THE EU-10 1995-2005

% of total FDI in EU-10

	SPAIN		WORLD TOTAL (a)
	WITH ETVE	WITHOUT ETVE	WITH ETVE
CZECH REPUBLIC	33.4	40.6	23.4
HUNGARY	51.2	41.5	21.7
POLAND	14.7	17.1	32.6
SLOVAKIA	0.2	0.2	5.9
REST	0.5	0.6	15.9

SOURCES: UNCTAD and Banco de España.

a. For Slovakia and Rest, the average is for 1995-2004.

ing FDI reached a high of €42,955 million in 2000 (6.8% of GDP) and, thereafter, FDI flows received by Spain embarked on a declining trend which was interrupted only in 2002. However, the fall in net investment flows is less sharp than that in 2003 and 2004 (45.1% and 12.8%, respectively).

As earlier indicated, transactions by ETVE continued on the strongly declining path embarked on in 2003. Thus, in 2005, the relative weight of these transactions stood at only 1% of the total (€180 million compared with €2,476 million in 2004). Owing to this heavy decline, if ETVE investments were discounted, FDI inflows would have grown in 2005 to 4.8%. Significantly,

there was a legislative change in United States in 2004, namely the approval of the Repatriation Act, which offers tax benefits on the repatriation of earnings by US companies and which, therefore, encourages the return of US residents' funds to the United States and discourages the setting up of ETVE-type companies. This was reflected in the heavy disinvestment recorded in funds channelled by US ETVE during 2004, which amounted that year to 2,422 million in Spain. Against this background, and after the strong disinvestment in 2004, disinvestment by US ETVE declined to €88 million in 2005. Disinvestment in Spain by Swiss and Luxembourg ETVE totalled €460 million and €454 million, respectively.

The breakdown by instrument of FDI in Spain shows substantial changes in relation to the pattern in 2004. FDI in equities picked up strongly; after posting disinvestment for a value of €4,528 million in 2004, inflows amounting to €2,978 million were recorded in 2005, contributing 16.1% of the total FDI received. This caption offset the declines in the remaining instruments, which were especially sharp in the case of other holdings of capital stock, inflows of which in 2005 fell by 61% to €4,184 million (23% of total inflows). Financing to related companies fell by 24% on 2004 to €4,232 million (22.6% of net funds received). Real estate investment declined more moderately – by 16.7% – against a backdrop of high house prices, standing at €5,538 million, and it remains the main source of direct investment in Spain, accounting for 30% of inflows in 2005. The annual flow of FDI in housing, after having grown sustainably for over a decade to 2003, has since recorded a cumulative decline of 21.7%.

Analysis by branch of activity shows that two sectors alone amassed 52% of the total (see Table 3.2). Specifically, property acquisitions accounted for 30.3% of the total, though their year-on-year decline was reflected in a fall-off in their relative weight in the total (38.1% in 2004). Investment in the sector “Production and distribution of electricity, gas and water” increased strongly, attracting 21.8% of the total (compared with only 4.1% in 2004). The trend in “Manufacturing industry” was in the opposite direction, and it received only 5.6% of investment in 2005 (30.1% in 2004). Finally, mention should be made of the change in the “Transport, storage and communications” sector; following disinvestment accounting for 8.4% of investment received in 2004, it received funds for the value of 6.4% of incoming FDI flows during 2005.

The geographical breakdown of FDI inflows in Spain in 2005 (excluding ETVE) confirms that most of these investments were made, as is habitual, by the industrialised countries, especially the EU, offsetting the net disinvestment by the rest of the world (see Table 3.3). A total of 64.8% of foreign investment was from the euro area countries (54.3% in 2004), including most notably the Netherlands, with 46.1% of total investment and substantially more than half that of the euro area, in a year in which France and Germany recorded minor disinvestment. The United Kingdom contributed 10.3% of investment for the year, compared with 28% in 2004. As regards the rest of the world, there was an increase in funds from the United States, which amounted to 12.7% of the total, almost the same level as in 2004. In the case of the United States, the rise in the level of investment in Spain is consistent with the stability of its relative share in the total. This is because, as mentioned, direct investment flows in Spain increased in annual terms in 2005 if ETVE transactions are excluded.

### **3.3 Portfolio investment**

As stated in the introduction to this chapter, in 2005 bond issues increased significantly, and corporate earnings and stock market gains performed favourably. The favourable financial conditions provided for an increase in net bond issues at the global level (16.7%)<sup>14</sup>. With a 20.5% increase, the euro area's performance proved dynamic.

14. See BIS (2006): *Quarterly Review*, March.

In Spain's case, net issues of debt instruments increased by 39.5% on 2004, to a total of €180,175 million. Nonetheless, this growth, though very considerable, was substantially lower than the 2004 figure of 70%. Of these issues, 43.3% related to MFIs, while non-monetary financial institutions (included under ORS in the Balance of Payments data) issued 53%. Non-financial corporations made practically no net issues (redemptions totalled €2 million) and the general government sector issued €6,682 million, i.e. 3.7% of the total issued and 18.3% less than in 2004, as part of the aforementioned budgetary consolidation. In addition, net equity issues during the year<sup>15</sup> amounted to €4,457 million, a reduction of 75.9% on 2004 which, as indicated, is consistent with an environment of high profits and low interest rates, which enhance the attractiveness of fixed-income as a source of financing.

Against this background, portfolio investment in 2005 as a whole was the Spanish economy's main source of external financing, as was the case in 2004. Net inflows for a value of €57,890 million (6.4% of GDP) were recorded, although a significant 32.5% decline was posted in annual terms (in 2004, net portfolio investment inflows amounted to €85,808 million).

In respect of the institutional sectors that raised financing from abroad, there were significant changes in 2005 compared with the previous year. The ORS recorded net inflows of funds for a value of €45,234 million (€19,081 million in 2004), exceeding MFIs, which posted net inflows totalling €15,530 million, a decline on the previous year of over 65.4% (€44,920 million in 2004). The behaviour of MFIs and ORS is influenced by the dynamism of issues of asset-backed securities during the year and by issues by the subsidiaries of MFIs, which are included under ORS. Indeed, the decline in funds received by MFIs was largely offset by ORS. The general government sector posted net outflows for a value of €1,588 million, contrasting with the net inflows of €22,679 million received in 2004. As indicated, this change in behaviour came about in a year in which net issues of general government securities and investment in fixed-income by the Social Security reserve fund declined.

In terms of instruments, net portfolio investment inflows were centred on medium- and long-term bonds (€80,399 million). Although falling by 8.9% in relation to 2004, this investment offset the net outflows into equity securities. The net outflows by non-residents increased strongly, rising from €4,078 million in 2004 to €23,132 million, against the backdrop of rising stock market prices in 2005. Net inflows into money market instruments fell off appreciably, from inflows of €1,520 million in 2004 to outflows of €622 million in 2005.

*Spanish portfolio investment abroad* amounted to €78,714 million in 2005, threefold the related 2004 figure and an all-time high (see Chart 3.5). In terms of instruments, the most significant item was medium- and long-term bonds, which increased most appreciably and indeed quadrupled to €64,722 million. Investment in equity securities rose to €15,329 million, an increase of 26.3%. Finally, the behaviour of money market instruments differed clearly from the previous year, as disinvestment for a value of €1,337 million was recorded compared with investment abroad of €1,081 million in 2004.

The scant amount of the stock of equity securities transactions compared with fixed-income securities transactions was against a backdrop of buoyant debt markets, contributing to which was the level of integration of the bond market in the euro area in relation to that of other financial markets<sup>16</sup>. In the years from 2001 to 2003, set against greater uncertainty, there was strong cross-European demand for secure and liquid short-term assets, essentially for money

15. All asset issuance data in Spain are from the Banco de España *Boletín Estadístico*. 16. See ECB (2005): *Indicators of financial integration in the euro area*, September.

market assets. This demand has abated since mid-2004, with investors once more taking positions preferentially in bonds and equities<sup>17</sup>.

By institutional sector, MFIs invested eight times more in portfolio instruments issued by non-residents than in 2004, generating total outflows of €40,596 million. These purchases of international assets appear to indicate a wish by banks to diversify their risks internationally. ORS<sup>18</sup> also invested strongly abroad, with their transactions increasing by 57.7% to €33,557 million. General government purchases of international assets totalled €4,561 million, compared with fewer than €900 million the previous year. These investments were related to the Social Security reserve fund, which acquired bond issues by non-residents for a value of 0.5% of GDP.

In 2005, *foreign portfolio investment in Spain* amounted to €136,604 million, 21.1% up on 2004 (see Chart 3.6). The driving force behind it was investment in medium- and long-term bonds issued by residents, which totalled €145,121 million, up 39% on the previous year and marking a historical high. These funds offset the disinvestment recorded in the other instruments.

In particular, the year 2005 saw disinvestment in equity securities for an amount of €7,802 million, compared with inflows totalling €8,058 million in 2004. The background to these developments was a year of further rises on the Spanish stock market, similar to the European average and sharper than the related increase on the US stock market.

Money market instruments were the source of disinvestment totalling €714 million in 2005, compared with inflows for a value of €439 million the previous year.

Non-residents' purchases of Spanish medium- and long-term bonds were mostly centred on securities issued by ORS and MFIs (59% and 39.5%, respectively), while the role of general government was less significant (1.5% of the total). The dynamism of net inflows of funds in medium- and long-term bonds took place in a year marked by the significance of the net issues of securities by ORS, with an increase of 60.2% to €95,453 million, and, to a lesser extent, of those by MFIs, which increased by 27.2% to €78,040 million.

Once again, net portfolio investment inflows into asset-backed securities were salient, according to Balance of Payments data, accounting for more than half of bond inflows received by ORS and MFIs. According to figures drawn from the *European Securitization Forum*<sup>19</sup> on asset securitisation in Europe (constructed in accordance with the country of the collateral, which does not coincide necessarily with the issuer of the securities), Spain was ranked second in 2005, with 13% of the total, behind the United Kingdom, with 45%. Specifically, in the case of ORS, non-residents' investments in asset-backed bonds grew by 35% in 2005 to €40,724 million. Even sharper was the growth of non-residents' investments in covered bonds issued directly by MFIs, since they virtually tripled, standing at €28,053 million. The decisive weight of securitisation in investment liabilities in the financial account marks the culmination of a process of at least five years involving increases in inflows of funds via these instruments (see Box 3.2).

Apart from securitisation assets, there was significantly strong activity by the subsidiaries of Spanish MFIs which, without constituting special-purpose entities (SPEs), issue substantial

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<sup>17</sup> In the Spanish Balance of Payments, however, money market instruments have not played a significant role in the past three years: their net contribution in 2003 was 10% of the net disinvestment recorded; in 2004 and 2005, they contributed 1.7% and 1.2%, respectively, of investment received. <sup>18</sup> This sector includes mutual funds, insurance companies and pension funds. <sup>19</sup> See European Securitisation Forum (2006): *ESF Securitization Data Report*, Winter.

One of the most characteristic features of recent developments on financial markets, at both the national and international levels, has been the significant growth of asset securitisation operations. In Europe, gross issues of this type of financial product totalled €319,600 million in 2005, 31% up on the previous year. Since 2000, securitisation in Europe<sup>1</sup> has increased threefold. This market is particularly developed in the United States, where the volume of securitised assets remains far (around 10 times) higher than that in Europe.

Securitisation transactions allow non-marketable assets (e.g. loans, relatively illiquid corporate bonds, future receivables, etc.) to be transformed into marketable assets, known as securitised assets, which may be traded on organised markets, thus extending the array of instruments available both to raise financing and to diversify investment. The current excess liquidity at world level and the growing competition to capture capital has forged a favourable setting for the development of new products, especially in an environment of low interest rates. Spain has been one of the EU countries where asset securitisation has proven most dynamic. Specifically, securities whose collateral country is Spain accounted in 2005 for 4.7% of GDP<sup>2</sup>, a higher figure than that attained in Ireland (2.5% of GDP), but still considerably lower than in the United Kingdom (8.7% of GDP).

A series of factors explains the development of securitisation markets in Spain. Notable among these is the significant growth in mortgage lending, linked to the rise in house prices, and the widening of the gap between loans and deposits on MFIs' balance sheets, which has progressed particularly sharply in the past two years (in 2003, deposits still exceeded loans by €15,431 million, but by 2005 they were already €60,040 million below them). This gap has been largely bridged by the net issue of medium- and long-term bonds, including asset-backed bonds. For example, the change in MFIs' net position in bonds in 2004 offset 81% of the change in the difference between loans and deposits, while in 2005 this percentage was 29%. Against this background, there has been a particular boom in securitisation transactions where the underlying asset is mortgage-backed<sup>3</sup>. Another factor favouring the resort to securitisation is the fact that it allows for more efficient management of the risk associated with bank balance sheets<sup>4</sup>. In this respect, the changes in the new accounting Circular (CBE 4/2005) regarding the treatment of asset securitisation do not appear to have had a significant impact on the volume of assets securitised by Spanish deposit institutions<sup>5</sup>.

From the standpoint of the Balance of Payments, the wide acceptance among non-resident investors of asset-backed securities is contributing significantly to covering the Spanish economy's financ-

ing requirements. In this respect, there has been appreciable demand for mortgage-backed instruments, prompted by their high credit quality<sup>6</sup>.

The marketable asset resulting from securitisation varies according to the characteristics of the asset securitised (known as the underlying asset or collateral) and to how the operation is instrumented. Mortgage-backed assets, which are in a majority both in Europe and – most especially – in Spain, are divided into two major groups: covered bonds and mortgage bonds. In the case of the former, the entity directly issues the bonds without a transfer of default risk taking place, such risk being reflected on its balance sheet. In contrast, in the case of the latter, the asset subject to securitisation is transferred by the entity (the originator) to a securitisation special-purpose entity (SSPE), which issues bonds backed by the asset transferred and which assumes the risk.

Besides the economic significance of this transfer of risks among different companies of the same group, the use of these two operations is reflected differently in the sectoral financial accounts and in the Balance of Payments. It is thus considered that covered bonds are issued by monetary financial institutions (MFIs), while mortgage-backed bonds are recorded as a liability of "Other Resident Sectors" (ORS)<sup>7</sup>. Hence, to properly assess the role played by mortgage securitisation in channelling resources from abroad to the Spanish economy, both types of operation must be taken into account.

As earlier discussed, the significant gap between deposits and loans has prompted MFIs to seek alternative sources of financing. Here, fixed-income has proven particularly attractive, given the current setting of low interest rates. Attesting to this is the buoyancy of issues of mortgage-backed bonds by SSPEs (classified, as mentioned above, under the ORS sector), which have risen from fewer than €500 million to over €57,000 million in the past ten years. These instruments have progressively acquired a most notable relative weight, accounting in 2005 for 48% of total private fixed-income issues, compared with less than 10% prior to 2000. This behaviour is consistent with the above-mentioned trend of MFIs' financing requirements.

In 2004<sup>8</sup>, and as part of the current boom in mortgage lending, mortgage bonds accounted for 37% of net issues of mortgage-backed bonds, a similar proportion to that of covered bonds issues (36% of the total). Assets whose collateral consisted of loans to small and medium-sized enterprises (SMEs) represented 18% of the total<sup>9</sup>.

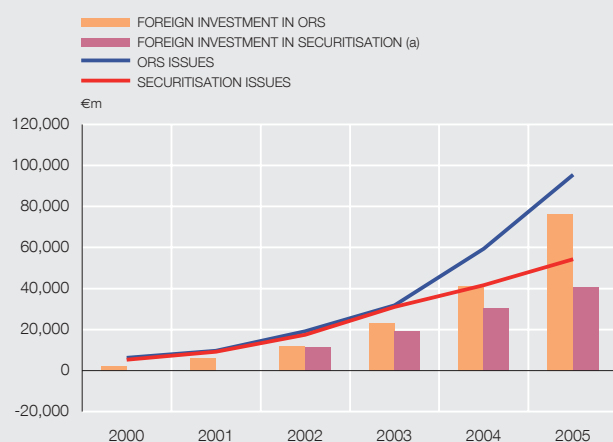
The role of securitisation in the financing of the Spanish economy's external deficit can be clearly seen in the accompanying chart, which compares changes in issues of private fixed-income securi-

1. See International Financial Services London (2006), "Securitisation", March, City Business Series. The data for securitisation in Europe and the United States are compared measured in dollars. 2. According to data from the European Securitisation Forum. 3. In the case of Spanish deposit institutions, more than one-fifth of mortgage assets had been securitised. 4. Risk mitigation is not only economic but also regulatory, since mortgage-backed bonds allow banks to take default risk off the balance sheet, and to save capital. 5. See Banco de España (2005), *Financial Stability Report*, December.

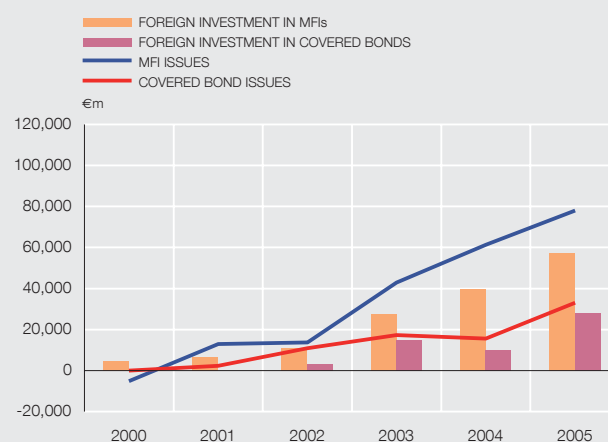
6. Asset-backed bonds can be used, moreover, as collateral for European Central Bank short-term financing operations, becoming a source of liquidity. 7. ORS include all residents, with the exception of MFIs and general government. From the standpoint of securitisation, the most significant agents are non-monetary financial institutions, which in many cases are subsidiaries of resident banks. 8. Fitch Ratings (2005), *Spanish Securitisation Markets-CDO*. 9. See J. M. Marqués Sevillano (2005), "Nuevos instrumentos de titulización de pasivos empresariales: características e implicaciones", *Boletín Económico*, December, Banco de España.

## BALANCE OF PAYMENTS NET ISSUES AND FLOWS OF PRIVATE FIXED INCOME

## OTHER RESIDENT SECTORS



## MONETARY FINANCIAL INSTITUTIONS



SOURCE: Banco de España.

a. There are no data prior to 2002, those for that year do not include the figures for the first two months.

ties with the medium- and long-term bonds heading for foreign portfolio investment in Spain. Both items run notably in parallel, not only in terms of their profile but also their magnitudes. This indicates that the resort to private fixed-income has been largely due to the need to raise foreign financing. As can be seen in the left-hand panel of the chart, MFIs have issued large volumes of debt through subsidiaries classified in the ORS sector, which were almost exclusively SSPEs until 2004. In 2004 and, above all, in 2005, there was major activity by other non-monetary financial institutions also associated with MFIs, which make international issues of fixed-income securities, though not of mortgage-backed bonds, encouraged by Law 19/2003 of 4 July 2003<sup>10</sup>. Issues by these

subsidiaries account for much of the gap (discernible in the chart) between total issues by ORS and issues by SSPEs. One of the consequences of the resort to external financing in general, and securitisation in particular, is the transfer of credit risk abroad, with a net positive effect on the stability of the Spanish financial system.

As to issues of asset-backed securities classified directly under the MFIs sector, covered bonds are highly relevant in foreign portfolio investment (see the right-hand panel of the chart). The resort by financial institutions to securitisation has allowed for coverage of a significant portion of the Spanish economy's financing requirements, stemming from the strong demand for credit, while providing tools with which to manage risk on bank balance sheets.

10. See Banco de España (2006), *Annual Report 2005*, box 5.2.

volumes of debt. The significance of these subsidiaries increased notably in 2004 and 2005, with annual issues totalling more than €10 billion and €35 billion, respectively, and contributing decisively to Spain's foreign financing raised through ORS.

### 3.4 Other investment (loans, deposits and repos)

During 2005, residents raised a net amount of €16,598 million (1.8% of GDP) from abroad in the form of other investment (essentially loans, deposits and repos), which contrasted with the net outflows totalling €8,212 million in 2004. Other investment thus contributed to the financing of the Spanish economy's external deficit in the year in which FDI posted net outflows and in which the funds raised by portfolio investment fell.

The breakdown by institutional sector shows that this change was originated by the behaviour of MFIs and of ORS. The funds raised by MFIs increased appreciably, from €2,204 million in 2004 to €12,067 million in 2005. The ORS, which recorded net outflows of funds totalling

€9,445 million in 2004, recorded net inflows equivalent to €5,474 million. These two sectors offset the net outflows through the general government sector, totalling €942 million, in contrast to the funds received in 2004 (amounting to €3,436 million).

As to the breakdown by instrument, net inflows of funds were the outcome of investment by non-residents in loans and short-term deposits, which amounted to €21,284 million, over three and a half times up on inflows the previous year, while long-term instruments accounted for net outflows totalling €4,685 million, far below the figure for 2004 (13,888 million). The behaviour of short-term instruments was influenced by the financing received from abroad in the form of securities repos, where a position of disinvestment in 2004 became one of funds received totalling over €33,000 million in 2005.

*Spanish other investment abroad* increased by 76.8% in 2005, rising to €46,259 million (see Chart 3.5). The increase is attributable to MFIs, whose investment abroad doubled that in 2004, totalling €37,478 million. This was thanks to the trend of long-term loans, which rose from €3,590 million in 2004 to €8,765 million in 2005, and to the increase in MFIs' short-term loans and deposits (€28,714 million compared with €13,562 million in 2004). ORS' loans and deposits abroad fell by 14.6% to €8,267 million and the contribution of general government was modest, as is habitual, with outflows amounting to €513 million (€1,589 million in 2004).

As regards the instruments making up the caption, the biggest amounts were for deposits, especially those of MFIs, which accounted for investment abroad totalling €16,912 million (32.7% up on 2004). Moreover, Spanish MFIs undertook repo transactions for an amount of close to €10,000 million, compared with disinvestment of 50 million in 2004, and long-term loans abroad totalled 8,765 million (a little more than double the previous year).

As regards the term of instruments, both short- and long-term transactions increased during 2005. In the case of the former, outflows increased by 51.8% to €35,657 million, while other long-term investment abroad more than doubled, totalling €10,602 million.

*Other foreign investment in Spain* rose strongly in 2005 (see Chart 3.6) to €62,857 million (€20,207 million in 2004). The increase was due above all to the volume of funds obtained through repos; following disinvestment in 2004 for an amount of €7,014 million, there were inflows of funds for a value of €33,806 million in 2005. Sector by sector, the net investment received by MFIs was salient, standing at €49,545 million against €14,948 million in 2004. This was due to the momentum of inflows into short-term instruments (linked to the aforementioned trend of repos), which increased to €58,548 million (€27,405 million in 2004). ORS also contributed to the expansion of this caption since, after recording net disinvestment of €234 million in 2004, they raised funds totalling €13,741 million. This was due essentially to the increase in non-residents' long-term loans to €14,352 million (compared with outflows of €796 million in 2004). The behaviour of these two sectors more than offset the disinvestment totalling €429 million recorded by general government.

As to the term of the instruments in which other foreign investment in Spain materialised, 2005 was marked by a strong increase in short-term inflows from €29,166 million in 2004 to €56,940 million in 2005. Other long-term investment also grew; with disinvestment amounting to €8,960 million having been recorded in 2004, funds for a value of €5,917 million were raised in 2005. In the case of MFIs, and apart from the aforementioned repos, funds via deposits totalling €24,742 million (28.1% less than in 2004) were also received, and there was disinvestment in long-term loans for a value of €9,003 million.



### **3.5 Derivative financial instruments**

Transactions involving derivative financial instruments gave rise in 2005 to net inflows amounting to €158 million, 78.6% less than in 2005. However, the scant net amount of the figure in this caption is in contrast to the high volatility of net monthly flows, which frequently rise to billions of euro.

These developments unfolded in a year in which activity on the international derivatives markets (futures and options) continued on a growth path, with a rate of increase of 22%, similar to that in 2004<sup>20</sup>. In the euro area there was greater dynamism in contracts on short-term fixed-income in Q4, no doubt influenced by the prospect of a rise in euro area interest rates, with a 28% increase in the volume of transactions compared with the previous quarter. In general, the volume of derivatives on stock market indices grew robustly in 2005.

### **3.6 Net assets of the Banco de España**

In 2005 the total assets of the Banco de España increased by €2,261 million, a far lower rise than recorded in 2004 (€14,010 million). The assets of the Banco de España vis-à-vis the Eurosystem declined by €14,855 million, compared with the €13,760 million increase in 2004. This was essentially the outcome of the settlement of cross-border transactions in the euro area. Reserves declined by €1,439 million, a lower fall than that recorded the previous year (€5,147 million). Other net assets of the Banco de España increased by €18,555 million, in contrast to the decline of €5,397 million in 2004. Notable among the other net assets of the Banco de España were securities purchases, principally euro-denominated public debt assets issued by other euro area countries.

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20. See BIS (2006): *Quarterly Report*, March.



## 4 The international investment position in 2005

### 4.1 Introduction

Against the economic and financial background described in previous chapters of this Report, the growth of Spain's total net debit international investment position (IIP) moderated in 2005, to 17%, as against 22.6% in 2004 (see Table 4.1). As a result, the net debit position stood at €421,911 million, or 46.7% of GDP (up 3.6 percentage points from 2004), an all-time high (see Chart 4.1). The growth in the net debit IIP as a percentage of GDP also eased significantly in comparison with previous years (the increase in 2003, for example, was 4.7 percentage points of GDP). The increase in the net debit IIP took place against a background of a slightly sharper rise in the stock of external assets than in that of liabilities (21.5% and 20.2%, respectively), which reached €1,120,525 and €1,542,435 million, respectively. Except during 2000, Spain's net debit position has grown continuously over the last decade, in line with the Spanish economy's general level of net borrowing during this period.

These developments occurred against a background of strong expansion in the Spanish economy's stocks of external assets and liabilities. The evidence available points to the existence of a complementary relationship between commercial and financial transactions, and to a positive contribution by liberalisation and financial market development to the participation of an economy in international markets<sup>1</sup>. These factors, against the background of EU economic and monetary integration, help to explain this growth in stocks. Box 4.1 describes the main features of the evolution of Spain's international financial integration in recent years by geographical area and instrument, using stock data for external assets and liabilities. This complements the analysis in the last edition of this Report based on flow data from the financial account of the balance of payments.

Comparison with the main developed economies shows, first, that the dispersion of the IIPs of the main developed economies has increased. The increase in Spain's net debit IIP in recent years has been one of the most notable<sup>2</sup>, being similar to those of Greece and Portugal, which have considerably higher net debit balances than Spain (71.7% and 62.1% in 2004, respectively, as against 43.1% in Spain the same year). In the United States the net debit IIP is on a rising trend, in line with the path of the current account deficit, and it has reached a significant level (close to 22% of GDP in 2004), albeit below that in Spain (see Chart 4.2). The euro area, meanwhile, has a modest net debit balance. In Italy and in the United Kingdom the net debit IIP widened, to 7.4% and 13.2% of GDP in 2004, while in the Netherlands, Austria and, in particular, Finland, the debit balances fell. Finally, Germany, France and, in particular, Belgium have net credit positions with the rest of the world.

The change in the IIP of an economy between two points in time basically depends on three factors<sup>3</sup>: (i) the financial transactions that have taken place in the period; (ii) the changes in the exchange rates of the currencies in which the external assets and liabilities are denominated; and (iii) the changes in the prices of such financial assets and liabilities, the changes in share and bond prices being a reasonable indicator thereof. It should be

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1. An empirical study of this question can be found in R. P. Lane (2000): "International investment positions: a cross-sectional analysis", *Journal of International Money and Finance*, 19, pp. 513-534. 2. The cross-country comparison of IIP balances includes data for the monetary authority. 3. Only occasionally are other factors present, such as reclassifications of positions between headings (for example, the reclassification of portfolio investment to direct investment when a holding in the capital rises above 10%).

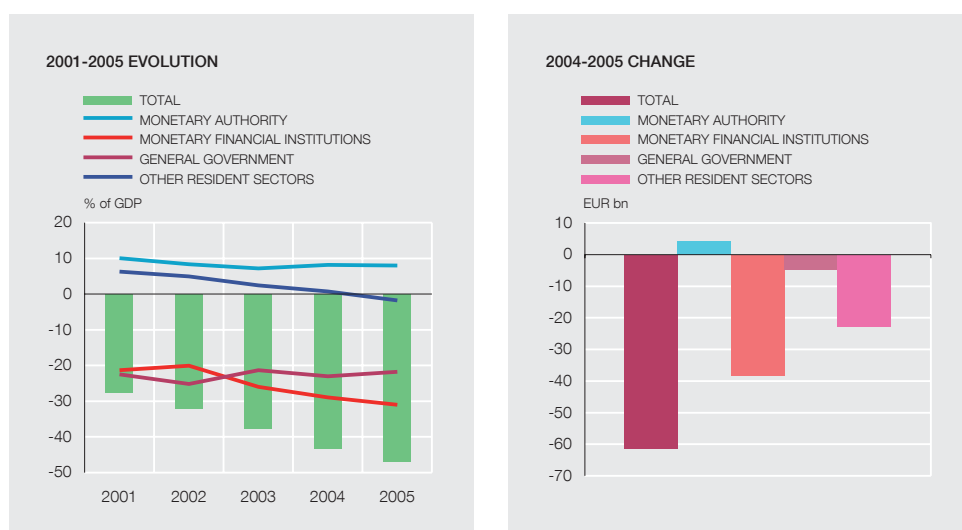
EUR millions	2003	2004	2005			
			Q1	Q2	Q3	Q4
<b>Net international investment position (A – L)</b>	<b>-294,072</b>	<b>-360,616</b>	<b>-376,637</b>	<b>-389,899</b>	<b>-419,823</b>	<b>-421,911</b>
Excluding Banco de España	-350,160	-428,702	-443,938	-460,271	-493,780	-494,096
Direct investment	-37,362	-17,645	-8,594	5,296	8,718	11,582
Portfolio investment	-98,635	-202,123	-231,135	-259,470	-277,270	-271,957
Other investment (a)	-214,154	-208,934	-204,209	-206,097	-225,228	-233,721
Banco de España	56,079	68,086	67,301	70,372	73,957	72,186

SOURCE: Banco de España.

a. Principally, loans, deposits and repos.

### NET IIP BY SECTOR 2001-2005 EVOLUTION AND 2004-2005 CHANGE

CHART 4.1



SOURCE: Banco de España.

mentioned here that the exchange rate and the prices of financial assets and liabilities affect the international investment position directly, by affecting the value of the stock in question, and indirectly, through their influence on economic agents' investment decisions. It should also be noted that this chapter refers to the financial flows of the balance of payments to the extent that they have influenced the IIP, but does not analyse in detail the determinants of and changes in such flows. For such an analysis readers should refer to Chapter 3 of this Report.

As implied by the data in Table 4.2, the change in the net IIP and total external assets and liabilities during 2005 was largely attributable to the transactions reflected in the balance of payments, in line with the increase in the net borrowing of the Spanish economy. Balance of payments flows thus accounted for 94.5% of the change in the net debit position over the period, against a background of significant stock market gains in Spain and Europe. The direct positive impact on the valuation of financial assets arising from the significant depreciation of the euro could not prevent a widening of the net debit position (see Table 4.3).

## POSITION DATA

Recent decades have seen a general increase in international financial integration, as reflected in the growth of the external assets and liabilities of different economies and in the significant decline in the share of domestic financial assets in investors' portfolios, which had hitherto been much higher than that of foreign assets (the so-called domestic bias)<sup>1</sup>. This process has coincided with an increase in the cross-country dispersion of the degree of financial integration<sup>2</sup>, as the degree of financial integration in the developed countries has increased much more strongly than in developing economies<sup>3</sup>. Against this background, international financial integration has taken place much faster in Spain than in the euro area on average and in the United States. Thus, the external assets and liabilities of the Spanish economy, excluding the Banco de España, as a proportion of GDP, rose from 104% in 1995 to 286.5% in 2005. This process has been driven, as in other EU countries, by capital market liberalisation and entry, first, into the European Economic Community (EEC) and, subsequently, into the euro area.

This box enriches and supplements the analysis in Box 3.1 of the last edition of this report, based on data for Spain's cross-border financial flows.

The International Investment Position (IIP) data on external assets and liabilities are an appropriate tool for measuring financial integration, insofar as the IIP reflects portfolio selection decisions. Thus, the degree of international financial integration of an economy may be approximated by the sum of the absolute values of its external assets and liabilities, weighted by its GDP, to avoid bias arising from the size of each economy.

A well-known result of efficient portfolio selection theory is that the international diversification of a portfolio is related to the relative size of each market. However, empirical evidence demonstrates the existence of a significant domestic bias. One possible reason for this bias is the existence of barriers and additional transaction costs in international financial exchanges, against a background of information asymmetry. Thus, the growth in the degree of financial integration should be reflected in the growth of international financial flows and the related stocks. However, it should be noted that the growth of the IIP may be governed by other factors unrelated to the process of financial integration, such as changes in financial asset prices and exchange rates<sup>4</sup>. In fact, in the absence of changes in portfolio composition, the larger the size of the holdings of external assets and liabilities, the greater the impact of the valuation effects introduced by these factors.

1. According to IMF estimates, based on data relating to the United States, Japan, the United Kingdom, Germany, France and the Netherlands, the divergence between the investment portfolios actually held by agents and those derived from portfolio selection models narrowed by more than 10 percentage points. The sharpest reduction in this discrepancy, equivalent to more than 20 percentage points, took place in relation to shares. See IMF (2005), "Aspects of Global Asset Allocation. Module 3. Home Bias", *Global Financial Stability Report*, September. 2. Lane Philip R. and Milesi-Ferretti, Gian Maria (2003): "International Financial Integration", *IMF Staff Papers*, Vol. 50, IMF. 3. See IMF (2005): "Globalization and external imbalances", *World Economic Outlook*, Chapter III, April. 4. See the "Introduction" to Chapter 4 of this Report.

The IIP data are not the only available indicators of financial integration, since financial flows or prices data may also be used. In fact, a complete characterisation of the process of financial integration would ideally require the use of a broad set of indicators of a diverse nature, combining both a quantitative (that employed here, which is based on data for stocks or flows of external assets and liabilities) and prices focus<sup>5</sup>.

The increasing financial integration of the international economy and Spain has been driven by a number of factors. Firstly, the significant opening up of trade and liberalisation of the financial account, which has enabled international financial flows to expand and also, therefore, international investment positions. The empirical evidence shows a positive relationship between the degree of trade and financial openness, owing to the complementarities between trade and financial investment (for example, owing to the adoption of foreign exchange risk hedging strategies or the impact of FDI on trade flows). In general terms, the recent increase in the degree of openness has been more pronounced in the financial sphere, as a result of the greater mobility of capital than goods and of the fact that trade liberalisation was more advanced than financial liberalisation. This greater degree of openness has prompted and benefited from significant financial innovation, which has boosted market integration. In turn, financial innovation has been facilitated by the growth in information and communication technologies, which has also led to a significant decline in transaction costs.

From a regional perspective, economic and monetary integration processes, such as EMU, also boost financial integration, thanks to the elimination of exchange-rate risk and the adoption of initiatives that tend to homogenise and facilitate market access<sup>6</sup>. In fact, the empirical evidence also shows that financial integration does not exactly follow the pattern that might be expected in the light of portfolio investment theory, but would be more concentrated in neighbouring countries with lower transaction costs and information asymmetry<sup>7</sup>, in line with gravity models of international trade. This pattern is more pronounced in the case of free-trade and monetary areas<sup>8</sup>.

This whole process of integration has had broad repercussions for the development of financial systems, economic growth potential and levels of welfare<sup>9</sup>. The impact of financial integration does not depend only on the level reached, but also on the composition by geographi-

5. See Box 3.1 of the 2004 edition of this Report. 6. The process of financial integration in the EU has been driven by the European Commission's Financial Services Action Plan (1999-2004). 7. IMF (2005): "Globalization and external imbalances", *World Economic Outlook*, September, IMF. 8. See Lane, Phillip R. and Milesi-Ferretti, Gian Maria (2004): "International Investment Patterns", *IMF Working Papers*, WP/04/134. 9. The development of the financial system may prompt a significant decline in the cost of capital, which may be 36.7 basis points for the EU as a whole (significantly less in the case of Spain, 13.4 basis points), with positive effects for the economy as a whole. In the case of the EU, it is estimated that the GDP of the area would increase by 0.9%, mainly as a result of the impact of business investment (6%). For further information, see London Economics (2002): "Quantification of the macroeconomic impact of integration of EU financial markets", a study commissioned by the European commission.

## POSITION DATA (cont'd)

cal area and instrument of the financial flows and the IIP, since the different types of investment are characterised by varying degrees of volatility. The use of disaggregated data therefore makes the analysis more useful, since different implications are drawn from the composition of the external assets and liabilities regarding the determinants of financial integration, the prospects for its evolution and its impact on financial stability, according to the degree of exposure to different areas and types of investment.

This box uses IIP data on Spain's external assets and liabilities for the period 1995-2005, excluding the monetary authority<sup>10</sup>.

As indicated above, changes in the IIP depend not only on the behaviour of financial flows, but also on valuation effects linked to changes in exchange rates and in financial instrument prices, as well as other adjustments. The impact of these factors depends on the properties of each of these headings, although, as analysed in Chapter 4 of this Report, the characteristics of the data may to a certain extent determine the results of the analysis, basically on account of three factors. First, asset and liability stocks are the net result of the investment and disinvestment carried out during the period<sup>11</sup>. In consequence, the IIP data may underestimate the degree of bilateral financial integration.

Second, it should be taken into account that the stocks of the other equity heading of FDI corresponding to ORSs are obtained using a methodology that does not fully reflect the market price<sup>12</sup>.

Finally, the criterion for the geographical allocation of the IIP is not always that of the ultimate issuer/holder, which is the relevant one for the measurement of bilateral financial integration, but may be based on the first known counterparty. The most important problem arises in portfolio investment liabilities, where the first counterparty data may differ significantly from estimates based on information on the

**10.** FDI stock data include the transactions of foreign-equity holding companies (ETVEs) which have had a significant influence on total FDI flows in the current decade, although they have moderated significantly in recent years. For further information on the transactions of ETVEs, see Chapter 3 of this Report. **11.** In the case of inter-company debt transactions (provided the borrowers are not credit institutions, in which case the transactions would be included under other investment), financing granted by resident parent companies to their non-resident subsidiaries and investees, and that granted by Spanish subsidiaries to other non-resident group companies other than the parent company, is recorded as Spanish direct investment abroad, with financing transactions received by the resident parent company from non-resident subsidiaries being deducted from this amount. This item also includes the balance of inter-company accounts when the resident company is the parent of the non-resident one. By contrast, financing granted by non-resident parent companies to their resident subsidiaries and investees and financing granted by non-resident subsidiary companies to other resident companies of the same group other than the parent company is recorded as foreign direct investment in Spain. Financing received by the non-resident parent company from its resident subsidiaries is deducted. The balances of inter-company accounts are included under this heading when the non-resident company is the parent of the resident one, or where two companies are indirectly related as they belong to the same group. **12.** This heading is calculated by means of the accumulation of transactions data, with corrections to reflect the change in exchange rates and certain capital gains or losses, where known.

rest of the world's portfolio investment assets drawn from the *Coordinated Portfolio Investment Survey* (CPIS)<sup>13</sup>, as the first counterparty data exaggerate the relative weight of international financial centres such as Luxembourg and the United Kingdom<sup>14</sup>.

As mentioned above, the intensity of the process of financial integration of the Spanish economy over the last decade has been significantly greater than the growth of trade openness (the sum of external assets and liabilities increased from 104% to 286.5% of GDP, while trade openness increased from 34.4% to 42.2% of GDP). These developments have been reflected in a net debit IIP that increased each year, with the exception of 2000 and 2001. Assets vis-à-vis the rest of the world reached 115.9% of GDP in 2005, as against 38.3% in 1995, while liabilities amounted to 170.5% of GDP in 2005 (65.7% in 1995). All instruments contributed to the integration process (see adjoining chart), especially portfolio investment, the external assets and liabilities of which represented 130.6% of GDP in 2005, as against only 25.4% in 1995. The stocks of FDI also increased significantly, while the growth of other investment was considerably more moderate. Thus, the relative weight of direct investment and, in particular, of portfolio investment has increased over the last decade, from 47.4% of total external assets and liabilities in 1995 to more than 70% in 2005 (portfolio investment accounting for 45.6% of the total). By contrast, the relative importance of other investment fell continuously. These developments are similar to those at the international level.

The growth in the Spanish economy's stock of FDI has been largely driven by assets, in step with the process of internationalisation of Spanish businesses, so that there was a net credit balance of FDI in 2000, 2001 and 2005. In the case of portfolio investment, by contrast, liabilities easily exceed assets, although the latter have grown notably. The increase in the assets and liabilities under this heading is mainly accounted for by bonds, which have increased very significantly, to represent, on the liabilities side, 57.8% of GDP (13.4% in 1995), and on the assets side, 37.4% of GDP (2.3% in 1995). As seen in the adjoining chart, the breakdown by institutional sector shows that the growth in the degree of Spain's financial integration has been led by ORSs (152.6% of GDP in 2005, as against 41.8% in 1995), against a background of internationalisation of Spanish firms and financial market development, which has boosted the transactions of mutual funds and asset securitisation. The stocks of external assets and liabilities of MFIs have also increased considerably, although less sharply<sup>15</sup>. For their part, those corresponding to general government increased moderately against a background of reduction in its net borrowing, since the mid-1990s, which turned into a surplus in the last few years.

The most important feature revealed by analysing the geographical breakdown of the PPI data, is the growing weight of the EU, and of

**13.** See Box 4.1 of the 2004 edition of this report. **14.** A more detailed description of the procedures for allocating IIP data geographically is found in Chapter 5 of this report. **15.** Note that securitisation special purpose entities and mutual funds are classified within ORSs. **15.** Note that securitisation special purpose entities and mutual funds are classified within ORSs.

POSITION DATA (cont'd)

the euro area in particular, in step with the process of monetary integration. Thus, the euro area's share of total external assets and liabilities rose from 21.5% in 1995 to 58.6% in 2005. The concentration of the Spanish IIP in the euro area would confirm the importance of institutional factors and geographic proximity, in line with the empirical evidence discussed in this box above<sup>16</sup>. As for non-EU economies, while the degree of financial integration with North America has progressively increased, with Latin America there was a sharp increase in the second half of the 1990s, driven by the expansion of Spanish FDI in the region, followed by a decline.

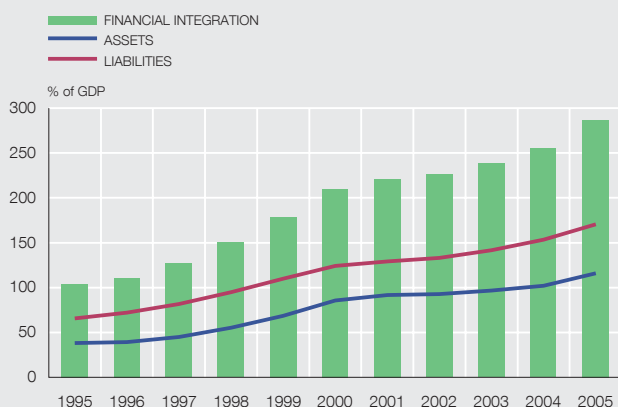
16. These developments are in line with the information supplied by financial flows data. See Box 3.1 of the 2004 edition of this report. Note that in 2001 methodological improvements were made to the geographical allocation of IIP portfolio investment data, so that the data before and after that year are not fully consistent. However, this does not invalidate the conclusions drawn or the comparisons in the homogenous period 1998-2000, which reflect the increase in the weight of the euro area in this type of investment during that period (by 6.7 percentage points, to 25.4% of the total), and which, according to the new source of information, amounted to 70% of the total in 2005.

There are considerable differences in the geographical breakdown of FDI and of portfolio investment. First, the relative importance of the EU and of the euro area is significantly greater in the latter case than in the former, owing, on the assets side, to the importance of Spanish investments in Latin America (which reached almost 46% of the total in 1999) and, on the liabilities side, to direct US investment in Spain, the weight of which has increased to stand at between 18% and 19% of GDP in recent years. By contrast, the pattern of growth of Spain's investments in Latin America is characterised by strong growth in the second half of the 1990s and subsequently by deceleration. Finally, it should be noted that the weight of the United Kingdom in the stock of FDI assets has increased appreciably in the most recent years, owing to the significant investment made by Spanish companies resident in that country.

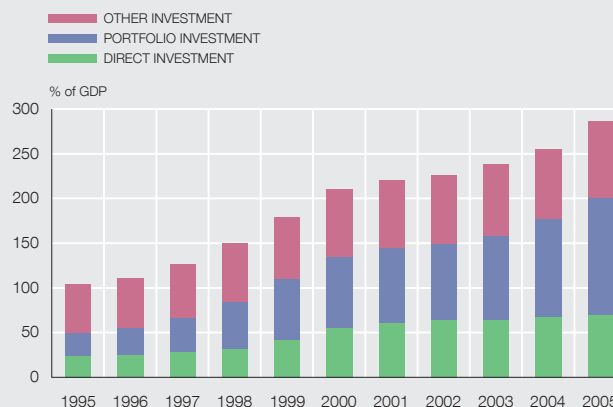
Comparing the geographical breakdown of trade with that of the IIP shows a positive association between them, reflected in the importance of the euro area (see the second adjoining chart).

EVOLUTION OF SPAIN'S FINANCIAL INTEGRATION

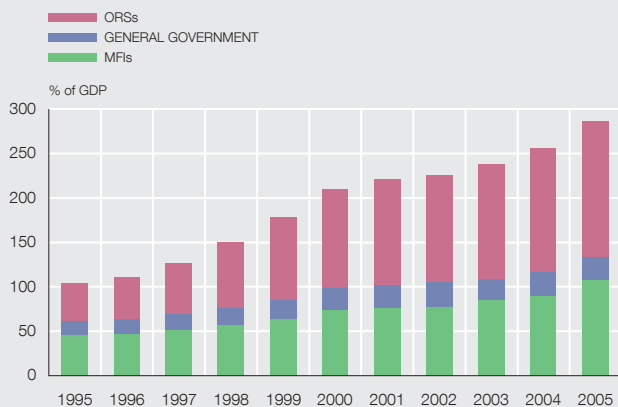
FINANCIAL INTEGRATION



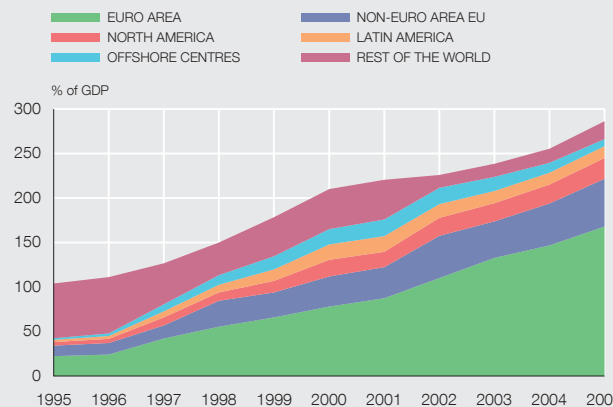
FINANCIAL INTEGRATION BY INSTRUMENT



FINANCIAL INTEGRATION BY SECTOR



FINANCIAL INTEGRATION BY GEOGRAPHICAL AREA



SOURCE: Banco de España.

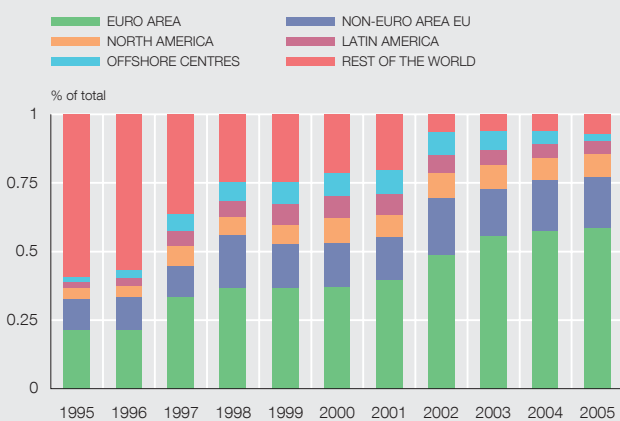
POSITION DATA (cont'd)

In short, the IIP data corroborate the essence of the results of the analysis carried out in the last edition of this Report based on financial account flows. Over the last decade there has been a substantial increase in Spain's financial integration with the rest of the world, especially in the case of FDI and portfolio investment. This process has coincided with a significant increase in the geographical con-

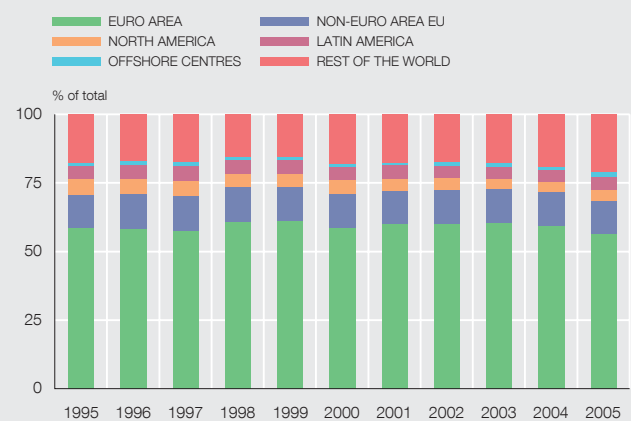
centration of Spain's external assets and liabilities, which is reflected in the predominance of the EU as a whole, and especially the euro area. This process has involved significant convergence with the structure of Spain's foreign trade. The explanation of this latter aspect requires a more detailed study, based on more disaggregated data.

GEOGRAPHICAL COMPOSITION OF THE IIP AND OF FOREIGN TRADE (a)

IIP BY GEOGRAPHICAL AREA



FOREIGN TRADE BY GEOGRAPHICAL AREA



SOURCE: Banco de España.

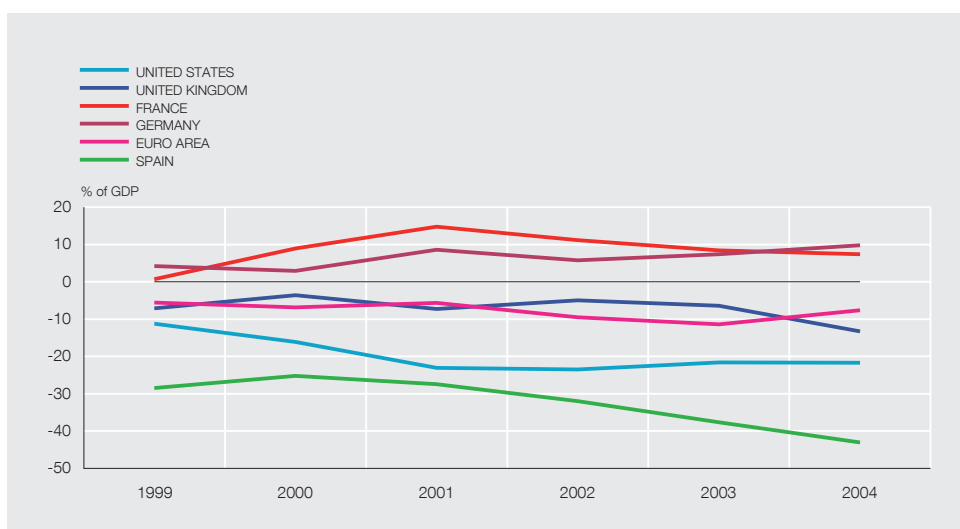
a. Sum of external assets and liabilities or of exports and imports.

Comparing the changes in IIP balances and balance of payments flows for each type of investment gives different results<sup>4</sup>. The impact of the exchange rate and prices on stock changes may vary significantly according to the heading considered. This discrepancy arises not only from the different characteristics of the instruments that make up the stocks of assets and liabilities of an economy, but also from the diversity of sources of information and methods of calculation used to estimate each type of investment.

In this respect, in accordance with the specific characteristics of the financial instruments in which the external assets and liabilities are incorporated, price changes would basically affect the capital holdings included in direct investment and in portfolio investment. However, while in the case of portfolio investment there are information sources available that give stocks valued at market prices (so that they incorporate price changes), in the case of a very considerable part of direct investment the information system used does not incorporate price changes (basically, that part corresponding to other resident sectors). In 2005, as seen in Table 4.3, there was a general rise in the stock markets most representative of Spanish portfolio assets and liabilities, particularly the

4. In the case of other investment, the changes from one period to another would basically be explained by balance of payments flows and exchange rate movements, since it takes the form of non-negotiable instruments (mainly loans, deposits and repos). For this reason, in the case of liabilities, which are, moreover, basically denominated in euro, changes in stocks are essentially explained by balance of payments flows. In the case of assets, however, the impact of exchange rate movements can be significant.





SOURCE: IMF.

a. Monetary authority data are included.

## RECONCILIATION OF CHANGE IN STOCKS WITH BALANCE OF PAYMENTS FLOWS (a)

TABLE 4.2

	NET (b)				ASSETS				LIABILITIES			
	CHANGE IN STOCK	FLOW	DIFFERENCE IN LEVELS	% DIFFERENCE (c)	CHANGE IN STOCK	FLOW	DIFFERENCE IN LEVELS	% DIFFERENCE (c)	CHANGE IN STOCK	FLOW	DIFFERENCE IN LEVELS	% DIFFERENCE (c)
2003	-56,587	-19,685	-36,902	12.6	78,035	106,955	-28,920	-4.3	134,622	126,640	7,982	0.8
2004	-78,552	-48,787	-29,765	8.5	98,878	104,115	-5,237	-0.7	177,430	152,902	24,528	2.2
2005	-65,394	-61,797	-3,598	0.8	194,022	156,150	37,873	4.4	259,417	217,946	41,471	3.2

SOURCE: Banco de España.

a. Excluding Banco de España.

b. A (-) sign denotes a larger change in liabilities than in assets.

c. Difference between the change in the stock and the balance of payments flow, in terms of stock at beginning of the period.

FINANCIAL MARKET DEVELOPMENTS  
Prices, interest rates and exchange rates

TABLE 4.3

	STOCK EXCHANGE INDICES (a)			EXCHANGE RATE (b)		LONG-TERM INTEREST RATE (c)		
	IBEX 35	EUROSTOXX 50	S&P 500	DOLLAR	POUND	EURO AREA	US	UK
2003	28.2	15.7	26.1	20.7	9.3	4.36	4.26	4.94
2004	17.4	6.9	9.1	9.1	-1.0	3.69	4.23	4.58
2005	18.2	21.3	3.0	-11.6	-2.3	3.41	4.46	4.27

SOURCES: ECB and Banco de España.

a. Cumulative rate of change. End-period data.

b. Cumulative rate of change, calculated with respect to the mean of the final month of the same period of the previous year. National currency per euro.

c. Mean of the final month of the period.

Spanish and European ones. In the case of liabilities, it should be taken into account that the concentration of non-resident portfolio investment in a small number of companies means that the change in the IBEX 35 does not always properly reflect the impact of price changes. Portfolio investment assets in the form of equities have also been affected by price changes, basically on European markets, which have a very high weight in the total and rose by 21.3% (see Table 4.3). As for the rest of the world, only the United States stands out under this heading, representing around 10% of the total portfolio investment assets in the form of equities, its market likewise recording a positive though somewhat more moderate change.

At the same time, in line with the currency composition of the IIP, the exchange rate only has a significant influence in the cases of direct investment assets and other investment assets and liabilities. In these headings, the most relevant exchange rate would be the US dollar, which at year end had appreciated by 13.4% against the euro. As for the pound sterling, the depreciation of the euro was smaller (2.8%).

The significant increase in the external assets and liabilities of the Spanish economy has resulted in growing interest in analysis of the possible impact of the changes in exchange rates and prices of financial instruments on the net investor position and financial stability of the Spanish economy.

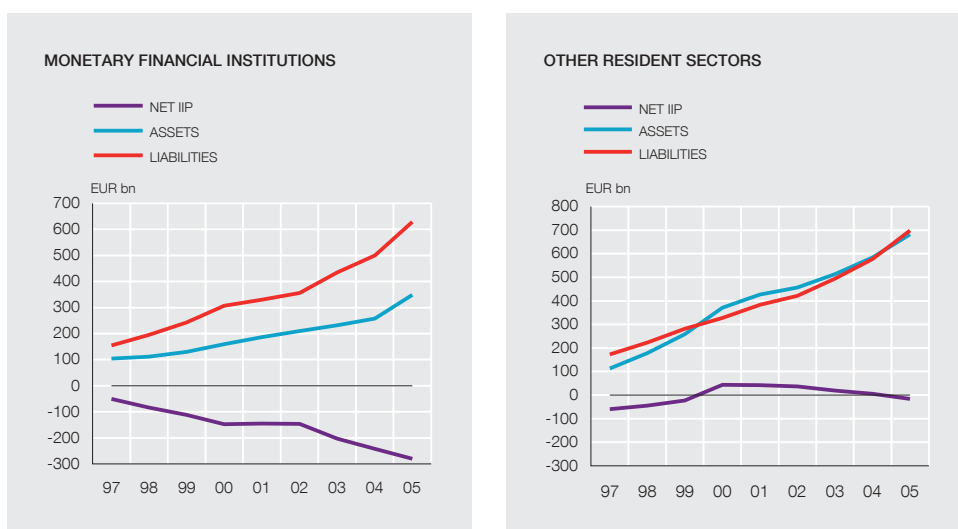
#### **4.2 Composition of the IIP by institutional sector**

In absolute terms, all resident sectors contributed to the developments discussed at the beginning of the chapter, with the exception of the monetary authority, whose credit balance increased in nominal terms. However, when the IIP is analysed as a percentage of GDP, the sign and magnitude of the contributions of the various sectors were different to those in the previous year (see Chart 4.1). Thus, the widening of the net debit position of the Spanish economy was firstly the result of the behaviour of the balance of monetary financial institutions (MFIs), followed very closely by that of other resident sectors (ORSs). The credit balance of the monetary authority as a percentage of GDP fell slightly (by 0.1 percentage points), in contrast to the increase recorded in 2004. Meanwhile, the net debit position of general government in terms of GDP declined in 2005 (by 1.2 pp), as against the moderate expansion recorded the previous year (1.7 pp). The deterioration in the position of ORSs, which began in 2000, intensified in 2004, so that this sector recorded a net debit balance for the first time since 1999. Finally, the net debit position of MFIs expanded more moderately than in 2004.

In 2005, the debit balance of MFIs rose to €280,422 million, although since assets grew more strongly than liabilities (by 35% and 25.7%, respectively), its rate of growth moderated (to 15.8%, from 19.6% in 2004), continuing the trend that began in 2004, following the strong increase in the previous year (see Chart 4.3). This was reflected in a smaller increase in this balance as a percentage of GDP, from 28.9% at end-2004 to 31% in 2005 (in 2004 it rose by three percentage points). In 2005 the relative importance of traditional instruments in the raising of funds by MFIs again diminished, against a background characterised by an increasing diversification of financing methods. Along with the strong demand for credit on the part of residents (basically households and non-financial corporations), this led to the opening up of a gap between the supply and demand for funds, which is reflected in the expansion of the net debit position of MFIs vis-à-vis the external sector, a phenomenon which continued in 2005. This gap was covered by the MFIs through the issuance of fixed income (bonds, asset securitisation, and international subsidiaries<sup>5</sup>), against a background of liquidity and low long-term interest rates, which encouraged this financing strategy.

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5. Note that the financing obtained through asset securitisation using securitisation special purpose entities, which as in previous periods reached significant levels, is included in the balance of payments and in the international investment position in the sector ORSs, although it is ultimately MFIs that are being financed by these operations.



SOURCE: Banco de España.

The growth rate of the net debit position of general government slowed significantly, to 2.4% year-on-year, from 15.9% in the previous year, taking the total to €197,218 million. As a percentage of GDP, it fell by 1.2 percentage points to 21.8%, putting an end to the growth path that commenced in 2003. According to balance of payments data, these developments took place against a background of a net outflow of funds of €3,886 million, as against a net inflow of funds in 2004 (€24,542 million). The behaviour of this institutional sector was driven by the notable decline in general government net debt issuance. Furthermore, the Social Security reserve fund made investments in fixed income issued by residents of other euro area countries equal to 0.5% of GDP, which contributed to this trend. At the end of 2005 Q4, general government debt<sup>6</sup> stood at €390,276 million, 43.2% of GDP, as against €388,495 million in the same period of 2004 (46.4% of GDP). This decline in the weight of public debt in GDP was mainly attributable to central government.

In 2005, the position of ORSs continued to decline to the point that this sector recorded a net debit balance for the first time since 1999, going from a net credit position of €6,189 million in 2004 to a net debit position of €16,547 million in 2005. As a percentage of GDP, this debit balance was 1.8%, as against the 0.7% net credit position the previous year (see Chart 4.3). This was a result of the stronger growth in liabilities than in assets (21% and 16.8%, respectively), against a background of euro depreciation over the year and rising financial instrument prices. On balance of payments data, in 2005 ORSs channelled around 63% of the net inflows recorded by the Spanish economy (specifically, €38,873 million), in contrast to the net outflows in 2004 (of €3,811 million). These net inflows were basically a consequence of portfolio investment flows, arising from the acquisition of bonds issued by securitisation special purpose entities, and by subsidiaries of MFIs on European markets.

In 2005, the net credit position of the monetary authority increased by 6% to €72,186 million, representing 8% of GDP, a decline of 0.1 percentage points from end-2004. Thus, the decline as a percentage of GDP that began in 2001 and was interrupted in 2004 resumed. The widening of the net credit position mainly occurred in other net assets, which increased by 87% to €40,531

6. General government debt data compiled in accordance with the excessive deficit procedure. The information is available in the *Boletín Estadístico* of the Banco de España, and at <http://www.bde.es/infoest/a1114.pdf>.

% of total	MONETARY AUTHORITY		MFIs		GENERAL GOVERNMENT		ORSs	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
	Average 2000-2002	10.4	0.1	27.0	37.7	1.6	19.3	61.0
2003	6.9	0.0	28.5	39.3	1.3	16.0	63.3	44.8
2004	7.4	0.0	28.0	39.0	1.4	16.0	63.3	45.0
2005	6.5	0.0	31.1	40.8	1.6	13.9	60.9	45.3

SOURCE: Banco de España.

million, while reserves grew slightly (by 0.7%) to €14,601 million. The reduction in assets vis-à-vis the Eurosystem (46.6%), to €17,053 million, was not sufficient to offset these two increases.

These developments were reflected in the sectoral structure of the external assets and liabilities of the Spanish economy (see Table 4.4). On the assets side, the relative weight of MFIs and general government increased (to 31.1% and 1.6% of the total, respectively), to the detriment of ORSs and the monetary authority (60.9% and 6.5% of the total, respectively)<sup>7</sup>. On the liabilities side, ORSs and MFIs together represent more than 86% of the total, the share of general government having declined in favour of MFIs and, to a lesser extent, ORSs.

### 4.3 Composition of the IIP by type of investment

During 2005, the net debit position of the Spanish economy, excluding the Banco de España, increased by 15.3%<sup>8</sup>, to €494,096 million, or 54.6% of GDP, as against 51.2% in 2004. This increase took place in a year of strong growth in the net borrowing of the Spanish economy, which amounted to 6.5% of GDP (4.3% in 2004).

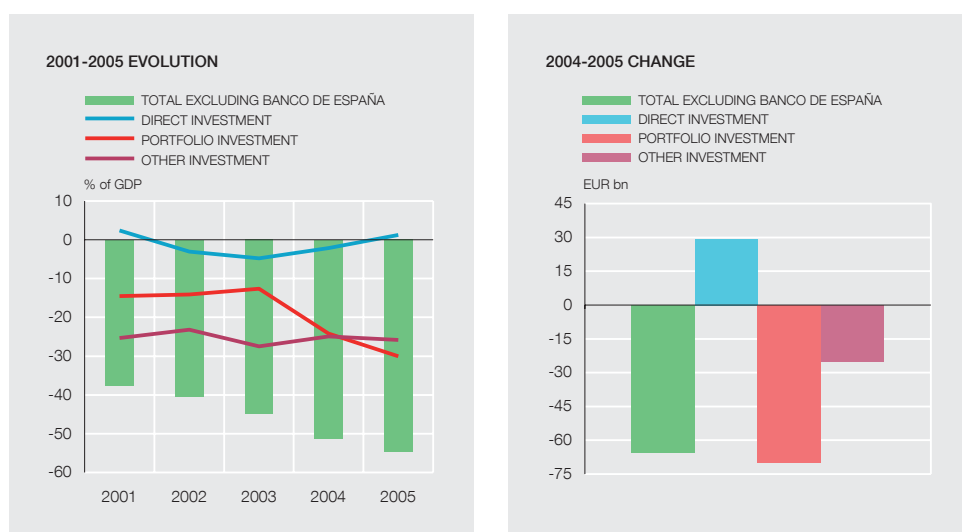
The breakdown of the IIP by instrument shows that the widening of the net debit position of the Spanish economy in 2005 was basically attributable to the portfolio investment heading, in keeping with its role as the primary source of financing of the Spanish economy (see Chart 4.4). Its debit balance increased by 34.6%, rising to 30.1% of GDP (24.1% in 2004). That said, this rate of growth was significantly more moderate than in 2004, when the debit balance more than doubled in absolute terms. Other investment also contributed to the trend, with an increase of 11.9% in its net debit position, in contrast to the decline of 2.4% in the previous year. Thus, the balance of other investment stood at 25.8% of GDP, up 0.8 percentage points from 2004. The behaviour of other investment was in line with the flows recorded in the balance of payments. Specifically, more than €8,000 million of other investment was channelled abroad in 2004, while there was a net inflow of €16,599 million in 2005. By contrast, FDI showed a net credit balance in 2005 of €11,582 million (in 2004 it had a net debit balance of €17,645 million), for the first time since 2000-2001, when the internationalisation of Spanish firms was in full flow. The developments in 2005 took place against a background of a net outflow of direct investment and dollar appreciation, which increases the euro value of external assets.

As regards the composition of the external assets and liabilities of the Spanish economy by instrument, excluding the Banco de España, there was an increase in the relative importance of portfolio investment, particularly in the case of the liabilities (see Table 4.5). Thus, this heading now

7. When analysing the sectoral composition of the assets it is important to take into account that it is affected by the fact that a large proportion of the investments of Spanish MFIs in the capital of non-resident companies is channelled through holding companies, which are included in the sector ORSs. 8. Unless indicated otherwise, the analysis in this chapter does not include the Banco de España.

**NET IIP BY INSTRUMENT**  
**2001-2005 EVOLUTION AND 2004-2005 CHANGE (a)**

CHART 4.4



SOURCE: Banco de España.

a. Excluding Banco de España.

**INTERNATIONAL INVESTMENT POSITION**  
**Breakdown by instrument (a)**

TABLE 4.5

% of total	DIRECT INVESTMENT		PORTFOLIO INVESTMENT		OTHER INVESTMENT	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
	Average 2000-2002	33.7	23.3	37.1	38.0	29.1
2003	30.7	24.3	42.3	37.9	27.0	37.8
2004	31.9	22.6	42.1	43.8	26.0	33.6
2005	30.8	20.2	43.4	47.1	25.8	32.7

SOURCE: Banco de España.

a. Excluding Banco de España.

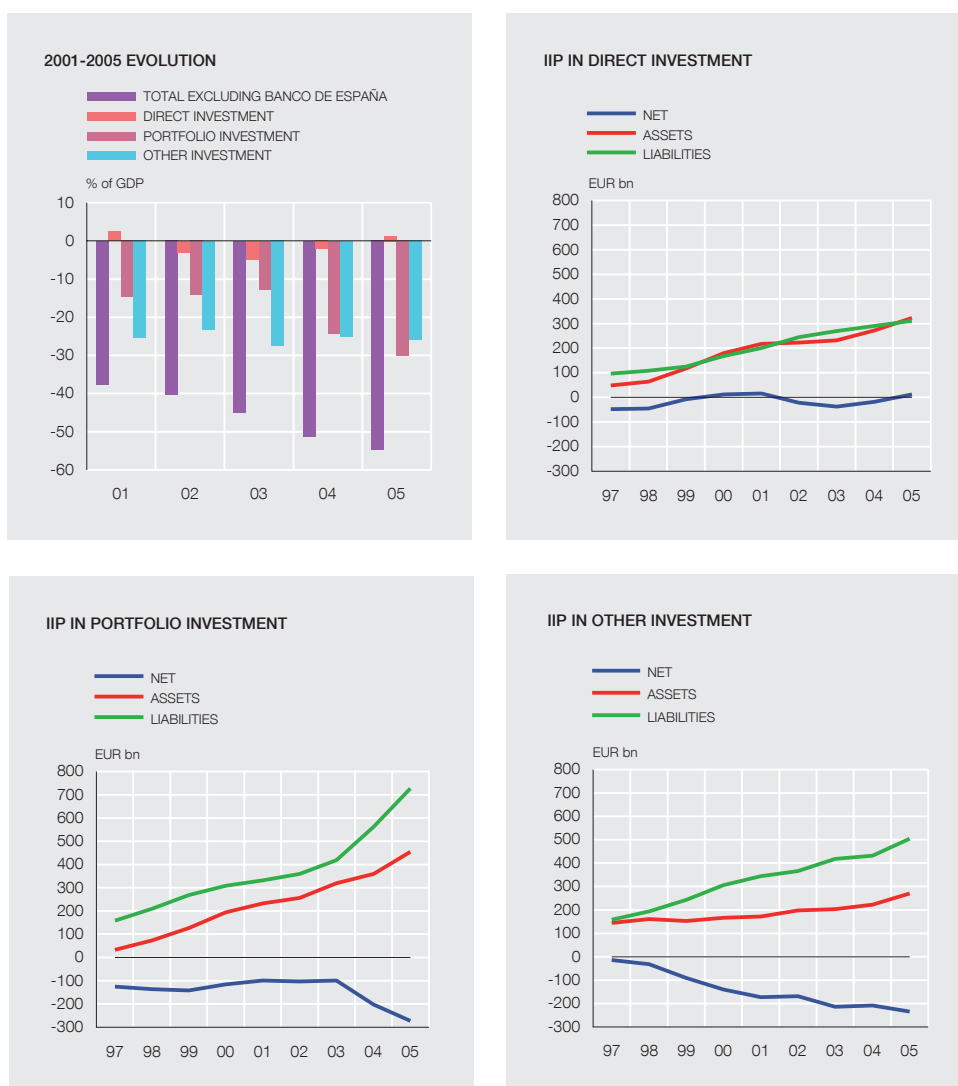
accounts for more than 47% of the stock of non-residents' investments, as against around 44% in 2004. This growth was to the detriment of other investment and, especially, direct investment. The changes were more modest in the case of assets, the relative weight of portfolio investment increasing by 1.3 percentage points to 43.4% of the total, while the weights of other investment and, in particular, of direct investment declined (in the case of the former, very slightly).

**4.3.1 DIRECT INVESTMENT**

At end-2005, direct investment again recorded a net credit balance (the last one having been recorded in the period 2000-2001), of €11,582 million, which represented 1.3% of GDP.

This outcome took place despite the steep decline, of 36%, in the outward flow of Spanish foreign direct investment in 2005<sup>9</sup>. The flow of FDI into Spain declined rather less strongly, by 7.3%. It should be noted that the year-on-year decline in Spanish FDI abroad was the result of

<sup>9</sup> This decline was caused by a very significant foreign investment transaction carried out by a resident MFI in 2004, which boosted the FDI outflow that year (which increased by 63.3%). If this transaction is excluded, outward FDI flows would have fallen by only 5.7% in 2005, having increased by 11.9% in 2004.



SOURCE: Banco de España

a. Excluding Banco de España.

a very significant transaction carried out by a resident MFI in 2004, and the decline is much more moderate if this transaction is ignored. As for the activity of foreign-equity holding companies (ETVEs)<sup>10</sup>, the downward trend that commenced in 2003 continued in 2005, the establishment of these firms in Spain having been consolidated and a legal change having been made in the United States to encourage the repatriation of profits to that country<sup>11</sup>.

The stock of Spanish FDI abroad increased by 18.6% in 2005 to €323,234 million. Since end-2004, FDI assets have increased significantly, although the growth rate of this heading is still well below the high rates reached at the end of the 1990s and in 2001 (see Chart 4.5). The behaviour

<sup>10</sup> These companies have frequently been set up in recent years by non-resident multinational groups to centralise the holding of their direct foreign investments in third countries. See Law 43/1995 on corporate income tax and Title IV of Law 6/2000 on measures to support the internationalisation of firms (BOE of 14 December 2000). To ensure that these transactions, which are difficult to estimate using the usual information system, are included in the balance of payments, information has begun to be used from the Investments Register of the Ministry of Industry, Tourism and Trade. Other holding companies are included under this heading that, although not strictly ETVEs, have been established in Spain with the main aim of channelling direct investment. The difficulty of identifying the transactions of these companies means that the direct investment data may be subject to significant subsequent revisions. <sup>11</sup> See Chapter 3 of this Report.

of the data as a percentage of GDP was similar, with an increase of 3.2 percentage points to 35.7%, following several years of decline after the upward trend of the late 1990s.

The change in the stock of FDI abroad stemmed from the behaviour of the balance of payments-related flows, which represented around 61.4% of the change in such stock, and from the depreciation of the euro against the main currencies during the year, and especially against the dollar, which generated a direct positive valuation effect on the equivalent value in euro of external financial assets. According to information from the Central Balance Sheet Data Office, both the gross value added generated by firms and company profits continued to grow in 2005, although at more moderate rates than in 2004. The activity of firms was affected by the impact of oil price rises. Corporate profitability was slightly higher than in 2004, against a background of rising company debt to finance investment projects, especially among industrial firms, which started from below-average debt and debt burden levels. The expansion in funds received occurred at the same time as the balance sheet rebuilding undertaken by large corporate groups was completed. Accordingly, it can be concluded that the financial situation of companies remains favourable.

The breakdown by instrument of the stock of Spain's foreign direct investment abroad shows the high degree of concentration in shares and other equity, which accounted for 93.4% of the total. Shares are the main component of this investment (71.9% of the total), while other equity<sup>12</sup> represents 20% and property is a very small fraction of the total stock (only 1.5%). For their part, inter-company debt transactions stood at 6.6% of the total. There was hardly any change in this distribution from 2004, a rise of 0.3 percentage points in the relative importance of property being recorded. The latter was a result basically of the behaviour of the flows corresponding to the financial account, which recorded a decline in all instruments, with the exception of Spanish investment in property. In any case, most of the FDI outflow was channelled through investment in shares, followed by other equity.

The analysis by geographical area confirms the predominance of the EU as the target of Spanish FDI abroad in recent years, accounting for 54.4%. Within the EU, the euro area accounts for most of the stock (40.9% of the world total), followed by the United Kingdom, which accounts for 9.3%. As for the rest of the world, Latin America is still easily the second most important area, with 28.3% of the total, followed at a distance by the United States (6.8%). The comparison with the 2004 data shows a slight increase in the relative importance of the EU, owing to the increase in the weight of the euro area and of the new Member States, which offset the decrease in the share of the United Kingdom. As for the rest of the world, the relative importance of Latin America fell, while that of the United States increased. These changes were generally a result of the developments in the flow of Spanish FDI abroad, which in 2005 increased to the euro area and to the new EU Member States, to the detriment of the United Kingdom. In the rest of the world, the relative importance of Latin America fell significantly, while that of the United States increased.

The stock of foreign direct investment in Spain grew by 7.4% in 2005, to €311,652 million, so that the pattern of relatively moderate growth in FDI liabilities that began in 2003 continued, following the high growth rates recorded between 1999 and 2002. As a percentage of GDP, foreign direct investment in Spain fell slightly (by 0.2 percentage points), to 34.5%, as a result of the higher rate of growth of nominal GDP. In the case of FDI liabilities, exchange rate movements cannot be expected to have a significant effect on investment positions, since most are

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<sup>12</sup>. Other equity includes principally capital contributions to branches, acquisitions of firms without *sociedad anónima* status and reinvested profits.

## Reconciliation of the change in the IIP stock with the balance of payments flows (a)

EUR millions									
	NET (b)			ASSETS			LIABILITIES		
	CHANGE IN STOCK	FLOW	% DIFFERENCE (c)	CHANGE IN STOCK	FLOW	% DIFFERENCE (c)	CHANGE IN STOCK	FLOW	% DIFFERENCE (c)
2003	-15,278	2,568	80.8	8,481	25,445	-7.6	23,759	22,877	0.4
2004	19,716	28,809	24.3	40,924	48,750	-3.4	21,207	19,941	0.5
2005	29,227	12,693	-93.7	50,747	31,177	7.2	21,520	18,484	1.0

SOURCE: Banco de España.

a. Excluding Banco de España.

b. A (-) sign denotes a larger change in liabilities than in assets.

c. Difference between the change in the stock and the balance of payments flow, in terms of the stock at the beginning of the period.

denominated in euro. As for the impact of changes in market prices, only direct investment liabilities corresponding to MFIs are currently affected, which represent a small part of the total. As a result, in practice, this effect cannot be expected to be significant either. However, the positive developments on the Spanish stock market would mean an increase in the value of foreign investment if this factor is included. In line with the foregoing, a large part of the change in the stock of foreign direct investment in Spain was attributable to balance of payments-related flows, which accounted for 85.9% of the change in the stock (see Table 4.6). In 2005, the flow of FDI into Spain fell by 7.3%, to €18,484 million.

The breakdown by instrument of the stock of Spain's FDI liabilities in 2005 shows a lower concentration than in the case of its FDI assets, basically because of the importance of the property investments of non-residents. Thus, shares and other equity accounted for 76.9% of the total. Unlike the stock of Spain's FDI assets, the relative weight of shares is much lower than that of other equity (26.9% and 31.2% of the total, respectively). Another notable feature is the importance of FDI in property, which amounts to 18.8% of the total. Inter-company debt transactions are also greater than in the case of FDI assets, representing 23.1% of the total. There were hardly any significant changes in this composition between 2004 and 2005, with only a small increase in property to the detriment of inter-company debt transactions. The corresponding net flows of the financial account show the importance of investment in shares and other equity and property, which represented around 77% of total investment.

As for the geographical composition of Spain's FDI liabilities, practically 73.6% of the total is accounted for by the EU 25, the United Kingdom having a notable share (19.2% of the total). The euro area accounts for more than 52% of the total, a higher share than in the case of Spain's FDI assets (see Table 4.7). In the rest of the world the main investor country is the United States, with 16.5%. Unlike in the case of Spain's FDI assets, the role of Latin America is very small, accounting for only 1.7% of the total. The changes in the inward flow of FDI in 2005 increased the importance of the EU, the United Kingdom having a significant share, since, overall, the rest of the world recorded net disinvestment.

## 4.3.2 PORTFOLIO INVESTMENT

In 2005, the portfolio-investment net debit position widened by 34.6% to €271,957 million, a significant increase, although clearly smaller than that recorded in 2004, when the debit balance of this heading more than doubled. As a percentage of GDP, it was 30.1%, as against 24.1% at end-2004. In the final quarter of 2005 the widening was partially corrected. In any event, this balance significantly exceeded the highs of the mid-1990s, although on this occa-



**DIRECT INVESTMENT IIP IN 2004 AND 2005**  
**Breakdown by geographical area and selected economies**

TABLE 4.7

EUR millions	FOREIGN DIRECT INVESTMENT BY SPAIN		FOREIGN DIRECT INVESTMENT IN SPAIN	
	TOTAL		TOTAL	
	2004	2005	2004	2005
<b>WORLD TOTAL</b>	<b>272,486.7</b>	<b>323,233.9</b>	<b>290,132.0</b>	<b>311,652.2</b>
<b>European Union (a)</b>	<b>145,373.8</b>	<b>175,937.2</b>	<b>211,187.5</b>	<b>229,300.8</b>
Euro area	110,849.9	132,318.7	148,392.9	163,370.9
<i>Germany</i>	11,504.7	12,018.3	23,020.2	21,460.4
<i>France</i>	10,836.0	18,398.8	19,791.5	19,189.4
<i>Netherlands</i>	19,705.6	20,077.7	32,814.8	42,555.8
<i>Luxembourg</i>	34,961.2	36,780.2	30,534.3	34,407.3
<i>Portugal</i>	15,491.3	16,434.7	12,263.6	13,591.6
United Kingdom	27,177.4	29,917.7	58,094.6	59,939.1
New EU members (b)	5,097.6	11,048.0	417.3	506.4
<b>Switzerland</b>	<b>10,303.2</b>	<b>12,934.9</b>	<b>11,437.6</b>	<b>11,002.8</b>
<b>United States</b>	<b>17,178.7</b>	<b>21,991.2</b>	<b>49,130.3</b>	<b>51,528.9</b>
<b>Latin America</b>	<b>81,776.9</b>	<b>91,413.7</b>	<b>5,453.2</b>	<b>5,268.3</b>
Argentina	17,432.9	18,489.3	219.7	218.6
Brazil	24,044.7	26,861.9	689.0	868.7
Chile	8,650.0	9,278.4	988.3	996.2
Mexico	18,334.6	21,197.0	1,356.3	998.1
<b>Morocco</b>	<b>1,860.8</b>	<b>1,993.1</b>	<b>101.4</b>	<b>119.2</b>
<b>Japan</b>	<b>1,797.5</b>	<b>1,866.7</b>	<b>2,154.0</b>	<b>2,328.7</b>
<b>Australia</b>	<b>789.9</b>	<b>854.1</b>	<b>160.6</b>	<b>182.4</b>
<b>MEMORANDUM ITEM: OECD</b>	<b>194,749.6</b>	<b>211,059.8</b>	<b>280,130.1</b>	<b>300,465.3</b>

SOURCE: Banco de España.

a. European Union: International institutions of the European Union, European Central Bank, France, Belgium, Netherlands, Germany, Italy, United Kingdom, Ireland, Denmark, Greece, Portugal, Luxembourg, Austria, Finland, Sweden, Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovenia and Slovakia, and the corresponding dependencies of their economic territory.

b. Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovenia and Slovakia.

sion the increase has been driven by private debt, while public debt was the factor explaining the widening of the portfolio-investment debit position in the mid-1990s.

The widening of the portfolio-investment net debit position is in keeping with the behaviour of the financial account flows. Thus, as in 2004, portfolio investment was the main source of external financing for the Spanish economy, providing funds totalling €57,890 million, although it was significantly lower than in the previous year (in 2004 the net inflow of portfolio investment amounted to €85,808 million). The net flow of portfolio investment accounted for 82.9% of the change in the net position in 2005.

The analysis of the stock of portfolio investment by institutional sector shows that general government accounted for 70.6% of the net liabilities, followed by MFIs, with 31.4%. By contrast, ORSs had a modest surplus, equivalent to 2% of the total net portfolio investment liabilities. As a percentage of GDP, the private net debit balance (resulting from aggregating the positions corresponding to MFIs and ORSs) amounted to 8.8% of GDP, the volumes of the assets and liabilities of ORSs being very high. Thus, for example, ORSs accounted for 40.3% of the foreign portfolio investment in Spain. Balance-of-payments flows data underline the importance of this institutional sector in the raising of funds abroad: in 2005 they recorded a net inflow of portfolio investment of €45,235 million (€19,082 million in 2004). In second place

were MFIs, after a decline of more than 65%, with €15,530 million. The funds channelled by these two sectors offset the net outflow of €2,874 million recorded by general government, in contrast to the net inflow recorded in 2004 (€21,807 million). ORSs played their role against a background of a buoyant Spanish asset securitisation market<sup>13</sup>, which is attracting significant flows of investment from non-residents. In 2005, along with securitisation special-purpose entities, the raising of funds through issues made abroad by the subsidiaries of resident MFIs was notable, as explained in Chapter 3 of this report (The financial account in 2005).

In 2005, the stock of Spain's portfolio investment abroad reached €454,704 million, representing 50.3% of GDP, as against 42.9% in December 2004. Of this increase, 82.5% corresponded to balance of payments flows and the rest to the valuation effect, in a year that saw the dollar appreciate significantly against the euro.

By instrument, the most important heading was bonds, which amounted to 74.4% of the total, a slightly lower percentage than in 2004 (75.5%), following an increase of 24.6% from end-2004. For its part, the stock of money market instruments increased last year by 24.8%, although their share in the total remained very modest (2.7%). As for variable income, investment in shares and other equity represented 22.9% of the total, after an increase of 33.4% in 2005, so that their relative weight rose moderately relative to 2004 (1.2 percentage points). The reconciliation of flows and stocks shows that most of the change in assets of the portfolio investment position denominated in fixed income corresponded to financial account transactions, specifically 91.5%, against a background of dollar appreciation and favourable behaviour on the part of the prices of European long-term securities. This behaviour was reflected in a widening of the long-term interest rate spread between the United States and the euro area, to around 1.1 percentage points, from 0.5 percentage points in 2004 (see Table 4.3). Both factors have a positive direct effect on the equivalent value in euro of Spanish external assets. In the case of variable income, the effects of the price rises had an even more significant role. In fact, financial account transactions accounted for 58.7% of the increase in the stock. It should be noted here that European stock markets rose significantly, though US markets recorded a more moderate improvement (see Table 4.3). In addition, the financial account shows that flows in the form of shares and other equity were small compared to those corresponding to (basically long-term) fixed-income securities. This situation took place against a background of buoyant debt markets, which were boosted by a shift in agents' portfolios towards bonds<sup>14</sup>.

By institutional sector, 65.6% of Spain's portfolio assets abroad corresponded to ORSs, 33.2% to MFIs and 1.2% to general government. Comparison with 2004 shows a reduction in the weight of ORSs (69.9% in 2004), in favour of general government and MFIs. The behaviour of the flows of external portfolio investment contributed to these developments, since the investments of MFIs grew much more strongly than those of ORSs, to the extent that they actually exceeded them (€40,596 and €33,557 million, respectively). The growth of general government stemmed from the acquisition by the Social Security reserve fund of fixed income issued by euro area countries, amounting to 0.5% of GDP.

The geographical breakdown confirms the high concentration of the stock of portfolio investment in the EU (82.5% of the total), and in particular in the euro area (70.6% of the total). The United Kingdom accounts for 10% of the total, a somewhat lower figure than in the previous year. In the rest of the world, the United States and tax havens were notable (8.2% and 4.5%

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13. Asset-backed securities are issued by securitisation special purpose entities, which are sectorised as ORSs, while covered bonds are issued by MFIs. 14. See Chapter 3 of this Report.

## Reconciliation of the change in the IIP stock with the balance of payments flow (a)

EUR millions									
	NET (b)			ASSETS			LIABILITIES		
	CHANGE IN STOCK	FLOW	% DIFFERENCE (c)	CHANGE IN STOCK	FLOW	% DIFFERENCE (c)	CHANGE IN STOCK	FLOW	% DIFFERENCE (c)
<b>Total</b>									
2003	3,958	26,592	22.1	62,987	65,634	-1.0	59,029	39,042	5.6
2004	-103,488	-85,808	17.9	39,512	26,946	3.9	143,001	112,754	7.2
2005	-69,834	-57,890	5.9	95,399	78,714	4.6	165,233	136,605	5.1
<b>Equities</b>									
2003	-18,946	14,497	50.5	11,966	11,455	1.0	30,912	-3,042	29.0
2004	-19,957	4,078	28.2	15,375	12,137	5.2	35,332	8,059	18.4
2005	11,964	23,132	10.6	26,099	15,330	13.8	14,135	-7,802	12.0
<b>Fixed income</b>									
2003	22,904	12,095	-29.7	51,022	54,179	-1.5	28,118	42,084	-5.8
2004	-83,531	-89,885	-47.3	24,137	14,810	3.6	107,668	104,695	1.1
2005	-81,798	-81,022	0.8	69,300	63,385	2.1	151,098	144,406	1.8

SOURCE: Banco de España.

a. Excluding Banco de España.

b. A (-) sign denotes a larger change in liabilities than in assets.

c. Difference between the change in the stock and the balance of payments flow, in terms of the stock at the beginning of the period.

of the total, respectively). In comparison with 2004, there was an increase in the relative weight of the EU (78.9% of the total that year), attributable to the euro area in particular. As for the rest of the world, the share of tax havens declined (from 6.7% in 2004).

Meanwhile, the stock of foreign portfolio investment in Spain increased significantly in 2005 (by 29.4%), to €726,662 million, which represented 80.4% of GDP, a very significant rise from 67.1% in 2004. The upward trend in the relative importance of portfolio investment liabilities in the Spanish economy was thus consolidated, following their stagnation in the period 2000-2002, reflecting the growth in the net borrowing of corporations and households. Inflows of bond investment were buoyant in a year in which there was a significant net issuance of such securities by ORSs and MFIs.

Financial account transactions accounted for 82.7% of the change in the stock of external portfolio investment in Spain. The rest corresponded to the valuation effect, which had a particularly significant impact on variable income, the stock of which increased by €13,283 million, as a result of the favourable behaviour of stock markets, which offset the disinvestment of around €7,802 million recorded in the balance of payments. The change of the position in fixed-income instruments was basically attributable to financial account transactions, which accounted for about 95.6% of the increase in the stock. The revaluation effect can be attributed to the exchange rate in the case of foreign-currency denominated bonds and to the change in interest rates.

By institutional sector, the composition of the portfolio investment of non-residents in Spain is very balanced. ORSs account for 40.3% of the total, followed by MFIs (32.5%). Finally, general government represents 27.2%. This distribution shows significant changes with respect to the previous year, when general government was the second most important sector, with 33.4% of the total, after ORSs (36.9%). This development is related to the behaviour of financial account flows in 2005, there being a notable decline in inflows channelled through general government relative to 2004 (from €22,679 million to only €1,687 million).

## STOCK OF FOREIGN PORTFOLIO INVESTMENT IN SPAIN

TABLE 4.9

## Breakdown by geographical area and by instrument, and comparison with CPIS data (a). 2004

EUR millions	EQUITY SECURITIES		DEBT SECURITIES		TOTAL		WEIGHT IN TOTAL (%)	
	FKC	EI	FKC	EI	FKC	EI	FKC	EI
	France	22,639	21,952	39,324	80,390	61,962	102,342	11.0
Germany	11,092	14,023	33,567	74,262	44,659	88,285	7.9	18.4
United States	44,572	46,254	6,856	4,333	51,429	50,587	9.2	10.5
Luxembourg	15,240	11,162	107,663	32,696	122,903	43,858	21.9	9.1
United Kingdom	51,476	15,187	22,140	23,762	73,616	38,949	13.1	8.1
Ireland	838	5,242	3,068	26,543	3,906	31,785	0.7	6.6
Netherlands	6,670	7,391	5,467	23,600	12,137	30,991	2.2	6.5
Japan	168	3,877	13	13,895	181	17,772	0.0	3.7
Belgium	11,580	2,429	129,297	14,146	140,877	16,575	25.1	3.5
Italy	2,785	3,656	2,442	11,537	5,227	15,193	0.9	3.2
Unassigned	-1,216	0	27,256	0	26,041	0	4.6	0.0
Other	17,366	13,307	1,602	29,991	18,968	43,298	3.4	9.0
<b>Total liabilities</b>	<b>183,210</b>	<b>144,479</b>	<b>378,695</b>	<b>335,155</b>	<b>561,905</b>	<b>479,635</b>	<b>100.0</b>	<b>100.0</b>

SOURCE: Banco de España and IMF.

a. FKC: geographical assignment of liabilities under the first-known counterparty principle. EI: geographical assignment by end-investor principle, based on the stock of assets of the creditor countries.

The impact that the development of asset securitisation in Spain is having needs to be highlighted. Significant flows of investment are being attracted from non-residents (in 2005 they grew by 71.5%) and channelled to MFIs, through covered bonds, and especially to ORSs, by means of asset-backed securities. Also very important was the attraction of flows of portfolio investment from non-residents by special purpose vehicles belonging to MFIs, whose level of securities issuance was very significant.

As regards the geographical distribution of portfolio investment liabilities, the IIP does not give an adequate breakdown, since it only provides information on the first known non-resident counterparty. In many cases this refers to the country of residence of a financial intermediary which does not usually coincide with that of the ultimate holder of the securities, the latter being the relevant one for the purposes of economic analysis<sup>15</sup>. Analysis based on the end-investor criterion can be carried out using information from the geographical breakdown of the portfolio assets of other countries in Spain, contained in the latest edition of the Coordinated Portfolio Investment Survey for the year 2004. According to CPIS data, the most notable feature of the stock of foreign portfolio investment in Spain is its high degree of concentration; as at end-2004, ten countries accounted for 91% of the total. The main investors in the Spanish economy continued to be the euro area countries, which in 2004 increased their securities holdings to 72.2% of the total (69.7% in 2003). France and Germany stood out within the area, accounting together for around 40% of the total (see Table 4.9). The composition of the holdings of the euro area countries shows the high weight of fixed-income securities, which as at end-2004 represented 80% of the total (79% in 2003). As for countries not belonging to the euro area, the liabilities were concentrated among the United States, the United Kingdom and Japan (together accounting for 23.4% of the total), variable income having a larger share in these countries than in the euro area, especially in the United States.

15. For this reason, the geographical breakdown of the portfolio assets of other countries in Spain contained in the Coordinated Portfolio Investment Survey (CPIS) is used instead. For further information, see Banco de España (2005), "El stock de la inversión de cartera de España y la Encuesta Coordinada del Fondo Monetario Internacional", *Boletín Económico*, Banco de España, June 2005. The CPIS data are available at: <http://www.imf.org/external/np/sta/pi/cpis.htm>.

## OTHER INVESTMENT

TABLE 4.10

## Reconciliation of the change in the IIP stock with the balance of payments transactions (a)

EUR millions									
	NET (b)			ASSETS			LIABILITIES		
	CHANGE IN STOCK	TRANSACTION	% DIFFERENCE (c)	CHANGE IN STOCK	TRANSACTION	% DIFFERENCE (c)	CHANGE IN STOCK	TRANSACTION	% DIFFERENCE (c)
2003	-45,267	-48,845	-2.1	6,567	15,876	-4.7	51,835	64,722	-3.5
2004	5,220	8,212	1.4	18,443	28,419	-4.9	13,223	20,207	-1.7
2005	-24,787	-16,599	3.9	47,876	46,258	0.7	72,664	62,857	2.3

SOURCE: Banco de España.

a. Excluding Banco de España.

b. A (-) sign denotes a larger change in liabilities than in assets.

c. Difference between the change in the stock and the balance of payments transaction, in terms of stock at beginning of the period.

## 4.3.3 OTHER INVESTMENT

The net debit position of other investment (basically loans, deposits and repos) widened in 2005 by 11.9% to €233,721 million. This increase contrasts with the decline of 2.4% recorded in 2004 (see Chart 4.5), and took place against a background of growth in the external assets and liabilities in the form of this type of investment, of 21.5% at 16.8%, respectively. As a percentage of GDP, the debit position increased moderately (by 0.9 pp), to 25.8%, but this is still significantly lower than the high reached in 2003 (27.4%). These developments were governed by balance of payments flows, which gave rise to a net inflow of €16,599 million, as against a net outflow of €8,212 million in 2004. This net inflow was basically in the form of short-term loans and deposits, which offset the outflow in long-term instruments.

The stock of Spain's other investment abroad increased by 21.5% in 2005 to €270,275 million, a significantly higher rate than in 2004 (9%). Thus the rise in the stock following the slowdown in 2003 was consolidated. As a percentage of GDP, other investment assets increased significantly to 29.9% (26.6% in 2004).

The trend in Spain's other investment abroad stems basically from the behaviour of balance of payments flows, which increased by 62.8% in 2005, as well as from the direct positive impact of the depreciation of the euro against the dollar on the valuation of residents' positions in this currency<sup>16</sup> (see Table 4.10). Specifically, flows of other investment assets accounted for 96.6% of the total change in the stock.

By instrument, most of Spain's other investment abroad (around 79%) was in the form of deposits. Of these, the great majority are short-term (81.3%). MFIs account for most of the deposits (57.7% of the total). In 2005, their share increased significantly to the detriment of ORSs and general government.

As a result, the breakdown by institutional sector shows an increase in the predominance of MFIs, their representation rising from 54.1% in 2004 to 58.3% in 2005. This growth was achieved at the expense of ORSs, whose share fell by 3.6 pp to 37% of the total.

By geographical area, other investment abroad was concentrated in the EU, which accounted for 81.6% of the total. The euro area had a majority share, with 53.9% of the total, somewhat

<sup>16</sup>. As mentioned in the introduction, in this case the changes in the position between one period and another are basically explained by balance of payments flows and by exchange rate movements.

less than double that of the rest of the EU. The United Kingdom stood out in the rest of the EU, with 24.5% of the total, in line with its prominent role in interbank financial intermediation. As for the rest of the world, Latin America, tax havens and the United States had relatively similar weights, ranging from 3.9% to 3.2% of the total.

In 2005, the rate of growth of the stock of other investment in Spain also increased significantly, to 16.8% from 3.2% in 2004, a year in which this heading lost momentum. However, the growth recorded in 2005 was still lower than that seen in the second half of the 1990s (see Chart 4.5). In gross terms, these external liabilities stood at €503,995 million, equivalent to 55.7% of GDP, as against 51.5% in 2004, when this proportion fell.

The main factor responsible for these developments was balance of payments flows, which represented 86.5% of the total change in the stock (see Table 8). In the period analysed flows of other investment into Spain increased significantly, to reach €62,857 million (€20,207 million in 2004).

By instrument, more than 76% of the total was deposits, a percentage that was hardly changed from the previous year. Of these, the most important item was short-term deposits, which increased significantly in 2005 (42.4%), so that their weight in the total rose from 59.5% of all deposits in 2004 to 72.1% in 2005. The analysis by institutional sector shows that the increase in the stock of other investment liabilities was attributable, first, to MFIs, with growth of 17.5%, so that their relative weight in the total amounted to 76.1% (75.7% in 2004). ORSs were also buoyant, with an increase of 17.9%, which took their share in the total to 20.5%, up 0.2 pp from 2004. In consequence, the relative importance of general government, which had a clearly minority share, fell moderately, to 3.5%. This was broadly in line with the balance of payments information. In fact, the net investment received by MFIs amounted to €49,546 million in 2005, as against €14,948 million in 2004. For their part, ORSs raised funds of €13,741 million, after receiving only €234 million in 2004. The behaviour of these two sectors offset the net outflow recorded by general government.

Finally, the breakdown by geographical area shows a similar composition to that for assets. The EU accounts for 82.7% of the total. In this case, the share of the euro area and the rest of the EU is more similar than in other types of investment, 49.5% of the total corresponding to the euro area. In the rest of the EU, the United Kingdom stands out, with 24.9% of the total. As for the rest of the world, tax havens account for 6.2% of the total, their share being practically entirely made up of deposits. The United States is in second place with 4% of the total.

5 THE BALANCE OF PAYMENTS AND THE INTERNATIONAL INVESTMENT POSITION:  
METHODOLOGICAL NOTE

## 5 The Balance of Payments and the International Investment Position: Methodological note

### 5.1 Introduction

Improvements continued to be made in 2005 in the information system and in the calculation procedures used to measure the economic transactions between residents in Spain and residents in the rest of the world, as well as the related stocks of financial assets and liabilities. These improvements incorporate new results of the process of adaptation to the ongoing internationalisation of real and financial transactions initiated in previous years. The development of new information sources and the revision of existing ones made it possible, as in other years, for the degree of detail in external sector statistics to be increased and for the data disseminated under certain balance of payments headings to be adjusted to bring them more into line with reality.

For this reason, this report includes some balance of payments headings that have undergone revisions additional to those usually made on the cut-off date of the data for each year. The main changes relate to travel receipts, labour income, portfolio investment income, workers' remittance payments and certain transactions included in current transfers of the private sector. All these changes were made in co-ordination with the INE and further raise the consistency between balance of payments data and those of the rest of the world account in the National Accounts. Following is a brief glimpse of these changes; they are described in more detail in the section of this chapter dealing with changes introduced.

Regarding travel receipts, the calculation procedure was changed as from the data relating to January 2005. From that date, travel receipts are obtained solely from the information provided by the survey on tourist spending at borders (EGATUR); before then, this source was supplemented with other indicators. The methodological improvements in the calculation of income affect both labour and portfolio investment income. The labour income data in net terms being incorporated into the balance of payments were supplemented with information on receipts and payments of social contributions and taxes on labour, which enabled the receipts and payments of this income to be calculated more accurately. This change, which primarily affects receipts and payments, but not the balance of the heading compensation of employees, was included in the data from 1995. In regard to portfolio investment income, from the 2005 data onwards, both the receipts and the payments of this heading are recorded under the accrual principle, which previously was only applied to a part of payments. The replacement of receipt and payment data by accrual data was done by using the security-by-security portfolio investment information mentioned in the successive editions of this report. The revision of payments under the heading workers' remittances aims at a more exact measurement of remittances generated by the growing immigrant flow into Spain in recent years. As described later in this chapter in the section on changes introduced and as indicated in earlier editions of this report, although the remittance payments recorded in the balance of payments have grown significantly in parallel with this immigrant flow, comparison of these payments with other available indicators and with their main determinants suggests that they might be underestimated. The introduction of new calculation procedures in this heading resulted in an upward revision of remittance payments by approximately 20% for the period 2001-2005 and in an improved distribution of them by counterpart country. Finally, in the heading other transfers of the private sector, the funds transferred by the guarantee section of the European Agricultural Guidance and Guarantee Fund (EAGGF) have begun to be recorded when they accrue, rather than when they are paid by the European Commission to Spain. This change has been applied to the data as from 1995.



The improved procedures for calculating various balance of payments headings, briefly described in the previous paragraph, also enable a more detailed breakdown of certain current-account headings in which the users of these data have a great interest, namely those relating to workers' remittances and other services. Regarding the former, this report includes, for the first time in the balance of payments, data on the final destination of the funds sent from Spain. As regards receipts and payments of other services, since 2005 a quarterly breakdown of their main components by counterpart country and economic area has been freely available on the Banco de España's website, whereas previously only annual figures were available.

As in previous editions of this report, all the aforementioned changes are detailed below in the section on changes introduced. On this occasion, moreover, this section highlights the general and international nature of the process of adaptation of methodological rules to the current economic and financial setting. It does this in a part devoted to the review currently being conducted of the 5th edition of the IMF *Balance of Payments Manual*.

Besides the extraordinary revisions noted above, it is worth mentioning the reasons for normal data revisions. In the case of the balance of payments, these revisions, which relate to the two previous years and arise from the correction of errors or the inclusion of transactions whose information has been received late, are normally made each year when the January data are published. Up until now, the most important of the revisions affecting the current account was that arising from the incorporation of the revised goods trade figures published by the Customs and Excise Department (*Departamento de Aduanas de la Agencia Estatal de la Administración Tributaria*). To this should now be added, as from 2005, that relating to reinvested earnings on direct investment owing to the estimation method used, which incorporates information that is still preliminary and, therefore, subject to major revision. In the financial account, the main revisions affect the headings direct investment and portfolio investment. The revisions of direct investment are partly due to the aforementioned updating of reinvested earnings and partly due to the incorporation of information from the Foreign Investment Register of the Ministry of Industry, Tourism and Trade, which enables the inclusion of transactions that, because they do not give rise to any receipt or payment, are received with a certain time lag. With regard to the heading portfolio investment, the revisions are due to the recently implemented system for the reporting of negotiable securities and to the adaptation of the reporting parties to this information system.

The periodic revisions to the international investment position data, which are made when the quarterly data are compiled, affect the current and the two previous years (except when the data for the first quarter of each year are compiled, when the three previous years are revised). These revisions are generally attributable to the incorporation of updated information in the information sources used and to the same factors as mentioned for the financial account of the balance of payments, when the latter is the main source for estimating the stocks.

The balance of payments data in Chapter 6 of this report are strictly consistent with Chapter 16 of the April 2006 edition of the Banco de España's *Boletín Estadístico*. The related time series, certain headings of which, as indicated above, have been revised as from 1995, are available monthly since 1990 in the case of the balance of payments, and quarterly since 1992 in the case of the international investment position,<sup>1</sup> and can be found in the statistics section of the Banco de España website (<http://www.bde.es>).<sup>2</sup> Note that the *Boletín Estadístico* also

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1. Reserve assets have a monthly periodicity and start from January 1962. 2. There are also time series for the period 1980-1990, compiled by the Secretary of State for Trade, in accordance with the 4th edition of the IMF Balance of Payments Manual.

includes additional tables with details of the heading other services of the balance of payments, a breakdown by lender and borrower of the outstanding credit received from abroad by non-credit sectors, and the composition of reserve assets under the IIP.

The international investment position is compiled using the same information and represents the same general economic phenomenon as the account of stocks of financial assets and liabilities vis-à-vis the rest of the world of the *Financial Accounts of the Spanish Economy*. The Banco de España publishes, in an annual monograph with this title, this other statistic, which is compiled following the methodology established by the 1995 version of the European System of National and Regional Accounts (ESA 95). Even though the reference methodology is not the same, it should be noted that the conceptual scope of both statistics is very similar, so that their aggregate results are similar. In fact, the IMF, when compiling the 5th edition of its *Balance of Payments Manual*, made further headway in this homogeneity, to the point that the balance of payments and international investment position statistics compiled under the 5th edition, unlike those compiled under previous editions, are consistent with Revision 4 of the System of National Accounts (SNA 1993). However, the different data compilation and cut-off dates for these statistics explain further discrepancies that may exist at a given moment between these two information sources.

With regard to the presentation of the data in this report on the balance of payments and international investment position, as mentioned above, the main recent change, i.e. the separate presentation of the Banco de España's transactions and stocks, has been retained. It is important to note that this change merely involves a reallocation of information, which continues to be compiled strictly in accordance with the methodological guidelines of the 5th edition of the IMF *Balance of Payments Manual*. For purposes of international comparability, the IMF has to present the data in its publications in a similar way for all countries. In response to a singular phenomenon like monetary union, it has thus had to opt for a uniform accounting solution. This solution, which involves including the change in the assets of the euro area national central banks vis-à-vis the Eurosystem, and their other assets and liabilities that are not reserves, in the totals of the relevant headings, leaves only the reserves as the final counterpart of the rest of the euro area's balance of payments. The IMF's solution is not only consistent with the presentation for most countries, but also with that of the overall euro area aggregate balance of payments vis-à-vis the rest of the world. However it gives rise to serious problems for the analysis of the balance of payments of each country considered on its own.

For all the foregoing reasons, the dual presentation of the financial account of the balance of payments and of the international investment position is retained in this publication:

- In the tables summarising the main headings of the balance of payments and of the international investment position, the financial account has been broken down into that of the Banco de España and that of other sectors. The financial account of the Banco de España provides separate information on its reserves and on the change in the balance of its account with the Eurosystem, given the different analytical significance of these items, in the context of Spain's membership of a monetary union with a single currency. Moreover, for the sake of clarity of presentation, the net amount of other assets and liabilities of the Banco de España has also been included, which basically reflects the portfolio investment assets and the liabilities associated with the reserves. Section 5.2.5 of this chapter describes the content of each of the headings of the balance of payments, so that readers may find there a brief explanation of each of those making up the financial account of the Banco de España.

- In the breakdown tables, it was decided to maintain the presentation of the standard components of the 5th edition of the IMF *Balance of Payments Manual*, thereby ensuring international comparability. As a result, the transactions of the Banco de España, other than reserves, appear under the other investments heading and, from 2002, also in portfolio investment, albeit separated from those of other monetary financial institutions. All the tables specify clearly the content of each heading in terms of its coverage of the various institutional sectors, so that there can be no confusion in this respect.

Note that the footnotes to all tables in Chapter 6 state the sign convention used in recording balance of payments transactions. It should be pointed out that, in the specific case of reserves, it was decided to use the same convention in all the tables. Specifically, increases in reserves (which involve a net payment abroad as the country's assets increase) have been recorded with a negative sign and reductions therein with a positive sign.

With respect to the tables relating to the distribution of the transactions by geographical area, it is worth reaffirming that, in the case of the financial account, this distribution is, on many occasions, based on the allocation to the country of the first known counterpart. This fact should be taken into account by analysts, especially in relation to the liabilities of portfolio investment, in which the country of the first counterpart may often not coincide with that of the ultimate party to the transaction. On the assets side, as explained below, although in many transactions the ISIN (International Securities Identification Number) is used, from which the issuer's country can generally be identified, it is not always possible to ensure the correct geographical allocation of issues. It should also be recalled that as financial derivatives are recorded as net assets and liabilities they cannot be distributed geographically.

This chapter is organised as follows. Following this introduction, Section 5.2 is devoted to the balance of payments statistics, describing the information sources, the conceptual framework determined by the general criteria of residence, valuation and others; the classification of the transactions by heading and sector; the structure and content of the tables of Chapter 6; and, lastly, certain specific aspects of each heading. Section 5.3 contains the following points relating to the international investment position: information sources and valuation criteria; procedures for obtaining positions; structure and content of the tables of Chapter 7; specific notes for each heading and main differences between the change in the stocks of the international investment position and the flows of the balance of payments. Lastly, Section 5.4 explains the most important changes in the information system and calculation procedure, in the dissemination of statistics, and in the design and implementation of new information sources and, finally, discusses the revision of the 5th IMF *Balance of Payments Manual*.

## **5.2 Balance of Payments. Methodology**

### 5.2.1 INFORMATION SOURCES

#### a. Trade balance

For the trade balance, the Spanish balance of payments uses as its basic source the foreign trade statistics compiled by the Customs and Excise Department, albeit with the relevant adjustments. Section I.4.1 of the 1993 report described the data-collection methods applied by the Customs and Excise Department, with particular attention to the *Intrastat* system used for compiling intra-Community trade figures since the lifting of customs borders. The broad outlines of the description given there remain valid. Interested readers will find abundant information on this subject published by the Customs and Excise Department, and they may learn of the practical workings of the system from the resolutions issued annually which detail the applicable regulations. The latest resolution, dated 10 April 2006, was published in the *Official State Gazette* of 1 May 2006. Moreover, the Banco de España's *Boletín Estadístico* of April 1995 provided methodological notes on foreign trade statistics, with a summary of the data-collection system in general and of *Intrastat* in particular.

The differences that data users will find between the foreign trade figures published by the Customs and Excise Department and those of the trade balance of the Spanish balance of payments mostly arise from the accounting guidelines set out in the 5th edition of the IMF Manual. First, imports, which in the statistics published by the Customs and Excise Department are valued CIF, are adjusted to their FOB value for inclusion in the balance of payments. This requires estimating the freight and insurance specifically associated with the imports recorded by Customs and Excise, which are services that may have been provided by residents or non-residents. The freight and insurance that has to be deducted from the Customs and Excise CIF figures for imports has been estimated on the basis of information provided by the INE and in co-ordination therewith, in order to ensure consistency between the rest of the world account in the National Accounts and in the balance of payments. For the same reason, the estimate made for the National Accounts of intra-Community goods trade that is not reported, as the transactions involved come below the *Intrastat* reporting threshold, has been added to the Customs and Excise figures for imports and exports. Also the amounts corresponding to arrivals and dispatches of goods leased out under operational leases have been deducted.

There are also other differences in the content and valuation of goods trade according to Customs and Excise and the Spanish balance of payments. Notable, due to their relative importance, is the inclusion in the balance of payments of imports and exports of merchandise which do not cross borders and, therefore, are not included in the Customs and Excise trade statistics.

It should be borne in mind that the use of customs data to estimate the trade balance means that all goods trade is included, even that involving direct short-term financing between suppliers and their customers. Moreover, transactions are generally recorded in the period when the merchandise is physically moved (see, however, the exceptions to this general rule that follow from Section 5.2.2 of this chapter). Since, as later noted, the financial account does not reflect data for short-term trade credit, the counterpart of these transactions, not charged or paid for when recorded, appears under the errors and omissions heading. As a result, a portion of this heading is attributable to leads and lags in foreign trade, reflecting the time elapsing between the physical movement of goods at borders and the relevant receipt or payment of their amount.

b. Other transactions

In compiling the other transactions of the Spanish balance of payments, the Banco de España collects data directly from the following groups of declarants:

a) Deposit institutions

These institutions, made up of banks, savings banks and credit co-operatives, are required to report transactions with non-residents both on their own account and on behalf of customers, in accordance with the Banco de España Circular 15/1992. For reporting purposes, transactions with customers are the responsibility of the resident party to the transaction, which has to provide the data to the deposit institution for their presentation to the Banco de España. When the amount settled by an institution is the net amount of several transactions (on its own or its customers' behalf), the institution has to include the details of the gross amounts in its declarations.

In addition, under the new reporting system on negotiable securities, whose rules are contained in Banco de España Circular 2/2001, resident deposit institutions

shall furnish monthly information, security by security, on stocks of negotiable securities and on transactions relating to negotiable securities carried out with non-residents, on their own account or on their customer's behalf.

- b) Other financial institutions registered with the Banco de España or the CNMV (Spanish National Securities Market Commission)

Institutions of this type (specialised credit institutions, money market funds and non-monetary financial institutions) that carry out transactions with non-residents on their customers' behalf declare directly to the Banco de España all operations on behalf of their resident customers as well as any transaction on their own account. Thus, for the purposes of compulsory reporting, they operate under the same regulations set out in Circular 15/1992 that apply to the institutions listed in a) above.

Institutions that operate with non-residents solely on their own account can choose between directly reporting all transactions to the Banco de España, in accordance with the regulations in Circular 15/1992, or using the services of deposit institutions to declare transactions with non-residents settled through these institutions. In the latter case, they are subject to the same regulations applicable to non-financial legal entities and individuals.

Like deposit institutions, these institutions are also obliged to comply with the information requirements established by Circular 2/2001.

- c) Holders of demand or savings accounts with non-resident credit institutions

All residents in this category must inform the Banco de España of the opening and closing of accounts of this nature and of the gross amounts of all transactions settled through them, in accordance with the regulations in Banco de España Circular 24/1992.

- d) Holders of inter-company accounts with non-resident enterprises

All resident companies that have accounts with non-resident non-bank enterprises (usually, but not necessarily, with companies in the same economic group) must report to the Banco de España the opening and closing of these accounts, and the gross amounts of all transactions credited or debited through them, in accordance with the regulations in Circular 24/1992. Thus, the reporting requirements of this group are regulated by the same circular that applies to the group in the preceding paragraph. However, the separation of the two accounts is important from the standpoint of the balance of payments and economic analysis, because the changes in their balances are assigned to different headings in the balance of payments, as is explained below.

- e) Parties to offsetting transactions with non-residents

Offsetting is understood to encompass any operation not giving rise to a settlement via credits or debits in a bank or inter-company account, due to the fact it involves a receipt and a payment of the same amount with opposite signs. Residents engaging in transactions of this nature with non-residents must report

them directly to the Banco de España, in accordance with the regulations in Circular 6/2000.

One special case of this type of transaction is merchandise trade financed through direct credit between sellers and their customers. Circular 6/2000 regulates the reporting requirements for transactions in this category, which are applicable only when the maturity of the credit exceeds one year. Short-term trade credit will, therefore, appear under the errors and omissions heading, with this omission (strictly speaking, it is not an error) being a very significant part of this heading. Moreover, precisely because it is not an error, its behaviour is linked to that of other macroeconomic variables (e.g. interest rates and exchange rate expectations) and, consequently, it cannot be treated as a random variable, and its sign and behaviour may follow systematic patterns over a given period.

- f) Residents performing transactions with negotiable securities directly through non-resident intermediaries

Resident investors carrying out transactions with negotiable securities directly through a non-resident financial intermediary must provide information, security by security, on their stocks of negotiable securities and transactions involving negotiable securities, directly to the Banco de España, in accordance with the rules of Circular 2/2001.

In principle, the information collected from the aforementioned groups covers the full range of transactions with non-residents: those implemented through resident financial institutions; those implemented directly by resident financial institutions on their own behalf; transactions settled through bank or inter-company accounts abroad; and those which do not give rise to any settlement, i.e. offsetting transactions. A specific problem arises in the distribution by heading of transactions involving less than EUR 12,500, whose content is not subject to reporting requirements even though the amount involved is known. Here the main indicator used is the distribution by heading of transactions in the next bracket up, even though this obviously reduces the statistical reliability of headings incorporating a large volume of such transactions, as is the case of private transfers (with emigrants' remittances being particularly significant in recent years) and other headings covering personal services.

Also notable, in relation to information sources, is the increasing use of information provided by other institutions and by other departments of the Banco de España. This information sometimes supplements that supplied by the main sources and at other times replaces it. In this respect, the new estimates of travel credits and insurance services may be highlighted in the services account. In the income account, the information supplied by Iberclear (the Securities Registration, Clearing and Settlement Systems Management Company) is used to calculate the income from portfolio investment and other indicators of financial market performance. For their part, transfers include data supplied by the Treasury and the FEAGA (Spain's State Agricultural Guarantee Fund) to estimate transfers to and from the EU (current transfers) and direct information from the CESCE (Spain's official export credit company) (capital transfers). Data from the Investment Register of the Ministry of Industry, Tourism and Trade and from the Banco de España's Central Balance Sheet Data Office have been taken into account to calculate direct investment. The use of these external sources in the Spanish balance of payments shall be commented upon in greater detail in the sections dedicated to each heading.

Finally, other sources of information, used to obtain the institutional sector and the economic sector and to assign the data geographically, should be noted. The institutional sector is obtained from a database of the Banco de España's Directorate General Economics, Statistics and Research using the NIF (taxpayer I.D. number) of the resident declared in the balance of payments information. This database includes data from numerous sources, such as the official registers of the Banco de España, the Directorate General of Insurance, the CNMV, etc. The economic sector is also obtained from the NIF, using a database that relates it to the sector and which includes data from the Banco de España's Central Balance Sheet Data Office and the INE's Central Directory of Corporations (DIRCE) and also data available in the Banco de España's Balance of Payments Department on firms that report information directly. For its part, the country of non-resident issuers of negotiable securities included in portfolio assets is obtained from the first two digits of the ISIN. As these digits, in the case of issues on international markets, may give the wrong country or may not be sufficient to identify the country, a database supplied by the Bank for International Settlements is used, which gives the country for each ISIN. The geographical assignment of the heading other investments of monetary financial institutions is made by supplementing the information reported by credit institutions to the Balance of Payments Department with the accounting statements that such institutions submit in accordance with the applicable circulars.

## 5.2.2 CONCEPTUAL FRAMEWORK

The Spanish balance of payments is compiled under the guidelines of the 5th edition of the IMF *Balance of Payments Manual*. This section does not go into a detailed description of the 5th edition's many chapters which give form to what it calls the conceptual framework of the balance of payments, because the Manual is sufficiently detailed, as far as concepts such as economic territory and residence, the valuation criteria for transactions, the time of recording, etc. are concerned, to act as a direct reference. Accordingly, areas posing no special problems are only briefly summarised in this report. Other areas, however, call for somewhat more detailed treatment, because of their importance in correctly interpreting the data.

### a. Residence

The balance of payments records the transactions between the residents of a country and the rest of the world, irrespective of their nationality. The IMF considers an institutional unit to be a resident unit when it has a centre of economic interest in the territory of a country.

Although the 5th edition of the Manual devotes a chapter to explaining the concept of residence, the application of this concept inevitably leaves certain decisions to the discretion of the data compiler. According to the IMF, "an enterprise is said to have a center of economic interest and to be a resident unit of a country (economic territory) when the enterprise is engaged in a significant amount of production of goods and/or services there or when the enterprise owns land or buildings located there". Thus, in practice, the concept is imprecise, to the extent that the IMF itself recommends considering the permanence of an enterprise in the country for one year or more as a guideline for residence.

The above definition of the concept of residence is important because the scope and contents of the headings in the balance of payments pivot essentially on this definition. Indeed, entry into foreign markets — services markets in particular — through the creation of subsidiaries or branches is a widespread practice. Cross-border services entailing the physical movement of the supplier of the service have given way to the creation of commercial establishments which, in many cases, are resident units of the country where the services are provided. In such cases, the only flows which figure in the balance of payments are those related to direct investment and income generated in the form of profits, with the resulting loss of information on the nature of the services bought or sold. The provision of services through a resident commercial establishment is such a widespread phenomenon that international organisations in charge of

negotiating the liberalisation of international markets, and specifically the World Trade Organisation, have begun to compile statistics on resident commercial establishments that are subsidiaries or branches of parent companies located in other territories to make up for the loss of information in the balance of payments data relating to services trade.

b. Timing of recording of transactions: the accrual principle

Transactions should be recorded in the balance of payments at their accrued value. According to IMF terminology, this means that “transactions are recorded when economic value is created, transformed, exchanged, transferred, or extinguished”. Thus, the flows recorded do not necessarily coincide with the liquid proceeds and payments generated. In fact, very often the transactions in the balance of payments do not give rise to liquid proceeds and payments, and in other cases they are recorded at a different time. But, in practice, the application of this principle to all transactions with non-residents proves complicated and costly, and many transactions are therefore recorded at the time when the proceeds or payments are generated.

In the Spanish balance of payments, changes are made to the data in the general information system to adapt them to the accrual principle, basically in the case of merchandise trade, portfolio investment income, reinvested earnings of direct investment firms and transfers received from the EU via the EAGGF. In the rest of the balance of payments, transactions are recorded, in principle, when effective receipt or payment occurs<sup>3</sup>, although, as explained above, numerous transactions are also included that do not generate payments (offsets, transactions credited or debited in inter-company accounts, etc.) or that do so only for amounts far below their book value.

Merchandise trade is generally recorded on an accrual basis, when the actual transaction occurs, because customs statistics are used as the source of information. Nonetheless, in intra-Community trade, due to the lifting of customs borders, time lags can arise between the physical movement of goods and their statistical declaration and recording. This is especially so in the provisional monthly data, which are those used for closing the latest annual balance of payments report, in this case the 2005 report. The Customs and Excise Department revises its monthly data on an accrual basis by assigning the transactions to the periods in which they actually occurred when it publishes the revised figures of the previous year.

In the income account, investment-income payments to non-residents arising from interest on peseta- and euro-denominated bonds issued by the Spanish general government sector have, since 1993, been recorded on the basis of the interest accrued rather than that paid, and likewise since 2005 in the case of other income from portfolio investment. If the interest accrued in the period is greater than that paid, this change also entails recording the counterpart entry of the difference, i.e. the accrued interest pending payment, as an increase in the value of investment. If the interest accrued in the period is less than that paid, the change entails carrying the difference as a decrease in the aforementioned investment.

The 5th edition of the IMF Manual expressly recommends the application of the accrual accounting convention in recording interest income. Paragraph 282 of the Manual edited by the IMF in 1993 establishes the following: “Dividends are recorded as of the date they are payable. Interest income is recorded on an accrual basis. If the interest is not actually paid, an income entry is recorded under the appropriate instrument and a counterpart entry

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3. It should be taken into account that the difference resulting from application of the two criteria is minimal, and generally the headings which include the aforementioned adjustments are those in which the adjustments mentioned in the paragraph are made.



is made in the financial account to reflect an increase in the claim associated with non-payment". This recording of income on an accrual basis thus signifies that interest accrued during the related period will in turn be recorded in the financial account as an increase in investment.

As explained in the section on changes introduced, from 2005 all the portfolio investment income data will follow the methodological criteria of the IMF *Balance of Payments Manual* in regard to the application of the accrual principle. Nevertheless, the detailed security-by-security income information that will be contained in the Centralised Securities Database currently being set up by the European Central Bank will enable the accrual principle to be applied more accurately in future in the calculation of the income on all the securities included under this heading.

Meanwhile, paragraph 383 of the 5th edition of the IMF Manual states as follows: "Reinvested earnings of direct investment enterprises are recorded in the balance of payments in the periods in which the income is earned". Further, direct investors' shares of reinvested earnings are deemed to provide additional capital to the enterprises and to increase the value of an economy's stock of foreign assets and liabilities. Consequently, when they are recorded in the balance of payments, direct investment income and direct investment capital entries shall be made. The calculation procedure used to estimate the reinvested earnings on foreign direct investment in Spain is not the same as that used to calculate those on Spanish investment abroad. In each case, the procedure used depends on the information sources available, although both estimates are based on the calculation of average rates of return applied to direct investment position data. In the case of enterprises resident in Spain, the estimate has been obtained from accounting information from the Banco de España Central Balance Sheet Data Office, with data extrapolated to the whole non-financial corporations sector. The reinvested earnings of non-resident enterprises have been calculated using the flows of reinvested earnings published by Eurostat for the European Union vis-à-vis the main counterpart countries of Spanish direct investment abroad (see the changes-introduced section of the 2004 report for a more detailed explanation of these new estimates).

c. Valuation. Flows and stocks

The Spanish balance of payments has been compiled in euro since 1999. The time series, compiled in pesetas up to December 1998, have been converted to euro at the irrevocable exchange rate of ESP 166.386 /euro. The domestic currency is commonly used as the valuation unit in most developed countries and in nearly all of Europe. In fact, the IMF only expressly recommends the use of alternative units of account in countries with volatile currencies.

Transactions are declared in their original currency, using for their translation into euro the average exchange rate of the ten-day period when they take place in the case of transactions declared by financial institutions, and the month's average exchange rate in all other cases (obviously, transactions carried out before 1999 in the currencies of the euro area countries have been translated into euro by simply multiplying their irrevocable exchange rates). Thus, the Spanish balance of payments adheres closely to the theoretical principle of valuation in the 5th edition of the IMF Manual, which recommends that all transactions be valued at the market rate in effect on the date of the transaction. In this respect, the IMF leaves no room for doubt. The estimates of the different entries in the balance of payments should not reflect changes induced by fluctuations in exchange rates or in the market prices of the financial assets and liabilities in question. Nor should the balance of payments record the discrepancies which may arise in using a single currency to value the receipts and payments of operations related to offsetting or to the buying or selling of currencies, since these are, by definition, identical in the original transaction agreed between the parties.

The importance of this valuation principle should be stressed, because it is essential for understanding the relationship between stocks and flows or, in other words, the relationship between the balance of payments and the international investment position. The 5th edition of the Manual defines the international investment position as the value of the stock of each financial asset and liability defined in the standard components of the balance of payments. For each standard component in the financial account, the international investment position should reflect the value of the stock of this type of asset or liability at the beginning of the year and its value at year-end. The difference between the two must be equal to: the flow recorded in the balance of payments, which reflects the transactions in these assets or liabilities that actually took place; plus the change in the value of the stock induced by swings in the exchange rate; plus the change caused by movements in the price of the related assets or liabilities (in addition to several other adjustments; see paragraph 466 of the 5th edition of the IMF Manual).

The 5th edition of the Manual thus establishes explicit links between an economy's holdings of financial assets and liabilities and the changes, or flows, in the related financial instruments. It does this by establishing, for each of the headings that together form the account reflecting financial transactions, the corresponding stock or international investment position.

In this chapter, Section 5.3 on the international investment position explains in greater detail the valuation criteria used in compiling this statistic and its relationship to the corresponding flows.

d. Classification of financial flows by change in assets and change in liabilities. Signs used

In the tables in Chapter 6, the transactions of the financial account are recorded as the net change in the assets or net change in the liabilities of resident units vis-à-vis non-resident units. The data reflect only the net asset-side flows (residents' purchases of assets vis-à-vis non-residents, less their sales and redemptions) and the net liabilities-side flows (purchases by non-residents of assets issued by residents, less their sales and redemptions). This is due to the fact that the recording of gross flows is no longer of significance given the extraordinary mobility of capital, which has increased the flow of purchases and sales of financial assets exponentially. This is not only true of assets involving negotiable securities in the traditional sense, but also applies to virtually the entire range of assets and liabilities, now characterised by high mobility produced by financial and technological innovation.

Indeed, the participation of resident and non-resident securities-dealer companies and securities agencies, clearing services, settlement agencies and financial intermediaries in the placement of negotiable securities among customers, whether residents or non-residents, generates figures for gross capital flows that may have no economic significance other than the greater complexity of the intermediation between the final agents handling the transaction. Even in the case of credit and loan transactions, where the significance of gross flows involving the provision or repayment of funds is apparently clearer, frequently complex mechanisms (revolving credit, syndicated loans with the entry and departure of resident and non-resident financial institutions into and from the syndicate) can give rise to gross flows between the borrower and diverse lenders of different nationalities that do not have the same significance as traditional loans with a specific borrower, lender and repayment terms.

The signs with which items are posted in the balance of payments require an accounting convention. Even in the case of current-account transactions, the sign could differ depending on whether it was sought to highlight the standpoint of the resident or that of the non-resident involved in the transaction. Hence a merchandise export is a receipt for the exporting resident but a payment for the non-resident purchaser. The Spanish balance of payments adopts the angle of the resident. However, in the financial account this accounting convention would not

alone suffice to define unequivocally the phenomenon it is sought to reflect. For example, an increase in a resident's assets vis-à-vis a non-resident involves a payment abroad, i.e. an out-flow. If what it is sought to show in a table is the fact that a country's assets increase or decrease, they would have to be recorded with a positive sign in the former case and a negative sign in the latter. But if the criterion adopted is to record financial transactions taking into account the fact that they give rise to a receipt, or a payment, the increase in assets would have to be recorded with a negative sign and the decrease with a positive sign. Since all standpoints are valid, whether that of the resident or non-resident, and whether combined with different criteria to represent the increase or decrease in the related assets or liabilities, each table in Chapter 6 of this publication details (as earlier indicated) the accounting convention used.

The errors and omissions heading is merely an adjustment for the difference between total credits and total debits. Consequently, it does not feature as a heading in the current, capital or financial account. In the tables in Chapter 6, it is recorded separately as a balancing item. If its sign is positive (negative), this indicates there is an understatement (overstatement), through errors or omissions, in the net balance of the sum of the current and capital accounts, i.e. of the nation's net lending/borrowing in relation to the net financial-account balance.

Notably, in the case of direct investment flows, the accounting recommendation for assets and liabilities calls for several additional details, because the IMF establishes the "direction" criterion for the classification of these transactions, as explained in Section 5.2.5.c. under the heading "Direct investment".

### 5.2.3 CLASSIFICATION OF TRANSACTIONS BY HEADING AND INSTITUTIONAL SECTOR

a. Classification by heading

The transactions of the Spanish balance of payments are structured around three basic accounts: the current, capital and financial accounts.

The *current account* is divided into four basic sub-accounts: goods, services (including travel), income and transfers. Notably, labour income and investment income thus have their own accounts, separate from that of services.

The *capital account* includes capital transfers and the disposal and acquisition of non-produced, non-financial assets. In the Spanish case, capital transfers are by far the most sizeable heading in this account. The specific notes on these two headings (see Section 5.2.5) give the details of their contents.

The *financial account* is structured so that the transactions of the Banco de España are treated separately. There is thus one account with the transactions of the various sectors, excluding the Banco de España, and another with the central bank's transactions. There are four sub-accounts under the first account, differentiated by the type of assets and liabilities whose form the corresponding transactions take: direct investment, portfolio investment, other investment and financial derivatives. The first three offer itemised information of asset- and liabilities-side transactions, while financial derivatives are recorded as change in liabilities minus change in assets. Transactions are allocated to the various institutional sectors according to the sector to which the resident party to the transaction belongs. Institutional sectorisation is also used in the investment-income balance. The definition of the institutional sectors is explained under heading 2 of this section.

As regards the basic contents of the various sub-accounts of the financial account, *direct investment* includes investments that reflect the investor's objective of obtaining a lasting benefit from the investee enterprise, achieving a significant degree of influence in its management. For practical purposes, the 5th edition of the Manual defines the owner of 10% or more of the

capital of a direct investment enterprise as a direct investor. This rule is not conclusive as the guideline acknowledges that a smaller percentage may entail a controlling interest in the company (and, conversely, that a share of more than 10% may not signify control). But the IMF recommends using this percentage as the basic dividing line between direct investment and portfolio investment in the form of shareholdings. Naturally, direct investment also encompasses other forms of participation in capital which, by their very nature, meet the definition of permanent investment (funds allocated to branches, for example), and reinvested earnings. Investment in real estate is also recorded under this heading. Moreover, the direct investment heading should include both the flows of the original transaction, which determined the party's status as a direct investor, and all subsequent financing flows of any nature, not only in the form of new purchases of shares and bonds but also trade-related and financial loans, irrespective of whether they are short or long term. This broad definition allows for the possibility that there may be elements that introduce some volatility into the behaviour of this heading. In this respect, inter-company loans — especially short-term loans — are likely to be more sensitive to interest rates, in their different terms, and to exchange rate expectations than equity holdings, where expected profitability is the basic explanatory variable, and one that is generally less volatile in the short-term. The foreseeable volatility of the flows thus recorded is increased if the financing flows between companies indirectly related via their links to the same multinational group are also included.

*Portfolio investment* records transactions in negotiable securities, with the exception of shareholdings that fall within the definition of direct investment. Financial derivatives are not included, even if they are negotiable. This account is divided into three main components: shares, bonds and notes, and money market instruments. The specific contents of each of these headings in the Spanish balance of payments are described in detail in Section 5.2.5.

The *other investment* account essentially records loan transactions, covering both trade-related and financial loans, with separate short- and long-term categories, and deposits, including foreign-currency holdings. It is worth mentioning that, for accounting purposes, the 5th edition of the Manual considers transactions involving securities with repurchase agreements as similar to secured loans or deposits. Specifically, repo sales to non-residents by residents should be recorded, under change in liabilities, as loans received if the seller is not a credit institution, and as foreign deposits in Spain if the seller is a credit institution. Residents' repo purchases of securities held by non-residents should be recorded, under change in assets, as deposits abroad if the non-resident is a credit institution, and as loans abroad if the non-resident is not a credit institution. As a result, repos and sell/buy-back transactions are included in the other investment account. Admittedly, in the data in Chapter 6, all repos and sell/buy-back transactions by resident credit institutions are recorded under a single heading. But it is important to highlight their theoretical status as loans or deposits (the accounting experts of international organisations agree here), because this is not a mere accounting convention but rather reflects a decision based on their greater resemblance to, and substitutability for, this type of asset. In other words, the determinants of the demand for this type of asset in investors' portfolios are more similar to those of loans and deposits than to the determinants of portfolio investment in listed securities. The way they are recorded is therefore based on analytical and theoretical reasons and not just more or less arbitrary accounting conventions.

*Financial derivatives* cover all instruments of this nature that can be valued because there is a market price for the underlying asset, irrespective of whether it is traded or not on organised markets, and irrespective of what the underlying asset is. Section 5.2.5 describes the specific content of this heading in the Spanish balance of payments.

Lastly, the *financial account of the Banco de España's foreign transactions* includes the change in reserves, the change in the Banco de España's account with the Eurosystem, and the other foreign assets and liabilities of this institution. Section 5.2.5, which explains the content of each heading in the balance of payments, describes these transactions. Moreover, in each table of Chapter 6 where they appear, a footnote to the table gives the accounting convention used for the sign of the change therein. Suffice it to say here that, in the summary tables of the main balance of payments headings, the other external assets and liabilities of the Banco de España (excluding reserves and the account with the Eurosystem) have been included in a single line as the net balance of liabilities minus assets. Meanwhile, in the subsequent detailed tables, they are broken down into change in assets, on one hand, and change in liabilities, on the other.

b. Classification by institutional sector

The investment income account and the various headings of the financial account are broken down into the following three institutional sectors:

- 1 *Monetary financial institutions sector*
  - 1 Banco de España
  - 2 Other monetary financial institutions
    - 1 Credit institutions
      - 1 Banks
      - 2 Savings banks
      - 3 Credit co-operative banks
      - 4 Specialised credit institutions
      - 5 Instituto de Crédito Oficial
    - 2 Money market funds (MMFs = FIAMM)
- 2 *General government sector*
  - 1 Central government
    - 1 State
    - 2 Central government agencies -- including autonomous administrative agencies (except social security units), universities and corporations considered to be government
  - 2 Regional (autonomous) governments
  - 3 Local government
  - 4 Social security funds
    - 1 Social Security System
    - 2 Other social security funds
- 3 *Other resident sectors*
  - 1 Non-monetary financial corporations (excluding insurance corporations and pension funds)
    - 1 Other financial intermediaries (excluding insurance corporations and pension funds)
      - 1 Collective investment institutions (except money market funds)
        - a) Investment companies
        - b) Capital-market mutual funds
      - 2 Real estate investment institutions
        - a) Real estate investment companies
        - b) Real estate mutual funds
      - 3 Securities dealer companies
      - 4 Financial vehicle corporations
      - 5 Venture capital funds and companies
      - 6 Financial holding corporations
      - 7 Issuers of preference shares and other negotiable securities

- 2 Financial auxiliaries
  - 1 Deposit guarantee funds
  - 2 Portfolio management companies and the management companies of other financial institutions and insurance corporations
  - 3 Official market governing bodies
  - 4 Securities agencies
  - 5 Rating agencies
  - 6 Appraisal companies
  - 7 Mortgage market regulation funds
  - 8 Guarantee companies
  - 9 Comisión Liquidadora de Entidades Aseguradoras (until absorbed by Consorcio de Compensación de Seguros)
  - 10 Currency-exchange bureaux
  - 11 Securities clearing and settlement companies
  12. Holding corporations performing activities of financial auxiliaries
- 2 Insurance corporations and pension funds
  - 1 Private insurance corporations
  - 2 Non-profit insurance entities
  - 3 Consorcio de Compensación de Seguros
  - 4 Pension funds
3. Public and private non-financial corporations
4. Households and non-profit institutions (NPIs serving households)

Transactions are allocated to the various institutional sectors according to the sector to which the resident party to the transaction belongs. Thus, if a resident bank purchases US Treasury bills, the transaction is recorded as a portfolio investment abroad (changes in assets) by the monetary financial institutions (MFIs) sector. By contrast, if a foreign bank purchases Spanish Treasury bills, the transaction is recorded as a foreign portfolio investment (changes in liabilities) in the general government sector. It should be borne in mind that, for foreign investment in Spain, the institutional sector is allocated in accordance with the final recipient of the investment, who is not necessarily the recipient of the corresponding payment, nor the party reporting the operation to the Banco de España. Indeed, for foreign investments in negotiable securities issued by residents on the secondary market, the resident seller can be any holder of the securities, the broker appearing as the agent settling the transaction. However, using the issuer's fiscal identification number ensures appropriate allocation of the transaction to the institutional sector to which it belongs.

#### 5.2.4 STRUCTURE AND CONTENT OF THE TABLES IN CHAPTER 6

The tables in Chapter 6, namely those showing the balance of payments data, have been structured in accordance with the 5th edition of the IMF Manual's framework of accounts, sub-accounts and headings for standard components described above. The specific content of each heading, which are the same as in the 2004 edition of this report, is explained in the next section.

The table of contents at the beginning of this report gives a detailed list of the tables. The data for 2005 are presented in the tables whose headings begin with 6.1, and the revised 2004 figures in those with 6.2. The data from 1992 onwards can be consulted in the CSV files that accompany the tables of Chapter 6 in the electronic version of this publication, available at the Banco de España website. Both sets of data (for 2005 and 2004) contain the same number of tables, with the same content and numbering; except for the new Table 6.1.12, which gives a geographical breakdown of direct investment for the period 1999-2005. The first table reflects the annual data of the main headings of the current, capital and financial accounts, while the

others give, for each heading, the annual data and the estimated quarterly data for each of the two years. The first two tables are a summary of the main headings, and the rest contain more detailed, disaggregated data. These first two tables include the change made in 2000 so as to show the transactions of the Banco de España on their own; the bulk of the financial transactions of the other sectors are under the heading financial account excluding Banco de España.

As regards the tables presenting the details of the current account, specifically for 2005 and 2004, Tables 6.1.3 and 6.2.3 give the estimates of the different services headings. Tables 6.1.4 and 6.2.4 contain the disaggregation of investment income by institutional sector. The breakdown by instrument appears in Tables 6.1.5 and 6.2.5. Tables 6.1.6 and 6.2.6 provide a breakdown of current transfers by institutional sector, including the disaggregated data for those whose counterpart is the EU.

The data of the capital account are presented in Tables 6.1.7 and 6.2.7. Here, too, capital transfers are disaggregated by institutional sector, and the data for transfers from the EU are also shown.

The headings for which a breakdown was made of the transactions of the financial account are given in two tables with similar information but with alternative presentations. In the first, Tables 6.1.8 and 6.2.8, a disaggregation of the transactions of the institutional sectors is given for the main types of financial instrument. In the second, Tables 6.1.9 and 6.2.9, the disaggregated data of the transactions of each institutional sector are presented by instrument. For the reasons given in Section 5.1 of this chapter, a table with a presentation similar to that used by the IMF in its publications has been retained to provide for readier international comparability. Thus, in Tables 6.1.8 and 6.2.8, the heading other investment includes the Banco de España, albeit as a sector different from other MFIs, with reserves as an independent heading. Conversely, in Tables 6.1.9 and 6.2.9, all the financial transactions of the Banco de España, and not only reserves, are presented separately, as in the first two summary tables.

Tables 6.1.10 and 6.2.10 show, for 2005 and 2004 respectively, the total flows of foreign direct investment, with details of the amount made through foreign-equity holding companies (ETVEs) resident in Spain. As a consequence of the institution of a special tax regime<sup>4</sup> offering significant advantages to Spanish foreign-equity holding companies (ETVEs), such firms have frequently been used in recent years by non-resident multinational groups to centralise the holding of their foreign direct investments in third countries. This has led to the recording in the balance of payments of increases in liabilities arising from the holding of the non-resident parent company in the resident ETVE, and increases in assets arising from the foreign holdings of the Spanish ETVE, of a similar magnitude. Thus, although the impact of these transactions on net assets and liabilities is smaller, it is very important to identify the flows corresponding to these companies separately, in order to be able to correctly analyse developments in Spanish foreign direct investment. Note that, in these cases, the Spanish resident firm simply records the transactions in its balance sheet with out any capital contribution being made and, therefore, their transactions should not be included with those determining Spanish direct investment abroad or with those determining foreign direct investment in Spain.

For this reason, in order to facilitate economic analysis, Tables 6.1.10, for 2005 and 6.2.10, for 2004, give an estimate of the flows of direct investment from and to ETVEs resident in Spain<sup>5</sup>.

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4. See Corporate Income Tax Law 43/1995 and Law 6/2000. 5. An estimate of the stock of direct investment is not yet available.

The estimate is based on the breakdown of direct investment according to the economic activity (NACE) of the resident enterprise, taking the sector management activities of holding companies. As a result, the data given may include, along with ETVEs, other holding companies that, while not themselves ETVEs, have performed similar transactions, so that, in practice, they are a good estimate of the transactions that, for the reasons mentioned, distort the analysis of the direct investment data. Note that this conception of an ETVE does not include holding companies that have carried out direct investment transactions or have been the object of the same, when the transactions involve an actual contribution of funds between Spain and the rest of the world. These firms have been classified in the economic sector corresponding to the main activity of the group in Spain, when it has been possible to determine this.

For their part, Tables 6.1.11 and 6.2.11 contain estimates of the main headings of the balance of payments for a set of economic and geographical areas, selected from among those regularly used by international organisations, and some individual countries.

From 2004 onwards, information is included on the distribution of MFI transactions by country. By contrast, the recording of financial derivatives on a net basis (changes in liabilities less changes in assets) precludes their geographical breakdown. In addition, several factors that particularly limit the information content of several items should be borne in mind. In this respect, it is worth recalling that information on transactions involving less than EUR 12,500 is not available, and their distribution by country was estimated by using as an indicator the breakdown of the rest of the transactions of the different headings to which they were assigned. Further, in most foreign portfolio investment in Spain, declarants designate as the country of the transaction that of the residence of the institution which manages and has custody of the related securities. This explains the large volume of operations of this type in countries such as the United Kingdom.

## 5.2.5 NOTES ON EACH HEADING

### a. Current account

#### a) Trade balance

This heading covers goods that cross the country's borders and those involving no physical crossing of borders, in addition to goods procured by carriers (fuel or any other type of supply).

As earlier noted, the data for merchandise that crosses borders are those furnished by the Customs and Excise Department, to which some adjustments are made. In the case of imports the most significant adjustment is that made to record imports in the balance of payments at their FOB value, rather than CIF, which is how they are valued in the Customs and Excise foreign trade statistics. The data this year incorporate an estimate, obtained from information supplied by the INE, of that part of foreign trade exempt from declaration under the *Intra-stat* system for measuring intra-Community trade. This estimate is incorporated into the data for 1995 onwards. Also from that year, a new adjustment to the Customs and Excise figures has been made to deduct the net amount of the arrivals and dispatches of goods leased out under operational leases. Merchandise that crosses borders temporarily for this purpose is included in the Customs and Excise statistics at its gross value, so that with this adjustment the net amounts are approximated, not the gross, to the requirements of the *Balance of Payments Manual*, which excludes operational leases from merchandise imports and exports, including them in services (see the "changes introduced" chapter in the 2004 report for further details of the new adjustments introduced). The 2004 data are the revised figures of the Customs and Excise Department. The 2005 data



are provisional. Also, due to the lack of more precise information, the total value of merchandise crossing borders is recorded, either as exports or imports, even if it is moved solely for the purpose of repairs, despite the IMF's recommendation that only the net value of such operations be recorded.

b) Travel

This heading covers the goods and services purchased in an economy by non-resident travellers who, for business or personal reasons (including health and education), stay in the country for less than a year. The data-collection system used for this heading in the Spanish balance of payments does not allow a breakdown of the reasons for this type of travel.

As explained in greater detail in the changes-introduced section, the 2005 travel receipts were calculated, for the first time, using information drawn solely from the survey of spending at borders (EGATUR). Travel payments continue to be calculated using the procedure described in the 2004 report.

c) Transportation

The transportation headings cover freight and passenger transport as well as ancillary transport services. The latter cover a broad range of services provided in ports, airports and other terminal facilities, such as loading and unloading, storage and warehousing, and, in general, expenses related to the stop-over of the different means of transportation. Fuel and other merchandise, recorded in the trade balance, are excluded. Time chartering with crew is included.

d) Communication services

This heading records postal and courier services, services related to the transmission of sound, images and information by telex, facsimile, telegram, cable, broadcasting, satellite, electronic mail, etc.

e) Construction services

The data for construction services reflect the application of a precise definition of the concept of residence to the firms involved, for the purpose of distinguishing between transactions that can be recorded as construction services in the strict sense and those which should figure as flows between companies related by direct investment links. As a result, the corresponding receipts for construction services reflect those rendered by resident companies, while payments reflect those rendered by non-residents, when there is no branch or subsidiary in the country where the construction works take place.

Data users should be aware that, in headings such as this, the dividing line between the sub-account of services and that of direct investment is somewhat blurred. Moreover, even though only the value of the service should be reflected, this heading possibly includes items of a different nature, owing to the difficulties of identifying the various components of transactions that are often billed together.

f) Insurance services

Insurance services include the National Accounts estimates on the value of the service in the strict sense. In the case of reinsurance, receipts reflect the net amount of the reinsurance policy purchased, and payments reflect that of the reinsurance policy provided.

In addition to freight insurance, this heading encompasses life assurance, contributions to pension funds, personal accident, health, traffic accidents, general liability, fire, property damage insurance, etc., and reinsurance. Not included are Social Security benefits and payments, which are posted in the balance of transfers. Also excluded is export credit insurance, which is recorded under the financial services heading.

g) Financial services

This covers the broad range of financial intermediary services. Though not an exhaustive list, this heading encompasses commissions and expenses relating to: foreign investment, such as the issue, placement and redemption of securities and, in general, brokerage fees for direct and portfolio investment and the sale/purchase of real estate; commissions and expenses relating to the acquisition and placement of funds in deposits; bank drafts; cheques paid and certified; money changing; travellers' cheques; loans received and extended; financial leases; credit cards; swaps; options; futures operations; administrative services and asset management; treasury management; financial consultancy; factoring; letters of credit, underwriting and credit insurance, etc. Naturally, not included are the receipts and payments linked to the principal and to the returns generated by the above-mentioned transactions, which are recorded in the financial account and in the income account, respectively.

h) Computer and information services

This heading records receipts and payments relating to: hardware services, taken to mean the assessment and configuration of computer equipment, including maintenance and repairs; software services, such as the development and start-up of software, including the analysis, design, installation, programming and maintenance of the system; news agency services, including the provision of news, feature articles, photographs, etc.; computerised data processing, including their recording, transfer to other equipment, etc.; and, in general, services relating to databases. This heading does not cover the purchase of non-customised software supplies or training services, which are posted under the heading other business services.

i) Other business services

In addition to merchanting and operational leases, this heading includes, under the generic classification other business services, professional and technical services, a broad range of transactions of this type which do not fit into other categories. Like any heading defined by exclusion, it reflects a large number of diverse transactions whose quantitative significance is gauged in relation to other more precisely defined headings. Merely by way of example, it covers advertising and market research; research and development; legal, accounting, consulting, architectural, engineer-

ing, translation and interpretation, security and training services, etc. It also includes services rendered by parent companies to their subsidiaries, branches and associates that are billed as part of the overheads of the parent company.

The business services in this heading include commissions and fees relating to merchandise imports and exports, as well as merchanting (triangular transactions whereby residents purchase goods abroad from non-residents for their subsequent sale to other non-residents, without importing them to and exporting them from national territory). The net receipts from these triangular transactions (the difference between the amount of the sale and of the purchase of the merchandise) are recorded as an export of services.

Operational leases include leases with purchase options for transport equipment and means of transportation, as well as leases of means of transportation without crew. Not included are the principal and interest of financial leases, which are recorded in the financial account and in the income account, respectively.

j) Personal, cultural and recreational services

This heading covers audiovisual services and other personal, cultural and recreational services.

Audiovisual services include the production of films and radio and television programmes, as well as their distribution rights sold to the media. Fees paid to actors, producers, etc. are also included. However, they do not cover the royalties received for films, musical recordings, books, etc., which are entered under the heading royalties and licence fees.

The item for other cultural and recreational services reflects the receipts and payments derived from services of this nature not included under the previous heading, such as circuses, theatres, orchestras, museums, libraries, sports events, etc. Also included are subscriptions to newspapers and periodicals.

k) Government services

Included here are the receipts and payments linked to the expenses of embassies, consulates, military units, etc. and expenditure relating to the provision by the Spanish government of services associated with health, education, administrative costs, tourism offices, educational institutions, etc.

l) Royalties and licence fees

This heading records the receipts and payments for the rights to use patents, trademarks, designs and inventions, and copyright fees. Excluded are the rights derived from the distribution of films and audiovisual productions, which are recorded under audiovisual services.

m) Labour income

The compensation of short-term, border and seasonal employees is included here. As from the figures presented in this report, this heading includes, from

1995 onwards, social contributions and direct taxes on compensation received (paid) by (to) resident (non-resident) workers. That is to say, as indicated in the section on changes introduced, from 1995 the figures are recorded gross, as recommended by the 5th IMF *Balance of Payments Manual*, rather than net, as was done previously.

n) Investment income

Investment income is presented in the same breakdown by instrument as in the corresponding headings in the financial account, reflecting the income generated by the assets and liabilities in each heading. In view of this, only a few points need be clarified, and these are addressed below.

As from 2005, all portfolio investment income is calculated on an accrual basis, as recommended by the IMF *Balance of Payments Manual*. Until 2005, the accrual principle was applied only to payments of income on general government bonds denominated in euro.

The general information collection system does not adequately cover undistributed earnings and transfers from direct investors to subsidiaries and branches to offset losses. These transactions therefore have to be calculated using different information sources, as described in the changes-introduced section of the 2004 report.

The interest on subsidiary/parent company loans is recorded under the same criterion used for flows of principal (described under the heading "Direct investment" in Section 5.2.5: interest paid by non-resident parent companies to their resident subsidiaries is computed as a decrease in payments from direct investment income, and interest payments of resident parent companies to their non-resident subsidiaries are computed as a decrease in proceeds from direct investment income.

Transfers related to income from rentals or any other form of real estate operation are also included as returns on investment. The valuation differences between the acquisition cost and selling price of real estate investments are generally recorded in the same way as any sale/purchase of assets, i.e. in the financial account and not as income.

According to the guidelines in the 5th edition of the Manual, all financial derivatives should be included as such in the financial account, even if the underlying instruments are interest rates or other types of income. Although the guidelines for reporting these transactions establish that derivatives in the strict sense should be reported separately from other financial transactions with which they are associated, this might not always be the case. As a result, interest rate swaps and forward rate agreements (FRAs), when associated with another transaction (a loan, for instance), are treated as the interest flows of said transaction, and are thus implicitly included, in net terms, in the investment income of the category corresponding to the underlying instrument. When these instruments are traded separately, they are treated, correctly, as financial derivatives, and are therefore not included in income. Several additional observations on the recording problems posed by derivatives transactions can be found under the heading "Financial derivatives" in Section 5.2.5.c.

As to the returns on transactions in negotiable securities, it is difficult to arrive at separate estimates for these returns and their principal. Specifically, neither the profit generated by holdings in mutual funds nor the yields on debt securities issued at a discount are included as income. Interest on the repurchase agreements of MFIs is correctly treated, but there are greater doubts regarding the interest on these transactions when they are carried out by non-credit sectors, although they are quantitatively less significant.

o) Current transfers

The distinction between current and capital transfers is difficult to draw, not only in practice but also conceptually. The 5th edition of the Manual prefers to define capital transfers and to record, by exclusion, all others as current transfers. The broad characteristics of the two, as defined in the Manual, are given below.

According to the 5th edition of the IMF Manual, “first, a transfer in kind is a capital transfer when it consists of: (i) the transfer of ownership of a fixed asset or (ii) the waiving of a claim by a creditor when no counterpart is received in return. Second, a transfer of cash is a capital transfer when it is linked to, or conditional on, the acquisition or disposal of a fixed asset (for example, an investment grant) by one or both parties to the transaction. A capital transfer should result in a commensurate change in the stocks of assets of one or both parties to the transaction. Capital transfers also may be distinguished by being large and infrequent, but capital transfers cannot be defined in terms of size or frequency. Current transfers consist of all transfers that are not transfers of capital. Current transfers directly affect the level of disposable income and should influence the consumption of goods or services. That is, current transfers reduce the income and consumption possibilities of the donor and increase the income and consumption possibilities of the recipient.”

In practice, the difference is not readily distinguished. In the tables in Chapter 6, current transfers of the private sector record: workers’ remittances; taxes; Social Security contributions; donations for the acquisition of consumer goods; salaries to personnel providing services abroad in aid programmes; food pensions; inheritances; literary, artistic and scientific awards, among others; prizes from lotteries; dues paid to charitable, recreational, cultural, scientific and sports organisations, etc. Also included is that part of the current transactions of insurance companies which is not recorded as service charges, i.e. claims plus premiums less service charges. Likewise, the receipts from the EU via EAGGF-Guarantee are included as transfers to the private sector.

In quantitative terms, the most significant current transfers of the general government sector are those whose counterpart is the EU. Among the most important receipts are those relating to job creation and training (ESF). The most notable items on the payments side are the funds known as the “VAT resource” and “additional resource (GNI)”. The receipts generated by the proceeds from collection services provided to Community institutions are recorded as receipts from services rendered.

b. Capital account

a) Capital transfers

The capital transfers of the private sector mainly show the flow of funds generated by the settlement of migrants’ net worth, including changes in ownership

from non-resident to resident, and their assets and liabilities, upon moving to Spain and vice-versa. Owing to the data-collection system used for the Spanish balance of payments, the coverage of these transactions is incomplete.

In quantitative terms, the most important item under the capital transfers heading is the part reflecting the receipts of the general government sector in the form of EU funds. Particularly notable are the funds for regional development (ERDF) and the “cohesion funds” which, in the Spanish case, are assigned entirely for structural improvements in industrial and environmental projects. Also included here are EAGGF-Guidance funds.

In addition, in accordance with Eurostat guidelines, capital transfers of general government now include as payments the indemnities paid by the CESCE for risks it assumes on behalf of the Spanish Treasury. When these indemnities are paid to a resident creditor (the exporter or bank which financed the transaction), the debit in the capital account has a counterpart credit entry in the financial account as the cancellation of this asset. The possible repayments received by the CESCE from non-residents as a result of the risk assumed are recorded as credits in the form of capital transfers from the general government sector.

b) Acquisition of non-produced, intangible assets

The capital account should record, together with capital transfers, the acquisition/disposal of non-produced, non-financial assets. Citing the 5th edition of the IMF Balance of Payments Manual, this heading comprises “transactions associated with tangible assets that may be used or needed for production of goods and services but have not themselves been produced (e.g. land and subsoil assets) and transactions associated with non-produced, intangible assets (e.g. patents, copyrights, trademarks, franchises, etc. and leases or other transferable contracts). However, in the case of resident/non-resident transactions in land (including subsoil assets), all acquisition/disposal is deemed to occur between resident units, and the non-resident acquires a financial claim on a notional resident unit. The only exception concerns land purchased or sold by a foreign embassy when the purchase or sale involves a shift of the land from one economic territory to another. In such instances, a transaction in land between residents and non-residents is recorded under acquisition/disposal of non-produced, non-financial assets”. Note that, in practice, since that part of the purchase/sale of land and subsoil assets reflected here is of only minimal significance (and, moreover, the related data are not available), the heading only records the purchase/sale of the aforementioned non-produced, intangible assets, and this is therefore the designation used in the tables.

c. Financial account

The headings in the financial account reflect the net change in the corresponding assets and liabilities, and this is expressly indicated in the related tables of Sections 6.1 and 6.2. Nonetheless, in the following sections, for the sake of clarity, this facet (the recording of flows) is not indicated in each case, and the word “net change” is often omitted, even though, strictly speaking, it should be used in all cases.

Direct investment

Before describing the components of this heading, it should be noted that the classification structure of direct investment flows shows certain particularities regarding the change in assets and the change in liabilities of the economy. Classification under this heading is based first

on the “direction” of investment; second, on the investment instrument involved (shares, loans, etc); and third, on whether these instruments are assets or liabilities, i.e. whether the resident transacting the operation is a creditor or debtor.

Briefly, this means that transactions between a parent company resident in Spain and its subsidiaries or branches abroad would be recorded as follows: financing of any type extended by the resident parent company to its non-resident subsidiaries or branches would be included in Spanish investment abroad, as occurs in the case of the other transactions in the financial account. By contrast, financing of any type extended by non-resident subsidiaries or branches to their Spanish parent company are classified as a decrease in Spanish investment abroad, rather than as a foreign investment in Spain, as would be the case in the absence of a direct investment relationship.

Likewise, the financing extended by non-resident parent companies to their resident subsidiaries or branches would be recorded under foreign investment in Spain, and the financing extended by resident subsidiaries or branches to the non-resident parent company would be classified as a decrease in foreign investment in Spain.

The application of this principle, which is clear in cases such as the above, is more difficult when it comes to corporate groups with complex structures. For instance, when two companies, one a resident of Spain and the other a non-resident, have cross-holdings in each other's share capital of more than 10%, the financing extended by the resident company to the non-resident should be classified as a Spanish investment abroad, and the financing extended by the non-resident company to the resident as foreign investment in Spain. In other words, in this case, the treatment would be the same as that applied to the rest of the financial account.

In the most complex cases involving major multinational groups, the correct classification of transactions would require determining the direct investment relationship of the two intervening companies. On many occasions, that proves extremely complicated.

Direct investment is divided into shares, other equity, inter-company debt transactions, and real estate.

a) Shares

Included here are subscriptions and sale/purchase transactions in shares if the investor's participation amounts to 10% or more of the issuing company's share capital. This heading also covers purchases of subscription rights by direct investors. Transactions are recorded at the effective amount received or paid, excluding commissions and expenses.

b) Other equity

Other equity includes the purchase and sale of securities representing capital other than shares, funding to branches or establishments, and, in general, any other form of participation in firms that does not materialise in shares. Also included in this heading are capital contributions to companies in the process of incorporation or for capital increases and funding for the operating expenses of branches or establishments lacking own funds, if such funding is not a loan or does not require repayment.

c) Reinvested earnings

Reinvested earnings are included as direct-investment capital transactions, as a balancing entry to the amounts included in the income account. That is to say, in the case of Spanish foreign direct investment, undistributed earnings (losses) give rise to an increase (decline) in such investment and to a receipt (negative receipt) of direct investment income. Likewise, such transactions are recorded in foreign direct investment in Spain and in the related income.

The share of the direct investor (in proportion to its direct share in the share capital) in the earnings or losses that subsidiaries or associates have not distributed as dividends and the earnings of branches that have not been remitted to the direct investor are included.

d) Inter-company debt transactions

This heading includes, in general, the loan transactions between parent companies and their subsidiaries or investee companies and between subsidiaries of the same group, unless the latter are credit institutions. As recommended in the 5th edition of the IMF Manual, the lending or deposit transactions between credit institutions are included under the heading other investment, even though they are transactions between parent companies and their subsidiaries.

Specifically, this heading covers the loans extended by parent companies to their subsidiaries and investee companies, as well as the repayable advances extended to branches or establishments, minus loans in the reverse direction, i.e. those extended by branches and subsidiaries to their own direct investors which, as explained above, are subtracted from the former. Also included are loans extended between companies of the same group, even though they are not direct loans from the parent companies to their subsidiaries or vice versa. In accordance with the guidelines of the 5th edition of the IMF Manual, the loans extended by resident subsidiaries of a non-resident company to other non-resident companies in the group, other than the parent company, are included in Spanish direct investment abroad, while the amounts received by resident subsidiaries of a non-resident company in the form of loans extended by other non-resident subsidiaries are included under foreign direct investment in Spain.

In addition to financing in the form of loans between direct investors and their subsidiaries or branches, this heading encompasses the changes in the balances of inter-company accounts. Inter-company accounts are understood to mean accounts between subsidiaries and parents, or between companies in the same group, where mutual transactions — or transactions of the corporate group with third parties — are settled.

These transactions give rise to changes in the balances of inter-company accounts, which constitute a credit extended to or received from the parent company, or from the group company in charge of treasury management. This credit should be included under foreign investment in Spain in the item for inter-company debt transactions if the resident enterprise is a resident subsidiary or branch of the parent company, and under Spanish Investment abroad if the resident company is a direct investor.



Lastly, excluded from this heading are the loans extended by investment companies established in countries considered to be tax havens to their resident direct investors. Such loans are included in the change in liabilities under other investment.

e) Real estate

This heading comprises purchases of property, or other real rights related to real estate, including purchases of property under time-share schemes and the acquisition of real estate through financial leases.

Portfolio investment

Portfolio investment is divided into shares and mutual funds, bonds and notes, and money market instruments.

a) Shares and mutual funds

This includes the subscription, sale and purchase of shares and subscription rights that do not constitute direct investment, as well as the sale and purchase of holdings in mutual funds. These transactions are recorded at the effective amount paid or received, excluding commissions and expenses.

b) Bonds and notes and money market instruments

Transactions in debt securities are presented distinguishing between bonds and notes on the one hand (in general, securities issued with an initial maturity of more than one year) and money market instruments on the other (mostly securities issued with an initial maturity of one year or less, although 18-month Treasury bills are included). Transactions in securities issued with a maturity of more than one year are always classified as bonds and notes, even though their residual maturity at the time of the investment is less than one year. Transactions in securities issued with a term of one year or less are recorded under money market instruments.

Transactions involving any type of debt security are included, solely on the condition that they can be traded on Spanish or foreign markets, irrespective of whether they are issues denominated in euro or foreign currency. Conversely, investment in debt securities that are not negotiable is recorded under other investment. However, it should be pointed out that some issues, such as euronotes and commercial paper, are included in the portfolio investment heading because of their negotiability, even though they are not traded on organised markets and are placed in circulation through private offerings.

The institutional sector corresponding to these transactions is assigned according to the sector to which the resident issuer belongs, in the case of liabilities, and the sector of the resident subscriber or buyer of the securities, in the case of assets. Thus, the securities issued by non-residents, initially subscribed by credit institutions and subsequently sold to other residents, figure under the MFIs heading.

Excluded from this heading are non-residents' repo operations involving debt securities issued by residents. These are included in other investment, in the

resident sector that carries out the operation, as change in assets (purchases by residents) or change in liabilities (sales by residents).

Other investment, excluding Banco de España

This heading reflects, by exclusion, the changes in financial assets and liabilities with non-residents that are not recorded as direct or portfolio investment or as reserves. It essentially consists of loan and deposit transactions. Included are repo transactions (including sell/buy-back transactions) between residents and non-residents, involving securities issued by either party, which the Spanish balance of payments treats as secured loans or deposits. For a description of the system used to classify repos as loans or deposits, see the related paragraph on other investment in Section 5.2.3.a above.

The classification of a number of financial instruments under this heading or under the portfolio investment heading does not always rest on unequivocal criteria, and inevitably leaves certain decisions to the discretion of the compiler. In principle, this heading covers any asset or liability instrumented through a private contract or through the issue of non-negotiable debt securities. Recall, however, that some of these issues, such as private issues of notes, commercial paper, euronotes, etc., are recorded as portfolio investment owing to their negotiability, even if they are not traded on organised markets.

Specifically, other investment includes loans between residents and non-residents (excluding, as already noted, those extended by enterprises belonging to the same economic group, except when they are transactions between credit institutions, which are recorded entirely under this heading, even though they are carried out between institutions of the same group); trade credits with payment deferrals of more than one year extended directly by the supplier to the buyer; credits of third-party financial firms; financial leases for purchases of goods; sight and time deposits at credit institutions; assets derived from executions of guarantees; purchases of non-negotiable financial instruments; and repo transactions<sup>6</sup>.

In addition, the long-term assets in the general government sector encompass membership quotas for international organisations. Lastly, the deposits heading includes, within the assets of other resident sectors, the change in the outstanding balance of foreign banknotes held by residents.

In practice, the separate measurement of the deposits of MFIs by liabilities and assets poses numerous difficulties. In the data in this report, a distinction is drawn between sight deposits by assets and by liabilities only for the years 1998 onwards, using information from the balance sheets of credit institutions. For earlier years, this separation could not be made, and, consequently, for those years only the net flow of liabilities minus assets is available. These have been conventionally allocated by assigning to assets, those denominated in foreign currencies, and to liabilities, those denominated in pesetas. Section I.5.5.3 of the Spanish Balance of Payments, 1994 explains in detail why the reliability of the information on the total net flow (liabilities minus assets) in this heading is much greater. In the same section, readers interested in this matter will also find several observations — which are, on the whole, still valid — concerning the relationship between these flows as well as information on the deposits and accounts of the credit system contained in the balance sheets of credit institutions.

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6. The recording of repos under the heading other investment, rather than under portfolio investment, makes it difficult to compare the data in the Spanish balance of payments with those of Iberclear relating to non-resident transactions in Spanish public debt. A detailed analysis of the differences is given in previous years' reports, in particular The Spanish Balance of Payments, 1993, Section I.7.2.2. This analysis remains broadly valid.

Since 2002 this heading includes, on the asset side, an estimate of the net amount of euro banknotes purchased by residents from non-residents, basically as a result of travellers' payments for tourism services. This estimate has been revised in accordance with that made under the travel heading.

#### Financial derivatives

As discussed in previous editions of these methodological notes, in 1997 the IMF revised the guidelines of the 5th edition of the *Balance of Payments Manual* on the treatment of financial derivatives in its publication *The Statistical measurement of financial derivatives* (IMF Statistics Department, November 1997). The most significant change with respect to its initial recommendations was the clarification that any financial derivative which can be valued because a market price exists for its underlying asset should be recorded in the financial account, regardless of whether it is traded on organised markets and irrespective of the type of underlying asset. The revised text of the Manual recommended including as investment income in the current account those derivatives whose underlying assets are interest rates; in addition, it excludes from the financial account certain derivatives that are not traded on organised markets.

The IMF also decided to classify financial derivatives in a separate account, instead of including them under portfolio investment as another component.

Nonetheless, the IMF acknowledges the practical difficulties of its recommendations. Specifically, in reporting systems such as Spain's, the separation of the price of the derivative and of its underlying asset continues to pose problems when the contract is executed upon delivery of the underlying asset. Likewise, the classification of derivatives transactions by asset or liability is difficult not only from a practical standpoint, but also conceptually, since certain instruments go from one category to another depending on the price of the underlying asset. In fact, because of this problem, the European Central Bank decided to record financial derivatives in the euro area balance of payments as the net amount of change in liabilities less change in assets, and the same procedure is applied in this report.

The data in this report include options issued over the counter or on organised markets, financial futures issued over the counter or on organised markets, warrants on shares and debt securities, forward sales/purchases of currencies, FRAs, currency and interest rate swaps and swaps on indices or any other type of asset.

In accordance with the methodology recommended by the IMF, over-the-counter options transactions are recorded at the amount of the premium, excluding commissions and expenses, although at times it is difficult to distinguish between these two items. In such cases, commissions are possibly included in the price of the options. At maturity, if the option expires without being exercised, no entry is made under this heading. If the option is exercised and settled in cash, the amount paid or received is recorded; if it is exercised with the purchase or sale of the underlying instrument, the difference between the strike price and the market price of the underlying asset is included in financial derivatives, and the purchase or sale of the underlying instrument is recorded at its market price under the heading in which the transactions with this instrument are included (for example, bonds and notes, money market instruments, etc.). In the latter case, given its complexity, the treatment may not always be correct.

Investment in organised financial futures and options markets is recorded at the amount of the premium plus or minus the successive payments that reflect profit or loss, excluding the margin deposit, which is included in other investment.

Transactions in warrants are recorded at the amount paid or received, and the settlement is treated in the same manner as in the case of over-the-counter options.

Forward sales/purchases or currency (FRAs), currency and interest rate swaps, and other swaps are recorded at the difference between the amounts paid and received. Nonetheless, when these instruments are associated with another transaction, they may be incorrectly recorded under the corresponding heading of the transaction, given the practical difficulties in distinguishing between them.

The financial account of the Banco de España records the changes in its foreign assets and liabilities, broken down into the change in reserves, the change in Banco de España claims on the Eurosystem and the change in its other foreign assets and liabilities.

Since EMU has been in place, Member States' reserves are defined as the liquid assets in foreign currency that their national central banks hold vis-à-vis residents of non-EMU countries. Therefore, they do not include any type of euro-denominated asset or claims in foreign currency on euro area residents. Since January 2000, entries under this heading have followed the guidelines laid down by the IMF in the document *Data Template on International Reserves and Foreign Currency Liquidity, Operational Guidelines*, October 1999 (<http://dsbb.imf.org/guide.htm>). This is the key reference for readers interested in the detailed breakdown of this heading. The Banco de España publishes all the information required by the IMF in this document, both on reserves in the strict sense of the term and the general liquidity in foreign currency of the Banco de España and the Treasury, and on the liabilities constituting a specific or contingent short-term drain on such liquidity. The full data can be found on the Banco de España website in the Statistics section (Balance of payments, Statistical data).

The heading *Banco de España claims on the Eurosystem* includes claims of the Spanish central bank on the other euro area central banks and on the European Central Bank. The main changes here are those arising from the settlement of cross-border transactions between residents and non-residents via Target. As explained below, in these transactions the Banco de España and the rest of the Eurosystem are an interface to the residents and non-residents that are the final parties to the transaction. In addition, since January 1999, it includes the changes in the Banco de España's claims on the ECB as a result of the transfer of reserves and the relevant updates. It would be beyond the scope of these methodological notes to offer a detailed and rigorous analysis of the working of Target. Nonetheless, for readers not familiar with this settlement system, a brief outline of its workings might be useful. If a Spanish resident importer has to make a payment to a French resident, the Banco de España debits the account that the importer's Spanish bank holds with it (and this bank will evidently have debited in turn its client's account) and credits its account with the French central bank. The latter will credit the account of the French bank with which, in turn, the exporter who is the final recipient of the funds has its account. As a result of the transaction, there is a change in the balance of a Spanish bank's account with the Banco de España (in addition to the bank's transaction with its client), and a transaction by the Banco de España with a central bank of the Eurosystem (besides the transactions between French residents).

The Spanish balance of payments does not show the transaction between the Banco de España and the Spanish bank, nor that between the latter and its client, as what are involved are transactions between residents. Double-entry accounting would show an import payment and a receipt relating to the reduction in the balance of the Banco de España's account with the Bank of France, i.e. with the Eurosystem. Although in practice the arrangements are more complex, the final result is the same as far as the accounting entry in the balance of payments

is concerned. Given the quantitative significance of cross-border transactions between residents and non-residents settled through Target, there is no need to underscore its importance in the balance of payments. From an analytical standpoint, however, it should be stressed that Target's relevance transcends the mere quantitative significance of the heading.

Note that, despite its generic name "claims on the Eurosystem", this account, which is actually a mutual account, can have a positive (credit) or negative (debit) balance at different moments in time. Since the balance of payments shows flows, i.e. the change in the balances of this account, the sign these flows receive in the balance of payments depends on the accounting convention used, but this is irrespective of whether, at a given time, its balance is positive or negative. In the footnotes to the tables in Chapter 6, the accounting convention used is specified: an increase in the net asset balance of this account (an increase in the absolute value of its balance, if it is a credit balance; a reduction in the absolute value of its balance, if it is a debit balance; change from a debit to a credit position) is recorded in the tables of Chapter 6 with a negative sign. A reduction in the net asset balance (a reduction in the absolute value of its balance, if it is a credit balance; an increase in the absolute value of its balance, if it is a debit balance; change from a credit to a debit position) is recorded in the tables of Chapter 6 with a positive sign. In Tables 6.1.9 and 6.2.9, in which the standard IMF presentation has been chosen, the change in the balance of this account appears under the heading other Spanish investment abroad, along with other assets of the Banco de España (except reserves). As explained earlier, the fact that, in these tables, this account is incorporated into assets (Investment abroad) or into liabilities (Foreign investment) is another accounting convention, since its balance can be a credit or debit one. As in the Spanish case it is the credit balance that has prevailed since the onset of EMU, it has been decided to include this heading in the abovementioned tables under other investment abroad.

*Other net assets* include the net change in the other Banco de España liabilities and assets not included in the two foregoing headings. As earlier indicated in the summary tables in Chapter 6, and in Tables 6.1.8 and 6.2.8, they have been measured as the change in liabilities minus that in assets. In Tables 6.1.9 and 6.2.9, the assets appear either in other Spanish investment abroad along with the Banco de España account or (since 2002) in portfolio investment, and the liabilities in other foreign investment in Spain. The assets include those Banco de España investments (other than those of the account with the Eurosystem) which, by their nature, can not be considered as reserves. It should be noted that included here is the Banco de España's contribution to the ECB's capital in 1998, and the successive updates. The liabilities also include certain foreign liabilities of the Banco de España, likewise of limited significance, and liabilities referred to by the IMF as "liabilities linked to reserves", where those transactions involving borrowing by the monetary authorities that generate, in turn, changes in reserves are reflected. Notable here are gold swaps and financing obtained by repo transactions.

### **5.3 International Investment Position. Methodology**

The International Investment Position (IIP) statistic presents the external financial assets and liabilities balances of an economy following the same structure and from the same perspective as the corresponding balance of payments flows. It is compiled under the same framework of methodological rules laid down in the 5th edition of the IMF *Balance of Payments Manual*. Accordingly, as far as the classification of assets and liabilities is concerned, everything stated in Section 5.2.3 of this chapter is still valid. It should merely be noted that the IIP data presented in this report do not include financial derivatives, owing to the absence of reliable information. In future, information will be available for the sector other MFIs from a new accounting statement contained in Banco de España Circular 4/2004, which establishes "public and confidential financial reporting rules and formats". As far as the breakdown by institutional sector is concerned, its scope is also identical to that of the balance of payments (see Section 5.2.3).

The 5th edition of the IMF Manual requires that all external assets and liabilities be valued at the prevailing market price. In certain specific cases (direct investment), however, book value may be used, although it is pointed out that such valuation must be revised regularly in line with market value. As for the exchange rate applicable to translate foreign currency balances into the currency of presentation of the position, the 5th edition of the Manual suggests using the average market exchange rate (the average of the buying and selling rates) of the date to which the position refers.

Under these criteria, the final position of a period will be equal to the position at the start of the period plus the transactions conducted during that period (normally reflected in the balance of payments), plus the valuation changes that have arisen during the period considered (due both to changes in exchange rates and in the prices of the financial assets and liabilities), plus other changes in the volume of financial assets and liabilities, such as the unilateral cancellation of a loan by the creditor.

The IIP time series are presented in Chapter 7 and published in the Banco de España's *Boletín Estadístico*. Readers should also note that the Banco de España began to disseminate Spain's external debt statistics in 2003. These quarterly statistics are distinguished from the liabilities of the IIP insofar as they do not include liabilities in the form of equity holdings or financial derivatives. However, liabilities are classified in the external debt statistics differently from in the IIP, so that these are complementary statistics. The quarterly external debt series, which commences in December 2002, is available in the Banco de España's *Economic Bulletin* and at its website.

### 5.3.1 DATA SOURCES AND VALUATION PRINCIPLES

The main statistical sources providing information for the compilation of the Spanish IIP are:

#### 1 Banco de España

The Banco de España has the information on reserve assets, along with that on the rest of its foreign assets and liabilities included in the IIP.

#### 2 Financial institutions

Banco de España Circular 4/2004 of 22 December 2004 establishes the accounting rules to be applied by credit institutions and the formats for the financial statements they must periodically submit to the Banco de España. This Circular came into force on 30 June 2005; previously these rules were contained in Circular 4/1991. These circulars apply and adapt to the credit institutions sector the accounting rules of the Spanish Commercial Code, the Law on public limited companies (Ley de Sociedades Anónimas) and other legal provisions specifically applicable to them. For the direct investment and other investment headings of the IIP, credit institutions' stocks of financial assets and liabilities vis-à-vis the rest of the world have been obtained directly from their balance sheets. The valuation principles used by this source, which are to be found in rule twelve of Circular 4/2004, are set out below:

#### *Separation of loans and deposits*

The distinction between loans and deposits is difficult to draw and varies according to the criterion used. The convention adopted for external assets and liabilities is the following:

Assets vis-à-vis the external sector: included as deposits are the assets of resident credit institutions vis-à-vis non-resident credit institutions. Capital endowments of branches abroad are not included, being recorded as shares and other equity. The assets of resident credit institutions vis-à-vis non-residents other than credit institutions are included as loans.

Liabilities vis-à-vis the external sector: included as deposits are all the liabilities of resident credit institutions vis-à-vis non-residents (credit institutions and other).

### 3 Negotiable Securities Register

This statistic is compiled by the Banco de España from information provided by resident investors carrying out negotiable securities transactions directly via a non-resident financial intermediary and by Iberclear, which provides security-by-security breakdowns of its securities accounts whose holders are non-resident, including those held with other central securities depositories. As required by Circular 2/2001, the amounts are given in nominal terms and at market prices.

### 4 Register of external loans received and extended by resident sectors other than the credit system

This statistic is compiled by the Banco de España from the accounting-administrative documents created for the monitoring of external loans extended and received and of non-negotiable securities issued by residents, other than the credit system, in favour of non-residents. A detailed description can be found in the notes of the October 1995 *Boletín Estadístico* and in the *Economic Bulletin* of September of the same year. The figures obtained from this source include the loans between related companies (parent companies and subsidiaries), although the data have been correctly distributed between direct investment (parent/subsidiary and subsidiary/parent loans and loans between indirectly related companies) and other investment (all other loans).

### 5 The Spanish balance of payments

This Banco de España statistic has been used to construct the stocks, by accumulation of flows, when there are no reliable census statistics for a specific financial instrument, such as the direct investment of other resident sectors, which is currently the main statistical gap.

### 6 Bank for International Settlements

The data released by this institution were used to estimate the initial stocks of assets, as at December 1992, held by non-financial resident sectors with non-resident credit institutions.

### 7 Other data sources

As in the case of the balance of payments, the database of negotiable securities of the Bank for International Settlements is also used to obtain, from the ISIN, the country of the non-resident issuers of portfolio assets.

### 5.3.2 PROCEDURE FOR OBTAINING POSITIONS

The stocks of the financial instruments making up the asset and liability positions at a given date are basically estimated by one of the following procedures:

*Direct.* From the sources of information available, when they provide the data in stocks. This is the case for all the series on the credit system's assets and liabilities in loans and deposits, whose data come from current financial statements, and which are in most cases valued at market prices; the stocks of negotiable securities of all sectors, which are obtained from the reporting system regulated by Circular 2/2001; the loans extended and received by other resident sectors, which are obtained from the register of such loans; and the Banco de España series.

*Accumulation of flows.* In those items in which this procedure is used the initial end-1992 stock has, unless indicated otherwise, been taken as the starting point. This, in turn, has normally been estimated by accumulation of flows, adjusted for the exchange-rate valuation effect, where applicable, from the balance of payments on a cash basis, available since 1959. The stocks compiled since 1993 have been obtained by adding to the initial stock the flows of the items of the financial account of the balance of payments, with an exchange rate valuation adjustment where necessary. This adjustment has been made by applying to the accumulated flows the average market exchange rate as of the date to which the position refers. Also, these accumulated flows have been adjusted for the changes in the prices of financial instruments in those cases in which this effect has been significant and for which information is available. This procedure is used to calculate the direct investment and asset-side deposits of other resident sectors.

### 5.3.3 STRUCTURE AND CONTENT OF THE TABLES IN CHAPTER 7

Chapter 7 contains the data on Spain's IIP, estimated using the methodology and data sources described in the previous section. A summary table with annual data since 1996 is published along with two more detailed tables with quarterly data for 2004 and 2005. This edition also includes a table for each year with a breakdown by country and by economic and geographical area. As pointed out above, the estimates for successive quarters and the revisions of the provisional data for previous quarters will be published in Chapter 16 of the Banco de España's *Boletín Estadístico* and in electronic format on the Banco de España website, as and when they become available.

The summary table, similar in form to the corresponding balance of payments summary tables, separates the Banco de España position from that of the other institutional sectors. The analytical reasons for this design are the same as in the case of the balance of payments, and they are explained in detail in the introductory section. To provide for readier international comparability, the presentation of the breakdown tables is similar to that in the IMF publications, with the assets- and liabilities-side position of the Banco de España separated from that of the other MFIs. The presentation is thus similar to that of Tables 6.1.8 and 6.2.8 of the balance of payments. Note that none of the IIP tables show data on financial derivatives.

Both Spanish investment abroad and foreign investment in Spain are broken down into their three main categories (direct, portfolio and other investment), with disaggregated information for each one, in accordance with the financial instrument in which the investment is embodied. In addition, in portfolio investment and other investment a breakdown is given, for each instrument, of the position by institutional sector. Spanish investment abroad also includes, separately, reserves.

Readers are reminded that the table of contents at the beginning of the report gives a detailed list of the IIP tables as they appear in Chapter 7.



5.3.4 SPECIFIC NOTES ON EACH  
HEADING

The headings of the IIP tables coincide with those of the *Balance of Payments Manual*, with the aforementioned exception that they do not include information on financial derivatives.

a. International investment  
position, excluding Banco  
de España  
Spanish investment abroad (residents'  
financial assets)

a) Direct investment

The content of this heading practically coincides with the guidelines of the 5th edition of the IMF Manual. The heading shares and other equity comprises equity securities and any other form of equity interest in a company which meets the requirements set out in the 5th edition of the Manual. The content of the section shares and other equity includes the shares issued by non-resident companies that are not listed or in the process of being listed on the stock market and direct investment in listed shares. The other forms of equity interest consist of residents' ownership interests in non-resident companies and entities other than shares, such as capital endowments to branches and establishments, investment in the form of joint accounts, jointly-held property, foundations, consortia, co-operatives and joint ventures. It also includes the contributions of resident parent companies to their non-resident branches and establishments for current maintenance expenses and offsetting of losses, as well as for the acquisition of property for the start-up of the establishment. It also comprises residents' real property abroad, including that held on a time-share basis.

The financing to related enterprises includes that extended by resident parent companies (other than credit institutions) to their non-resident subsidiaries and associates, irrespective of the type, instrument or term, and that extended by Spanish subsidiaries to other non-resident companies of the group other than the parent company, deducting from this amount the financing received by the resident parent company from non-resident subsidiaries. This heading also includes the balance of inter-company accounts if the resident company is the parent of the non-resident one.

MFIs' stocks are taken from their financial statements, and those of other resident sectors are obtained by accumulation of flows, which include reinvested earnings, except loans, which are obtained from the above-mentioned register. In those cases in which flows have accumulated, they are adjusted for exchange rate valuation effects. However, due to a lack of adequate information, the accumulation of flows has not been adjusted for changes in the price of the assets, which constitutes a limitation in the estimates of this heading.

b) Portfolio investment, excluding Banco de España

The various instruments of this heading coincide with those in the 5th edition of the IMF Manual. The data have been obtained from the new reporting system for negotiable securities regulated by Circular 2/2001, which provides direct information on stocks, security by security, at market prices.

c) Other investment, excluding Banco de España

The items under this heading encompass the various investments indicated in the 5th edition of the Manual. The resident MFI sector's repos and sell/buy-back transactions with non-residents other than credit institutions are classified as loans, while those involving resident and non-resident credit institutions and all

other transactions by other resident sectors (mostly with credit institutions) are classified as deposits. In addition, credits to aid development (FAD credits) granted by the Government to other countries to finance the acquisition of goods and services from residents are included as loans.

Loans extended by MFIs to non-residents are obtained directly from the balance sheets of credit institutions, while those extended by other resident sectors are obtained from the register of loans. The data on deposits between credit institutions are also taken from the balance sheets of the credit institutions themselves. Those of other resident sectors are obtained, until 1993 inclusive, from the Bank for International Settlements, and, thereafter, by adding balance of payments flows to the initial 1993 stock, adjusting those deposits denominated in foreign currency for the exchange rate valuation effect.

Finally, the heading other assets includes the insurance technical reserves set aside by non-resident institutions and Spain's interests in international agencies.

Since 2002 this heading has included an estimate of the net amount of euro banknotes purchased by residents from non-residents, basically as a result of travellers' payments for tourism services.

Foreign investment in Spain  
(residents' liabilities)

a) Direct investment

The content of the section shares and other equity includes shares issued by resident companies that are not listed or in the process of being listed on the stock market and direct investment in listed shares. It also includes non-residents' ownership interests in resident companies and enterprises other than shares, such as capital endowments to branches and establishments, investment in the form of joint accounts, jointly held property, foundations, consortia, co-operatives and joint ventures. It also includes the contributions of non-resident parent companies to their resident branches and establishments for current maintenance expenses and offsetting of losses, as well as for the acquisition of property for the start-up of the establishment. Finally, this heading includes properties located in Spanish territory owned by non-residents, including those held on a time-share basis.

Financing to related enterprises includes all types of financing, whatever the instrument or term, extended by non-resident parent companies to their resident subsidiaries and associates, and the financing extended by non-resident subsidiaries to other resident companies of the same group other than the parent company. The financing received by a non-resident parent company from its resident subsidiaries is deducted (financing by non-resident credit institutions to their branches and associates in Spain which are themselves credit institutions is not included). Inter-company account balances are included in this heading when the non-resident company is the parent of the resident or when two enterprises are indirectly related because they belong to the same group.

The data on MFIs' shares and other equity and on financing to related enterprises have been obtained as stocks, drawing on the information in MFIs' balance sheets and in the register of loans. The data on the shares and other equity of other resident sectors have been calculated by means of the accumulation of

balance of payments flows, which include reinvested earnings, adjusted for exchange rate variations, but not for price changes, this being a limitation of these estimates.

b) Portfolio investment

The series on shares and mutual funds include the shares and the instruments representing shares issued by residents that are listed on or in the process of being listed on a stock market or are traded on foreign markets, except those which are direct investments. This heading covers the shares of non-residents in resident fixed-income, variable-yield, mortgage and mixed mutual funds.

The various instruments of this heading coincide with those in the 5th edition of the IMF Manual. The data have been obtained from the new reporting system for negotiable securities regulated by Circular 2/2001, which provides direct information on stocks, security by security, at market prices.

c) Other investment, excluding Banco de España

This covers liabilities not included in other categories, as indicated by the 5th edition of the Manual. The loans heading includes, in addition to these instruments and credit in the strict sense, the debts incurred by residents as a consequence of the execution of guarantees and collateral given by non-residents. It also includes the balance of the account between general government and the European Union, repo purchases of assets by non-residents from residents other than credit institutions. Conversely, such purchases by non-residents (normally credit institutions) from resident credit institutions are classified with deposits. As to statistical sources, the loans received by general government and other resident sectors are obtained directly from the register of loans. The information on deposits and repos is drawn from the financial statements of resident credit institutions.

The data on loans refer strictly to loans and credits. In other words, loans received by general government do not include either euronotes or commercial paper, which are recorded as foreign portfolio investment in Spain. As to loans received by other resident sectors, these include neither loans between parent companies and subsidiaries or companies of the same group (which are recorded as direct investment, applying the directional principle described in the corresponding paragraph), nor the private placements of negotiable securities (which, like those of general government, are recorded as portfolio investment).

Lastly, the heading other liabilities includes reinsurance deposits with non-residents.

b. International investment position of the Banco de España

The *foreign assets* of the Banco de España include reserves, the Banco de España account with the Eurosystem and other foreign assets. Their content was explained in Section 5.2.5 under the heading “Financial account of the Banco de España”, in the detailed description of the equivalent balance of payments headings, and is thus not repeated here. It need only be recalled that all assets making up the reserves (whose main components are monetary gold, the position in the IMF, SDRs and convertible currencies) have been valued since 1998 at market prices. Since January 1999 the convertible currency component has included solely

assets denominated in currencies other than the euro vis-à-vis countries not forming part of the euro area. As earlier indicated, the Banco de España *Boletín Estadístico* and website (in the balance of payments section under the statistics heading) publish detailed information on the reserves and other components of liquidity in foreign currency of the Banco de España and the Spanish Treasury. These data are compiled following IMF guidelines (see the reference in Section 5.2.5.c under the heading “Financial account of the Banco de España”).

The *external liabilities* of the Banco de España were also described under the above-mentioned heading. Here, too, the IMF and Banco de España website references are valid. Along with the breakdown of reserve assets, the website publishes information on the central bank’s predetermined and contingent liabilities, and those of the Treasury.

#### 5.3.5 MAIN DIFFERENCES BETWEEN THE CHANGE IN THE STOCKS OF THE IIP AND THE BALANCE OF PAYMENTS

The changes in the IIP between two points in time and the related transactions of the balance of payments should differ, primarily because of the changes arising in exchange rates and asset prices during the period. Nonetheless, there are differences between the two statistics attributable to other causes, arising basically from the different sources of the data. The most important differences of this type are:

##### a) Sectorisation

The balance of payments shows the flows of foreign investment in Spain in the different sectors, assigning them to those which purchase the asset from the non-residents. However, given the current data-collection system, the redistribution of assets which takes place subsequently among the resident sectors is not taken into account. This redistribution is recorded, at least in part, in the stocks of the IIP.

##### b) Assets and liabilities relating to insurance

Insurance technical reserves are included in the IIP but are recorded only partially in the balance of payments.

##### c) Repos

As mentioned above, in the IIP, repo purchases of securities by resident MFIs from non-residents other than credit institutions are treated as loans, while those between resident credit institutions and non-resident credit institutions, as well as all those carried out by other resident sectors, are treated as deposits. Repo purchases of securities by non-residents from resident credit institutions are also treated as deposits, and those from other resident sectors as loans. The balance of payments presents these operations separately when they are conducted by resident MFIs, and records them under the general heading “loans and deposits” when they are transacted by other resident sectors.

#### 5.4 Changes introduced

This section briefly describes the main changes introduced, during 2005 or for the first time in this edition of the report, in relation to the balance of payments, international investment position and related statistics (external debt and international reserves). These changes result, on the one hand, from adaptation of the information system and the calculation procedure of certain headings to the new and changing international environment, a process underway in most EU countries, and, on the other, from the production and dissemination of new statistics to meet the requirements of users, whether they are producers of statistics (European Central

Bank, Eurostat or the INE) or final users. This year the section on changes introduced is divided into four sections according to whether they relate to changes in the information system and calculation procedures of certain balance of payments headings, to the dissemination of statistics, to advances in the design and implementation of new information sources, or, finally, to the revision of the 5th edition of the IMF *Balance of Payments Manual*.

#### 5.4.1 CHANGES IN THE INFORMATION SYSTEM AND CALCULATION PROCEDURES

As remarked in the introduction to this chapter, in April 2006, coinciding with the publication of the January balance of payments, and in addition to the customary revision of the 2004 and 2005 data which basically incorporates new information and rectifications of communications received after the successive monthly closings, certain changes were made to the calculation procedures of some headings. These new procedures are a further step in the process under which the information system used to compile foreign sector statistics is being adapted to the changing environment in which foreign transactions take place; at the same time, they increase the level of compliance in data compilation with the requirements of the 5th *Balance of Payments Manual*. Additionally, these changes increase the consistency between the balance of payments data and those of the rest of the world account in the Spanish National Accounts. Finally, Table 5.2 at the end of this chapter sets out the main methodological and presentational changes in the balance of payments and in the international investment position since 2000.

The changes to the information system and calculation procedures in 2005 basically affect the following headings: i) travel; ii) labour income; iii) portfolio investment income; iv) workers' remittances; and v) other private sector current transfers. The main features of the changes in each of these headings are described below:

- a) Travel. The improvements to the questionnaire and the changes in the sampling design and the sample elevation procedure of the Survey on Tourism Spending at Borders (EGATUR) conducted by the Institute of Tourism Studies have made it possible, since the publication of the January 2006 balance of payments data, and retrospectively since 2005, for travel receipts to be estimated using only EGATUR information. Previously, as discussed in detail in the section on changes introduced in the 2004 report, the EGATUR information was supplemented with that provided by other tourism sector indicators, basically stays in hotels and apartments and indicators of hotel prices<sup>7</sup>.

The use of EGATUR as the sole information source represents a significant advance in the convergence of balance of payments travel receipts data and that on spending of travellers non-resident in Spain drawn from the EGATUR survey<sup>8</sup>, and avoids the problems that could arise from the combination of indicators with data that are, at times, heterogeneous.

- b) Labour income<sup>9</sup>. The *Balance of Payments Manual* recommends that receipts and payments of the heading compensation of employees be recorded in gross terms, i.e. including, in addition to the amounts that workers send or take with

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7. A detailed analysis of the reasons for revising the tourism figures and of the procedure used can be found in the 2004 edition of this report. 8. However, the convergence is not total because the items measured by these two statistics are different. See explanatory note on the methodological change in EGATUR, <http://www.iet.tourspain.es>. 9. It should be kept in mind that this heading includes the compensation of workers who relocate to a country other than that of habitual residence for a period of less than one year and, therefore, continue to be residents of their country of origin. By contrast, the amounts sent to their country of origin by people who move to a different country for periods exceeding one year (the most frequent case among emigrants) are recorded under the heading "Workers' remittances", which is discussed below.

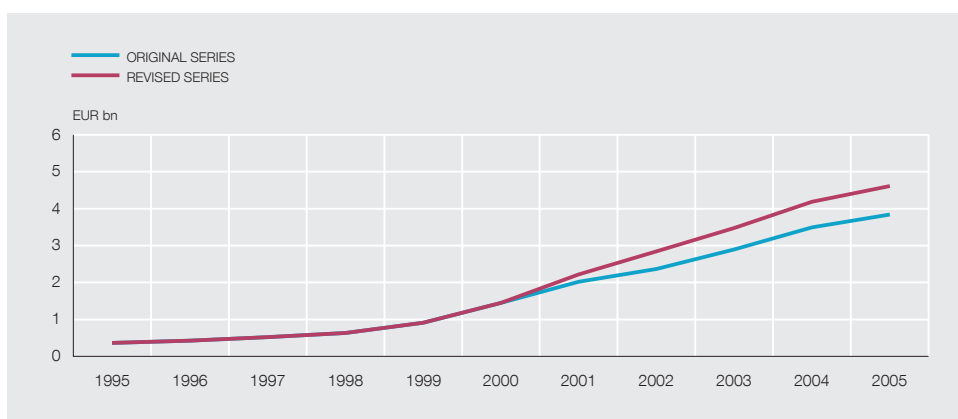
them to their country of origin, the social contributions and taxes paid by both employers and workers. So far, the balance of payments has recorded this heading in net terms, i.e. including only the amounts sent to the country of residence of the workers. Coinciding with the publication of the January 2006 data, and retrospectively from 1995, the heading compensation of employees records gross data, as recommended by the *Balance of Payments Manual* and in line with the rest of the world account in the National Accounts. To estimate the data on social contributions and taxes relating to labour income, the estimates included by the INE in the rest of the world account have been used.

- c) Portfolio investment income. Based on the 2005 balance of payments data given in this report, the accrual principle was used in the calculation of all income derived from portfolio investment, including both receipts and payments. Previously the accrual principle was only applied to income payments arising from interest on euro-denominated bonds issued by general government. Given that, on the available information, this change cannot be applied to data prior to 2005, there is a break in the time series of this heading, which, although it does not significantly affect its balance, may have an impact on the distribution of receipts and payments by institutional sectors. The procedure used to calculate income on an accrual basis takes into account the data on stocks of portfolio investment under the international investment position, in relation to which there is disaggregated security-by-security information, and the most representative interest rates. As mentioned in previous editions of this report, the centralised securities database, a Eurosystem project led by the ECB, will in the future enable the quality of the calculation procedure to be improved by making it possible to apply to each investment security the related accrued income. The procedure currently used cannot be applied to the monthly data of the current year and, therefore, until the cut-off date of the final one-year statistics, the monthly figures disseminated in the Banco de España *Boletín Estadístico* will continue to reflect income recorded on the cash basis.
- d) Workers' remittances. Coinciding with the publication of the final 2005 data, the payments of the heading workers' remittances were revised for the period 2001-2005 (see Chart 5.1). The new figures entailed an increase in the amount of workers' remittance payments of around 20% with respect to the previous ones, and, as a result, the balance of the heading recorded a deficit in 2005.

Before going on to describe the work undertaken to improve the quality of the data of this heading, it should be mentioned that the calculation procedure used previously was based mainly on the reported foreign receipts and payments made through credit institutions. This procedure started to undergo significant changes from 2001 (basically, an increase in the threshold for reporting individual transactions to €12,500), which coincided in time with an increase in the amounts sent, as a result of growth in the migrant population and of the greater diversity of channels for sending remittances. Consequently, a simple comparison of the data with other related indicators revealed that the intensity of these flows reached in recent years was not being reflected sufficiently in the Spanish balance of payments. Hence a detailed and rigorous investigation was made of all the information sources available to supplement those used so far, and of the calculation procedures used in other countries<sup>10</sup>. Some of the stud-

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10. The results of this analysis are included in an article that will appear shortly in the Banco de España Economic Bulletin.



SOURCE: Banco de España.

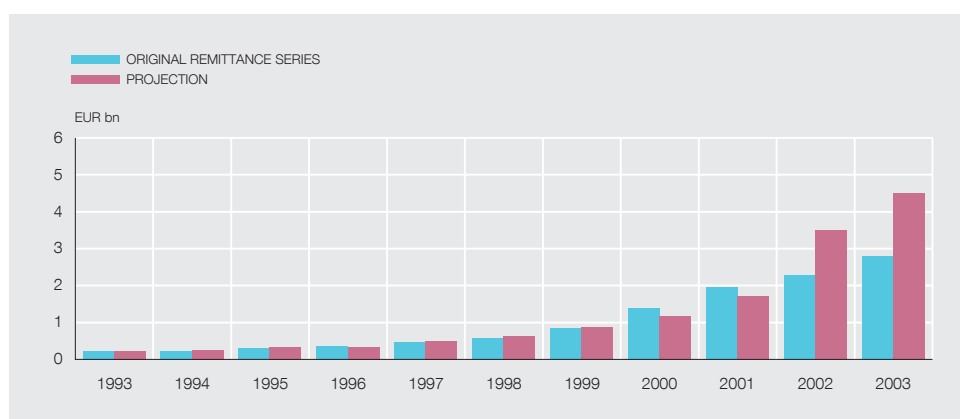
ies conducted in this respect have been published in previous editions of this report.

The revision included, for the first time, the comparison of remittance payments, first, with their determinants (total foreign population and working foreign population) and, second, with the information on transfers issued through currency-exchange bureaux (remitters)<sup>11, 12</sup>. Additionally, account has been taken of receipts arising from remittances recorded in the balance of payments of the main recipient countries of remittances from Spain and of the percentage of total immigrants from those countries that live in Spain<sup>13</sup>. Analysis of these indicators suggests that remittance payments in the period 2001-2005 may be understated by around 20%.

Next, an estimate was made of the potential remittances able to be sent abroad by the immigrant population (equal to the maximum income available to the immigrants<sup>14</sup>). Analysis of potential remittances indicates that, from 2001, coinciding with the increase in the stock of resident immigrant population in Spain and with the changes in the information procedure based on receipts and payments made via credit institutions, there was a gradual widening of the difference between potential remittances and those recorded in the balance of payments.

Given that potential remittances provide a means of approximating the maximum amount that could be transferred, but not of quantifying the actual remittance of funds abroad, the next task consisted of estimating an econometric model with panel data for remittance payments abroad from Spain in the period 1993-2000.

**11.** Remitters report their transactions to the Banco de España for supervision reasons. For more information on the regulation of these entities, see Banco de España Circular 6/2001. **12.** In addition to remittances via remitters, mention should be made of the importance in certain countries of remittances via other than by formal channels (direct delivery of banknotes in the immigrant's country of origin, remittances in kind, etc.), which would account for between 10% and 55% for a sample of developing countries in Africa and Asia [Puri and Ritzema 1999]. An alternative estimate of the World Bank (2005) based on an econometric model for the period 1995-2003 puts this percentage at between 35% and 75% for developing countries. **13.** Analysis using data on receipts of counterpart countries makes certain restrictive assumptions. Specifically, it is assumed that the remittance per capita from migrants of a given nationality is the same regardless of whether they live in Spain or in another country. **14.** For a detailed analysis of the estimate of potential remittances, see the 2003 and 2004 balance of payments reports.



SOURCE: Banco de España.

The explanatory variables considered relate remittances to the main causes which, based on research into the phenomenon, underlie them: the altruistic motive (for example, the stock of foreign population, the difference in income per capita between Spain and the country of origin of the immigrants, the growth rate of GDP in Spain and in the country of origin, the time elapsed since arrival, etc.) and the investment motive (for example, the differences between interest rates in Spain and in the immigrants' country of origin and the movements in exchange rates). The estimate was made separately for each of three groups of countries (group 1: Latin America, Africa and Asia; group 2: United States and the European Union; and group 3: eastern Europe), in order to take into account the different reasons underlying remittances and, therefore, avoid introducing bias into the coefficients estimated for the explanatory variables. The equation thus estimated was used to obtain projections of the remittance payments figure for the period 2001-2004. Chart 5.2 shows adjusted values generated by the model (within the sample period) and projections beyond the estimation period. The most important result is that the remittance payments for the period 2001-2004 are underestimated by around 25%.

The combination of the results of the model with the other information sources available on the behaviour of remittance payments led the Banco de España to revise upwards the original remittance series by around 20% in the period 2001-2005.

The revision of workers' remittance payments also enabled improvements in the information available on the geographical desegregation of these transactions by final destination of the funds. The information on foreign receipts and payments via credit institutions often does not reflect the country of destination of the remittances, because frequently financial intermediaries resident in third countries participate in the settlement of the transactions. This problem is particularly significant in the case of remittances made through agents of the large international money transfer networks. In these cases, the addressees of transfers made via Spanish credit institutions, through which the remitters settle their transactions, are the firms heading these networks, which are often resident in the United States. For this reason, in the data of credit institutions this type of transaction



Percentage of total

	2004	2005
Latin America & Caribbean	71.7	69.5
<i>Ecuador</i>	22.5	21.0
<i>Colombia</i>	21.3	20.2
<i>Bolivia</i>	9.4	9.3
<i>Dominican Republic</i>	6.8	5.5
<i>Brazil</i>	4.7	4.4
<i>Peru</i>	4.3	3.6
<i>Argentina</i>	1.6	2.0
<i>Other</i>	1.0	3.5
EU 15	3.9	6.6
<i>Germany</i>	1.7	1.2
<i>United Kingdom</i>	1.0	0.6
<i>France</i>	0.4	0.3
<i>Other</i>	0.7	4.5
Rest of Europe	8.0	8.5
<i>Romania</i>	6.4	7.7
<i>Ukraine</i>	0.7	0.3
<i>Bulgaria</i>	0.5	0.2
<i>Other</i>	0.4	0.3
Rest of the world	16.4	15.4
<i>Marocco</i>	7.8	6.9
<i>Philippines</i>	3.4	2.5
<i>Senegal</i>	2.4	2.3
<i>Other</i>	2.7	3.6

SOURCE: Banco de España.

distorts the breakdown by geographical counterpart, attributing a large weight to the remittances sent to the United States, accommodated by smaller amounts in the rest of the destinations.

The direct data sent by remitters directly to the Banco de España were used to correct the distortions that the aforementioned problem introduced into the geographical distribution of remittance payments in the balance of payments, thereby yielding a more accurate breakdown of the countries of ultimate destination of these transactions. Table 5.1 shows the geographical distribution of remittance payments for the period 2004-2005, including country-specific information in the case of the most significant countries in terms of remittances. As can be seen, in both periods the area receiving the largest proportion of remittance payments (approximately 70%) is Latin America and the Caribbean, where the most significant remittances are to Ecuador, Colombia, Bolivia and the Dominican Republic. Most notable among the other areas considered are the remittances to Romania, Morocco and the Philippines.

- e) Other private-sector transfers. The changes introduced in this heading, which affect the time when some of the transactions between the European Commission and the Spanish government are recorded, consist of the application of the accrual principle; until the 2005 data cut-off, transactions were recorded when the government received the funds. Specifically, the funds transferred by the European Com-

mission to Spain under the guarantee section of the European Agricultural Guidance and Guarantee Fund (EAGGF-Guarantee) were being recorded when the Directorate General of the Treasury booked the funds in the account held by it with the European Commission. This treatment was changed to reflect the transactions at the time when the Spanish Agricultural Guarantee Fund ("FEGA" by its Spanish acronym) pays them to the beneficiaries, thereby advancing the payment that the Commission should be making. This advance is recorded in the balance of payments and international investment position as a financial asset of the Spanish general government vis-à-vis the Commission, which is discharged when the Commission pays the funds to Spain. It should be pointed out that the change in the method of accounting for these funds barely affected the data for the year as a whole, although it did alter their monthly distribution.

#### 5.4.2 CHANGES IN THE DISSEMINATION OF STATISTICS

In 2005 further additions were made to the foreign sector statistics disseminated via the usual channels.

There were two main changes. The first was the inclusion for the first time in this report of a geographical disaggregation of workers' remittance payments by country of destination of the funds. Table 5.1 shows this breakdown for the main areas of destination in 2004 and 2005, specifying the countries of greatest weight in each area. As mentioned earlier, the fact that information drawn from the general information system based on foreign receipts and payments is combined with other information sources enabled improvements to be made to the calculation procedure used so far to obtain workers' remittance payments and, at the same time, the determination of their geographical disaggregation reflecting the country of final destination of the remittances. To do this, use was made basically of the information provided directly by currency-exchange bureaux to the Banco de España.

The second relates to the dissemination of statistics on payments and receipts under the "other services" headings. In this case, the change consisted of the dissemination, on a quarterly basis, of information on the main services grouped under this item and on the main countries or economic areas of destination or origin of total trade in other services. This information has been disseminated quarterly in the Banco de España *Boletín Estadístico* (Tables 16.16 and 16.17) since July 2005. Previously, the dissemination of this data coincided with the publication of this report. It should be pointed out that the data of the various services headings in the Spanish balance of payments, except travel, largely continue to be calculated using the general information system for foreign receipts and payments. Therefore, the geographical distribution obtained should be interpreted with caution, since in certain cases it may reflect the countries of residence of the companies intervening in the settlement of receipts and payments transactions, which do not always coincide with those of residence of the entities providing or receiving the service.

#### 5.4.3 CHANGES IN THE DESIGN AND IMPLEMENTATION OF NEW INFORMATION SOURCES

In 2005 further significant progress was made in the work on new information sources, namely the International Services Survey and the ECB's Centralised Securities Database. We discuss below the main results from the standpoint of the use of these two sources to calculate the related Spanish balance of payments headings.

##### a) Other services

There are two main changes in regard to the implementation of a new information system for estimating the heading other services. The first consists of a possible postponement in the envisaged schedule for increasing the reporting threshold for euro-denominated transfers in the European Union, which will add a certain

leeway for the replacement of the current information system based mainly on the reporting of foreign receipts and payments. The second is the availability of the initial results obtained from the new survey on International Trade in Services (CIS by its Spanish acronym), a statistical operation designed as a source of alternative information to the current reporting system<sup>15</sup>.

The suitability of 2005, the year in which it was planned to raise the threshold for compulsory reporting of euro-denominated transfers between resident credit institutions in the European Union from the current €12,500 to the €50,000 initially set for 2006, was the subject of discussion. The European Commission conducted a consultation process in preparation for raising this threshold as envisaged under the current Regulation. As part of this consultation process, a debate on the raising of this threshold was conducted among European statistics working groups, which analysed the cost that the associated loss of information would entail for the producers of statistics. In view of the conclusions of these groups, the Governing Council of the European Central Bank proposed to the European Commission that the adoption of the new threshold be postponed until January 2008.

If this decision were finally made, and everything seems to indicate that it will, the Banco de España would have additional time to incorporate the results of the new CIS survey as the main information source for estimating other services in the balance of payments. Although the new schedule would enable certain aspects of the new operation to be refined, it should be noted that the CIS survey has been conducted, on a compulsory and quarterly basis, on nearly 10,000 firms since January 2005 and that the initial results for a full annual series are now available. This has enabled the impact that the incorporation of the CIS source would have on the balance of payments data to be assessed and the difficulties that, for the time being, affect the new results to be identified.

Comparison of the data gathered in the new survey and those communicated by the reporting units to the Balance of Payments Department for 2005 shows that the data obtained from the survey are, on average, inferior to those obtained by the current calculation procedure, both for exports and for imports. However, both the magnitude and the sign differ when the analysis is conducted by type of service.

Despite these discrepancies, certain factors indicate that the new source may be suitable in the future. First, the rate of failure to reply is still high in certain sectors, although it has decreased considerably with respect to the pilot phase of the project. Second, in certain service categories, the methodology for compiling balance of payments statistics is difficult to transfer to the reporting units, and, therefore, the reported data require adjustments which, for the time being, it has not been possible to make. In addition, detailed comparison of the data received from reporting units that also report directly to the Banco de España<sup>16</sup>, which

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**15.** See Spanish Balance of Payments and International Investment Position, 2004. **16.** The population of the CIS survey is obtained by supplementing the Banco de España Cash Register, i.e. the reporting units of foreign receipts and payments, with the monthly VAT returns by large corporations and exporters to the State Tax Agency ("AEAT" by its Spanish acronym) and with the Central Directory of Corporations. The sampling design involves four sub-samples each with its own elevation factor. The first is obtained from the stable population of the Banco de España (representing itself). The next two sub-samples are drawn from the large corporations register: one consists of corporations that report having carried out international transactions for VAT purposes, and the other comprises corporations that do not report having carried out foreign transactions. The fourth subsample is drawn from the DIRCE by means of sampling devised on the basis of the characteristics (size and activity) of the non-stable population of the Banco de España.

account for around 75% of total reported exports and imports, enables the main sources of discrepancy to be reduced.

In view of the foregoing, the work to be carried out in the near future will have to continue paying special attention to direct contact with the main reporting units, so as to help identify suitable procedures for calculating the data to be reported<sup>17</sup>. In this respect, it will also be necessary to make progress in the criteria for editing reported information and in the treatment of failure to reply. Finally, the objectives for the coming year include analysing the geographical information obtained and designing an appropriate method for the monthly breakdown of results.

#### b) Portfolio investment

In 2005 the Governing Council of the European Central Bank (ECB) announced the end of the first phase of the Centralised Securities Database (CSDB) project<sup>18</sup>. As mentioned in the 2004 edition of this report, the project has three phases and the objective is to construct a reference database with individual-level (security-by-security) information on the securities issued (held) by residents in the euro area. The phase 1 work consisted of designing the database, selecting suppliers and establishing an initial mechanism for access to information by the participating national central banks (NCBs)<sup>19</sup>. The progress made so far has enabled the Balance of Payments Department to adapt the computer processes designed for producing statistics on negotiable securities and to conduct an initial assessment of the quality of the new information source. However, the total integration of the CSDB will not be completed until phase 2 of the project, planned for November 2007, in which major improvements are envisaged in the quality of the stored information and in the information transmission processes<sup>20</sup>.

At present, the CSDB receives inputs from four commercial suppliers<sup>21</sup>, in addition to that from nine NCBs and the Bank for International Settlements. It contains hundreds of variables relating to approximately two and a half million securities assigned to around 600,000 issuers<sup>22</sup>. Although the coverage, taking into account the information requirements set by the NCBs<sup>23</sup>, is high, there is some room for improvement, particularly in regard to the variables relating to securities prices<sup>24</sup>. For the time being, only the ECB has direct access to the full CSDB, and each month it sends to the participating NCBs a selection of the variables included in the database<sup>25</sup>. The information received by the NCBs, which is shared by all of them, includes 49 variables relating to fixed-income securities and 40 variables linked to equity securities. This arrangement for NCBs to access CSDB

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17. The series of meetings with the main reporting units initiated in 2004 continued in 2005. 18. After the trial period ended satisfactorily, the CSDB went into production in December 2004; the ECB Governing Council approved the phase 1 completion report in July 2005. 19. See *Spanish Balance of Payments and International Investment Position, 2004*. 20. The objective of phase 3 is to supplement the information with that on securities holders. 21. Association of National Numbering Agencies (ANNA), Financial Times Interactive Data, Reuters and Telekurs (in 2005, as well as in previous years, Dealogic supplied information to the CSDB). 22. In principle, only securities with redemption dates after end-2004 are included in the database. 23. The NCBs participating in the CSDB project have informed the ECB of the securities communicated in each country by the reporting agents in their disclosures of negotiable securities transactions and balances. Comparison of these securities with those contained in the CSDB made it possible to assess the coverage of the new information source. At present the number of securities communicated to NCBs by reporting agents represents 14% of the total number of securities in the CSDB. 24. A data enrichment process is planned. It will basically consist of estimating market prices in those cases in which there is no price information. 25. The ECB has been sending this information regularly since May 2005. So far, it has been transmitted using the so-called *ESCB-Net*.

MAIN METHODOLOGICAL AND PRESENTATIONAL MODIFICATIONS INTRODUCED  
IN THE BALANCE OF PAYMENTS AND THE INTERNATIONAL INVESTMENT POSITION SINCE 2000

TABLE 5.2

YEAR	CHANGE	REMARKS
2000	Grouping of financial transactions of the Banco de España in a specific heading in the summary tables.	Affects the presentation of the balance of payments and international investment position data.
	Inclusion in a separate heading, of the "net lending/net borrowing of the Spanish economy" (sum of the current and capital accounts).	Previously details were only given of the current and capital account.
	Separation of financial derivatives into a specific heading, recording the net amount of the change in liabilities less the change in assets.	They were previously included in the change in assets.
2002	Estimation of the financial counterpart, i.e. the net financial asset, of external transactions settled using euro banknotes.	The net financial asset is included under the heading other investment of other resident sectors.
	Separate inclusion, in the instrument and sector-breakdown tables, of the Banco de España's portfolio investment transactions.	Affects the presentation of the balance of payments and international investment position data.
2003	Incorporation, from the 2002 data, of a new reporting system for calculating IIP portfolio investment.	The time series of investment in shares and mutual funds in the case of the sector other resident sectors in the international investment position has been revised to eliminate the methodological break. In the rest of the headings the break is considered minor.
	Incorporation of information from the Investment Register of the Directorate General for Trade and Investment of the Ministry of Industry, Tourism and Trade, to include transactions difficult to detect using the balance of payments system.	Gives rise to greater revisions of previously disseminated figures.
2004	Use of new INE estimates for 2000-2004 for the CIF/FOB adjustment to the Customs and Excise figures for imports and to measure freight services	The new estimates have been made using the new National Accounts data with base year 2000 and revising the previous assumptions. Revision of the time series affects the data from 1995 for the merchandise (imports) and freight (credits and debits) headings.
	Deduction of the Customs and Excise figures from an estimate of the temporary exports and imports of goods obtained from the information on operational lease services in the foreign receipts and payments register.	Involves a revision of the merchandise heading from 1995, to avoid double counting of operational leases in the balance of payments. These transactions continue to be recorded in services.
	Inclusion in the Customs and Excise figures of an estimate of intra-Community goods trade transactions below the In-trastat reporting threshold.	The new estimates are consistent with those incorporated in the new National Accounts data with base year 2000. Involves a revision to the merchandise series from 1995.
	Revision of the estimate of the figures for merchandise that does not cross borders, from the information supplied by the foreign receipts and payments register.	Involves a revision of the merchandise series from 1999, the year from which the previous method of estimation introduces bias into the data.
	Revision of the level of the travel series, incorporating in the credits from 2001 the results obtained using the new method of estimation that combines EGATUR and real indicators for the tourism sector, and incorporating in the credits prior to 2001, and in debits for the whole period, the results obtained with the usual procedure following the revision of the implicit assumptions.	The results of the new method are incorporated directly into the credits of the heading from 2000 and the time series (credits and debits) are revised from 1995.
	Reassignment of EU transfers corresponding to the European Development Fund to the heading current transfers, in line with the treatment applied by both the National Accounts and Eurostat.	These transactions were previously recorded as capital transfers. The series are revised from 1995.
	Incorporation of an estimate of the reinvested earnings of direct investment firms obtained from information supplied by the Central Balance Sheet Data Office, Balance of Payments and EUROSTAT.	Affects, in the balance of payments, the headings of reinvested earnings included in direct investment income, and shares and other equity of direct investment and, therefore, the IIP. The new estimates are incorporated from 1995.

MAIN METHODOLOGICAL AND PRESENTATIONAL MODIFICATIONS INTRODUCED  
IN THE BALANCE OF PAYMENTS AND THE INTERNATIONAL INVESTMENT POSITION SINCE 2000 (cont'd)

TABLE 5.2

YEAR	CHANGE	REMARKS
2004	Monthly reassignment of the specific transactions of foreign investment in listed shares in Spain to the direct investment or portfolio investment heading, as appropriate, in the balance of payments.	Carried out with information provided by the Ministry of Industry, Tourism and Trade. The balance of payments series are revised from 1995.
2005	Gross treatment of the heading compensation of employees, incorporating the net payments by non-resident (resident) employers to resident (non-resident) employees, the amounts relating to taxes and social contributions.	The required information for treatment in gross terms of the heading was obtained from the estimates made by the INE for the National Accounts. This enabled the differences between the balance of payments and the rest of the world account to be eliminated. Data revised from 1995.
	Estimation of portfolio investment income by the accrual principle. Until 2005, this principle was only used to record income in the case of investment income paid to non-residents arising from interest on peseta- or euro-denominated bonds issued by general government.	The procedure used to calculate income under the accrual principle takes into account the IIP data on the stock of portfolio investment, which include disaggregated security-by-security information and the most representative interest rates. The change affects 2005 data.
	Application of the accrual principle to the recording of funds transferred by the European Commission to Spain under the guarantee section of the European Agricultural Guarantee and Guidance Fund. These funds are included under the heading other current private transfers and, until 2005, were recorded when the European Commission paid them to the Spanish government.	This treatment was changed in co-ordination with that introduced by the INE into the Spanish National Accounts. This new criterion is applied retroactively to 1995.
	Inclusion of the EGATUR survey on tourist spending at borders as the sole source for estimating travel income.	The change affects data relating to January 2005 and thereafter.
	Revision of the procedure for estimating payments under the heading workers' remittances.	The new method includes information on outward transfers issued from Spain via currency-exchange bureaux. Data revised from 2001.

data does not allow totally efficient performance of the quality control tasks envisaged in the project<sup>26</sup> and, in addition, limits the potential use of the data for the production of statistics.

Apart from these technical matters, in the phase currently underway it will also be necessary to resolve certain purely methodological matters. In this respect, the following issues are currently the subject of debate: a) the inclusion or not in the CSDB of information relating to derivatives and to unlisted shares; b) the final classification of instruments sharing the characteristics of both shares and debt, known as hybrids<sup>27</sup>, and c) the definition of the issuer in the case of shares/units of mutual funds.

Phase 2 will include on-line access to the database by NCBs and the implementation of a more flexible data exchange mechanism than that currently in place<sup>28</sup>, which will enable more versatile quality control of CSDB data and will provide an

<sup>26</sup> The participating NCBs are responsible for ensuring the quality of information on the securities issued by their residents, while the ECB ensures quality in the case of non-EU issues. So far these tasks have been carried out basically by the ECB and particular attention has been paid to the information relating to the securities issuer. <sup>27</sup> As a short-term solution, the *Working Group on External Statistics* and the *Statistics Committee* of the ECB agreed to classify them as fixed-income instruments. <sup>28</sup> The entry into production of the functionalities envisaged for on-line access to the CSDB by NCBs has been set for November 2006. The scheduled completion date of implementation of the new data transmission channel is November 2007.

efficient tool for the production and analysis of statistics on negotiable securities<sup>29</sup>. The on-line access system will enable consultation of the whole database and customised downloading of data. In addition, to facilitate data quality control, the stored information can be modified directly by the participating NCBs and provision has been made for efficient systems to communicate any incidents that may be detected. As regards the data transmission mechanism, the objective is to implement a new system that enables batch uploading and downloading of information, whether it be scheduled to take place automatically on a periodic basis or whether it be at the request of the user (by selecting reference dates, securities and variables). In planning the work needed to achieve these objectives, unlike in phase 1 and in order to prevent the work falling behind schedule, special attention was paid to setting specific dates for completion of intermediate objectives.

Of key importance in the design of new functionalities was the effort made to anticipate the needs of the various users of the CSDB. In this respect, various categories of users were defined, based on the frequency of access to the system, the type of information required and the optimum system response time for each of them. Further, to assess the costs of phase 2 of the CSDB project and guarantee the required response times, it was also necessary to estimate the number of users of each of the aforementioned categories and approximate how many of the total users will access the system simultaneously.

There is considerable expectation that this project will create a valuable source of information<sup>30</sup>. The advantages for NCBs of total implementation of the CSDB will include the reduction of the cost of maintaining local negotiable securities databases and a decrease in the information burden transferred to the reporting units. But more significant than these will be the benefits in terms of quality and consistency of the statistics on negotiable securities. Direct access to the CSDB will be fundamental, not only for the production of the balance of payments and the international investment position, but also for the financial accounts of the euro area and other related statistics, such as those on negotiable securities and mutual funds<sup>31</sup>. From the standpoint of economic analysis, the CSDB will be able to meet needs relating to both monetary policy analysis and financial stability analysis, since it will enable alternative data presentations (e.g. classification of securities by original maturity or residual maturity) at a reduced cost.

In the case of Spain, although the integration of the CSDB into its statistical system has, for the time being, been partial, the new source has been crucial in providing the information required to obtain certain essential items for the compilation of euro area aggregate statistics.

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**29.** ECB Guideline 2004/15 itself specifies that compliance with the information requirements set by it for portfolio investments shall be conditional on adequate coverage by and quality of CSDB information. The Guideline establishes that the ECB itself, as the manager of the CSDB, shall monitor whether, from June 2006 onwards, the coverage is sufficient for the NCBs to comply fully with the specified quality requirements. In December 2005, the ECB Statistics Committee (STC) requested the co-operation of the *Business Coordination Group* (BCG) in selecting indicators and criteria to carry out a qualitative assessment of the content of the CSDB. **30.** As mentioned in the 2004 report, although initially the future CSDB was conceived basically for statistical purposes (compilation and production), its tasks have been broadened to include new objectives, basically relating to economic, financial stability and transaction analysis. **31.** The statistics on the balance of payments and international investment position, statistics on negotiable securities and the euro area financial accounts are covered by the information requirements laid down by the ECB in different guidelines; those on mutual funds are being drafted in an ECB regulation still under preparation.

The increased volume and diversity of foreign transactions that has accompanied the recent process of economic and financial internationalisation, against a backdrop of progressive lifting of the barriers to free movement of goods and capital, has complicated their measurement in the balance of payments (BP) and in the international investment position (IIP). The definitions and methodological criteria that have to be applied to compile these statistics are contained in the IMF *Balance of Payments Manual*, the 5th edition (BPM5) of which dates from 1993. Insofar as foreign direct investment (FDI) is concerned, the OECD's *Benchmark Definition of Foreign Direct Investment* (BD) contains precise guidelines, albeit relating solely to this heading, which are consistent with those of the BPM5. Both manuals are in the process of revision, in order to adapt them to the changes that have taken place in the international setting. Although the revision of these manuals has not been completed, it is clear that the changes envisaged for FDI will be significant. The need to revise the definitions relating to FDI is greater than in other cases because, as well as its significance as a source of financing, recent years have seen a weakening of the link between BP and IIP data and the theoretical determinants of transactions.

FDI is a category of international investment that reflects a firm's objective of obtaining a lasting interest in a company resident in another economy. It involves the existence of a long-term relationship and a significant degree of influence on the management processes of the investee<sup>1</sup>. In line with the BPM5, a practical indicator of this intention is taken to be the investor's ownership of at least 10% of the investee<sup>2</sup>.

1. FDI comprises not only the initial transaction that establishes the relationship between the investor and the investee, but also the subsequent transactions that may take place between them and with other affiliated companies. See paragraph 359 of the BPM5. 2. Of the ordinary shares or total voting power in the case of a public limited company, or their equivalent in the case of an unincorporated enterprise. See paragraph 362 of the BPM5. In addition, paragraph 363 recommends that subjective criteria should not be applied.

From 1993 to 2005, FDI flows increased notably, particularly up to the year 2000, a period in which the average growth rate of the world total was 36.9%. Following the slowdown initiated in 2001, FDI flows started to recover in 2004, and in 2005 increased by 29% according to UNCTAD data. FDI in Spain followed a similar pattern (see accompanying charts). This behaviour of flows is reflected in the growth of the stock of world FDI from 8.8% in GDP terms in 1993 to approximately 22% in 2005. In Spain, in line with the foreign expansion of Spanish firms in the 1990s, the stock of outward FDI by Spain rose notably from 5.4% to 35.8% of GDP in 2005, although the stock of inward FDI in Spain also grew at a rate above the annual average, from 17.9% to 34.5% of GDP.

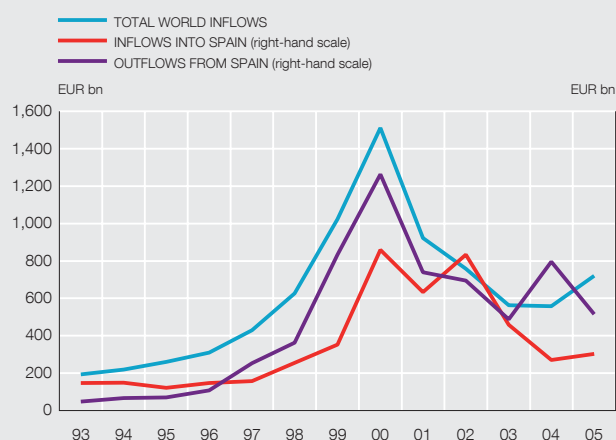
The BP and IIP data reflect the major role of FDI in the processes of economic and financial integration. However, in recent years multinational groups have resorted to certain financial transactions which, although they meet the statistical definition of FDI contained in the current methodological manuals (BPM5 and BD), do not share the determinants of this type of investment or have the expected effects on activity predicted by the various FDI theories. This phenomenon hinders interpretation of FDI statistics and may, in certain cases, limit its usefulness for economic analysis. An example of this type of operations is the proliferation of so-called special-purpose entities (SPEs)<sup>3</sup>.

SPEs are generally set up to meet purely organisational needs of corporate groups, and focus on international transactions, engaging in little or no local activity. They are formed by the group's parent company in a country other than that in which they are resident, some-

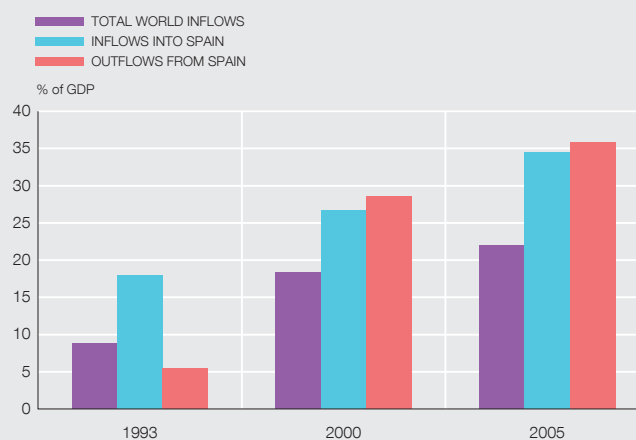
3. The BPM5 recommends including special purpose entities in the category of direct investment enterprises, provided they satisfy the 10% criterion. See paragraph 365 of the BPM5.

FDI FROM THE DATE OF PUBLICATION OF THE 5th IMF BALANCE OF PAYMENTS MANUAL (a)

FDI FLOWS



FDI STOCK



SOURCES: UNCTAD, IMF, INE and Banco de España.

a. The 2005 total world data are provisional estimates of the UNCTAD.



## MANUAL (cont'd)

times to carry out a single transaction or type of transactions. Their location is usually chosen to obtain favourable tax treatment or other regulatory advantages. Two types of SPEs stand out for their importance at international level. First, those set up for the sole purpose of acting as an intermediary in the parent company's holdings in companies resident in third countries, either channelling the associated FDI flows or simply centralising the ownership of the foreign holdings. Second, those specialised in obtaining financing on international markets and in transferring those funds to their direct investor. These SPEs have differing impacts on the FDI data. The first type causes an increase in the gross FDI flows (and stocks) in the country in which they are set up, but barely affects the net figures. The second type of SPEs, since they specialise in the transfer of funds which often exceed the amount of capital contributed by the investor, affect both gross and net FDI figures, at times giving rise to negative net amounts both in the country of residence of the direct investor and in that of the SPE. This latter effect occurs because, under the so-called "directional criterion" established by the BPM5, the transactions between the direct investor and its investees are recorded in their entirety under the headings outward foreign direct investment in the investor's country of residence and inward foreign direct investment in the investee's country of residence<sup>4</sup>. Additionally, in both cases the entities are interposed and, therefore, the geographical assignment of the transactions reflects neither the origin nor the final destination of the funds.

As mentioned above, the procedure described directly affects certain aspects of FDI that are fundamental for economic analysis. SPEs are not subject to the traditional determinants of internationalisation of production and have a scant or no impact on production and employment in the country in which they are set up. Furthermore, in the second case of those described above, the funds that the SPE transfers to the direct investor are not related to the group's activity, but rather to that of financial markets.

4. See paragraphs 330, 369, 371 and 375 of the BPM5.

Spain is no exception to the importance assumed by SPEs. For the last few years, resident foreign-equity securities holding companies (ETVEs) and, for a longer span of time, the SPEs set up abroad by Spanish companies to obtain financing, have been gaining weight in FDI figures. The former reached a proportion of 49% of the total FDI heading in 2003, although they have moderated considerably in recent years. As to the latter, notably in 2005 the stock of financing received by direct investors resident in Spain from this type of entities amounted to more than twice the financing granted by residents in Spain to their subsidiaries abroad. For easier analysis of the published FDI data, the balance of payments provides supplementary information on the flows associated with ETVEs and excludes from the FDI heading and classifies under other investment the loans that SPEs set up abroad transfer to their direct investors resident in Spain for the sole purpose of financing.

Like Spain, other countries in which certain transactions hinder interpretation of the FDI data have opted for alternative presentations to than those recommended in the BPM5. Diverse solutions have been adopted, depending on the specific circumstances of each economy<sup>5</sup>.

The revision of the BPM5 included wide-ranging discussion of the aspects relating to FDI. As it was decided not to change the 10% threshold recommended for identifying FDI operations<sup>6</sup>, the main change to be included in the new Manual (and in the OECD's BD) will be to replace the "directional principle" by a presentation of the data based on the asset/liability approach, like in other financial flows.

5. For example, the United States records under the portfolio investment heading the funds that resident direct investors obtain from certain subsidiaries located abroad for the sole purpose of issuing securities to obtain financing, and the Netherlands publishes FDI data including and excluding SPEs. 6. Options considered and ruled out were a flexible application of the 10% threshold (taking into account, in addition, effective participation in a firm's management process) and the raising of the threshold to 20%, in line with that set by IFRS (International Financial Reporting Standards).

## IMPACT ON SPAIN'S INTERNATIONAL INVESTMENT POSITION OF DISCONTINUING THE DIRECTIONAL PRINCIPLE

EUR bn

5th MANUAL (DIRECTIONAL PRINCIPLE)	2005	6th MANUAL (ASSET/LIABILITY APPROACH)	2005
<b>NET DIRECT INVESTMENT</b>	11.5	<b>NET DIRECT INVESTMENT</b>	11.5
<b>Direct investment abroad</b>	323.2	<b>Assets</b>	336.0
Equity capital	301.9	Equity capital	301.9
Other capital	21.2	Other capital	34.1
Claims on affiliated enterprises	26.4	Claims on affiliated enterprises	26.4
Liabilities to affiliated enterprises	5.2	Claims on direct investors	7.7
<b>Direct investment in reporting economy</b>	311.6	<b>Liabilities</b>	324.5
Equity capital	239.7	Equity capital	239.7
Other capital	71.8	Other capital	84.8
Claims on affiliated enterprises	7.7	Liabilities to affiliated enterprises	5.2
Liabilities to affiliated enterprises	79.6	Liabilities to direct investors	79.6

SOURCE: Banco de España.

## MANUAL (cont'd)

That is to say, the transactions (and stocks) between the direct investor and its investees will be classified by grouping together, on the one hand, those constituting an asset for the economy and, on the other, those constituting a liability, without taking into account, as the primary criterion, the relationship between the companies carrying out the transaction. Moreover, the data presentation will make it possible to reconstruct the previous approach, thereby affording greater flexibility to the users of the data<sup>7</sup>.

The accompanying table shows the impact on Spain's international investment position of the envisaged presentational change in the

7. Moreover, this solution also eliminates inconsistencies with the System of National Accounts, which recommends the non-offset of financial assets and liabilities (see SNA 1993, paragraph 2.84), and has advantages from a practical standpoint, since if no information is available on the relationship between the companies involved, the error only affects the classification by heading (direct investment/other investment), and not the aggregate amount of assets/liabilities.

recording of transactions between related companies. As can be seen, although the net FDI data would not vary as a result of application of the new assets/liabilities approach, the amounts of the two FDI components would be higher.

As regards the treatment of SPEs, although no decisions had yet been made on the specific treatment of their transactions, the proposals under discussion concern mainly the dissemination of supplementary information, as is being done in the case of Spain with ETVEs. Regarding the possible exclusion of FDI from financing transactions between SPEs set up solely to channel funds to parent companies -- which, as mentioned above, is being done in the Spanish balance of payments -- no decision has yet been made. If it is finally decided to exclude these transactions from FDI and include them in other investment, the decision will have no effect on Spanish data. If it is decided to do the opposite, the adoption of the assets/liabilities criterion for classifying transactions and stocks will enable these operations to be recorded without the distortion arising under the directional criterion.

#### 5.4.4 REVISION OF THE 5TH EDITION OF THE IMF BALANCE OF PAYMENTS MANUAL

The United Nations and the International Monetary Fund (IMF) are currently working on the co-ordinated revision of the manuals for the system of national accounts and for the balance of payments. It is expected that the next edition of the *Balance of Payments Manual* (which will be the 6th) will be published in 2008. The revision of this manual is necessary so that the methodology for compiling statistics on the balance of payments and the international investment position can be adapted to an economic and financial environment that has changed substantially since 1993, when the current edition was published<sup>32</sup>. Since then we have seen events such as: the economic crises of the 1990s, which heightened interest in analysis of the transactions and stocks of the financial account; the new rounds of international negotiation on trade in services, which resulted in greater information requirements for this heading; and the process of European economic and monetary integration, which has made it necessary to specifically address the practical and conceptual difficulties posed by the compilation of aggregate data for the euro area. Furthermore, in recent years the international capital flows linked to foreign direct investment and migration have grown in importance, and therefore the revision process has paid special attention to the items associated with these phenomena.

The need to update the *Balance of Payments Manual* was raised for the first time in 1999 by the IMF Balance of Payments Committee. In the next two years, work focused on identifying the rules most urgently in need of revision, and in 2002 the target date of 2008 was set for publication of the new edition<sup>33</sup> and its proposed structure was agreed on. To implement the related work, it was decided to set up groups of experts in various areas<sup>34</sup> and to

32. The 1st edition of the IMF *Balance of Payments Manual* was published in 1948, the 2nd in 1950, the 3rd in 1961 and the 4th in 1977. 33. This timetable was designed to ensure consistency with the SNA1993, the revision of which is also scheduled to be completed in 2008. 34. In December 2003 it was agreed to set up three groups: *Balance of Payments Technical Experts Group*, *Direct Investment Technical Experts Group* and *Currency Unions Technical Experts Group*. Subsequently, in June 2005 it was decided to set up the *Reserve Assets Technical Experts Group*. The first three groups have concluded their deliberations and the RESTEG will be operational until 2007.

publish drafts of the future Manual. Although the process has not ended, it is already possible to identify some of the main changes that will be included<sup>35</sup>.

First, the structure of the Manual will change significantly to give greater importance to the international investment position. In contrast, there will be no major changes in the basic items used in the current edition, which will only undergo certain clarifications and refinements.

In the specific case of the current account, changes will take place, such as classifying repairs of goods as services (previously they were classified under goods), providing additional breakdowns for the travel heading, recording communications and IT services under a single heading and separating construction services abroad from those taking place in the compiling economy. Also, in response to the increased interest in information on migratory processes, significant changes were agreed to enable the measurement of external transactions deriving from the movement of individuals. In the next Manual, the heading workers' remittances will disappear and be replaced by that of personal transfers, which will record current transfers in cash or in kind made or received by resident households to/from non-resident households, regardless of whether or not they are the product of remunerated work by a migrant. As supplementary information (although reporting it is compulsory), the Manual also includes the headings personal remittances and total remittances<sup>36</sup>. Also, it was agreed not to record the reclassification of assets and liabilities resulting from the change of residence of individuals as an external transaction<sup>37</sup>.

Finally, in the case of financial transactions and stocks, the agreed changes basically affect the heading FDI. They are described in more detail in Box 5.1. The new Manual will recommend that stocks of holdings in capital constituting direct investment should be valued at market price, thereby affording this criterion greater significance than it has at present. It was also decided to discontinue the directional principle for recording the financial transactions, and the associated stocks, existing between related companies and to not include in the heading FDI the long-term debt between affiliated companies of a financial nature.

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<sup>35</sup>. See <http://www.imf.org/external/hp/sta/bop/iss.htm> for more information on the issues discussed and on the resolutions adopted by the Balance of Payments Committee. <sup>36</sup>. The first as the sum of personal transfers and net compensation of employees. The second consists of the first plus current transfers to households and non-profit institutions from any sector. <sup>37</sup>. According to the 5th Manual, these transactions would be recorded under the capital account heading migrants' transfers.

STATISTICAL TABLES OF THE BALANCE OF PAYMENTS

## 6.1 THE SPANISH BALANCE OF PAYMENTS IN 2005

## BALANCE OF PAYMENTS IN 2004 AND 2005: MAIN COMPONENTS

TABLE 6.1.1

## Annual data

EUR m	2004			2005		
	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET
<b>Current account</b>	<b>261,865.9</b>	<b>306,029.6</b>	<b>-44,163.7</b>	<b>279,493.7</b>	<b>346,120.8</b>	<b>-66,627.1</b>
Trade balance	148,967.1	202,627.3	-53,660.2	156,374.6	225,343.9	-68,969.3
Services	69,355.2	47,602.1	21,753.0	75,410.1	52,775.6	22,634.5
<i>Travel</i>	36,376.3	9,772.1	26,604.2	38,494.7	12,125.2	26,369.5
<i>Other services</i>	32,978.9	37,830.1	-4,851.2	36,915.4	40,650.4	-3,735.0
Income	27,299.2	39,438.6	-12,139.5	31,311.6	48,519.6	-17,208.0
<i>Labour</i>	930.4	1,078.6	-148.2	1,055.5	1,233.9	-178.5
<i>Investment</i>	26,368.8	38,360.1	-11,991.3	30,256.1	47,285.7	-17,029.6
Current transfers	16,244.5	16,361.5	-117.1	16,397.5	19,481.8	-3,084.3
<b>Capital account</b>	<b>9,391.4</b>	<b>963.5</b>	<b>8,427.9</b>	<b>8,885.1</b>	<b>912.9</b>	<b>7,972.1</b>
<b>CURRENT AND CAPITAL ACCOUNTS</b>	<b>271,257.2</b>	<b>306,993.0</b>	<b>-35,735.8</b>	<b>288,378.8</b>	<b>347,033.7</b>	<b>-58,654.9</b>
	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)
<b>FINANCIAL ACCOUNT (a)</b>	-	-	<b>34,851.0</b>	-	-	<b>59,551.5</b>
<b>Excluding Banco de España</b>	-	-	<b>48,860.9</b>	-	-	<b>61,812.3</b>
<b>Direct investment</b>	-	-	<b>-28,808.7</b>	-	-	<b>-12,692.5</b>
Spanish investment abroad	-	48,750.1	-48,750.1	-	31,177.0	-31,177.0
Foreign investment in Spain	19,941.4	-	19,941.4	18,484.4	-	18,484.4
<b>Portfolio investment</b>	-	-	<b>85,807.9</b>	-	-	<b>57,890.3</b>
Spanish investment abroad	-	26,946.0	-26,946.0	-	78,714.2	-78,714.2
Foreign investment in Spain	112,753.9	-	112,753.9	136,604.5	-	136,604.5
<b>Other investment (b)</b>	-	-	<b>-8,212.4</b>	-	-	<b>16,598.8</b>
Spanish investment abroad	-	28,419.1	-28,419.1	-	46,258.3	-46,258.3
<i>Monetary financial institutions</i>	-	17,151.2	-17,151.2	-	37,478.3	-37,478.3
<i>General government</i>	-	1,588.9	-1,588.9	-	512.9	-512.9
<i>Other resident sectors</i>	-	9,679.0	-9,679.0	-	8,267.1	-8,267.1
Foreign investment in Spain	20,206.7	-	20,206.7	62,857.1	-	62,857.1
<i>Monetary financial institutions</i>	14,947.7	-	14,947.7	49,545.4	-	49,545.4
<i>General government</i>	5,025.2	-	5,025.2	-429.3	-	-429.3
<i>Other resident sectors</i>	233.8	-	233.8	13,740.9	-	13,740.9
<b>Financial derivatives</b>	-	-	<b>74.1</b>	-	-	<b>15.8</b>
<b>Banco de España</b>	-	-	<b>-14,009.9</b>	-	-	<b>-2,260.8</b>
<b>Reserves</b>	-	-	<b>5,147.0</b>	-	-	<b>1,439.2</b>
<b>Claims on the Eurosystem</b>	-	-	<b>-13,760.0</b>	-	-	<b>14,855.0</b>
<b>Other net assets</b>	-	-	<b>-5,397.0</b>	-	-	<b>-18,555.1</b>
<b>ERRORS AND OMISSIONS</b>	-	-	<b>884.8</b>	-	-	<b>-896.5</b>

SOURCE: Banco de España.

a. Changes in assets and liabilities are both net of repayments.

b. Mainly loans, repo operations and deposits.

## ACCOUNTING CONVENTION:

Financial account excluding Banco de España:

**NCA:** a positive (negative) sign denotes an increase (decrease) in assets; it is thus a capital outflow (inflow).**NCL:** a positive (negative) sign denotes an increase (decrease) in liabilities; it is thus a capital inflow (outflow).**NCL-NCA:** a positive (negative) sign denotes a capital inflow (outflow).

Banco de España: a positive (negative) sign denotes a decrease (increase) in Banco de España claims on the rest of the world.

Errors and omissions: a positive (negative) sign denotes a credit (debit) not recorded in any other Balance of Payments heading.

## BALANCE OF PAYMENTS: MAIN COMPONENTS

TABLE 6.1.2

Quaterly data

EUR m	2005		2005			
		Q1	Q2	Q3	Q4	
<b>CREDITS</b>						
<b>Current account</b>	<b>279,493.7</b>	<b>60,668.1</b>	<b>69,738.4</b>	<b>73,228.5</b>	<b>75,858.8</b>	
Trade balance	156,374.6	36,617.0	41,046.5	36,884.4	41,826.6	
Services	75,410.1	15,373.2	17,576.8	24,169.6	18,290.6	
Travel	38,494.7	7,071.3	8,331.1	14,664.8	8,427.5	
Other services	36,915.4	8,301.9	9,245.7	9,504.8	9,863.1	
Income	31,311.6	5,815.6	7,634.3	9,161.4	8,700.3	
Labour	1,055.5	260.9	244.8	281.1	268.6	
Investment	30,256.1	5,554.7	7,389.5	8,880.3	8,431.7	
Current transfers	16,397.5	2,862.2	3,480.9	3,013.1	7,041.3	
<b>Capital account</b>	<b>8,885.1</b>	<b>1,309.0</b>	<b>2,878.1</b>	<b>1,930.0</b>	<b>2,767.9</b>	
<b>Current and capital accounts</b>	<b>288,378.8</b>	<b>61,977.1</b>	<b>72,616.5</b>	<b>75,158.5</b>	<b>78,626.6</b>	
<b>DEBITS</b>						
<b>Current account</b>	<b>346,120.8</b>	<b>78,673.7</b>	<b>86,813.6</b>	<b>88,312.3</b>	<b>92,321.3</b>	
Trade balance	225,343.9	51,296.0	58,288.0	55,058.3	60,701.6	
Services	52,775.6	11,856.4	12,533.7	14,382.1	14,003.4	
Travel	12,125.2	2,650.7	2,670.5	3,648.5	3,155.5	
Other services	40,650.4	9,205.7	9,863.2	10,733.6	10,847.9	
Income	48,519.6	10,047.2	11,970.8	14,374.9	12,126.7	
Labour	1,233.9	370.2	261.0	283.2	319.5	
Investment	47,285.7	9,677.0	11,709.8	14,091.7	11,807.2	
Current transfers	19,481.8	5,474.0	4,021.1	4,496.9	5,489.6	
<b>Capital account</b>	<b>912.9</b>	<b>194.7</b>	<b>212.7</b>	<b>247.4</b>	<b>258.1</b>	
<b>Current and capital accounts</b>	<b>347,033.7</b>	<b>78,868.3</b>	<b>87,026.3</b>	<b>88,559.7</b>	<b>92,579.4</b>	
<b>BALANCES</b>						
<b>Current account</b>	<b>-66,627.1</b>	<b>-18,005.5</b>	<b>-17,075.2</b>	<b>-15,083.8</b>	<b>-16,462.6</b>	
Trade balance	-68,969.3	-14,679.0	-17,241.5	-18,173.9	-18,875.0	
Services	22,634.5	3,516.8	5,043.1	9,787.5	4,287.1	
Travel	26,369.5	4,420.6	5,660.6	11,016.3	5,272.0	
Other services	-3,735.0	-903.8	-617.5	-1,228.8	-984.8	
Income	-17,208.0	-4,231.6	-4,336.5	-5,213.5	-3,426.4	
Labour	-178.5	-109.3	-16.2	-2.1	-50.9	
Investment	-17,029.6	-4,122.3	-4,320.3	-5,211.4	-3,375.5	
Current transfers	-3,084.3	-2,611.8	-540.3	-1,483.9	1,551.7	
<b>Capital account</b>	<b>7,972.1</b>	<b>1,114.3</b>	<b>2,665.4</b>	<b>1,682.6</b>	<b>2,509.8</b>	
<b>Current and capital accounts</b>	<b>-58,654.9</b>	<b>-16,891.2</b>	<b>-14,409.8</b>	<b>-13,401.2</b>	<b>-13,952.8</b>	
<b>FINANCIAL ACCOUNT (NCL-NCA) (a)</b>	<b>59,551.5</b>	<b>17,456.0</b>	<b>13,694.9</b>	<b>15,386.3</b>	<b>13,014.3</b>	
<b>Excluding Banco de España (NCL-NCA)</b>	<b>61,812.3</b>	<b>16,242.7</b>	<b>15,903.4</b>	<b>18,590.4</b>	<b>11,075.8</b>	
<b>Spanish investment abroad (NCA)</b>	<b>158,519.5</b>	<b>34,488.4</b>	<b>36,795.4</b>	<b>30,736.1</b>	<b>56,499.6</b>	
Direct investment	31,177.0	10,361.0	6,362.3	4,670.7	9,783.0	
Portfolio investment	78,714.2	8,036.7	15,310.7	21,387.9	33,978.9	
Other investment (b)	46,258.3	17,319.5	12,845.1	1,502.8	14,590.9	
Monetary financial institutions	37,478.3	18,826.5	11,702.9	-1,766.0	8,714.9	
General government	512.9	-3,417.7	333.5	-199.9	3,797.1	
Other resident sectors	8,267.1	1,910.7	808.8	3,468.6	2,079.0	
<b>Foreign investment in Spain (NCL)</b>	<b>217,946.0</b>	<b>53,426.1</b>	<b>50,126.5</b>	<b>46,344.2</b>	<b>68,049.1</b>	
Direct investment	18,484.4	5,047.9	538.6	4,753.1	8,144.9	
Portfolio investment	136,604.5	35,558.5	41,740.6	20,993.7	38,311.8	
Other investment (b)	62,857.1	12,819.8	7,847.3	20,597.5	21,592.5	
Monetary financial institutions	49,545.4	8,701.7	6,287.9	18,309.5	16,246.3	
General government	-429.3	801.2	-1,607.3	786.8	-410.1	
Other resident sectors	13,740.9	3,316.9	3,166.6	1,501.1	5,756.3	
<b>Financial derivatives (NCL-NCA)</b>	<b>15.8</b>	<b>-1,466.3</b>	<b>295.0</b>	<b>-192.5</b>	<b>1,379.5</b>	
<b>Banco de España (NCL-NCA)</b>	<b>-2,260.8</b>	<b>1,213.3</b>	<b>-2,208.5</b>	<b>-3,204.1</b>	<b>1,938.5</b>	
Reserves	1,439.2	1,549.8	157.4	12.5	-280.4	
Claims on the Eurosystem	14,855.0	6,728.0	3,186.0	815.0	4,126.0	
Other net assets	-18,555.1	-7,064.5	-5,551.9	-4,031.6	-1,907.1	
<b>ERRORS AND OMISSIONS</b>	<b>-896.5</b>	<b>-564.8</b>	<b>714.9</b>	<b>-1,985.2</b>	<b>938.5</b>	

SOURCE: Banco de España.

- a. Changes in assets and liabilities are both net of repayments.  
b. Mainly loans, repo operations and deposits.

## ACCOUNTING CONVENTION:

Financial account excluding Banco de España:

NCA: a positive (negative) sign denotes an increase (decrease) in assets; it is thus a capital outflow (inflow).

NCL: a positive (negative) sign denotes an increase (decrease) in liabilities; it is thus a capital inflow (outflow).

NCL-NCA: a positive (negative) sign denotes a capital inflow (outflow).

Banco de España: a positive (negative) sign denotes a decrease (increase) in Banco de España claims on the rest of the world.

Errors and omissions: a positive (negative) sign denotes a credit (debit) not recorded in any other Balance of Payments heading.

## BALANCE OF SERVICES BY COMPONENT

TABLE 6.1.3

EUR m	2005	2005			
		Q1	Q2	Q3	Q4
<b>CREDITS</b>	<b>75,410.1</b>	<b>15,373.2</b>	<b>17,576.8</b>	<b>24,169.6</b>	<b>18,290.6</b>
<b>Travel</b>	<b>38,494.7</b>	<b>7,071.3</b>	<b>8,331.1</b>	<b>14,664.8</b>	<b>8,427.5</b>
<b>Transportation</b>	<b>12,355.9</b>	<b>2,673.8</b>	<b>3,166.1</b>	<b>3,290.1</b>	<b>3,225.8</b>
Freight	4,328.8	1,018.7	1,135.7	1,018.2	1,156.3
Passenger transport	4,250.5	895.3	1,113.6	1,177.9	1,063.7
<i>Air transport</i>	<i>4,129.7</i>	<i>877.1</i>	<i>1,086.5</i>	<i>1,143.0</i>	<i>1,023.1</i>
<i>Overland and other transport</i>	<i>46.6</i>	<i>6.7</i>	<i>13.0</i>	<i>11.0</i>	<i>15.9</i>
<i>Sea transport</i>	<i>74.3</i>	<i>11.5</i>	<i>14.1</i>	<i>23.9</i>	<i>24.7</i>
Other (a)	3,776.5	759.9	916.8	1,094.0	1,005.8
<b>Communication services</b>	<b>1,144.0</b>	<b>281.2</b>	<b>262.3</b>	<b>292.3</b>	<b>308.1</b>
<b>Construction services</b>	<b>1,358.2</b>	<b>285.6</b>	<b>396.6</b>	<b>327.4</b>	<b>348.5</b>
<b>Insurance services</b>	<b>650.2</b>	<b>140.7</b>	<b>130.3</b>	<b>208.4</b>	<b>170.8</b>
<b>Financial services</b>	<b>2,195.3</b>	<b>455.8</b>	<b>540.0</b>	<b>615.1</b>	<b>584.4</b>
<b>Computer and information services</b>	<b>2,898.8</b>	<b>597.5</b>	<b>717.0</b>	<b>769.7</b>	<b>814.6</b>
<b>Other business services</b>	<b>14,339.5</b>	<b>3,340.8</b>	<b>3,538.1</b>	<b>3,536.7</b>	<b>3,923.8</b>
Merchanting (b)	1,920.1	532.3	428.6	541.5	417.7
<i>Operational leasing (c)</i>	<i>340.2</i>	<i>62.4</i>	<i>78.3</i>	<i>96.4</i>	<i>103.2</i>
Miscellaneous business, professional and technical	12,079.2	2,746.1	3,031.3	2,898.9	3,402.9
<b>Personal, cultural and recreational services</b>	<b>879.3</b>	<b>180.7</b>	<b>228.8</b>	<b>226.2</b>	<b>243.6</b>
Audiovisual	384.5	93.2	104.0	97.9	89.3
Other cultural and recreational services	494.8	87.4	124.8	128.3	154.3
<b>Government services</b>	<b>650.4</b>	<b>153.6</b>	<b>171.9</b>	<b>152.7</b>	<b>172.2</b>
<b>Royalties and licence fees</b>	<b>443.9</b>	<b>192.0</b>	<b>94.5</b>	<b>86.0</b>	<b>71.3</b>
<b>DEBITS</b>	<b>52,775.6</b>	<b>11,856.4</b>	<b>12,533.7</b>	<b>14,382.1</b>	<b>14,003.4</b>
<b>Travel</b>	<b>12,125.2</b>	<b>2,650.7</b>	<b>2,670.5</b>	<b>3,648.5</b>	<b>3,155.5</b>
<b>Transportation</b>	<b>14,214.1</b>	<b>3,066.0</b>	<b>3,604.0</b>	<b>3,795.3</b>	<b>3,748.7</b>
Freight	9,119.9	2,060.5	2,346.2	2,257.1	2,456.1
Passenger transport	2,741.9	485.7	659.9	889.7	706.6
<i>Air transport</i>	<i>2,670.9</i>	<i>474.4</i>	<i>640.0</i>	<i>863.6</i>	<i>692.9</i>
<i>Overland and other transport</i>	<i>20.3</i>	<i>4.9</i>	<i>7.1</i>	<i>4.3</i>	<i>3.9</i>
<i>Sea transport</i>	<i>50.7</i>	<i>6.4</i>	<i>12.7</i>	<i>21.8</i>	<i>9.8</i>
Other (a)	2,352.3	519.9	597.9	648.5	586.0
<b>Communication services</b>	<b>1,374.1</b>	<b>301.9</b>	<b>371.1</b>	<b>333.2</b>	<b>367.9</b>
<b>Construction services</b>	<b>859.7</b>	<b>229.7</b>	<b>213.9</b>	<b>201.0</b>	<b>215.1</b>
<b>Insurance services</b>	<b>627.7</b>	<b>138.8</b>	<b>142.9</b>	<b>195.6</b>	<b>150.4</b>
<b>Financial services</b>	<b>2,210.9</b>	<b>430.0</b>	<b>505.9</b>	<b>698.6</b>	<b>576.4</b>
<b>Computer and information services</b>	<b>1,593.6</b>	<b>364.8</b>	<b>373.2</b>	<b>395.4</b>	<b>460.2</b>
<b>Other business services</b>	<b>15,936.3</b>	<b>3,706.3</b>	<b>3,736.1</b>	<b>4,102.8</b>	<b>4,391.1</b>
Merchanting (b)	1,120.5	266.7	290.8	254.7	308.3
<i>Operational leasing (c)</i>	<i>1,153.3</i>	<i>339.0</i>	<i>243.9</i>	<i>311.9</i>	<i>258.5</i>
Miscellaneous business, professional and technical	13,662.4	3,100.6	3,201.4	3,536.2	3,824.3
<b>Personal, cultural and recreational services</b>	<b>1,400.8</b>	<b>388.4</b>	<b>310.7</b>	<b>353.3</b>	<b>348.4</b>
Audiovisual	914.9	269.9	198.2	206.7	240.0
Other cultural and recreational services	485.9	118.4	112.5	146.6	108.3
<b>Government services</b>	<b>312.5</b>	<b>71.1</b>	<b>90.3</b>	<b>79.7</b>	<b>71.4</b>
<b>Royalties and licence fees</b>	<b>2,120.8</b>	<b>508.7</b>	<b>515.1</b>	<b>578.7</b>	<b>518.3</b>

SOURCE: Banco de España.

a. Includes transport support and auxiliary services.

b. Includes other trade-related services.

c. Includes rental of transportation without crew.



## BALANCE OF SERVICES BY COMPONENT (cont'd)

TABLE 6.1.3

EUR m	2005	2005			
		Q1	Q2	Q3	Q4
<b>BALANCE</b>	<b>22,634.5</b>	<b>3,516.8</b>	<b>5,043.1</b>	<b>9,787.5</b>	<b>4,287.1</b>
<b>Travel</b>	<b>26,369.5</b>	<b>4,420.6</b>	<b>5,660.6</b>	<b>11,016.3</b>	<b>5,272.0</b>
<b>Transportation</b>	<b>-1,858.2</b>	<b>-392.2</b>	<b>-437.9</b>	<b>-505.2</b>	<b>-522.9</b>
Freight	-4,791.1	-1,041.7	-1,210.5	-1,238.9	-1,299.8
Passenger transport	1,508.7	409.6	453.8	288.2	357.1
<i>Air transport</i>	<i>1,458.9</i>	<i>402.7</i>	<i>446.5</i>	<i>279.4</i>	<i>330.2</i>
<i>Overland and other transport</i>	<i>26.3</i>	<i>1.8</i>	<i>5.9</i>	<i>6.7</i>	<i>12.0</i>
<i>Sea transport</i>	<i>23.5</i>	<i>5.1</i>	<i>1.4</i>	<i>2.1</i>	<i>14.9</i>
Other (a)	1,424.2	240.0	318.8	445.6	419.8
<b>Communication services</b>	<b>-230.1</b>	<b>-20.7</b>	<b>-108.8</b>	<b>-40.9</b>	<b>-59.7</b>
<b>Construction services</b>	<b>498.5</b>	<b>55.9</b>	<b>182.8</b>	<b>126.4</b>	<b>133.4</b>
<b>Insurance services</b>	<b>22.5</b>	<b>2.0</b>	<b>-12.6</b>	<b>12.8</b>	<b>20.3</b>
<b>Financial services</b>	<b>-15.6</b>	<b>25.8</b>	<b>34.1</b>	<b>-83.4</b>	<b>7.9</b>
<b>Computer and information services</b>	<b>1,305.2</b>	<b>232.7</b>	<b>343.8</b>	<b>374.3</b>	<b>354.4</b>
<b>Other business services</b>	<b>-1,596.8</b>	<b>-365.5</b>	<b>-198.0</b>	<b>-566.1</b>	<b>-467.2</b>
Merchandising (b)	799.6	265.6	137.8	286.8	109.4
<i>Operational leasing (c)</i>	<i>-813.1</i>	<i>-276.6</i>	<i>-165.7</i>	<i>-215.6</i>	<i>-155.2</i>
Miscellaneous business, professional and technical	-1,583.2	-354.4	-170.1	-637.3	-421.4
<b>Personal, cultural and recreational services</b>	<b>-521.5</b>	<b>-207.7</b>	<b>-81.9</b>	<b>-127.1</b>	<b>-104.8</b>
Audiovisual	-530.4	-176.7	-94.2	-108.8	-150.7
Other cultural and recreational services	8.9	-31.0	12.3	-18.4	45.9
<b>Government services</b>	<b>338.0</b>	<b>82.5</b>	<b>81.7</b>	<b>73.0</b>	<b>100.8</b>
<b>Royalties and licence fees</b>	<b>-1,676.9</b>	<b>-316.6</b>	<b>-420.6</b>	<b>-492.7</b>	<b>-447.0</b>

SOURCE: Banco de España.

a. Includes transport support and auxiliary services.

b. Includes other trade-related services.

c. Includes rental of transportation without crew.

## INVESTMENT INCOME BY SECTOR

TABLE 6.1.4

EUR m	2005	2005			
		Q1	Q2	Q3	Q4
<b>Credits</b>	<b>30,256.1</b>	<b>5,554.7</b>	<b>7,389.5</b>	<b>8,880.3</b>	<b>8,431.7</b>
Monetary financial institutions	11,023.1	2,510.1	2,581.5	3,074.5	2,857.0
General government	130.8	20.7	27.7	39.6	42.7
Other resident sectors	19,102.3	3,023.9	4,780.3	5,766.2	5,531.9
<b>Debits</b>	<b>47,285.7</b>	<b>9,677.0</b>	<b>11,709.8</b>	<b>14,091.7</b>	<b>11,807.2</b>
Monetary financial institutions	16,750.3	3,805.4	4,283.7	4,423.4	4,237.8
General government	8,447.3	2,100.0	2,169.4	2,081.8	2,096.1
Other resident sectors	22,088.1	3,771.6	5,256.7	7,586.5	5,473.3
<b>Balance</b>	<b>-17,029.6</b>	<b>-4,122.3</b>	<b>-4,320.3</b>	<b>-5,211.4</b>	<b>-3,375.5</b>
Monetary financial institutions	-5,727.2	-1,295.3	-1,702.2	-1,348.9	-1,380.8
General government	-8,316.5	-2,079.3	-2,141.6	-2,042.2	-2,053.3
Other resident sectors	-2,985.9	-747.7	-476.4	-1,820.3	58.6

SOURCE: Banco de España.

## INVESTMENT INCOME BY INSTRUMENT

TABLE 6.1.5

EUR m	2005	2005			
		Q1	Q2	Q3	Q4
<b>Credits</b>	<b>30,256.1</b>	<b>5,554.7</b>	<b>7,389.5</b>	<b>8,880.3</b>	<b>8,431.7</b>
Direct investment income	12,468.0	1,329.0	3,008.4	4,289.4	3,841.3
Portfolio investment income	11,729.2	2,780.7	3,050.6	2,909.8	2,988.1
<i>Distributed dividends</i>	<i>1,400.6</i>	<i>275.2</i>	<i>482.7</i>	<i>251.6</i>	<i>391.1</i>
<i>Other portfolio investment</i>	<i>10,328.6</i>	<i>2,505.5</i>	<i>2,567.9</i>	<i>2,658.2</i>	<i>2,597.0</i>
Other investment income	6,058.9	1,445.0	1,330.5	1,681.1	1,602.3
<b>Debits</b>	<b>47,285.7</b>	<b>9,677.0</b>	<b>11,709.8</b>	<b>14,091.7</b>	<b>11,807.2</b>
Direct investment income (a)	12,966.5	1,796.8	2,981.6	5,002.8	3,185.3
Portfolio investment income (b)	20,486.7	4,437.2	5,373.3	5,449.5	5,226.7
<i>Distributed dividends (b)</i>	<i>4,316.7</i>	<i>843.2</i>	<i>1,288.3</i>	<i>1,254.5</i>	<i>930.7</i>
<i>Other negotiable securities investments</i>	<i>16,170.0</i>	<i>3,594.0</i>	<i>4,085.0</i>	<i>4,195.0</i>	<i>4,296.0</i>
Other investment income	13,832.5	3,443.0	3,354.9	3,639.4	3,395.2

SOURCE: Banco de España.

a. Does not include income from direct investment in listed shares; includes income from portfolio investment in unlisted shares.

b. Includes income from direct investment in listed shares; does not include income from portfolio investment in unlisted shares.

## CURRENT TRANSFERS BY SECTOR

TABLE 6.1.6

EUR m	2005	2005			
		Q1	Q2	Q3	Q4
<b>CREDITS</b>	<b>16,397.5</b>	<b>2,862.2</b>	<b>3,480.9</b>	<b>3,013.1</b>	<b>7,041.3</b>
<b>General government</b>	<b>3,554.8</b>	<b>681.5</b>	<b>701.3</b>	<b>743.2</b>	<b>1,428.8</b>
<i>Of which: with the EU</i>	<i>1,884.1</i>	<i>201.0</i>	<i>322.4</i>	<i>386.6</i>	<i>974.1</i>
<b>Other sectors</b>	<b>12,842.7</b>	<b>2,180.7</b>	<b>2,779.5</b>	<b>2,269.8</b>	<b>5,612.5</b>
Workers' remittances	4,298.5	933.9	1,067.1	1,224.0	1,073.4
Other transfers	8,544.2	1,246.8	1,712.4	1,045.9	4,539.1
<i>Of which: with the EU</i>	<i>6,101.0</i>	<i>741.8</i>	<i>1,126.7</i>	<i>438.8</i>	<i>3,793.6</i>
<b>DEBITS</b>	<b>19,481.8</b>	<b>5,474.0</b>	<b>4,021.1</b>	<b>4,496.9</b>	<b>5,489.6</b>
<b>General government</b>	<b>10,975.4</b>	<b>3,482.7</b>	<b>2,075.9</b>	<b>2,307.1</b>	<b>3,109.8</b>
<i>Of which: with the EU</i>	<i>10,294.6</i>	<i>3,284.5</i>	<i>1,799.7</i>	<i>2,191.2</i>	<i>3,019.2</i>
<b>Other sectors</b>	<b>8,506.3</b>	<b>1,991.4</b>	<b>1,945.2</b>	<b>2,189.9</b>	<b>2,379.9</b>
Workers' remittances	4,614.1	1,009.7	1,068.6	1,223.6	1,312.3
Other transfers	3,892.2	981.7	876.6	966.3	1,067.6
<b>BALANCE</b>	<b>-3,084.3</b>	<b>-2,611.8</b>	<b>-540.3</b>	<b>-1,483.9</b>	<b>1,551.7</b>
<b>General government</b>	<b>-7,420.6</b>	<b>-2,801.2</b>	<b>-1,374.6</b>	<b>-1,563.9</b>	<b>-1,680.9</b>
<i>Of which: with the EU</i>	<i>-8,410.5</i>	<i>-3,083.5</i>	<i>-1,477.3</i>	<i>-1,804.6</i>	<i>-2,045.1</i>
<b>Other sectors</b>	<b>4,336.3</b>	<b>189.4</b>	<b>834.4</b>	<b>80.0</b>	<b>3,232.6</b>
Workers' remittances	-315.7	-75.7	-1.5	0.4	-238.9
Other transfers	4,652.0	265.1	835.8	79.6	3,471.5
<i>Of which: with the EU</i>	<i>6,101.0</i>	<i>741.8</i>	<i>1,126.7</i>	<i>438.8</i>	<i>3,793.6</i>

SOURCES: Banco de España and Dirección General del Tesoro y Política Financiera (Ministerio de Economía y Hacienda).

## CAPITAL ACCOUNT

TABLE 6.1.7

EUR m	2005	2005			
		Q1	Q2	Q3	Q4
<b>CREDITS</b>	<b>8,885.1</b>	<b>1,309.0</b>	<b>2,878.1</b>	<b>1,930.0</b>	<b>2,767.9</b>
<b>Capital transfers</b>	<b>8,641.3</b>	<b>1,253.4</b>	<b>2,777.5</b>	<b>1,879.5</b>	<b>2,730.9</b>
General government	7,515.7	1,032.0	2,442.7	1,575.4	2,465.6
<i>Of which: with the EU</i>	6,512.6	933.6	2,309.8	973.4	2,295.8
Other sectors	1,125.6	221.4	334.8	304.1	265.3
<b>Disposal of non-produced intangible assets</b>	<b>243.7</b>	<b>55.6</b>	<b>100.6</b>	<b>50.5</b>	<b>37.0</b>
<b>DEBITS</b>	<b>912.9</b>	<b>194.7</b>	<b>212.7</b>	<b>247.4</b>	<b>258.1</b>
<b>Capital transfers</b>	<b>590.9</b>	<b>123.7</b>	<b>137.4</b>	<b>156.2</b>	<b>173.6</b>
General government	120.1	19.7	27.1	35.6	37.7
<i>Of which: with the EU</i>					
Other sectors	470.8	104.0	110.4	120.6	135.8
<b>Acquisition of non-produced intangible assets</b>	<b>322.0</b>	<b>71.0</b>	<b>75.3</b>	<b>91.2</b>	<b>84.5</b>
<b>BALANCE</b>	<b>7,972.1</b>	<b>1,114.3</b>	<b>2,665.4</b>	<b>1,682.6</b>	<b>2,509.8</b>
<b>Capital transfers</b>	<b>8,050.4</b>	<b>1,129.8</b>	<b>2,640.1</b>	<b>1,723.3</b>	<b>2,557.3</b>
General government	7,395.6	1,012.3	2,415.7	1,539.8	2,427.8
<i>Of which: with the EU</i>	6,512.6	933.6	2,309.8	973.4	2,295.8
Other sectors	654.8	117.5	224.4	183.5	129.5
<b>Disposal/acquisition of non-produced intangible assets</b>	<b>-78.3</b>	<b>-15.4</b>	<b>25.3</b>	<b>-40.7</b>	<b>-47.5</b>

SOURCES: Banco de España and Dirección General del Tesoro y Política Financiera (Ministerio de Economía y Hacienda).

EUR m	2005	2005			
		Q1	Q2	Q3	Q4
<b>Spanish investment abroad (NCA)</b>	<b>159,958.7</b>	<b>36,038.1</b>	<b>36,952.8</b>	<b>30,748.6</b>	<b>56,219.2</b>
Direct investment	31,177.0	10,361.0	6,362.3	4,670.7	9,783.0
<i>Monetary financial institutions</i>	1,542.3	220.3	707.9	-18.8	632.9
<i>Other resident sectors</i>	29,634.7	10,140.7	5,654.4	4,689.5	9,150.0
Portfolio investment (including Banco de España)	96,150.0	13,732.0	20,834.9	25,511.5	36,071.5
<i>Banco de España</i>	17,435.8	5,695.3	5,524.2	4,123.5	2,092.7
<i>Other monetary financial institutions</i>	40,596.3	-1,519.9	7,912.1	10,103.4	24,100.7
<i>General government</i>	4,560.9	7.9	987.2	2,835.0	730.8
<i>Other resident sectors</i>	33,557.0	9,548.6	6,411.4	8,449.5	9,147.5
Other investment (including Banco de España) (b)	32,631.8	11,945.1	9,755.6	566.4	10,364.7
<i>Banco de España</i>	-13,626.5	-5,374.4	-3,089.5	-936.3	-4,226.2
<i>Other monetary financial institutions</i>	37,478.3	18,826.5	11,702.9	-1,766.0	8,714.9
<i>General government</i>	512.9	-3,417.7	333.5	-199.9	3,797.1
<i>Other resident sectors</i>	8,267.1	1,910.7	808.8	3,468.6	2,079.0
<b>Foreign investment in Spain (NCL)</b>	<b>218,055.2</b>	<b>53,410.6</b>	<b>50,195.3</b>	<b>46,314.9</b>	<b>68,134.4</b>
Direct investment	18,484.4	5,047.9	538.6	4,753.1	8,144.9
<i>Monetary financial institutions</i>	265.7	38.0	317.8	49.0	-139.1
<i>Other resident sectors</i>	18,218.7	5,009.9	220.7	4,704.1	8,284.0
Portfolio investment	136,604.5	35,558.5	41,740.6	20,993.7	38,311.8
<i>Monetary financial institutions</i>	56,126.0	19,506.2	10,482.1	11,880.8	14,256.9
<i>General government</i>	1,686.8	-330.9	4,761.7	-6,086.9	3,342.9
<i>Other resident sectors</i>	78,791.6	16,383.1	26,496.8	15,199.8	20,711.9
Other investment (including Banco de España) (b)	62,966.3	12,804.3	7,916.1	20,568.1	21,677.8
<i>Banco de España</i>	109.2	-15.5	68.8	-29.4	85.3
<i>Other monetary financial institutions</i>	49,545.4	8,701.7	6,287.9	18,309.5	16,246.3
<i>General government</i>	-429.3	801.2	-1,607.3	786.8	-410.1
<i>Other resident sectors</i>	13,740.9	3,316.9	3,166.6	1,501.1	5,756.3
<b>Financial derivatives (NCL-NCA)</b>	<b>15.8</b>	<b>-1,466.3</b>	<b>295.0</b>	<b>-192.5</b>	<b>1,379.5</b>
<i>Monetary financial institutions</i>	505.4	-1,467.3	762.5	178.3	1,031.9
<i>General government</i>	-69.6	-149.8	-17.5	69.6	28.1
<i>Other resident sectors</i>	-420.1	150.8	-450.0	-440.3	319.5
<b>Reserves</b>	<b>1,439.2</b>	<b>1,549.8</b>	<b>157.4</b>	<b>12.5</b>	<b>-280.4</b>

SOURCE: Banco de España.

- a. Changes in assets and liabilities are both net of repayments.  
b. Mainly loans, repo operations and deposits.

ACCOUNTING CONVENTION:

**NCA:** a positive (negative) sign denotes an increase (decrease) in assets; it is thus a capital outflow (inflow).

**NCL:** a positive (negative) sign denotes an increase (decrease) in liabilities; it is thus a capital inflow (outflow).

**NCL-NCA:** a positive (negative) sign denotes a capital inflow (outflow).

Reserves: a positive (negative) sign denotes a decrease (increase) in the reserves.

EUR m	2005	2005			
		Q1	Q2	Q3	Q4
<b>GENERAL GOVERNMENT (NCL-NCA)</b>	<b>-3,885.9</b>	<b>3,730.3</b>	<b>1,816.3</b>	<b>-7,865.6</b>	<b>-1,566.9</b>
<b>Portfolio investment (NCL-NCA)</b>	<b>-2,874.0</b>	<b>-338.8</b>	<b>3,774.5</b>	<b>-8,921.9</b>	<b>2,612.2</b>
<b>Spanish investment abroad (NCA)</b>	<b>4,560.9</b>	<b>7.9</b>	<b>987.2</b>	<b>2,835.0</b>	<b>730.8</b>
Bonds and notes	4,560.4	7.9	986.7	2,835.0	730.8
<b>Foreign investment in Spain (NCL)</b>	<b>1,686.8</b>	<b>-330.9</b>	<b>4,761.7</b>	<b>-6,086.9</b>	<b>3,342.9</b>
Bonds and notes	2,262.7	-298.6	5,634.1	-6,528.2	3,455.4
Money market instruments	-575.8	-32.3	-872.4	441.3	-112.4
<b>Other investment (NCL-NCA) (b)</b>	<b>-942.2</b>	<b>4,218.9</b>	<b>-1,940.7</b>	<b>986.7</b>	<b>-4,207.2</b>
<b>Spanish investment abroad (NCA)</b>	<b>512.9</b>	<b>-3,417.7</b>	<b>333.5</b>	<b>-199.9</b>	<b>3,797.1</b>
Long-term loans and deposits	947.0	240.7	183.9	309.8	212.6
Short-term loans and deposits	-434.0	-3,658.4	149.6	-509.7	3,584.5
<b>Foreign investment in Spain (NCL)</b>	<b>-429.3</b>	<b>801.2</b>	<b>-1,607.3</b>	<b>786.8</b>	<b>-410.1</b>
Long-term loans	567.8	843.4	-1,025.0	-199.7	949.2
Short-term loans	-997.1	-42.2	-582.2	986.5	-1,359.2
<b>Financial derivatives (NCL-NCA)</b>	<b>-69.6</b>	<b>-149.8</b>	<b>-17.5</b>	<b>69.6</b>	<b>28.1</b>
<b>OTHER RESIDENT SECTORS (NCL-NCA)</b>	<b>38,872.5</b>	<b>3,260.6</b>	<b>16,559.6</b>	<b>4,357.1</b>	<b>14,695.2</b>
<b>Direct investment (NCL-NCA)</b>	<b>-11,416.0</b>	<b>-5,130.9</b>	<b>-5,433.7</b>	<b>14.6</b>	<b>-866.1</b>
<b>Spanish investment abroad (NCA)</b>	<b>29,634.7</b>	<b>10,140.7</b>	<b>5,654.4</b>	<b>4,689.5</b>	<b>9,150.0</b>
Shares	19,180.6	5,595.2	5,210.2	2,006.6	6,368.6
Other equity	5,226.0	1,940.2	564.7	1,215.0	1,506.1
Reinvested earnings	1,330.3	332.6	332.6	332.6	332.6
Intercompany debt transactions	2,373.3	2,057.7	-762.2	779.4	298.4
Real estate	1,524.4	215.1	309.1	355.9	644.3
<b>Foreign investment in Spain (NCL)</b>	<b>18,218.7</b>	<b>5,009.9</b>	<b>220.7</b>	<b>4,704.1</b>	<b>8,284.0</b>
Unlisted shares	2,885.2	-430.8	-1,122.9	-1,309.8	5,748.7
Other equity	4,094.6	716.9	940.8	1,186.0	1,250.8
Reinvested earnings	1,468.4	367.1	367.1	367.1	367.1
Intercompany debt transactions	4,232.4	3,114.9	-1,519.5	3,107.1	-470.1
Real estate	5,538.1	1,241.7	1,555.2	1,353.7	1,387.5
<b>Portfolio investment (NCL-NCA)</b>	<b>45,234.7</b>	<b>6,834.5</b>	<b>20,085.4</b>	<b>6,750.3</b>	<b>11,564.5</b>
<b>Spanish investment abroad (NCA)</b>	<b>33,557.0</b>	<b>9,548.6</b>	<b>6,411.4</b>	<b>8,449.5</b>	<b>9,147.5</b>
Listed shares and mutual funds	13,283.1	1,892.1	1,320.7	4,757.2	5,313.1
Bonds and notes	20,255.0	7,901.7	5,523.2	3,328.4	3,501.7
Money market instruments	18.9	-245.1	-432.6	363.9	332.7
<b>Foreign investment in Spain (NCL)</b>	<b>78,791.6</b>	<b>16,383.1</b>	<b>26,496.8</b>	<b>15,199.8</b>	<b>20,711.9</b>
Listed shares	-6,157.8	1,949.2	-5,310.7	4,536.6	-7,332.9
Bonds and notes	85,601.7	14,475.1	32,093.0	10,841.7	28,191.9
Money market instruments	-652.3	-41.2	-285.5	-178.6	-147.0
<b>Other investment (NCL-NCA) (b)</b>	<b>5,473.9</b>	<b>1,406.2</b>	<b>2,357.9</b>	<b>-1,967.5</b>	<b>3,677.3</b>
<b>Spanish investment abroad (NCA)</b>	<b>8,267.1</b>	<b>1,910.7</b>	<b>808.8</b>	<b>3,468.6</b>	<b>2,079.0</b>
Long-term loans and deposits	890.0	348.7	132.0	86.3	323.1
Short-term loans and deposits	7,377.0	1,562.0	676.8	3,382.4	1,755.9
<b>Foreign investment in Spain (NCL)</b>	<b>13,740.9</b>	<b>3,316.9</b>	<b>3,166.6</b>	<b>1,501.1</b>	<b>5,756.3</b>
Long-term loans	14,352.1	2,204.1	3,286.4	2,234.5	6,627.1
Short-term loans	-611.2	1,112.8	-119.8	-733.4	-870.8
<b>Financial derivatives (NCL-NCA)</b>	<b>-420.1</b>	<b>150.8</b>	<b>-450.0</b>	<b>-440.3</b>	<b>319.5</b>

SOURCE: Banco de España.

- a. Changes in assets and liabilities are both net of repayments.  
b. Mainly loans, repo operations and deposits.

ACCOUNTING CONVENTION:

NCA: a positive (negative) sign denotes an increase (decrease) in assets; it is thus a capital outflow (inflow).  
NCL: a positive (negative) sign denotes an increase (decrease) in liabilities; it is thus a capital inflow (outflow).  
NCL-NCA: a positive (negative) sign denotes a capital inflow (outflow).

EUR m	2005	2005			
		Q1	Q2	Q3	Q4
<b>MONETARY FINANCIAL INSTITUTIONS, EXCLUDING</b>					
<b>BANCO DE ESPAÑA (NCL-NCA)</b>	<b>26,825.7</b>	<b>9,251.7</b>	<b>-2,472.5</b>	<b>22,099.0</b>	<b>-2,052.5</b>
<b>Direct investment (NCL-NCA)</b>	<b>-1,276.6</b>	<b>-182.3</b>	<b>-390.1</b>	<b>67.8</b>	<b>-772.0</b>
<b>Spanish investment abroad (NCA)</b>	<b>1,542.3</b>	<b>220.3</b>	<b>707.9</b>	<b>-18.8</b>	<b>632.9</b>
Shares	703.0	14.5	529.3	-259.9	419.2
Other equity	155.5	34.4	9.3	71.7	40.1
Reinvested earnings	683.1	170.8	170.8	170.8	170.8
Real estate	0.7	0.6	-1.4	-1.4	2.9
<b>Foreign investment in Spain (NCL)</b>	<b>265.7</b>	<b>38.0</b>	<b>317.8</b>	<b>49.0</b>	<b>-139.1</b>
Unlisted shares	93.1	-4.9	291.4	16.6	-209.9
Other equity	89.8	22.1	5.7	11.7	50.2
Reinvested earnings	82.8	20.7	20.7	20.7	20.7
<b>Portfolio investment (NCL-NCA)</b>	<b>15,529.7</b>	<b>21,026.1</b>	<b>2,570.0</b>	<b>1,777.4</b>	<b>-9,843.8</b>
<b>Spanish investment abroad (NCA)</b>	<b>40,596.3</b>	<b>-1,519.9</b>	<b>7,912.1</b>	<b>10,103.4</b>	<b>24,100.7</b>
Listed shares and mutual funds	2,046.6	678.2	808.5	437.5	122.4
Bonds and notes	39,906.4	386.9	6,794.8	9,818.4	22,906.3
Money market instruments	-1,356.6	-2,585.0	308.8	-152.4	1,071.9
<b>Foreign investment in Spain (NCL)</b>	<b>56,126.0</b>	<b>19,506.2</b>	<b>10,482.1</b>	<b>11,880.8</b>	<b>14,256.9</b>
Listed shares	-1,644.4	-663.1	-1,867.1	1,329.6	-443.8
Bonds and notes	57,257.0	20,147.4	12,154.8	10,697.4	14,257.4
Money market instruments	513.4	22.0	194.5	-146.2	443.2
<b>Other investment (NCL-NCA) (b)</b>	<b>12,067.1</b>	<b>-10,124.8</b>	<b>-5,414.9</b>	<b>20,075.5</b>	<b>7,531.4</b>
<b>Spanish investment abroad (NCA)</b>	<b>37,478.3</b>	<b>18,826.5</b>	<b>11,702.9</b>	<b>-1,766.0</b>	<b>8,714.9</b>
Long-term	8,764.6	1,851.3	1,639.9	2,290.7	2,982.7
Short-term	28,713.6	16,975.2	10,062.9	-4,056.7	5,732.2
<i>Loans</i>	1,955.9	-137.4	581.3	698.0	813.9
<i>Repurchase agreements</i>	9,845.9	5,415.2	905.9	-1,651.3	5,176.2
<i>Deposits</i>	16,911.8	11,697.4	8,575.7	-3,103.4	-257.9
<b>Foreign investment in Spain (NCL)</b>	<b>49,545.4</b>	<b>8,701.7</b>	<b>6,287.9</b>	<b>18,309.5</b>	<b>16,246.3</b>
Long-term	-9,002.8	-4,918.3	-3,755.0	-1,707.0	1,377.5
Short-term	58,548.3	13,620.0	10,042.9	20,016.6	14,868.7
<i>Repurchase agreements</i>	33,806.3	1,478.1	4,700.8	16,510.9	11,116.6
<i>Deposits</i>	24,742.0	12,142.0	5,342.1	3,505.7	3,752.1
<b>Financial derivatives (NCL-NCA)</b>	<b>505.4</b>	<b>-1,467.3</b>	<b>762.5</b>	<b>178.3</b>	<b>1,031.9</b>
<b>BANCO DE ESPAÑA (NCL-NCA)</b>	<b>-2,260.8</b>	<b>1,213.3</b>	<b>-2,208.5</b>	<b>-3,204.1</b>	<b>1,938.5</b>
<b>Portfolio investment (NCL-NCA)</b>	<b>-17,435.8</b>	<b>-5,695.3</b>	<b>-5,524.2</b>	<b>-4,123.5</b>	<b>-2,092.7</b>
<b>Other investment (NCL-NCA)</b>	<b>13,735.7</b>	<b>5,358.9</b>	<b>3,158.4</b>	<b>907.0</b>	<b>4,311.5</b>
<i>Spanish investment abroad (NCA)</i>	-13,626.5	-5,374.4	-3,089.5	-936.3	-4,226.2
<b>Foreign investment in Spain (NCL)</b>	<b>109.2</b>	<b>-15.5</b>	<b>68.8</b>	<b>-29.4</b>	<b>85.3</b>
<b>Reserves</b>	<b>1,439.2</b>	<b>1,549.8</b>	<b>157.4</b>	<b>12.5</b>	<b>-280.4</b>

SOURCE: Banco de España.

- a. Changes in assets and liabilities are both net of repayments.  
 b. Mainly loans, repo operations and deposits.

ACCOUNTING CONVENTION:

NCA: a positive (negative) sign denotes an increase (decrease) in assets; it is thus a capital outflow (inflow).

NCL: a positive (negative) sign denotes an increase (decrease) in liabilities; it is thus a capital inflow (outflow).

NCL-NCA: a positive (negative) sign denotes a capital inflow (outflow).

Reserves: a positive (negative) sign denotes a decrease (increase) in the reserves.

## DIRECT INVESTMENT

TABLE 6.1.10

EUR m	2005	2005			
		Q1	Q2	Q3	Q4
<b>Direct investment</b>					
Spanish investment abroad (NCA)	31,177.0	10,361.0	6,362.3	4,670.7	9,783.0
<i>Of which: ETVE (a)</i>	<i>1,865.9</i>	<i>515.1</i>	<i>86.4</i>	<i>406.2</i>	<i>858.1</i>
Foreign investment in Spain (NCL)	18,484.4	5,047.9	538.6	4,753.1	8,144.9
<i>Of which: ETVE (a)</i>	<i>181.9</i>	<i>74.5</i>	<i>-267.5</i>	<i>311.0</i>	<i>64.0</i>

SOURCE: Banco de España.

a. Estimate based on the CNAE classification. It includes the transactions of ETVE companies and of other holding companies which are not strictly ETVE, but which, like them, have been established in Spain for the main purpose of channelling direct investment flows.

**BALANCE OF PAYMENTS IN 2005**  
Breakdown by selected economic area (a)

TABLE 6.1.11

EUR m	WORLD TOTAL			EUROPE			EUROPEAN UNION		
	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET
<b>CURRENT ACCOUNT</b>	<b>279,493.7</b>	<b>346,120.8</b>	<b>-66,627.1</b>	<b>224,873.6</b>	<b>246,110.6</b>	<b>-21,237.0</b>	<b>206,963.6</b>	<b>225,307.2</b>	<b>-18,343.6</b>
<b>Goods</b>	<b>156,374.6</b>	<b>225,343.9</b>	<b>-68,969.3</b>	<b>124,063.5</b>	<b>154,585.9</b>	<b>-30,522.5</b>	<b>113,531.7</b>	<b>139,845.5</b>	<b>-26,313.8</b>
<b>Services</b>	<b>75,410.1</b>	<b>52,775.6</b>	<b>22,634.5</b>	<b>62,762.2</b>	<b>38,912.8</b>	<b>23,849.4</b>	<b>57,149.1</b>	<b>34,615.0</b>	<b>22,534.2</b>
Travel	38,494.7	12,125.2	26,369.5	34,145.5	8,637.2	25,508.3	32,101.8	7,548.0	24,553.8
Other services	36,915.4	40,650.4	-3,735.0	28,616.6	30,275.6	-1,658.9	25,047.4	27,067.0	-2,019.6
Labour income	1,055.5	1,233.9	-178.5	777.5	653.2	124.2	677.2	563.8	113.4
Investment income	30,256.1	47,285.7	-17,029.6	23,048.4	38,103.7	-15,055.3	22,244.5	37,064.9	-14,820.3
<i>Monetary financial institutions</i>	<i>11,023.1</i>	<i>16,750.3</i>	<i>-5,727.2</i>	<i>8,395.7</i>	<i>13,682.7</i>	<i>-5,287.0</i>	<i>8,184.1</i>	<i>13,274.3</i>	<i>-5,090.2</i>
<i>General government</i>	<i>130.8</i>	<i>8,447.3</i>	<i>-8,316.5</i>	<i>75.9</i>	<i>7,824.9</i>	<i>-7,749.0</i>	<i>74.9</i>	<i>7,801.9</i>	<i>-7,727.0</i>
<i>Other resident sectors</i>	<i>19,102.3</i>	<i>22,088.1</i>	<i>-2,985.9</i>	<i>14,576.8</i>	<i>16,596.1</i>	<i>-2,019.3</i>	<i>13,985.5</i>	<i>15,988.6</i>	<i>-2,003.1</i>
<b>Current transfers</b>	<b>16,397.5</b>	<b>19,481.8</b>	<b>-3,084.3</b>	<b>14,222.2</b>	<b>13,855.0</b>	<b>367.2</b>	<b>13,361.1</b>	<b>13,218.1</b>	<b>143.0</b>
<b>CAPITAL ACCOUNT</b>	<b>8,885.1</b>	<b>912.9</b>	<b>7,972.1</b>	<b>8,044.2</b>	<b>582.9</b>	<b>7,461.2</b>	<b>7,470.3</b>	<b>520.1</b>	<b>6,950.2</b>
	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)
<b>FINANCIAL ACCOUNT (excluding Banco de España) (b)</b>	...	...	...	...	...	...	...	...	...
<b>Monetary financial institutions</b>	<b>105,937.2</b>	<b>79,616.9</b>	<b>26,320.3</b>	<b>124,647.7</b>	<b>76,377.8</b>	<b>48,269.9</b>	<b>123,805.4</b>	<b>75,493.3</b>	<b>48,312.1</b>
Direct investment (c)	265.7	1,542.3	-1,276.6	664.2	281.8	382.4	654.9	793.4	-138.5
Portfolio investment	56,126.0	40,596.3	15,529.7	54,083.9	40,773.9	13,310.0	54,728.6	40,076.4	14,652.2
Other investment	49,545.4	37,478.3	12,067.1	69,899.6	35,322.1	34,577.5	68,421.8	34,623.4	33,798.4
<b>General government</b>	<b>1,257.5</b>	<b>5,073.8</b>	<b>-3,816.3</b>	<b>2,241.7</b>	<b>4,382.3</b>	<b>-2,140.7</b>	<b>2,311.2</b>	<b>4,360.8</b>	<b>-2,049.7</b>
Portfolio investment	1,686.8	4,560.9	-2,874.0	2,633.5	4,562.6	-1,929.0	2,703.0	4,562.7	-1,859.8
Other investment	-429.3	512.9	-942.2	-391.9	-180.2	-211.7	-391.8	-201.9	-189.9
<b>Other resident sectors</b>	<b>110,751.2</b>	<b>71,458.7</b>	<b>39,292.6</b>	<b>107,610.1</b>	<b>63,255.3</b>	<b>44,354.8</b>	<b>106,574.7</b>	<b>58,006.0</b>	<b>48,568.6</b>
Direct investment (c)	18,218.7	29,634.7	-11,416.0	15,283.3	24,090.6	-8,807.3	14,947.4	19,860.1	-4,912.7
Portfolio investment	78,791.6	33,557.0	45,234.7	78,857.4	31,313.8	47,543.6	78,803.7	30,295.7	48,508.1
Other investment	13,740.9	8,267.1	5,473.9	13,469.4	7,850.9	5,618.4	12,823.5	7,850.3	4,973.2

SOURCE: Banco de España.

a. The difference between the world total amounts and the sum of the geographical areas corresponds to geographically unallocated information, which in no case represents large amounts, and to amounts corresponding to international organisations other than the European Union.

b. Derivatives not included.

c. In the case of direct investment, the change in assets corresponds to Spain's investment abroad, which includes, among other transactions, loans received by Spanish parent companies from their non-resident subsidiaries, which reduce such investment. Likewise, the change in liabilities corresponds to foreign investment in Spain, which includes loans granted by Spanish subsidiary companies to their non-resident parents (see Chapter V).

NOTE:

EUROPEAN UNION: International institutions of the European Union, European Central Bank, France, Belgium, Netherlands, Germany, Italy, United Kingdom, Ireland, Denmark, Greece, Portugal, Luxembourg, Austria, Finland, Sweden, Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovenia, Slovakia and their dependencies.



**BALANCE OF PAYMENTS IN 2005** (cont'd)  
**Breakdown by selected economic area (a)**

TABLE 6.1.11

EUR m	EURO AREA			UNITED KINGDOM			SWEDEN			
	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET	
<b>CURRENT ACCOUNT</b>	<b>148,039.9</b>	<b>172,007.6</b>	<b>-23,967.7</b>	<b>39,820.9</b>	<b>30,396.4</b>	<b>9,424.5</b>	<b>2,800.5</b>	<b>3,477.9</b>	<b>-677.4</b>	
<b>Goods</b>	<b>92,056.2</b>	<b>117,164.7</b>	<b>-25,108.5</b>	<b>13,839.8</b>	<b>13,080.5</b>	<b>759.2</b>	<b>1,570.5</b>	<b>2,849.3</b>	<b>-1,278.9</b>	
<b>Services</b>	<b>33,397.9</b>	<b>22,927.6</b>	<b>10,470.3</b>	<b>21,119.1</b>	<b>10,077.8</b>	<b>11,041.3</b>	<b>1,047.9</b>	<b>470.5</b>	<b>577.4</b>	
Travel	17,092.3	4,762.7	12,329.6	13,732.4	2,435.6	11,296.8	704.1	73.4	630.7	
Other services	16,305.6	18,164.9	-1,859.3	7,386.7	7,642.2	-255.5	343.8	397.1	-53.3	
Labour income	472.6	442.2	30.4	183.0	92.9	90.1	5.8	3.0	2.8	
Investment income	18,580.1	29,258.2	-10,678.1	2,996.4	6,517.0	-3,520.7	113.3	137.2	-23.9	
Monetary financial institutions	6,320.4	9,357.7	-3,037.3	1,667.1	3,527.8	-1,860.7	54.0	12.7	41.3	
General government	74.6	6,758.9	-6,684.3	0.0	762.1	-762.1	0.0	0.5	-0.5	
Other resident sectors	12,185.0	13,141.6	-956.6	1,329.2	2,227.1	-897.9	59.3	124.0	-64.7	
<b>Current transfers</b>	<b>3,533.1</b>	<b>2,214.8</b>	<b>1,318.2</b>	<b>1,682.6</b>	<b>628.0</b>	<b>1,054.6</b>	<b>63.1</b>	<b>17.9</b>	<b>45.2</b>	
<b>CAPITAL ACCOUNT</b>	<b>605.5</b>	<b>404.6</b>	<b>200.9</b>	<b>290.6</b>	<b>97.4</b>	<b>193.3</b>	<b>6.6</b>	<b>7.5</b>	<b>-0.9</b>	
		NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)
<b>FINANCIAL ACCOUNT</b> (excluding Banco de España) (b)	...	...	...	...	...	...	...	...	...	...
<b>Monetary financial institutions</b>	<b>74,361.0</b>	<b>52,298.5</b>	<b>22,062.5</b>	<b>47,750.1</b>	<b>21,528.9</b>	<b>26,221.2</b>	<b>143.0</b>	<b>294.2</b>	<b>-151.2</b>	
Direct investment (c)	599.7	766.0	-166.2	51.0	11.9	39.0	4.2	0.0	4.2	
Portfolio investment	39,980.2	32,697.9	7,282.3	14,786.3	6,908.0	7,878.3	-51.1	603.5	-654.6	
Other investment	33,781.1	18,834.6	14,946.5	32,912.9	14,609.0	18,303.9	189.9	-309.3	499.2	
<b>General government</b>	<b>2,802.1</b>	<b>4,430.6</b>	<b>-1,628.5</b>	<b>-1,119.5</b>	<b>0.3</b>	<b>-1,119.8</b>	<b>42.2</b>	<b>0.0</b>	<b>42.2</b>	
Portfolio investment	3,642.8	4,562.7	-920.0	-1,235.4	0.0	-1,235.4	42.2	0.0	42.2	
Other investment	-840.7	-132.2	-708.5	115.9	0.3	115.6	0.0	0.0	0.0	
<b>Other resident sectors</b>	<b>56,456.1</b>	<b>45,418.1</b>	<b>11,038.0</b>	<b>45,083.1</b>	<b>5,373.8</b>	<b>39,709.3</b>	<b>1,169.6</b>	<b>62.4</b>	<b>1,107.2</b>	
Direct investment (c)	11,459.4	10,840.5	618.9	2,187.1	2,421.5	-234.4	1,148.3	-11.3	1,159.6	
Portfolio investment	41,455.4	28,215.5	13,239.9	37,108.4	1,504.2	35,604.3	-43.5	61.3	-104.9	
Other investment	3,541.4	6,362.1	-2,820.8	5,787.6	1,448.2	4,339.5	64.9	12.4	52.5	

SOURCE: Banco de España.

- a. The difference between the world total amounts and the sum of the geographical areas corresponds to geographically unallocated information, which in no case represents large amounts, and to amounts corresponding to international organisations other than the European Union.
- b. Derivatives not included.
- c. In the case of direct investment, the change in assets corresponds to Spain's investment abroad, which includes, among other transactions, loans received by Spanish parent companies from their non-resident subsidiaries, which reduce such investment. Likewise, the change in liabilities corresponds to foreign investment in Spain, which includes loans granted by Spanish subsidiary companies to their non-resident parents (see Chapter V).

NOTE:

EURO AREA: France, Belgium, Luxembourg, Netherlands, Germany, Italy, Ireland, Portugal, Austria, Finland, Greece and European Central Bank.

**BALANCE OF PAYMENTS IN 2005** (cont'd)  
**Breakdown by selected economic area (a)**

TABLE 6.1.11

EUR m	DENMARK			NEW MEMBERS			EUROPEAN INSTITUTIONS		
	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET
<b>CURRENT ACCOUNT</b>	<b>2,161.4</b>	<b>1,963.2</b>	<b>198.3</b>	<b>5,609.8</b>	<b>6,081.6</b>	<b>-471.8</b>	<b>8,513.1</b>	<b>11,380.5</b>	<b>-2,867.4</b>
<b>Goods</b>	<b>1,298.5</b>	<b>1,576.8</b>	<b>-278.3</b>	<b>4,766.7</b>	<b>5,174.1</b>	<b>-407.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Services</b>	<b>692.9</b>	<b>282.5</b>	<b>410.4</b>	<b>491.1</b>	<b>818.4</b>	<b>-327.3</b>	<b>400.3</b>	<b>38.1</b>	<b>362.2</b>
Travel	415.0	77.2	337.7	157.6	198.9	-41.3	0.4	0.1	0.3
Other services	277.9	205.3	72.6	333.5	619.5	-286.0	399.9	38.0	361.8
Labour income	5.3	9.5	-4.2	10.2	13.6	-3.3	0.2	2.5	-2.3
Investment income	127.7	76.5	51.2	297.3	52.1	245.2	112.0	1,023.9	-911.9
<i>Monetary financial institutions</i>	43.2	7.8	35.4	35.3	48.0	-12.7	46.1	320.3	-274.2
<i>General government</i>	0.0	1.1	-1.1	0.2	0.1	0.1	0.0	279.2	-279.2
<i>Other resident sectors</i>	84.5	67.6	16.9	261.7	3.9	257.7	65.8	424.3	-358.5
<b>Current transfers</b>	<b>37.1</b>	<b>17.8</b>	<b>19.3</b>	<b>44.6</b>	<b>23.5</b>	<b>21.1</b>	<b>8,000.7</b>	<b>10,316.1</b>	<b>-2,315.4</b>
<b>CAPITAL ACCOUNT</b>	<b>5.5</b>	<b>5.5</b>	<b>0.0</b>	<b>37.5</b>	<b>5.0</b>	<b>32.5</b>	<b>6,524.6</b>	<b>0.2</b>	<b>6,524.4</b>
	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)
<b>FINANCIAL ACCOUNT (excluding Banco de España) (b)</b>	...	...	...	...	...	...	...	...	...
<b>Monetary financial institutions</b>	<b>28.9</b>	<b>933.2</b>	<b>-904.4</b>	<b>626.4</b>	<b>476.5</b>	<b>149.9</b>	<b>896.0</b>	<b>-38.0</b>	<b>934.0</b>
Direct investment (c)	0.0	0.2	-0.2	0.0	15.3	-15.3	0.0	0.0	0.0
Portfolio investment	6.0	-118.6	124.6	7.3	4.3	3.1	0.0	-18.5	18.5
Other investment	22.9	1,051.7	-1,028.8	619.1	457.0	162.1	896.0	-19.5	915.5
<b>General government</b>	<b>253.2</b>	<b>0.0</b>	<b>253.2</b>	<b>0.2</b>	<b>-2.8</b>	<b>3.0</b>	<b>333.0</b>	<b>-67.2</b>	<b>400.2</b>
Portfolio investment	253.2	0.0	253.2	0.2	0.0	0.2	0.0	0.0	0.0
Other investment	0.0	0.0	0.0	0.0	-2.8	2.8	333.0	-67.2	400.2
<b>Other resident sectors</b>	<b>86.0</b>	<b>573.0</b>	<b>-486.9</b>	<b>63.4</b>	<b>6,262.3</b>	<b>-6,198.9</b>	<b>3,716.4</b>	<b>314.5</b>	<b>3,401.9</b>
Direct investment (c)	103.3	391.3	-288.0	49.4	6,218.2	-6,168.8	0.0	0.0	0.1
Portfolio investment	-16.0	175.0	-191.0	0.9	23.3	-22.4	298.5	314.4	-15.9
Other investment	-1.3	6.7	-8.0	13.1	20.8	-7.7	3,417.9	0.1	3,417.7

SOURCE: Banco de España.

a. The difference between the world total amounts and the sum of the geographical areas corresponds to geographically unallocated information, which in no case represents large amounts, and to amounts corresponding to international organisations other than the European Union.

b. Derivatives not included.

c. In the case of direct investment, the change in assets corresponds to Spain's investment abroad, which includes, among other transactions, loans received by Spanish parent companies from their non-resident subsidiaries, which reduce such investment. Likewise, the change in liabilities corresponds to foreign investment in Spain, which includes loans granted by Spanish subsidiary companies to their non-resident parents (see Chapter V).

NOTE:

NEW MEMBERS: Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovenia and Slovakia.

**BALANCE OF PAYMENTS IN 2005** (cont'd)  
**Breakdown by selected economic area (a)**

TABLE 6.1.11

EUR m	REST OF EUROPE			SWITZERLAND			NORTH AMERICA		
	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET
<b>CURRENT ACCOUNT</b>	<b>17,910.0</b>	<b>20,803.4</b>	<b>-2,893.4</b>	<b>6,682.5</b>	<b>6,328.6</b>	<b>353.9</b>	<b>16,977.0</b>	<b>20,435.5</b>	<b>-3,458.5</b>
<b>Goods</b>	<b>10,531.8</b>	<b>14,740.4</b>	<b>-4,208.7</b>	<b>2,297.5</b>	<b>3,065.8</b>	<b>-768.4</b>	<b>7,549.7</b>	<b>8,403.0</b>	<b>-853.3</b>
<b>Services</b>	<b>5,613.1</b>	<b>4,297.8</b>	<b>1,315.2</b>	<b>3,246.9</b>	<b>2,250.1</b>	<b>996.8</b>	<b>6,401.2</b>	<b>5,930.3</b>	<b>470.8</b>
Travel	2,043.7	1,089.2	954.5	726.4	165.8	560.6	2,883.4	1,845.7	1,037.7
Other services	3,569.2	3,208.6	360.7	2,520.4	2,084.3	436.1	3,517.8	4,084.6	-566.8
Labour income	100.3	89.4	10.8	67.6	53.7	13.9	137.0	140.6	-3.6
Investment income	803.9	1,038.8	-235.0	465.8	831.8	-366.0	1,628.0	5,635.6	-4,007.6
Monetary financial institutions	211.6	408.4	-196.8	47.7	258.1	-210.3	809.0	998.8	-189.7
General government	1.0	23.0	-22.0	0.0	22.6	-22.6	6.4	167.2	-160.8
Other resident sectors	591.3	607.5	-16.2	418.0	551.1	-133.1	812.7	4,469.6	-3,657.0
<b>Current transfers</b>	<b>861.1</b>	<b>636.9</b>	<b>224.2</b>	<b>604.8</b>	<b>127.2</b>	<b>477.6</b>	<b>1,261.1</b>	<b>326.0</b>	<b>935.1</b>
<b>CAPITAL ACCOUNT</b>	<b>573.9</b>	<b>62.8</b>	<b>511.0</b>	<b>112.2</b>	<b>44.9</b>	<b>67.2</b>	<b>101.4</b>	<b>71.2</b>	<b>30.2</b>
	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)
<b>FINANCIAL ACCOUNT (excluding Banco de España) (b)</b>	...	...	...	...	...	...	...	...	...
<b>Monetary financial institutions</b>	<b>842.3</b>	<b>884.5</b>	<b>-42.2</b>	<b>1,107.6</b>	<b>545.6</b>	<b>562.1</b>	<b>897.9</b>	<b>3,156.0</b>	<b>-2,258.1</b>
Direct investment (c)	9.3	-511.6	520.9	9.0	-1.5	10.6	-402.2	706.6	-1,108.8
Portfolio investment	-644.7	697.5	-1,342.2	-651.8	40.8	-692.7	448.9	596.9	-148.0
Other investment	1,477.8	698.7	779.1	1,750.5	506.3	1,244.2	851.2	1,852.5	-1,001.3
<b>General government</b>	<b>-69.5</b>	<b>21.5</b>	<b>-91.0</b>	<b>-62.7</b>	<b>0.0</b>	<b>-62.7</b>	<b>-1,355.5</b>	<b>2.1</b>	<b>-1,357.6</b>
Portfolio investment	-69.5	-0.1	-69.2	-62.7	0.0	-62.7	-1,339.0	-1.3	-1,337.8
Other investment	-0.1	21.7	-21.8	0.0	0.0	0.0	-16.5	3.4	-19.9
<b>Other resident sectors</b>	<b>1,035.4</b>	<b>5,249.3</b>	<b>-4,213.8</b>	<b>397.0</b>	<b>3,747.1</b>	<b>-3,350.2</b>	<b>2,022.2</b>	<b>3,815.5</b>	<b>-1,793.3</b>
Direct investment (c)	335.9	4,230.5	-3,894.6	-297.0	3,635.2	-3,932.2	2,655.2	2,053.0	602.2
Portfolio investment	53.7	1,018.1	-964.5	96.1	95.4	0.7	-894.4	1,670.1	-2,564.5
Other investment	645.9	0.6	645.2	597.9	16.6	581.3	261.5	92.4	169.1

SOURCE: Banco de España.

a. The difference between the world total amounts and the sum of the geographical areas corresponds to geographically unallocated information, which in no case represents large amounts, and to amounts corresponding to international organisations other than the European Union.

b. Derivatives not included.

c. In the case of direct investment, the change in assets corresponds to Spain's investment abroad, which includes, among other transactions, loans received by Spanish parent companies from their non-resident subsidiaries, which reduce such investment. Likewise, the change in liabilities corresponds to foreign investment in Spain, which includes loans granted by Spanish subsidiary companies to their non-resident parents (see Chapter V).

NOTE:

REST OF EUROPE: Countries not included in the European Union.

BALANCE OF PAYMENTS IN 2005 (cont'd)  
Breakdown by selected economic area (a)

TABLE 6.1.11

EUR m	UNITED STATES			CANADA			CENTRAL AND SOUTH AMERICA		
	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET
<b>CURRENT ACCOUNT</b>	<b>15,517.0</b>	<b>18,849.3</b>	<b>-3,332.3</b>	<b>1,458.9</b>	<b>1,565.0</b>	<b>-106.0</b>	<b>16,317.7</b>	<b>18,972.1</b>	<b>-2,654.3</b>
<b>Goods</b>	<b>6,831.8</b>	<b>7,444.3</b>	<b>-612.5</b>	<b>717.8</b>	<b>939.0</b>	<b>-221.2</b>	<b>8,251.9</b>	<b>10,769.2</b>	<b>-2,517.4</b>
<b>Services</b>	<b>5,787.7</b>	<b>5,389.7</b>	<b>397.9</b>	<b>612.5</b>	<b>539.0</b>	<b>73.4</b>	<b>3,280.9</b>	<b>2,603.4</b>	<b>677.5</b>
Travel	2,753.5	1,583.4	1,170.2	129.7	262.3	-132.6	897.9	862.7	35.1
Other services	3,034.1	3,806.3	-772.2	482.8	276.7	206.1	2,383.0	1,740.6	642.4
Labour income	132.4	133.2	-0.8	4.6	7.4	-2.8	91.1	316.6	-225.6
Investment income	1,564.1	5,586.9	-4,022.8	63.9	48.6	15.2	4,069.3	1,484.6	2,584.7
Monetary financial institutions	787.1	987.6	-200.4	21.9	11.2	10.7	914.7	1,390.7	-475.9
General government	6.4	167.2	-160.8	0.0	0.0	0.0	20.6	0.1	20.5
Other resident sectors	770.7	4,432.2	-3,661.6	42.0	37.4	4.6	3,134.0	93.8	3,040.2
<b>Current transfers</b>	<b>1,201.0</b>	<b>295.1</b>	<b>905.9</b>	<b>60.1</b>	<b>30.8</b>	<b>29.3</b>	<b>624.7</b>	<b>3,798.3</b>	<b>-3,173.6</b>
<b>CAPITAL ACCOUNT</b>	<b>90.1</b>	<b>66.1</b>	<b>24.0</b>	<b>11.3</b>	<b>5.1</b>	<b>6.2</b>	<b>476.0</b>	<b>192.5</b>	<b>283.5</b>
	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)
<b>FINANCIAL ACCOUNT (excluding Banco de España) (b)</b>	...	...	...	...	...	...	...	...	...
<b>Monetary financial institutions</b>	<b>752.2</b>	<b>3,111.9</b>	<b>-2,359.7</b>	<b>145.7</b>	<b>44.0</b>	<b>101.7</b>	<b>-20,481.3</b>	<b>-1,437.4</b>	<b>-19,043.9</b>
Direct investment (c)	-402.2	716.9	-1,119.1	0.0	-10.3	10.3	1.4	-5.5	6.9
Portfolio investment	295.7	621.5	-325.8	153.2	-24.6	177.8	319.4	-659.4	978.8
Other investment	858.7	1,773.5	-914.8	-7.5	78.9	-86.4	-20,802.2	-772.6	-20,029.6
<b>General government</b>	<b>-1,355.4</b>	<b>2.1</b>	<b>-1,357.5</b>	<b>-0.1</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.0</b>	<b>389.4</b>	<b>-389.3</b>
Portfolio investment	-1,338.9	-1.3	-1,337.6	-0.1	0.0	-0.1	0.2	-0.4	0.7
Other investment	-16.5	3.4	-19.9	0.0	0.0	0.0	-0.2	389.8	-390.0
<b>Other resident sectors</b>	<b>1,999.1</b>	<b>3,628.8</b>	<b>-1,629.7</b>	<b>23.1</b>	<b>186.7</b>	<b>-163.6</b>	<b>-28.3</b>	<b>1,964.5</b>	<b>-1,992.7</b>
Direct investment (c)	2,645.6	1,894.0	751.5	9.4	159.0	-149.6	-184.9	2,539.7	-2,724.7
Portfolio investment	-880.3	1,646.1	-2,526.4	-14.0	24.0	-38.0	117.1	-698.7	815.8
Other investment	233.8	88.7	145.2	27.6	3.7	23.9	39.5	123.3	-83.8

SOURCE: Banco de España.

a. The difference between the world total amounts and the sum of the geographical areas corresponds to geographically unallocated information, which in no case represents large amounts, and to amounts corresponding to international organisations other than the European Union.

b. Derivatives not included.

c. In the case of direct investment, the change in assets corresponds to Spain's investment abroad, which includes, among other transactions, loans received by Spanish parent companies from their non-resident subsidiaries, which reduce such investment. Likewise, the change in liabilities corresponds to foreign investment in Spain, which includes loans granted by Spanish subsidiary companies to their non-resident parents (see Chapter V).

**BALANCE OF PAYMENTS IN 2005** (cont'd)  
**Breakdown by selected economic area (a)**

TABLE 6.1.11

EUR m	AFRICA			ASIA			JAPAN		
	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET
<b>CURRENT ACCOUNT</b>	<b>7,671.7</b>	<b>19,022.5</b>	<b>-11,350.8</b>	<b>10,517.2</b>	<b>37,837.4</b>	<b>-27,320.2</b>	<b>1,664.8</b>	<b>6,057.7</b>	<b>-4,392.9</b>
<b>Goods</b>	<b>6,681.6</b>	<b>16,481.0</b>	<b>-9,799.4</b>	<b>8,778.7</b>	<b>34,058.4</b>	<b>-25,279.7</b>	<b>1,192.7</b>	<b>5,486.8</b>	<b>-4,294.1</b>
<b>Services</b>	<b>729.4</b>	<b>1,738.2</b>	<b>-1,008.8</b>	<b>1,326.2</b>	<b>3,058.1</b>	<b>-1,731.9</b>	<b>312.9</b>	<b>494.2</b>	<b>-181.3</b>
Travel	61.2	332.2	-270.9	380.6	394.7	-14.2	171.3	30.4	140.8
Other services	668.2	1,406.0	-737.8	945.7	2,663.4	-1,717.7	141.6	463.8	-322.2
Labour income	23.9	34.3	-10.4	17.6	47.1	-29.5	5.3	14.7	-9.4
Investment income	169.2	120.1	49.2	259.8	257.7	2.1	117.8	52.7	65.2
<i>Monetary financial institutions</i>	<i>28.5</i>	<i>80.7</i>	<i>-52.2</i>	<i>53.4</i>	<i>164.7</i>	<i>-111.3</i>	<i>15.9</i>	<i>8.5</i>	<i>7.4</i>
<i>General government</i>	<i>15.5</i>	<i>0.1</i>	<i>15.4</i>	<i>11.8</i>	<i>1.9</i>	<i>9.9</i>	<i>0.0</i>	<i>1.9</i>	<i>-1.9</i>
<i>Other resident sectors</i>	<i>125.3</i>	<i>39.3</i>	<i>86.0</i>	<i>194.7</i>	<i>91.0</i>	<i>103.6</i>	<i>101.9</i>	<i>42.2</i>	<i>59.7</i>
<b>Current transfers</b>	<b>67.5</b>	<b>649.0</b>	<b>-581.5</b>	<b>134.8</b>	<b>416.1</b>	<b>-281.3</b>	<b>36.1</b>	<b>9.4</b>	<b>26.7</b>
<b>CAPITAL ACCOUNT</b>	<b>199.9</b>	<b>33.0</b>	<b>166.8</b>	<b>38.4</b>	<b>16.0</b>	<b>22.5</b>	<b>3.5</b>	<b>3.6</b>	<b>-0.2</b>
	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)
<b>FINANCIAL ACCOUNT</b> <b>(excluding Banco de España) (b)</b>	...	...	...	...	...	...	...	...	...
<b>Monetary financial institutions</b>	<b>25.2</b>	<b>-57.5</b>	<b>82.7</b>	<b>23.3</b>	<b>1,159.9</b>	<b>-1,136.6</b>	<b>-22.3</b>	<b>738.4</b>	<b>-760.7</b>
Direct investment (c)	1.0	0.3	0.7	1.4	15.4	-14.1	1.1	10.8	-9.7
Portfolio investment	41.9	5.0	37.0	87.0	39.1	47.9	0.0	-9.7	9.7
Other investment	-17.7	-62.8	45.1	-65.1	1,105.4	-1,170.5	-23.4	737.3	-760.8
<b>General government</b>	<b>21.4</b>	<b>8.8</b>	<b>12.6</b>	<b>1.7</b>	<b>10.5</b>	<b>-8.8</b>	<b>4.1</b>	<b>0.0</b>	<b>4.1</b>
Portfolio investment	21.4	0.0	21.4	1.7	0.0	1.7	4.1	0.0	4.1
Other investment	0.0	8.8	-8.8	0.0	10.5	-10.5	0.0	0.0	0.0
<b>Other resident sectors</b>	<b>-41.7</b>	<b>858.3</b>	<b>-900.0</b>	<b>280.7</b>	<b>1,379.9</b>	<b>-1,099.2</b>	<b>195.2</b>	<b>306.2</b>	<b>-110.9</b>
Direct investment (c)	45.8	659.5	-613.7	383.4	210.2	173.2	291.6	44.3	247.3
Portfolio investment	-91.3	34.4	-125.7	-17.0	1,143.7	-1,160.7	2.8	261.4	-258.6
Other investment	3.8	164.3	-160.6	-85.7	26.0	-111.7	-99.1	0.4	-99.6

SOURCE: Banco de España.

a. The difference between the world total amounts and the sum of the geographical areas corresponds to geographically unallocated information, which in no case represents large amounts, and to amounts corresponding to international organisations other than the European Union.

b. Derivatives not included.

c. In the case of direct investment, the change in assets corresponds to Spain's investment abroad, which includes, among other transactions, loans received by Spanish parent companies from their non-resident subsidiaries, which reduce such investment. Likewise, the change in liabilities corresponds to foreign investment in Spain, which includes loans granted by Spanish subsidiary companies to their non-resident parents (see Chapter V).

**BALANCE OF PAYMENTS IN 2005** (cont'd)  
**Breakdown by selected economic area (a)**

TABLE 6.1.11

EUR m	CHINA			OCEANIA AND POLAR REGIONS			OECD		
	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET
<b>CURRENT ACCOUNT</b>	<b>1,680.2</b>	<b>11,823.2</b>	<b>-10,143.0</b>	<b>1,431.1</b>	<b>1,202.4</b>	<b>228.6</b>	<b>243,473.8</b>	<b>269,924.1</b>	<b>-26,450.3</b>
<b>Goods</b>	<b>1,520.7</b>	<b>10,957.0</b>	<b>-9,436.4</b>	<b>990.9</b>	<b>990.4</b>	<b>0.4</b>	<b>131,557.5</b>	<b>167,033.6</b>	<b>-35,476.1</b>
<b>Services</b>	<b>112.6</b>	<b>747.9</b>	<b>-635.3</b>	<b>181.7</b>	<b>144.8</b>	<b>36.9</b>	<b>69,512.9</b>	<b>44,590.1</b>	<b>24,922.8</b>
Travel	6.2	102.0	-95.8	125.9	47.8	78.0	37,230.0	9,925.0	27,304.9
Other services	106.3	645.9	-539.6	55.8	97.0	-41.1	32,283.0	34,665.1	-2,382.1
Labour income	0.9	5.8	-4.9	1.3	5.7	-4.3	916.1	802.9	113.2
Investment income	24.6	5.0	19.5	224.1	49.5	174.6	26,016.4	43,741.3	-17,724.9
Monetary financial institutions	7.8	4.4	3.3	89.9	43.7	46.2	9,666.2	14,648.9	-4,982.7
General government	7.6	0.0	7.6	0.0	-1.9	1.9	87.7	7,992.0	-7,904.3
Other resident sectors	9.2	0.6	8.6	134.1	7.6	126.5	16,262.5	21,100.4	-4,837.9
<b>Current transfers</b>	<b>21.6</b>	<b>107.4</b>	<b>-85.9</b>	<b>33.1</b>	<b>12.1</b>	<b>21.0</b>	<b>15,470.8</b>	<b>13,756.1</b>	<b>1,714.7</b>
<b>CAPITAL ACCOUNT</b>	<b>3.5</b>	<b>2.3</b>	<b>1.2</b>	<b>6.2</b>	<b>4.7</b>	<b>1.5</b>	<b>7,785.3</b>	<b>666.8</b>	<b>7,118.5</b>
	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)
<b>FINANCIAL ACCOUNT</b> <b>(excluding Banco de España) (b)</b>	...	...	...	...	...	...	...	...	...
<b>Monetary financial institutions</b>	<b>-33.7</b>	<b>-61.6</b>	<b>27.9</b>	<b>20.4</b>	<b>-1,350.5</b>	<b>1,370.9</b>	<b>125,188.6</b>	<b>79,120.3</b>	<b>46,068.2</b>
Direct investment (c)	0.0	1.7	-1.7	0.0	0.5	-0.5	263.9	1,405.5	-1,141.6
Portfolio investment	0.2	-0.2	0.3	884.9	-251.1	1,135.9	55,464.0	40,838.8	14,625.2
Other investment	-33.9	-63.1	29.2	-864.5	-1,099.9	235.4	69,460.7	36,876.0	32,584.6
<b>General government</b>	<b>0.0</b>	<b>-12.5</b>	<b>12.5</b>	<b>-46.0</b>	<b>0.0</b>	<b>-46.0</b>	<b>851.2</b>	<b>4,341.7</b>	<b>-3,490.5</b>
Portfolio investment	0.0	0.0	0.0	-46.0	0.0	-46.0	1,259.5	4,561.4	-3,301.9
Other investment	0.0	-12.5	12.5	0.0	0.0	0.0	-408.3	-219.7	-188.7
<b>Other resident sectors</b>	<b>6.7</b>	<b>126.4</b>	<b>-119.7</b>	<b>120.4</b>	<b>71.8</b>	<b>48.6</b>	<b>109,323.2</b>	<b>69,009.1</b>	<b>40,314.1</b>
Direct investment (c)	4.8	115.1	-110.3	21.5	39.7	-18.2	17,507.6	27,799.4	-10,291.8
Portfolio investment	0.4	3.7	-3.2	47.2	26.9	20.4	78,169.0	33,200.1	44,968.9
Other investment	1.5	7.7	-6.1	51.7	5.2	46.4	13,646.6	8,009.6	5,637.0

SOURCE: Banco de España.

a. The difference between the world total amounts and the sum of the geographical areas corresponds to geographically unallocated information, which in no case represents large amounts, and to amounts corresponding to international organisations other than the European Union.

b. Derivatives not included.

c. In the case of direct investment, the change in assets corresponds to Spain's investment abroad, which includes, among other transactions, loans received by Spanish parent companies from their non-resident subsidiaries, which reduce such investment. Likewise, the change in liabilities corresponds to foreign investment in Spain, which includes loans granted by Spanish subsidiary companies to their non-resident parents (see Chapter V).

NOTE:

OECD: International institutions of the European Union, European Central Bank, France, Belgium, Netherlands, Germany, Italy, United Kingdom, Ireland, Denmark, Greece, Portugal, Luxembourg, Iceland, Norway, Sweden, Finland, Switzerland, Austria, Turkey, USA, Canada, Japan, Australia, New Zealand, Mexico, Czech Republic, Hungary, Poland and South Korea, and their dependencies.

**BALANCE OF PAYMENTS IN 2005** (cont'd)  
**Breakdown by selected economic area (a)**

TABLE 6.1.11

EUR m	NAFTA			OPEC			NICS		
	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET
<b>CURRENT ACCOUNT</b>	<b>21,814.9</b>	<b>23,446.6</b>	<b>-1,631.6</b>	<b>5,326.7</b>	<b>17,852.2</b>	<b>-12,525.6</b>	<b>1,851.0</b>	<b>5,188.8</b>	<b>-3,337.8</b>
<b>Goods</b>	<b>10,216.2</b>	<b>10,781.4</b>	<b>-565.1</b>	<b>4,243.2</b>	<b>16,447.4</b>	<b>-12,204.2</b>	<b>1,551.8</b>	<b>4,631.1</b>	<b>-3,079.3</b>
<b>Services</b>	<b>7,284.7</b>	<b>6,398.8</b>	<b>885.9</b>	<b>752.5</b>	<b>1,135.4</b>	<b>-382.9</b>	<b>251.3</b>	<b>472.7</b>	<b>-221.5</b>
Travel	3,292.9	1,996.2	1,296.7	176.4	43.1	133.3	54.1	49.7	4.4
Other services	3,991.8	4,402.6	-410.8	576.1	1,092.3	-516.2	197.2	423.0	-225.8
Labour income	148.2	155.7	-7.5	10.0	37.3	-27.3	5.5	8.3	-2.8
Investment income	2,803.8	5,734.7	-2,930.9	185.8	174.7	11.1	16.7	55.9	-39.2
<i>Monetary financial institutions</i>	<i>1,221.8</i>	<i>1,074.0</i>	<i>147.8</i>	<i>139.9</i>	<i>141.6</i>	<i>-1.8</i>	<i>8.2</i>	<i>38.6</i>	<i>-30.4</i>
<i>General government</i>	<i>12.4</i>	<i>167.2</i>	<i>-154.8</i>	<i>4.5</i>	<i>0.0</i>	<i>4.5</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>Other resident sectors</i>	<i>1,569.6</i>	<i>4,493.4</i>	<i>-2,923.9</i>	<i>41.4</i>	<i>33.0</i>	<i>8.4</i>	<i>8.4</i>	<i>17.2</i>	<i>-8.8</i>
<b>Current transfers</b>	<b>1,362.0</b>	<b>376.0</b>	<b>986.0</b>	<b>135.2</b>	<b>57.4</b>	<b>77.7</b>	<b>25.7</b>	<b>20.8</b>	<b>4.9</b>
<b>CAPITAL ACCOUNT</b>	<b>124.0</b>	<b>89.2</b>	<b>34.9</b>	<b>213.2</b>	<b>15.1</b>	<b>198.1</b>	<b>3.2</b>	<b>2.3</b>	<b>0.8</b>
	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)
<b>FINANCIAL ACCOUNT</b> <b>(excluding Banco de España) (b)</b>	...	...	...	...	...	...	...	...	...
<b>Monetary financial institutions</b>	<b>409.5</b>	<b>3,445.9</b>	<b>-3,036.4</b>	<b>67.7</b>	<b>-173.6</b>	<b>241.4</b>	<b>-335.9</b>	<b>407.8</b>	<b>-743.7</b>
Direct investment (c)	-401.4	781.6	-1,183.0	-0.1	1.4	-1.5	0.0	1.6	-1.6
Portfolio investment	508.1	614.9	-106.8	31.5	-133.9	165.4	47.9	11.4	36.5
Other investment	302.8	2,049.4	-1,746.6	36.3	-41.1	77.4	-383.8	394.8	-778.6
<b>General government</b>	<b>-1,355.5</b>	<b>-25.6</b>	<b>-1,329.9</b>	<b>21.6</b>	<b>-4.5</b>	<b>26.1</b>	<b>-1.6</b>	<b>0.0</b>	<b>-1.6</b>
Portfolio investment	-1,339.1	-1.3	-1,337.8	21.8	-0.1	21.9	-1.6	0.0	-1.6
Other investment	-16.4	-24.3	7.9	-0.2	-4.4	4.2	0.0	0.0	0.0
<b>Other resident sectors</b>	<b>1,771.4</b>	<b>6,067.9</b>	<b>-4,296.4</b>	<b>139.9</b>	<b>495.9</b>	<b>-356.0</b>	<b>-21.4</b>	<b>492.3</b>	<b>-513.7</b>
Direct investment (c)	2,269.4	4,229.6	-1,960.1	105.0	300.9	-196.0	6.6	62.9	-56.3
Portfolio investment	-774.9	1,691.8	-2,466.7	25.1	55.2	-30.2	-27.6	424.3	-451.8
Other investment	276.9	146.5	130.4	9.9	139.7	-129.8	-0.4	5.2	-5.6

SOURCE: Banco de España.

a. The difference between the world total amounts and the sum of the geographical areas corresponds to geographically unallocated information, which in no case represents large amounts, and to amounts corresponding to international organisations other than the European Union.

b. Derivatives not included.

c. In the case of direct investment, the change in assets corresponds to Spain's investment abroad, which includes, among other transactions, loans received by Spanish parent companies from their non-resident subsidiaries, which reduce such investment. Likewise, the change in liabilities corresponds to foreign investment in Spain, which includes loans granted by Spanish subsidiary companies to their non-resident parents (see Chapter V).

NOTES:

NAFTA: USA, Canada and Mexico.

OPEC: Algeria, Libya, Nigeria, Venezuela, Iraq, Iran, Saudi Arabia, Kuwait, Qatar, United Arab Emirates and Indonesia.

NEWLY INDUSTRIALISED COUNTRIES (NICS): Singapore, South Korea, Taiwan and Hong Kong.

**BALANCE OF PAYMENTS IN 2005** (cont'd)  
**Breakdown by selected economic area (a)**

TABLE 6.1.11

EUR m	ASEAN			COMMONWEALTH OF INDEPENDENT STATE			TAX HAVENS		
	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET
<b>CURRENT ACCOUNT</b>	<b>1,348.6</b>	<b>4,798.2</b>	<b>-3,449.6</b>	<b>1,806.3</b>	<b>6,715.0</b>	<b>-4,908.7</b>	<b>6,516.7</b>	<b>5,704.1</b>	<b>812.6</b>
<b>Goods</b>	<b>1,119.3</b>	<b>4,128.0</b>	<b>-3,008.7</b>	<b>1,411.2</b>	<b>6,187.2</b>	<b>-4,776.0</b>	<b>4,352.0</b>	<b>2,876.4</b>	<b>1,475.6</b>
<b>Services</b>	<b>170.1</b>	<b>459.9</b>	<b>-289.8</b>	<b>335.0</b>	<b>453.2</b>	<b>-118.2</b>	<b>975.2</b>	<b>1,270.4</b>	<b>-295.2</b>
Travel	18.0	63.7	-45.7	219.2	74.4	144.8	310.6	685.7	-375.1
Other services	152.1	396.2	-244.1	115.8	378.8	-263.0	664.6	584.8	79.8
Labour income	1.4	7.5	-6.1	3.0	9.1	-6.1	49.7	15.0	34.7
Investment income	44.5	60.7	-16.2	20.1	44.0	-23.8	967.2	1,333.4	-366.2
<i>Monetary financial institutions</i>	4.6	50.6	-46.0	6.3	41.6	-35.4	257.5	1,260.9	-1,003.4
<i>General government</i>	1.5	0.0	1.5	0.9	0.0	0.9	1.9	0.0	1.9
<i>Other resident sectors</i>	38.4	10.1	28.3	13.0	2.3	10.7	707.8	72.4	635.4
<b>Current transfers</b>	<b>13.2</b>	<b>142.0</b>	<b>-128.7</b>	<b>37.0</b>	<b>21.6</b>	<b>15.4</b>	<b>172.6</b>	<b>208.9</b>	<b>-36.3</b>
<b>CAPITAL ACCOUNT</b>	<b>11.4</b>	<b>1.8</b>	<b>9.6</b>	<b>366.8</b>	<b>5.2</b>	<b>361.6</b>	<b>30.6</b>	<b>8.2</b>	<b>22.4</b>
	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)
<b>FINANCIAL ACCOUNT</b> <b>(excluding Banco de España) (b)</b>	...	...	...	...	...	...	...	...	...
<b>Monetary financial institutions</b>	<b>-425.1</b>	<b>186.0</b>	<b>-611.2</b>	<b>-210.9</b>	<b>67.1</b>	<b>-278.0</b>	<b>-20,451.5</b>	<b>-505.6</b>	<b>-19,945.9</b>
Direct investment (c)	0.0	0.0	0.0	0.0	0.1	-0.1	0.0	-461.2	461.2
Portfolio investment	-17.5	-2.5	-15.0	1.9	5.9	-4.0	316.2	-28.1	344.3
Other investment	-407.6	188.5	-596.1	-212.8	61.0	-273.9	-20,767.8	-16.3	-20,751.5
<b>General government</b>	<b>-0.6</b>	<b>11.5</b>	<b>-12.1</b>	<b>0.1</b>	<b>-0.1</b>	<b>0.2</b>	<b>-8.6</b>	<b>-2.3</b>	<b>-6.3</b>
Portfolio investment	-0.6	0.0	-0.6	0.1	-0.1	0.2	-8.6	-0.2	-8.3
Other investment	0.0	11.5	-11.5	0.0	0.0	0.0	0.0	-2.1	2.1
<b>Other resident sectors</b>	<b>16.2</b>	<b>33.1</b>	<b>-16.9</b>	<b>110.3</b>	<b>340.9</b>	<b>-230.6</b>	<b>192.5</b>	<b>325.3</b>	<b>-132.8</b>
Direct investment (c)	16.4	-33.5	49.9	98.6	320.6	-222.0	307.0	183.0	124.0
Portfolio investment	0.9	51.9	-51.1	3.2	18.0	-14.8	-151.5	84.1	-235.6
Other investment	-1.0	14.7	-15.7	8.5	2.3	6.2	37.0	58.1	-21.1

SOURCE: Banco de España.

a. The difference between the world total amounts and the sum of the geographical areas corresponds to geographically unallocated information, which in no case represents large amounts, and to amounts corresponding to international organisations other than the European Union.

b. Derivatives not included.

c. In the case of direct investment, the change in assets corresponds to Spain's investment abroad, which includes, among other transactions, loans received by Spanish parent companies from their non-resident subsidiaries, which reduce such investment. Likewise, the change in liabilities corresponds to foreign investment in Spain, which includes loans granted by Spanish subsidiary companies to their non-resident parents (see Chapter V).

NOTES:

ASEAN: Thailand, Indonesia, Malaysia, Brunei, Singapore, Philippines, Vietnam, Cambodia, Democratic Republic of Laos and Myanmar.

CIS: Russia, Ukraine, Belarus, Moldova, Armenia, Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan, Tajikistan, Kyrgyzstan and Georgia.

TAX HAVENS: Andorra, Antigua and Barbuda, Anguilla, Dutch Antilles, Barbados, Bahrain, Bermuda, Bahamas, Belize, Cook Islands, Dominica, Grenada, Guernsey, Gibraltar, Hong Kong, Isle of Man, Jersey, Jamaica, St. Kitts and Nevis, Cayman Islands, Lebanon, St. Lucia, Liechtenstein, Liberia, Marshall Islands, Montserrat, Maldives, Nauru, Niue, Panama, Philippines, Singapore, Turks and Caicos, St. Vincent and the Grenadines, British Virgin Islands, US Virgin Islands, Vanuatu and Samoa.



## DIRECT INVESTMENT

TABLE 6.1.12

## Breakdown by selected geographical and economic area (a)

EUR m	1999	2000	2001	2002	2003	2004	2005
<b>SPANISH INVESTMENT ABROAD</b>							
<b>WORLD TOTAL</b>	<b>41,658.4</b>	<b>63,184.7</b>	<b>36,996.7</b>	<b>34,761.0</b>	<b>25,444.6</b>	<b>48,750.1</b>	<b>31,177.0</b>
<b>EUROPE</b>	<b>14,436.3</b>	<b>29,279.1</b>	<b>23,417.3</b>	<b>22,684.1</b>	<b>19,216.3</b>	<b>39,332.9</b>	<b>24,372.4</b>
<b>European Union</b>	<b>12,408.0</b>	<b>27,046.4</b>	<b>22,057.3</b>	<b>21,030.4</b>	<b>18,928.1</b>	<b>37,117.4</b>	<b>20,653.5</b>
<b>EU 15</b>	<b>12,155.2</b>	<b>25,362.4</b>	<b>21,833.0</b>	<b>20,949.7</b>	<b>17,637.6</b>	<b>35,290.1</b>	<b>14,420.0</b>
Euro area	11,175.7	22,716.1	21,113.1	19,735.2	12,777.3	17,300.8	11,606.5
Germany	660.9	5,434.4	2,322.7	2,155.7	5,109.0	675.5	733.7
Austria	207.1	353.9	117.8	266.1	21.9	91.7	45.8
Belgium	781.3	-1,384.2	638.0	141.7	321.2	777.6	209.2
Finland	14.9	217.0	30.1	56.1	0.6	322.9	127.0
France	1,963.6	707.4	564.3	1,541.6	1,043.2	3,745.8	7,527.3
Greece	2.1	14.9	107.1	448.5	394.9	91.6	103.0
Netherlands	1,344.9	2,778.1	4,233.9	5,654.0	-394.0	3,066.6	211.4
Ireland	84.3	187.3	514.2	497.2	876.1	442.4	-2,477.0
Italy	172.9	1,466.3	2,437.4	1,373.1	1,535.0	2,027.5	910.7
Luxembourg	5,755.1	9,350.3	8,931.1	6,364.3	1,560.6	3,709.2	2,211.3
Portugal	190.7	3,605.6	1,216.4	1,236.9	2,308.8	2,350.1	1,871.1
Other EU-15	979.4	2,646.3	719.9	1,214.5	4,859.1	17,988.3	2,813.5
United Kingdom	645.0	1,953.9	705.4	1,104.0	4,354.0	17,177.3	2,433.4
Denmark	287.3	606.4	20.4	13.2	94.5	339.8	391.5
Sweden	45.1	71.1	-5.9	97.3	410.7	471.2	-11.3
<b>New members</b>	<b>252.9</b>	<b>1,684.0</b>	<b>224.3</b>	<b>80.8</b>	<b>1,290.6</b>	<b>1,827.4</b>	<b>6,233.5</b>
<b>Rest of Europe</b>	<b>2,028.2</b>	<b>2,232.7</b>	<b>1,360.0</b>	<b>1,653.7</b>	<b>288.2</b>	<b>2,215.4</b>	<b>3,718.9</b>
<b>Switzerland</b>	<b>1,901.2</b>	<b>1,957.0</b>	<b>1,322.9</b>	<b>1,359.4</b>	<b>204.2</b>	<b>1,516.0</b>	<b>3,633.6</b>
<b>NORTH AMERICA</b>	<b>3,125.8</b>	<b>7,738.3</b>	<b>2,439.0</b>	<b>1,712.8</b>	<b>1,673.2</b>	<b>-879.4</b>	<b>2,759.6</b>
<b>United States</b>	<b>3,335.8</b>	<b>7,725.5</b>	<b>2,368.0</b>	<b>1,670.2</b>	<b>1,458.2</b>	<b>-407.9</b>	<b>2,610.9</b>
<b>CENTRAL AND SOUTH AMERICA</b>	<b>24,087.6</b>	<b>25,827.3</b>	<b>11,280.6</b>	<b>6,822.6</b>	<b>2,454.0</b>	<b>10,023.7</b>	<b>2,534.3</b>
<b>Argentina</b>	<b>13,409.2</b>	<b>3,701.8</b>	<b>2,026.9</b>	<b>2,726.2</b>	<b>-1,129.8</b>	<b>-1,403.6</b>	<b>-1,389.5</b>
<b>Brazil</b>	<b>3,617.8</b>	<b>12,582.6</b>	<b>3,435.1</b>	<b>-1,811.6</b>	<b>1,552.8</b>	<b>1,490.1</b>	<b>1,751.3</b>
<b>Chile</b>	<b>4,376.9</b>	<b>856.5</b>	<b>239.0</b>	<b>-11.4</b>	<b>539.4</b>	<b>1,312.5</b>	<b>220.2</b>
<b>Mexico</b>	<b>1,419.7</b>	<b>4,455.5</b>	<b>3,123.5</b>	<b>3,785.1</b>	<b>1,188.4</b>	<b>7,340.6</b>	<b>2,251.6</b>
<b>AFRICA</b>	<b>83.9</b>	<b>-127.2</b>	<b>-590.7</b>	<b>456.1</b>	<b>1,909.9</b>	<b>608.3</b>	<b>659.8</b>
<b>Morocco</b>	<b>46.5</b>	<b>45.3</b>	<b>11.7</b>	<b>58.1</b>	<b>1,467.5</b>	<b>57.2</b>	<b>106.9</b>
<b>ASIA</b>	<b>158.1</b>	<b>327.3</b>	<b>402.5</b>	<b>1,605.7</b>	<b>144.5</b>	<b>337.0</b>	<b>225.6</b>
<b>China</b>	<b>26.9</b>	<b>64.1</b>	<b>15.5</b>	<b>27.9</b>	<b>39.8</b>	<b>76.0</b>	<b>116.7</b>
<b>Japan</b>	<b>27.5</b>	<b>30.7</b>	<b>279.0</b>	<b>1,468.0</b>	<b>86.4</b>	<b>86.5</b>	<b>55.1</b>
<b>Newly industrialised countries (NICs)</b>	<b>45.8</b>	<b>109.4</b>	<b>26.3</b>	<b>14.3</b>	<b>14.9</b>	<b>-23.9</b>	<b>64.5</b>
<b>OCEANIA AND POLAR REGIONS</b>	<b>-239.7</b>	<b>127.2</b>	<b>34.6</b>	<b>1,460.4</b>	<b>25.7</b>	<b>-710.8</b>	<b>40.2</b>
Memorandum item:							
<b>OECD</b>	<b>18,748.2</b>	<b>41,408.3</b>	<b>29,211.0</b>	<b>30,996.1</b>	<b>22,101.5</b>	<b>45,007.9</b>	<b>29,204.9</b>

SOURCE: Banco de España.

a. The difference between the world total amounts and the sum of the geographical areas corresponds to geographically unallocated information, which in no case represents large amounts, and to amounts corresponding to international organisations other than the European Union.

## NOTES:

EUROPEAN UNION: International institutions of the European Union, European Central Bank, France, Belgium, Netherlands, Germany, Italy, United Kingdom, Ireland, Denmark, Greece, Portugal, Luxembourg, Austria, Finland, Sweden, Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovenia, Slovakia and their dependencies.

EU 15: international institutions of the European Union, European Central Bank, France, Belgium, Netherlands, Germany, Italy, United Kingdom, Ireland, Denmark, Greece, Portugal, Luxembourg, Austria, Finland, Sweden and their dependencies.

OTHER EU 15: United Kingdom, Denmark and Sweden.

NEW MEMBERS: Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovenia and Slovakia.

REST OF EUROPE: Countries not included in the European Union.

NEWLY INDUSTRIALISED COUNTRIES (NICs): Singapore, South Korea, Taiwan and Hong Kong.

OECD: International institutions of the European Union, European Central Bank, France, Belgium, Netherlands, Germany, Italy, United Kingdom, Ireland, Denmark, Greece, Portugal, Luxembourg, Iceland, Norway, Sweden, Finland, Switzerland, Austria, Turkey, USA, Canada, Japan, Australia, New Zealand, Mexico, Czech Republic, Hungary, Poland and South Korea, and their dependencies.

DIRECT INVESTMENT (cont'd)  
Breakdown by selected geographical and economic area (a)

TABLE 6.1.12

EUR m	1999	2000	2001	2002	2003	2004	2005
<b>FOREIGN INVESTMENT IN SPAIN</b>							
<b>WORLD TOTAL</b>	<b>17,593.0</b>	<b>42,954.8</b>	<b>31,746.4</b>	<b>41,675.9</b>	<b>22,876.8</b>	<b>19,941.4</b>	<b>18,484.4</b>
<b>EUROPE</b>	<b>10,096.0</b>	<b>30,758.6</b>	<b>28,957.2</b>	<b>23,328.1</b>	<b>17,450.8</b>	<b>19,207.3</b>	<b>15,947.5</b>
<b>European Union</b>	<b>9,685.5</b>	<b>29,316.2</b>	<b>26,989.5</b>	<b>22,955.2</b>	<b>15,705.6</b>	<b>17,791.5</b>	<b>15,602.3</b>
<b>EU-15</b>	<b>9,671.3</b>	<b>29,295.9</b>	<b>26,837.0</b>	<b>22,880.4</b>	<b>15,676.7</b>	<b>17,737.7</b>	<b>15,552.9</b>
Euro area	5,650.6	10,248.5	23,844.6	17,539.4	6,517.1	11,504.7	12,059.1
Germany	1,394.8	2,170.7	1,004.3	3,659.6	-749.9	-1,331.5	-719.6
Austria	49.3	121.7	11.9	57.8	28.6	127.0	87.7
Belgium	580.7	212.7	3,331.0	-1,138.3	-528.4	6,180.3	86.4
Finland	45.0	51.5	31.5	76.7	59.6	13.2	-15.5
France	366.8	1,241.3	3,907.2	2,529.4	-368.5	-1,843.6	-488.5
Greece	5.1	4.1	13.8	99.1	5.3	4.1	15.2
Netherlands	1,351.0	3,048.0	4,077.4	3,769.4	1,409.9	-933.9	8,520.3
Ireland	29.1	315.6	228.5	208.4	1,382.3	83.5	864.3
Italy	537.0	597.1	768.2	1,305.3	671.8	686.4	606.1
Luxembourg	914.4	1,744.1	2,125.0	8,234.9	3,707.1	6,370.1	2,243.1
Portugal	382.5	745.8	8,346.0	-1,262.9	899.1	2,149.1	859.2
Other EU-15	4,020.7	19,047.4	2,992.3	5,341.0	9,158.6	6,233.0	3,493.8
United Kingdom	3,953.2	18,404.0	2,838.9	5,249.1	9,061.1	4,921.9	2,238.0
Denmark	-20.4	162.4	-62.6	155.5	-4.7	151.9	103.3
Sweden	82.5	474.3	216.5	-62.3	106.4	1,159.2	1,152.5
<b>New members</b>	<b>14.1</b>	<b>20.4</b>	<b>152.5</b>	<b>74.8</b>	<b>28.9</b>	<b>53.8</b>	<b>49.4</b>
<b>Rest of Europe</b>	<b>410.5</b>	<b>1,442.3</b>	<b>1,967.8</b>	<b>372.9</b>	<b>1,745.2</b>	<b>1,415.8</b>	<b>345.1</b>
<b>Switzerland</b>	<b>138.6</b>	<b>1,105.0</b>	<b>1,590.8</b>	<b>-146.5</b>	<b>1,381.8</b>	<b>1,109.4</b>	<b>-288.0</b>
<b>NORTH AMERICA</b>	<b>7,068.3</b>	<b>11,777.6</b>	<b>2,119.6</b>	<b>16,495.8</b>	<b>5,429.2</b>	<b>240.3</b>	<b>2,253.0</b>
<b>United States</b>	<b>7,039.7</b>	<b>11,784.0</b>	<b>2,104.1</b>	<b>15,457.5</b>	<b>4,221.1</b>	<b>-351.0</b>	<b>2,243.4</b>
<b>CENTRAL AND SOUTH AMERICA</b>	<b>277.1</b>	<b>242.4</b>	<b>362.7</b>	<b>1,707.3</b>	<b>-102.3</b>	<b>888.0</b>	<b>-183.5</b>
<b>Argentina</b>	<b>7.4</b>	<b>18.9</b>	<b>-20.5</b>	<b>45.7</b>	<b>13.5</b>	<b>-59.3</b>	<b>7.2</b>
<b>Brazil</b>	<b>-2.3</b>	<b>5.7</b>	<b>15.1</b>	<b>-181.8</b>	<b>102.1</b>	<b>135.5</b>	<b>132.3</b>
<b>Chile</b>	<b>-1.1</b>	<b>-2.6</b>	<b>-11.2</b>	<b>1,507.5</b>	<b>-530.4</b>	<b>9.2</b>	<b>2.3</b>
<b>Mexico</b>	<b>67.3</b>	<b>57.3</b>	<b>386.2</b>	<b>89.7</b>	<b>415.9</b>	<b>21.7</b>	<b>-384.8</b>
<b>AFRICA</b>	<b>18.6</b>	<b>20.3</b>	<b>38.9</b>	<b>-79.9</b>	<b>29.7</b>	<b>15.2</b>	<b>46.8</b>
<b>Morocco</b>	<b>7.0</b>	<b>11.5</b>	<b>8.6</b>	<b>-69.6</b>	<b>14.8</b>	<b>-7.4</b>	<b>11.3</b>
<b>ASIA</b>	<b>67.2</b>	<b>170.1</b>	<b>249.9</b>	<b>203.5</b>	<b>40.2</b>	<b>-461.0</b>	<b>384.7</b>
<b>China</b>	<b>0.7</b>	<b>1.2</b>	<b>3.6</b>	<b>2.7</b>	<b>-1.8</b>	<b>4.8</b>	<b>4.8</b>
<b>Japan</b>	<b>-18.3</b>	<b>89.2</b>	<b>98.8</b>	<b>127.8</b>	<b>-81.9</b>	<b>165.8</b>	<b>292.7</b>
<b>Newly industrialised countries (NICs)</b>	<b>9.9</b>	<b>22.3</b>	<b>34.5</b>	<b>14.0</b>	<b>-3.2</b>	<b>16.1</b>	<b>6.6</b>
<b>OCEANIA AND POLAR REGIONS</b>	<b>60.7</b>	<b>-19.8</b>	<b>5.8</b>	<b>4.4</b>	<b>3.9</b>	<b>40.3</b>	<b>21.5</b>
Memorandum item:							
<b>OECD</b>	<b>17,127.3</b>	<b>42,522.8</b>	<b>31,449.5</b>	<b>39,716.6</b>	<b>22,912.5</b>	<b>19,441.2</b>	<b>17,771.5</b>

SOURCE: Banco de España.

a. The difference between the world total amounts and the sum of the geographical areas corresponds to geographically unallocated information, which in no case represents large amounts, and to amounts corresponding to international organisations other than the European Union.

NOTES:

EUROPEAN UNION: International institutions of the European Union, European Central Bank, France, Belgium, Netherlands, Germany, Italy, United Kingdom, Ireland, Denmark, Greece, Portugal, Luxembourg, Austria, Finland, Sweden, Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovenia, Slovakia and their dependencies.

EU 15: international institutions of the European Union, European Central Bank, France, Belgium, Netherlands, Germany, Italy, United Kingdom, Ireland, Denmark, Greece, Portugal, Luxembourg, Austria, Finland, Sweden and their dependencies.

OTHER EU 15: United Kingdom, Denmark and Sweden.

NEW MEMBERS: Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovenia and Slovakia.

REST OF EUROPE: Countries not included in the European Union.

NEWLY INDUSTRIALISED COUNTRIES (NICs): Singapore, South Korea, Taiwan and Hong Kong.

OECD: International institutions of the European Union, European Central Bank, France, Belgium, Netherlands, Germany, Italy, United Kingdom, Ireland, Denmark, Greece, Portugal, Luxembourg, Iceland, Norway, Sweden, Finland, Switzerland, Austria, Turkey, USA, Canada, Japan, Australia, New Zealand, Mexico, Czech Republic, Hungary, Poland and South Korea, and their dependencies.

## 6.2 THE SPANISH BALANCE OF PAYMENTS IN 2004 (REVISED DATA)

## BALANCE OF PAYMENTS IN 2003 AND 2004: MAIN COMPONENTS

TABLE 6.2.1

Annual data

EUR m	2003			2004		
	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET
<b>Current account</b>	<b>244,373.8</b>	<b>271,850.2</b>	<b>-27,476.4</b>	<b>261,865.9</b>	<b>306,029.6</b>	<b>-44,163.7</b>
<b>Trade balance</b>	<b>139,754.4</b>	<b>179,593.3</b>	<b>-39,838.8</b>	<b>148,967.1</b>	<b>202,627.3</b>	<b>-53,660.2</b>
<b>Services</b>	<b>65,689.3</b>	<b>42,388.5</b>	<b>23,300.8</b>	<b>69,355.2</b>	<b>47,602.1</b>	<b>21,753.0</b>
Travel	35,047.1	8,009.9	27,037.2	36,376.3	9,772.1	26,604.2
Other services	30,642.2	34,378.6	-3,736.4	32,978.9	37,830.1	-4,851.2
<b>Income</b>	<b>24,060.8</b>	<b>34,456.3</b>	<b>-10,395.5</b>	<b>27,299.2</b>	<b>39,438.6</b>	<b>-12,139.5</b>
Labour	895.3	817.4	77.9	930.4	1,078.6	-148.2
Investment	23,165.5	33,638.9	-10,473.4	26,368.8	38,360.1	-11,991.3
<b>Current transfers</b>	<b>14,869.3</b>	<b>15,412.1</b>	<b>-542.9</b>	<b>16,244.5</b>	<b>16,361.5</b>	<b>-117.1</b>
<b>Capital account</b>	<b>9,649.3</b>	<b>1,483.9</b>	<b>8,165.3</b>	<b>9,391.4</b>	<b>963.5</b>	<b>8,427.9</b>
<b>CURRENT AND CAPITAL ACCOUNTS</b>	<b>254,023.1</b>	<b>273,334.1</b>	<b>-19,311.0</b>	<b>271,257.2</b>	<b>306,993.0</b>	<b>-35,735.8</b>
	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)
<b>FINANCIAL ACCOUNT (a)</b>	-	-	<b>17,825.5</b>	-	-	<b>34,851.0</b>
<b>Excluding Banco de España</b>	-	-	<b>16,250.8</b>	-	-	<b>48,860.9</b>
<b>Direct investment</b>	-	-	<b>-2,567.9</b>	-	-	<b>-28,808.7</b>
Spanish investment abroad	-	25,444.6	-25,444.6	-	48,750.1	-48,750.1
Foreign investment in Spain	22,876.8	-	22,876.8	19,941.4	-	19,941.4
<b>Portfolio investment</b>	-	-	<b>-26,592.1</b>	-	-	<b>85,807.9</b>
Spanish investment abroad	-	65,633.7	-65,633.7	-	26,946.0	-26,946.0
Foreign investment in Spain	39,041.7	-	39,041.7	112,753.9	-	112,753.9
<b>Other investment (b)</b>	-	-	<b>48,845.4</b>	-	-	<b>-8,212.4</b>
Spanish investment abroad	-	15,876.3	-15,876.3	-	28,419.1	-28,419.1
Monetary financial institutions	-	8,571.7	-8,571.7	-	17,151.2	-17,151.2
General government	-	1.6	-1.6	-	1,588.9	-1,588.9
Other resident sectors	-	7,303.0	-7,303.0	-	9,679.0	-9,679.0
Foreign investment in Spain	64,721.7	-	64,721.7	20,206.7	-	20,206.7
Monetary financial institutions	55,385.4	-	55,385.4	14,947.7	-	14,947.7
General government	-889.0	-	-889.0	5,025.2	-	5,025.2
Other resident sectors	10,225.3	-	10,225.3	233.8	-	233.8
<b>Financial derivatives</b>	-	-	<b>-3,434.7</b>	-	-	<b>74.1</b>
<b>Banco de España</b>	-	-	<b>1,574.8</b>	-	-	<b>-14,009.9</b>
<b>Reserves</b>	-	-	<b>13,625.9</b>	-	-	<b>5,147.0</b>
<b>Claims on the Eurosystem</b>	-	-	<b>4,382.0</b>	-	-	<b>-13,760.0</b>
<b>Other net assets</b>	-	-	<b>-16,433.2</b>	-	-	<b>-5,397.0</b>
<b>ERRORS AND OMISSIONS</b>	-	-	<b>1,485.5</b>	-	-	<b>884.8</b>

SOURCE: Banco de España.

a. Changes in assets and liabilities are both net of repayments.

b. Mainly loans, repo operations and deposits.

ACCOUNTING CONVENTION:

Financial account excluding Banco de España:

**NCA:** a positive (negative) sign denotes an increase (decrease) in assets; it is thus a capital outflow (inflow).**NCL:** a positive (negative) sign denotes an increase (decrease) in liabilities; it is thus a capital inflow (outflow).**NCL-NCA:** a positive (negative) sign denotes a capital inflow (outflow).

Banco de España: a positive (negative) sign denotes a decrease (increase) in Banco de España claims on the rest of the world.

Errors and omissions: a positive (negative) sign denotes a credit (debit) not recorded in any other Balance of Payments heading.

## BALANCE OF PAYMENTS: MAIN COMPONENTS

TABLE 6.2.2

Quaterly data

EUR m	2004	2004			
		Q1	Q2	Q3	Q4
<b>CREDITS</b>					
<b>Current account</b>	<b>261,865.9</b>	<b>60,116.8</b>	<b>66,977.3</b>	<b>63,811.8</b>	<b>70,959.9</b>
Trade balance	148,967.1	36,962.1	38,847.4	33,986.3	39,171.3
Services	69,355.2	14,401.6	16,788.8	21,080.6	17,084.1
<i>Travel</i>	36,376.3	6,791.8	8,671.5	12,879.4	8,033.5
<i>Other services</i>	32,978.9	7,609.8	8,117.3	8,201.2	9,050.6
Income	27,299.2	5,738.1	7,790.9	5,912.9	7,857.4
<i>Labour</i>	930.4	239.1	235.7	219.8	235.8
<i>Investment</i>	26,368.8	5,498.9	7,555.2	5,693.1	7,621.6
Current transfers	16,244.5	3,015.1	3,550.2	2,832.0	6,847.2
<b>Capital account</b>	<b>9,391.4</b>	<b>1,363.1</b>	<b>3,049.5</b>	<b>2,385.0</b>	<b>2,593.8</b>
<b>Current and capital accounts</b>	<b>271,257.2</b>	<b>61,479.9</b>	<b>70,026.8</b>	<b>66,196.8</b>	<b>73,553.7</b>
<b>DEBITS</b>					
<b>Current account</b>	<b>306,029.6</b>	<b>71,397.6</b>	<b>78,111.3</b>	<b>74,837.0</b>	<b>81,683.6</b>
Trade balance	202,627.3	47,856.6	51,908.0	48,622.6	54,240.1
Services	47,602.1	11,272.4	11,381.5	12,382.5	12,565.8
<i>Travel</i>	9,772.1	2,081.0	2,087.6	2,958.5	2,644.9
<i>Other services</i>	37,830.1	9,191.3	9,293.9	9,424.0	9,920.8
Income	39,438.6	8,005.9	11,050.7	9,763.0	10,619.0
<i>Labour</i>	1,078.6	300.2	218.3	291.3	268.9
<i>Investment</i>	38,360.1	7,705.8	10,832.5	9,471.7	10,350.1
Current transfers	16,361.5	4,262.7	3,771.0	4,069.0	4,258.8
<b>Capital account</b>	<b>963.5</b>	<b>216.0</b>	<b>223.2</b>	<b>292.0</b>	<b>232.3</b>
<b>Current and capital accounts</b>	<b>306,993.0</b>	<b>71,613.6</b>	<b>78,334.4</b>	<b>75,129.0</b>	<b>81,916.0</b>
<b>BALANCES</b>					
<b>Current account</b>	<b>-44,163.7</b>	<b>-11,280.8</b>	<b>-11,134.0</b>	<b>-11,025.2</b>	<b>-10,723.7</b>
Trade balance	-53,660.2	-10,894.6	-13,060.6	-14,636.3	-15,068.8
Services	21,753.0	3,129.2	5,407.3	8,698.1	4,518.3
<i>Travel</i>	26,604.2	4,710.8	6,583.9	9,920.9	5,388.6
<i>Other services</i>	-4,851.2	-1,581.6	-1,176.6	-1,222.8	-870.2
Income	-12,139.5	-2,267.9	-3,259.8	-3,850.1	-2,761.6
<i>Labour</i>	-148.2	-61.0	17.4	-71.5	-33.1
<i>Investment</i>	-11,991.3	-2,206.8	-3,277.2	-3,778.6	-2,728.6
Current transfers	-117.1	-1,247.6	-220.9	-1,237.0	2,588.4
<b>Capital account</b>	<b>8,427.9</b>	<b>1,147.1</b>	<b>2,826.3</b>	<b>2,093.0</b>	<b>2,361.5</b>
<b>Current and capital accounts</b>	<b>-35,735.8</b>	<b>-10,133.7</b>	<b>-8,307.7</b>	<b>-8,932.2</b>	<b>-8,362.2</b>
<b>FINANCIAL ACCOUNT (NCL-NCA) (a)</b>	<b>34,851.0</b>	<b>9,322.1</b>	<b>7,162.9</b>	<b>9,292.4</b>	<b>9,073.5</b>
<b>Excluding Banco de España (NCL-NCA)</b>	<b>48,860.9</b>	<b>14,172.6</b>	<b>11,505.7</b>	<b>1,864.6</b>	<b>21,318.0</b>
<b>Spanish investment abroad (NCA)</b>	<b>118,052.1</b>	<b>22,608.0</b>	<b>41,402.1</b>	<b>9,026.1</b>	<b>45,015.9</b>
Direct investment	48,750.1	5,021.2	8,576.3	8,195.9	26,956.7
Portfolio investment	26,946.0	6,881.3	15,784.5	-2,755.8	7,036.0
Other investment (b)	28,419.1	5,885.1	12,759.2	11,013.4	-1,238.6
<i>Monetary financial institutions</i>	17,151.2	4,904.4	10,615.0	8,662.1	-7,030.3
<i>General government</i>	1,588.9	-2,278.4	-112.9	-187.0	4,167.3
<i>Other resident sectors</i>	9,679.0	3,259.2	2,257.1	2,538.3	1,624.4
<b>Foreign investment in Spain (NCL)</b>	<b>152,902.0</b>	<b>31,855.7</b>	<b>48,514.9</b>	<b>18,253.2</b>	<b>54,278.2</b>
Direct investment	19,941.4	-1,026.5	9,335.1	3,021.5	8,611.3
Portfolio investment	112,753.9	30,504.4	14,719.2	21,722.7	45,807.7
Other investment (b)	20,206.7	2,377.8	24,460.6	-6,490.9	-140.8
<i>Monetary financial institutions</i>	14,947.7	-453.5	26,453.3	-9,804.1	-1,248.1
<i>General government</i>	5,025.2	528.9	185.5	1,412.8	2,898.0
<i>Other resident sectors</i>	233.8	2,302.4	-2,178.2	1,900.3	-1,790.7
<b>Financial derivatives (NCL-NCA)</b>	<b>74.1</b>	<b>104.5</b>	<b>110.9</b>	<b>64.9</b>	<b>-206.1</b>
<b>Banco de España (NCL-NCA)</b>	<b>-14,009.9</b>	<b>-4,850.5</b>	<b>-4,342.8</b>	<b>7,427.8</b>	<b>-12,244.5</b>
Reserves	5,147.0	3,634.1	795.9	316.4	400.6
Claims on the Eurosystem	-13,760.0	-4,858.0	-4,933.0	7,437.0	-11,406.0
Other net assets	-5,397.0	-3,626.6	-205.7	-325.6	-1,239.1
<b>ERRORS AND OMISSIONS</b>	<b>884.8</b>	<b>811.6</b>	<b>1,144.7</b>	<b>-360.3</b>	<b>-711.3</b>

SOURCE: Banco de España.

- a. Changes in assets and liabilities are both net of repayments.  
b. Mainly loans, repo operations and deposits.

## ACCOUNTING CONVENTION:

Financial account excluding Banco de España:

NCA: a positive (negative) sign denotes an increase (decrease) in assets; it is thus a capital outflow (inflow).

NCL: a positive (negative) sign denotes an increase (decrease) in liabilities; it is thus a capital inflow (outflow).

NCL-NCA: a positive (negative) sign denotes a capital inflow (outflow).

Banco de España: a positive (negative) sign denotes a decrease (increase) in Banco de España claims on the rest of the world.

Errors and omissions: a positive (negative) sign denotes a credit (debit) not recorded in any other Balance of Payments heading.

EUR m	2004	2004			
		Q1	Q2	Q3	Q4
<b>CREDITS</b>	<b>69,355.2</b>	<b>14,401.6</b>	<b>16,788.8</b>	<b>21,080.6</b>	<b>17,084.1</b>
<b>Travel</b>	<b>36,376.3</b>	<b>6,791.8</b>	<b>8,671.5</b>	<b>12,879.4</b>	<b>8,033.5</b>
<b>Transportation</b>	<b>11,529.2</b>	<b>2,645.1</b>	<b>2,970.6</b>	<b>2,925.1</b>	<b>2,988.4</b>
Freight	4,313.5	1,069.3	1,126.4	985.1	1,132.7
Passenger transport	3,970.8	873.5	1,055.4	1,058.2	983.7
<i>Air transport</i>	3,854.8	856.3	1,030.2	1,024.8	943.5
<i>Overland and other transport</i>	36.0	5.7	7.7	9.6	13.0
<i>Sea transport</i>	80.0	11.5	17.5	23.8	27.2
Other (a)	3,244.9	702.3	788.8	881.8	872.0
<b>Communication services</b>	<b>981.8</b>	<b>189.3</b>	<b>183.9</b>	<b>275.3</b>	<b>333.4</b>
<b>Construction services</b>	<b>1,065.1</b>	<b>220.7</b>	<b>215.6</b>	<b>282.9</b>	<b>346.0</b>
<b>Insurance services</b>	<b>619.0</b>	<b>145.0</b>	<b>141.4</b>	<b>145.2</b>	<b>187.3</b>
<b>Financial services</b>	<b>1,670.5</b>	<b>375.4</b>	<b>409.1</b>	<b>424.3</b>	<b>461.7</b>
<b>Computer and information services</b>	<b>2,383.6</b>	<b>577.6</b>	<b>585.9</b>	<b>566.6</b>	<b>653.5</b>
<b>Other business services</b>	<b>12,929.4</b>	<b>2,986.9</b>	<b>3,172.3</b>	<b>3,166.5</b>	<b>3,603.7</b>
Merchanting (b)	1,613.2	280.3	446.2	408.4	478.3
<i>Operational leasing (c)</i>	245.6	42.9	58.2	73.2	71.3
Miscellaneous business, professional and technical	11,070.6	2,663.7	2,667.8	2,685.0	3,054.1
<b>Personal, cultural and recreational services</b>	<b>776.6</b>	<b>170.9</b>	<b>195.2</b>	<b>200.3</b>	<b>210.1</b>
Audiovisual	340.6	88.8	85.3	80.6	86.0
Other cultural and recreational services	436.0	82.1	109.9	119.8	124.2
<b>Government services</b>	<b>621.7</b>	<b>149.7</b>	<b>155.2</b>	<b>153.6</b>	<b>163.2</b>
<b>Royalties and licence fees</b>	<b>402.0</b>	<b>149.2</b>	<b>88.2</b>	<b>61.3</b>	<b>103.3</b>
<b>DEBITS</b>	<b>47,602.1</b>	<b>11,272.4</b>	<b>11,381.5</b>	<b>12,382.5</b>	<b>12,565.8</b>
<b>Travel</b>	<b>9,772.1</b>	<b>2,081.0</b>	<b>2,087.6</b>	<b>2,958.5</b>	<b>2,644.9</b>
<b>Transportation</b>	<b>12,952.3</b>	<b>2,956.6</b>	<b>3,255.8</b>	<b>3,262.1</b>	<b>3,477.7</b>
Freight	8,584.5	2,006.5	2,183.1	2,099.8	2,295.1
Passenger transport	2,179.5	454.8	522.7	586.6	615.4
<i>Air transport</i>	2,138.3	445.3	518.0	573.8	601.2
<i>Overland and other transport</i>	13.9	5.8	2.3	2.9	2.9
<i>Sea transport</i>	27.3	3.7	2.5	9.9	11.2
Other (a)	2,188.3	495.2	550.0	575.8	567.3
<b>Communication services</b>	<b>1,269.6</b>	<b>253.6</b>	<b>360.7</b>	<b>316.8</b>	<b>338.5</b>
<b>Construction services</b>	<b>692.2</b>	<b>160.2</b>	<b>141.5</b>	<b>217.9</b>	<b>172.5</b>
<b>Insurance services</b>	<b>967.0</b>	<b>186.1</b>	<b>247.1</b>	<b>310.4</b>	<b>223.5</b>
<b>Financial services</b>	<b>1,623.2</b>	<b>363.4</b>	<b>478.9</b>	<b>366.1</b>	<b>414.8</b>
<b>Computer and information services</b>	<b>1,359.1</b>	<b>372.8</b>	<b>346.3</b>	<b>299.2</b>	<b>340.8</b>
<b>Other business services</b>	<b>14,695.9</b>	<b>3,523.7</b>	<b>3,516.2</b>	<b>3,650.3</b>	<b>4,005.7</b>
Merchanting (b)	1,233.1	282.3	305.1	301.8	343.9
<i>Operational leasing (c)</i>	1,038.6	305.2	230.6	289.2	213.6
Miscellaneous business, professional and technical	12,424.2	2,936.3	2,980.5	3,059.3	3,448.2
<b>Personal, cultural and recreational services</b>	<b>1,534.7</b>	<b>415.6</b>	<b>370.9</b>	<b>392.5</b>	<b>355.7</b>
Audiovisual	1,023.4	300.9	248.5	232.6	241.5
Other cultural and recreational services	511.2	114.7	122.4	159.9	114.2
<b>Government services</b>	<b>293.1</b>	<b>74.2</b>	<b>62.0</b>	<b>57.9</b>	<b>99.0</b>
<b>Royalties and licence fees</b>	<b>2,443.1</b>	<b>885.3</b>	<b>514.3</b>	<b>550.8</b>	<b>492.7</b>

SOURCE: Banco de España.

a. Includes transport support and auxiliary services.

b. Includes other trade-related services.

c. Includes rental of transportation without crew.

EUR m	2004	2004			
		Q1	Q2	Q3	Q4
<b>BALANCE</b>	<b>21,753.0</b>	<b>3,129.2</b>	<b>5,407.3</b>	<b>8,698.1</b>	<b>4,518.3</b>
<b>Travel</b>	<b>26,604.2</b>	<b>4,710.8</b>	<b>6,583.9</b>	<b>9,920.9</b>	<b>5,388.6</b>
<b>Transportation</b>	<b>-1,423.0</b>	<b>-311.5</b>	<b>-285.3</b>	<b>-337.0</b>	<b>-489.3</b>
Freight	-4,271.0	-937.2	-1,056.8	-1,114.6	-1,162.4
Passenger transport	1,791.3	418.7	532.7	471.6	368.4
<i>Air transport</i>	1,716.5	411.0	512.2	451.0	342.3
<i>Overland and other transport</i>	22.2	-0.1	5.4	6.7	10.1
<i>Sea transport</i>	52.7	7.8	15.0	13.9	16.0
Other (a)	1,056.6	207.1	238.8	306.0	304.7
<b>Communication services</b>	<b>-287.7</b>	<b>-64.3</b>	<b>-176.8</b>	<b>-41.5</b>	<b>-5.1</b>
<b>Construction services</b>	<b>372.9</b>	<b>60.5</b>	<b>74.0</b>	<b>64.9</b>	<b>173.5</b>
<b>Insurance services</b>	<b>-348.0</b>	<b>-41.0</b>	<b>-105.7</b>	<b>-165.1</b>	<b>-36.2</b>
<b>Financial services</b>	<b>47.3</b>	<b>12.0</b>	<b>-69.8</b>	<b>58.2</b>	<b>46.9</b>
<b>Computer and information services</b>	<b>1,024.5</b>	<b>204.8</b>	<b>239.6</b>	<b>267.4</b>	<b>312.7</b>
<b>Other business services</b>	<b>-1,766.5</b>	<b>-536.8</b>	<b>-343.9</b>	<b>-483.8</b>	<b>-402.0</b>
Merchanting (b)	380.1	-2.0	141.1	106.5	134.4
<i>Operational leasing</i> (c)	-793.0	-262.2	-172.4	-216.1	-142.3
Miscellaneous business, professional and technical	-1,353.6	-272.6	-312.7	-374.3	-394.1
<b>Personal, cultural and recreational services</b>	<b>-758.1</b>	<b>-244.7</b>	<b>-175.6</b>	<b>-192.2</b>	<b>-145.6</b>
Audiovisual	-682.8	-212.1	-163.1	-152.1	-155.5
Other cultural and recreational services	-75.3	-32.6	-12.5	-40.1	10.0
<b>Government services</b>	<b>328.6</b>	<b>75.6</b>	<b>93.1</b>	<b>95.7</b>	<b>64.2</b>
<b>Royalties and licence fees</b>	<b>-2,041.1</b>	<b>-736.1</b>	<b>-426.2</b>	<b>-489.4</b>	<b>-389.3</b>

SOURCE: Banco de España.

a. Includes transport support and auxiliary services.

b. Includes other trade-related services.

c. Includes rental of transportation without crew.

## INVESTMENT INCOME BY SECTOR

TABLE 6.2.4

EUR m	2004	2004			
		Q1	Q2	Q3	Q4
<b>Credits</b>	<b>26,368.8</b>	<b>5,498.9</b>	<b>7,555.2</b>	<b>5,693.1</b>	<b>7,621.6</b>
Monetary financial institutions	9,884.7	2,704.6	1,873.9	2,715.4	2,590.7
General government	67.7	16.3	18.8	14.7	17.8
Other resident sectors	16,416.3	2,777.9	5,662.5	2,962.9	5,013.0
<b>Debits</b>	<b>38,360.1</b>	<b>7,705.8</b>	<b>10,832.5</b>	<b>9,471.7</b>	<b>10,350.1</b>
Monetary financial institutions	12,579.5	2,833.5	2,857.6	3,262.7	3,625.7
General government	8,401.1	2,091.6	1,979.9	2,176.1	2,153.6
Other resident sectors	17,379.5	2,780.7	5,995.0	4,032.9	4,570.9
<b>Balance</b>	<b>-11,991.3</b>	<b>-2,206.8</b>	<b>-3,277.2</b>	<b>-3,778.6</b>	<b>-2,728.6</b>
Monetary financial institutions	-2,694.8	-128.8	-983.7	-547.3	-1,034.9
General government	-8,333.4	-2,075.3	-1,961.1	-2,161.3	-2,135.7
Other resident sectors	-963.1	-2.7	-332.5	-1,070.0	442.1

SOURCE: Banco de España.

## INVESTMENT INCOME BY INSTRUMENT

TABLE 6.2.5

EUR m	2004	2004			
		Q1	Q2	Q3	Q4
<b>Credits</b>	<b>26,368.8</b>	<b>5,498.9</b>	<b>7,555.2</b>	<b>5,693.1</b>	<b>7,621.6</b>
Direct investment income	10,448.9	1,216.1	3,842.8	1,721.1	3,668.9
Portfolio investment income	10,708.5	3,041.0	2,700.5	2,544.4	2,422.6
<i>Distributed dividends</i>	<i>1,157.4</i>	<i>116.6</i>	<i>730.3</i>	<i>82.4</i>	<i>228.1</i>
<i>Other portfolio investment</i>	<i>9,551.1</i>	<i>2,924.4</i>	<i>1,970.2</i>	<i>2,462.0</i>	<i>2,194.5</i>
Other investment income	5,211.4	1,241.8	1,011.9	1,427.6	1,530.1
<b>Debits</b>	<b>38,360.1</b>	<b>7,705.8</b>	<b>10,832.5</b>	<b>9,471.7</b>	<b>10,350.1</b>
Direct investment income (a)	10,589.2	1,161.3	4,135.9	2,383.1	2,909.0
Portfolio investment income (b)	15,532.4	3,627.6	3,954.5	3,706.7	4,243.6
<i>Distributed dividends (b)</i>	<i>3,353.4</i>	<i>787.2</i>	<i>1,065.1</i>	<i>808.7</i>	<i>692.4</i>
<i>Other negotiable securities investments</i>	<i>12,179.0</i>	<i>2,840.4</i>	<i>2,889.4</i>	<i>2,898.1</i>	<i>3,551.1</i>
Other investment income	12,238.4	2,916.9	2,742.0	3,381.9	3,197.6

SOURCE: Banco de España.

a. Does not include income from direct investment in listed shares; includes income from portfolio investment in unlisted shares.

b. Includes income from direct investment in listed shares; does not include income from portfolio investment in unlisted shares.

## CURRENT TRANSFERS BY SECTOR

TABLE 6.2.6

EUR m	2004	2004			
		Q1	Q2	Q3	Q4
<b>CREDITS</b>	<b>16,244.5</b>	<b>3,015.1</b>	<b>3,550.2</b>	<b>2,832.0</b>	<b>6,847.2</b>
<b>General government</b>	<b>3,327.5</b>	<b>703.3</b>	<b>927.2</b>	<b>527.8</b>	<b>1,169.2</b>
<i>Of which: with the EU</i>	<i>1,841.7</i>	<i>391.9</i>	<i>416.0</i>	<i>252.6</i>	<i>781.2</i>
<b>Other sectors</b>	<b>12,917.0</b>	<b>2,311.7</b>	<b>2,623.0</b>	<b>2,304.3</b>	<b>5,678.0</b>
Workers' remittances	4,184.5	968.6	1,041.4	1,154.7	1,019.9
Other transfers	8,732.5	1,343.2	1,581.6	1,149.6	4,658.1
<i>Of which: with the EU</i>	<i>6,701.5</i>	<i>900.3</i>	<i>1,095.4</i>	<i>591.9</i>	<i>4,114.0</i>
<b>DEBITS</b>	<b>16,361.5</b>	<b>4,262.7</b>	<b>3,771.0</b>	<b>4,069.0</b>	<b>4,258.8</b>
<b>General government</b>	<b>9,018.4</b>	<b>2,655.0</b>	<b>2,008.7</b>	<b>2,199.6</b>	<b>2,155.1</b>
<i>Of which: with the EU</i>	<i>8,415.7</i>	<i>2,490.7</i>	<i>1,836.3</i>	<i>2,066.2</i>	<i>2,022.5</i>
<b>Other sectors</b>	<b>7,343.1</b>	<b>1,607.7</b>	<b>1,762.4</b>	<b>1,869.4</b>	<b>2,103.7</b>
Workers' remittances	4,188.5	927.0	1,005.1	1,077.2	1,179.2
Other transfers	3,154.6	680.7	757.2	792.2	924.5
<b>BALANCE</b>	<b>-117.1</b>	<b>-1,247.6</b>	<b>-220.9</b>	<b>-1,237.0</b>	<b>2,588.4</b>
<b>General government</b>	<b>-5,690.9</b>	<b>-1,951.7</b>	<b>-1,081.5</b>	<b>-1,671.8</b>	<b>-985.9</b>
<i>Of which: with the EU</i>	<i>-6,574.0</i>	<i>-2,098.8</i>	<i>-1,420.3</i>	<i>-1,813.6</i>	<i>-1,241.3</i>
<b>Other sectors</b>	<b>5,573.8</b>	<b>704.1</b>	<b>860.6</b>	<b>434.9</b>	<b>3,574.2</b>
Workers' remittances	-4.0	41.6	36.2	77.5	-159.4
Other transfers	5,577.8	662.5	824.4	357.4	3,733.6
<i>Of which: with the EU</i>	<i>6,701.5</i>	<i>900.3</i>	<i>1,095.4</i>	<i>591.9</i>	<i>4,114.0</i>

SOURCES: Banco de España and Dirección General del Tesoro y Política Financiera (Ministerio de Economía y Hacienda).



## CAPITAL ACCOUNT

TABLE 6.2.7

EUR m	2004	2004			
		Q1	Q2	Q3	Q4
<b>CREDITS</b>	<b>9,391.4</b>	<b>1,363.1</b>	<b>3,049.5</b>	<b>2,385.0</b>	<b>2,593.8</b>
<b>Capital transfers</b>	<b>9,109.9</b>	<b>1,335.4</b>	<b>3,038.3</b>	<b>2,164.4</b>	<b>2,571.6</b>
General government	8,030.6	1,055.7	2,777.0	1,927.2	2,270.7
<i>Of which: with the EU</i>	7,746.2	965.7	2,724.5	1,840.8	2,215.2
Other sectors	1,079.3	279.8	261.3	237.2	300.9
<b>Disposal of non-produced intangible assets</b>	<b>281.5</b>	<b>27.6</b>	<b>11.1</b>	<b>220.6</b>	<b>22.1</b>
<b>DEBITS</b>	<b>963.5</b>	<b>216.0</b>	<b>223.2</b>	<b>292.0</b>	<b>232.3</b>
<b>Capital transfers</b>	<b>542.9</b>	<b>140.3</b>	<b>126.9</b>	<b>154.8</b>	<b>121.0</b>
General government	107.3	40.1	19.9	31.2	16.0
<i>Of which: with the EU</i>					
Other sectors	435.7	100.2	106.9	123.6	105.0
<b>Acquisition of non-produced intangible assets</b>	<b>420.5</b>	<b>75.6</b>	<b>96.3</b>	<b>137.2</b>	<b>111.4</b>
<b>BALANCE</b>	<b>8,427.9</b>	<b>1,147.1</b>	<b>2,826.3</b>	<b>2,093.0</b>	<b>2,361.5</b>
<b>Capital transfers</b>	<b>8,566.9</b>	<b>1,195.1</b>	<b>2,911.5</b>	<b>2,009.7</b>	<b>2,450.7</b>
General government	7,923.3	1,015.5	2,757.1	1,896.0	2,254.7
<i>Of which: with the EU</i>	7,746.2	965.7	2,724.5	1,840.8	2,215.2
Other sectors	643.6	179.6	154.4	113.7	196.0
<b>Disposal/acquisition of non-produced intangible assets</b>	<b>-139.0</b>	<b>-48.0</b>	<b>-85.2</b>	<b>83.4</b>	<b>-89.2</b>

SOURCES: Banco de España and Dirección General del Tesoro y Política Financiera (Ministerio de Economía y Hacienda).

EUR m	2004	2004			
		Q1	Q2	Q3	Q4
<b>Spanish investment abroad (NCA)</b>	<b>123,199.1</b>	<b>26,242.1</b>	<b>42,198.0</b>	<b>9,342.5</b>	<b>45,416.5</b>
Direct investment	48,750.1	5,021.2	8,576.3	8,195.9	26,956.7
<i>Monetary financial institutions</i>	13,377.5	2,607.2	-324.7	-1,914.4	13,009.4
<i>Other resident sectors</i>	35,372.6	2,414.0	8,901.0	10,110.3	13,947.2
Portfolio investment (including Banco de España)	31,964.2	10,559.2	16,048.8	-2,657.8	8,014.0
<i>Banco de España</i>	5,018.2	3,678.0	264.3	98.0	977.9
<i>Other monetary financial institutions</i>	4,790.4	4,862.0	3,523.9	-4,675.9	1,080.4
<i>General government</i>	871.9	-3.0	2.8	295.9	576.2
<i>Other resident sectors</i>	21,283.6	2,022.3	12,257.8	1,624.1	5,379.4
Other investment (including Banco de España) (b)	42,484.8	10,661.7	17,572.9	3,804.4	10,445.8
<i>Banco de España</i>	14,065.7	4,776.6	4,813.7	-7,209.0	11,684.4
<i>Other monetary financial institutions</i>	17,151.2	4,904.4	10,615.0	8,662.1	-7,030.3
<i>General government</i>	1,588.9	-2,278.4	-112.9	-187.0	4,167.3
<i>Other resident sectors</i>	9,679.0	3,259.2	2,257.1	2,538.3	1,624.4
<b>Foreign investment in Spain (NCL)</b>	<b>152,829.0</b>	<b>31,825.7</b>	<b>48,454.2</b>	<b>18,253.6</b>	<b>54,295.5</b>
Direct investment	19,941.4	-1,026.5	9,335.1	3,021.5	8,611.3
<i>Monetary financial institutions</i>	-1,121.0	-928.2	-441.1	78.1	170.2
<i>Other resident sectors</i>	21,062.3	-98.3	9,776.2	2,943.3	8,441.1
Portfolio investment	112,753.9	30,504.4	14,719.2	21,722.7	45,807.7
<i>Monetary financial institutions</i>	49,710.1	14,266.7	6,350.8	4,910.4	24,182.2
<i>General government</i>	22,679.0	10,976.7	5,017.7	3,053.7	3,630.8
<i>Other resident sectors</i>	40,364.9	5,260.9	3,350.7	13,758.6	17,994.6
Other investment (including Banco de España) (b)	20,133.6	2,347.8	24,399.8	-6,490.5	-123.5
<i>Banco de España</i>	-73.0	-30.0	-60.7	0.4	17.3
<i>Other monetary financial institutions</i>	14,947.7	-453.5	26,453.3	-9,804.1	-1,248.1
<i>General government</i>	5,025.2	528.9	185.5	1,412.8	2,898.0
<i>Other resident sectors</i>	233.8	2,302.4	-2,178.2	1,900.3	-1,790.7
<b>Financial derivatives (NCL-NCA)</b>	<b>74.1</b>	<b>104.5</b>	<b>110.9</b>	<b>64.9</b>	<b>-206.1</b>
<i>Monetary financial institutions</i>	-87.2	56.4	122.5	-674.6	408.5
<i>General government</i>	-701.8	-39.7	-132.0	0.6	-530.6
<i>Other resident sectors</i>	863.1	87.7	120.4	738.8	-83.9
<b>Reserves</b>	<b>5,147.0</b>	<b>3,634.1</b>	<b>795.9</b>	<b>316.4</b>	<b>400.6</b>

SOURCE: Banco de España.

- a. Changes in assets and liabilities are both net of repayments.  
b. Mainly loans, repo operations and deposits.

ACCOUNTING CONVENTION:

**NCA:** a positive (negative) sign denotes an increase (decrease) in assets; it is thus a capital outflow (inflow).

**NCL:** a positive (negative) sign denotes an increase (decrease) in liabilities; it is thus a capital inflow (outflow).

**NCL-NCA:** a positive (negative) sign denotes a capital inflow (outflow).

Reserves: a positive (negative) sign denotes a decrease (increase) in the reserves.

EUR m	2004	2004			
		Q1	Q2	Q3	Q4
<b>GENERAL GOVERNMENT (NCL-NCA)</b>	<b>24,541.5</b>	<b>13,747.4</b>	<b>5,181.3</b>	<b>4,358.2</b>	<b>1,254.7</b>
<b>Portfolio investment (NCL-NCA)</b>	<b>21,807.0</b>	<b>10,979.8</b>	<b>5,014.9</b>	<b>2,757.7</b>	<b>3,054.6</b>
<b>Spanish investment abroad (NCA)</b>	<b>871.9</b>	<b>-3.0</b>	<b>2.8</b>	<b>295.9</b>	<b>576.2</b>
Bonds and notes	871.9	-2.9	2.8	295.9	576.1
<b>Foreign investment in Spain (NCL)</b>	<b>22,679.0</b>	<b>10,976.7</b>	<b>5,017.7</b>	<b>3,053.7</b>	<b>3,630.8</b>
Bonds and notes	23,421.0	11,665.1	5,082.4	2,928.7	3,744.7
Money market instruments	-742.0	-688.4	-64.7	125.0	-113.9
<b>Other investment (NCL-NCA) (b)</b>	<b>3,436.3</b>	<b>2,807.3</b>	<b>298.4</b>	<b>1,599.8</b>	<b>-1,269.3</b>
<b>Spanish investment abroad (NCA)</b>	<b>1,588.9</b>	<b>-2,278.4</b>	<b>-112.9</b>	<b>-187.0</b>	<b>4,167.3</b>
Long-term loans and deposits	804.3	187.2	92.4	174.3	350.3
Short-term loans and deposits	784.7	-2,465.7	-205.3	-361.3	3,817.0
<b>Foreign investment in Spain (NCL)</b>	<b>5,025.2</b>	<b>528.9</b>	<b>185.5</b>	<b>1,412.8</b>	<b>2,898.0</b>
Long-term loans	4,294.0	374.9	92.9	239.0	3,587.1
Short-term loans	731.2	153.9	92.6	1,173.8	-689.1
<b>Financial derivatives (NCL-NCA)</b>	<b>-701.8</b>	<b>-39.7</b>	<b>-132.0</b>	<b>0.6</b>	<b>-530.6</b>
<b>OTHER RESIDENT SECTORS (NCL-NCA)</b>	<b>-3,811.1</b>	<b>-142.7</b>	<b>-12,346.8</b>	<b>5,068.4</b>	<b>3,610.1</b>
<b>Direct investment (NCL-NCA)</b>	<b>-14,310.3</b>	<b>-2,512.3</b>	<b>875.2</b>	<b>-7,167.0</b>	<b>-5,506.1</b>
<b>Spanish investment abroad (NCA)</b>	<b>35,372.6</b>	<b>2,414.0</b>	<b>8,901.0</b>	<b>10,110.3</b>	<b>13,947.2</b>
Shares	14,998.1	-1,409.6	3,641.7	5,668.2	7,097.8
Other equity	14,156.9	1,177.4	4,097.2	1,570.1	7,312.3
Reinvested earnings	1,336.3	334.1	334.1	334.1	334.1
Intercompany debt transactions	4,100.4	2,141.5	630.7	2,376.3	-1,048.1
Real estate	780.9	170.6	197.4	161.7	251.2
<b>Foreign investment in Spain (NCL)</b>	<b>21,062.3</b>	<b>-98.3</b>	<b>9,776.2</b>	<b>2,943.3</b>	<b>8,441.1</b>
Unlisted shares	-3,134.8	-1,196.0	593.3	-216.6	-2,315.6
Other equity	10,536.5	-352.0	3,565.8	1,561.0	5,761.7
Reinvested earnings	1,439.0	359.7	359.7	359.7	359.7
Intercompany debt transactions	5,571.8	-421.7	3,326.1	-431.9	3,099.3
Real estate	6,649.8	1,511.5	1,931.2	1,671.1	1,535.9
<b>Portfolio investment (NCL-NCA)</b>	<b>19,081.2</b>	<b>3,238.6</b>	<b>-8,907.1</b>	<b>12,134.5</b>	<b>12,615.2</b>
<b>Spanish investment abroad (NCA)</b>	<b>21,283.6</b>	<b>2,022.3</b>	<b>12,257.8</b>	<b>1,624.1</b>	<b>5,379.4</b>
Listed shares and mutual funds	10,046.2	4,473.7	5,508.8	-2,179.6	2,243.3
Bonds and notes	13,030.0	-1,477.2	6,284.0	3,264.5	4,958.7
Money market instruments	-1,792.6	-974.2	465.0	539.1	-1,822.5
<b>Foreign investment in Spain (NCL)</b>	<b>40,364.9</b>	<b>5,260.9</b>	<b>3,350.7</b>	<b>13,758.6</b>	<b>17,994.6</b>
Listed shares	-2,039.3	118.1	-6,296.4	4,843.9	-704.9
Bonds and notes	41,269.0	5,065.8	9,642.8	8,080.6	18,479.8
Money market instruments	1,135.2	77.0	4.3	834.1	219.8
<b>Other investment (NCL-NCA) (b)</b>	<b>-9,445.2</b>	<b>-956.8</b>	<b>-4,435.3</b>	<b>-638.0</b>	<b>-3,415.1</b>
<b>Spanish investment abroad (NCA)</b>	<b>9,679.0</b>	<b>3,259.2</b>	<b>2,257.1</b>	<b>2,538.3</b>	<b>1,624.4</b>
Long-term loans and deposits	534.4	-80.4	216.0	102.3	296.5
Short-term loans and deposits	9,144.6	3,339.5	2,041.1	2,436.0	1,327.9
<b>Foreign investment in Spain (NCL)</b>	<b>233.8</b>	<b>2,302.4</b>	<b>-2,178.2</b>	<b>1,900.3</b>	<b>-1,790.7</b>
Long-term loans	-796.4	1,361.7	-399.6	1,100.9	-2,859.3
Short-term loans	1,030.2	940.7	-1,778.6	799.4	1,068.6
<b>Financial derivatives (NCL-NCA)</b>	<b>863.1</b>	<b>87.7</b>	<b>120.4</b>	<b>738.8</b>	<b>-83.9</b>

SOURCE: Banco de España.

a. Changes in assets and liabilities are both net of repayments.

b. Mainly loans, repo operations and deposits.

ACCOUNTING CONVENTION:

NCA: a positive (negative) sign denotes an increase (decrease) in assets; it is thus a capital outflow (inflow).

NCL: a positive (negative) sign denotes an increase (decrease) in liabilities; it is thus a capital inflow (outflow).

NCL-NCA: a positive (negative) sign denotes a capital inflow (outflow).

EUR m	2004	2004			
		Q1	Q2	Q3	Q4
<b>MONETARY FINANCIAL INSTITUTIONS, EXCLUDING BANCO DE ESPAÑA (NCL-NCA)</b>	<b>28,130.5</b>	<b>568.0</b>	<b>18,671.3</b>	<b>-7,561.9</b>	<b>16,453.2</b>
<b>Direct investment (NCL-NCA)</b>	<b>-14,498.5</b>	<b>-3,535.3</b>	<b>-116.4</b>	<b>1,992.5</b>	<b>-12,839.3</b>
<b>Spanish investment abroad (NCA)</b>	<b>13,377.5</b>	<b>2,607.2</b>	<b>-324.7</b>	<b>-1,914.4</b>	<b>13,009.4</b>
Shares	12,543.6	2,455.8	-551.0	-2,049.4	12,688.2
Other equity	227.3	6.9	83.9	-9.6	146.1
Reinvested earnings	575.6	143.9	143.9	143.9	143.9
Real estate	31.0	0.6	-1.5	0.7	31.2
<b>Foreign investment in Spain (NCL)</b>	<b>-1,121.0</b>	<b>-928.2</b>	<b>-441.1</b>	<b>78.1</b>	<b>170.2</b>
Unlisted shares	-1,394.0	-956.2	-463.5	33.3	-7.5
Other equity	204.9	11.0	5.4	27.8	160.7
Reinvested earnings	68.1	17.0	17.0	17.0	17.0
<b>Portfolio investment (NCL-NCA)</b>	<b>44,919.7</b>	<b>9,404.7</b>	<b>2,826.8</b>	<b>9,586.3</b>	<b>23,101.8</b>
<b>Spanish investment abroad (NCA)</b>	<b>4,790.4</b>	<b>4,862.0</b>	<b>3,523.9</b>	<b>-4,675.9</b>	<b>1,080.4</b>
Listed shares and mutual funds	2,090.4	901.8	915.7	-170.9	443.9
Bonds and notes	1,988.7	1,548.1	1,965.1	-3,278.2	1,753.8
Money market instruments	711.3	2,412.1	643.2	-1,226.8	-1,117.2
<b>Foreign investment in Spain (NCL)</b>	<b>49,710.1</b>	<b>14,266.7</b>	<b>6,350.8</b>	<b>4,910.4</b>	<b>24,182.2</b>
Listed shares	10,098.3	1,344.9	-1,973.6	-2,192.9	12,919.9
Bonds and notes	39,566.1	12,930.1	8,330.8	6,990.3	11,314.9
Money market instruments	45.8	-8.3	-6.4	112.9	-52.6
<b>Other investment (NCL-NCA) (b)</b>	<b>-2,203.5</b>	<b>-5,357.9</b>	<b>15,838.3</b>	<b>-18,466.2</b>	<b>5,782.2</b>
<b>Spanish investment abroad (NCA)</b>	<b>17,151.2</b>	<b>4,904.4</b>	<b>10,615.0</b>	<b>8,662.1</b>	<b>-7,030.3</b>
Long-term	3,589.6	1,499.4	1,205.6	618.0	266.5
Short-term	13,561.6	3,405.0	9,409.4	8,044.0	-7,296.8
Loans	868.0	-414.9	964.6	397.8	-79.4
Repurchase agreements	-54.8	4,658.6	-3,783.2	3,366.3	-4,296.5
Deposits	12,748.4	-838.6	12,228.1	4,279.9	-2,921.0
<b>Foreign investment in Spain (NCL)</b>	<b>14,947.7</b>	<b>-453.5</b>	<b>26,453.3</b>	<b>-9,804.1</b>	<b>-1,248.1</b>
Long-term	-12,457.7	-3,431.3	-3,595.8	-3,495.8	-1,934.7
Short-term	27,405.4	2,977.9	30,049.2	-6,308.3	686.6
Repurchase agreements	-7,014.2	-7,679.4	10,657.3	-8,135.6	-1,856.5
Deposits	34,419.5	10,657.3	19,391.9	1,827.3	2,543.1
<b>Financial derivatives (NCL-NCA)</b>	<b>-87.2</b>	<b>56.4</b>	<b>122.5</b>	<b>-674.6</b>	<b>408.5</b>
<b>BANCO DE ESPAÑA (NCL-NCA)</b>	<b>-14,009.9</b>	<b>-4,850.5</b>	<b>-4,342.8</b>	<b>7,427.8</b>	<b>-12,244.5</b>
<b>Portfolio investment (NCL-NCA)</b>	<b>-5,018.2</b>	<b>-3,678.0</b>	<b>-264.3</b>	<b>-98.0</b>	<b>-977.9</b>
<b>Other investment (NCL-NCA)</b>	<b>-14,138.7</b>	<b>-4,806.6</b>	<b>-4,874.4</b>	<b>7,209.4</b>	<b>-11,667.1</b>
<b>Spanish investment abroad (NCA)</b>	<b>14,065.7</b>	<b>4,776.6</b>	<b>4,813.7</b>	<b>-7,209.0</b>	<b>11,684.4</b>
<b>Foreign investment in Spain (NCL)</b>	<b>-73.0</b>	<b>-30.0</b>	<b>-60.7</b>	<b>0.4</b>	<b>17.3</b>
<b>Reserves</b>	<b>5,147.0</b>	<b>3,634.1</b>	<b>795.9</b>	<b>316.4</b>	<b>400.6</b>

SOURCE: Banco de España.

- a. Changes in assets and liabilities are both net of repayments.  
b. Mainly loans, repo operations and deposits.

ACCOUNTING CONVENTION:

NCA: a positive (negative) sign denotes an increase (decrease) in assets; it is thus a capital outflow (inflow).

NCL: a positive (negative) sign denotes an increase (decrease) in liabilities; it is thus a capital inflow (outflow).

NCL-NCA: a positive (negative) sign denotes a capital inflow (outflow).

Reserves: a positive (negative) sign denotes a decrease (increase) in the reserves.

EUR m	2004	2004			
		Q1	Q2	Q3	Q4
<b>Direct investment</b>					
Spanish investment abroad (NCA)	48,750.1	5,021.2	8,576.3	8,195.9	26,956.7
<i>Of which: ETVE (a)</i>	<i>4,643.3</i>	<i>-457.4</i>	<i>3,407.1</i>	<i>581.7</i>	<i>1,111.9</i>
Foreign investment in Spain (NCL)	19,941.4	-1,026.5	9,335.1	3,021.5	8,611.3
<i>Of which: ETVE (a)</i>	<i>2,476.5</i>	<i>-749.0</i>	<i>2,947.3</i>	<i>-252.2</i>	<i>530.3</i>

SOURCE: Banco de España.

a. Estimate based on the CNAE classification. It includes the transactions of ETVE companies and of other holding companies which are not strictly ETVE, but which, like them, have been established in Spain for the main purpose of channelling direct investment flows.

**BALANCE OF PAYMENTS IN 2004**  
Breakdown by selected economic area (a)

TABLE 6.2.11

EUR m	WORLD TOTAL			EUROPE			EUROPEAN UNION		
	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET
<b>CURRENT ACCOUNT</b>	<b>261,865.9</b>	<b>306,029.6</b>	<b>-44,163.7</b>	<b>212,608.7</b>	<b>222,989.0</b>	<b>-10,380.3</b>	<b>196,934.8</b>	<b>205,271.4</b>	<b>-8,336.5</b>
<b>Goods</b>	<b>148,967.1</b>	<b>202,627.3</b>	<b>-53,660.2</b>	<b>119,499.0</b>	<b>145,196.2</b>	<b>-25,697.2</b>	<b>110,791.4</b>	<b>133,541.6</b>	<b>-22,750.1</b>
<b>Services</b>	<b>69,355.2</b>	<b>47,602.1</b>	<b>21,753.0</b>	<b>58,134.9</b>	<b>34,756.0</b>	<b>23,378.9</b>	<b>52,783.0</b>	<b>30,323.4</b>	<b>22,459.6</b>
Travel	36,376.3	9,772.1	26,604.2	32,569.9	6,864.2	25,705.7	30,743.8	5,992.9	24,750.9
Other services	32,978.9	37,830.1	-4,851.2	25,565.0	27,891.8	-2,326.8	22,039.2	24,330.5	-2,291.3
Labour income	930.4	1,078.6	-148.2	640.4	562.1	78.3	540.7	482.3	58.3
Investment income	26,368.8	38,360.1	-11,991.3	20,541.0	31,269.6	-10,728.5	19,800.5	30,317.0	-10,516.5
<i>Monetary financial institutions</i>	<i>9,884.7</i>	<i>12,579.5</i>	<i>-2,694.8</i>	<i>7,649.9</i>	<i>9,746.2</i>	<i>-2,096.3</i>	<i>7,461.4</i>	<i>9,417.5</i>	<i>-1,956.1</i>
<i>General government</i>	<i>67.7</i>	<i>8,401.1</i>	<i>-8,333.4</i>	<i>11.0</i>	<i>7,886.1</i>	<i>-7,875.1</i>	<i>10.3</i>	<i>7,880.9</i>	<i>-7,870.6</i>
<i>Other resident sectors</i>	<i>16,416.3</i>	<i>17,379.5</i>	<i>-963.1</i>	<i>12,880.2</i>	<i>13,637.3</i>	<i>-757.1</i>	<i>12,328.8</i>	<i>13,018.6</i>	<i>-689.8</i>
<b>Current transfers</b>	<b>16,244.5</b>	<b>16,361.5</b>	<b>-117.1</b>	<b>13,793.2</b>	<b>11,205.1</b>	<b>2,588.1</b>	<b>13,019.3</b>	<b>10,607.1</b>	<b>2,412.2</b>
<b>CAPITAL ACCOUNT</b>	<b>9,391.4</b>	<b>963.5</b>	<b>8,427.9</b>	<b>8,701.6</b>	<b>643.4</b>	<b>8,058.3</b>	<b>8,484.4</b>	<b>569.6</b>	<b>7,914.8</b>
	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)
<b>FINANCIAL ACCOUNT (excluding Banco de España) (b)</b>	...	...	...	...	...	...	...	...	...
<b>Monetary financial institutions</b>	<b>63,536.9</b>	<b>35,319.2</b>	<b>28,217.7</b>	<b>80,327.0</b>	<b>29,682.2</b>	<b>50,644.8</b>	<b>79,956.9</b>	<b>27,341.1</b>	<b>52,615.8</b>
Direct investment (c)	-1,121.0	13,377.5	-14,498.5	-404.3	9,241.2	-9,645.6	-413.0	8,712.3	-9,125.3
Portfolio investment	49,710.1	4,790.4	44,919.7	49,068.2	2,492.0	46,576.2	49,051.7	2,066.9	46,984.8
Other investment	14,947.7	17,151.2	-2,203.5	31,663.2	17,949.0	13,714.2	31,318.2	16,562.0	14,756.3
<b>General government</b>	<b>27,704.1</b>	<b>2,460.8</b>	<b>25,243.3</b>	<b>29,992.2</b>	<b>1,910.2</b>	<b>28,082.0</b>	<b>29,954.2</b>	<b>1,864.9</b>	<b>28,089.3</b>
Portfolio investment	22,679.0	871.9	21,807.0	24,916.6	880.3	24,036.3	24,878.6	880.0	23,998.5
Other investment	5,025.2	1,588.9	3,436.3	5,075.6	1,030.0	4,045.7	5,075.6	984.8	4,090.8
<b>Other resident sectors</b>	<b>61,661.0</b>	<b>66,335.2</b>	<b>-4,674.2</b>	<b>59,547.4</b>	<b>61,001.4</b>	<b>-1,454.0</b>	<b>57,713.8</b>	<b>59,486.7</b>	<b>-1,772.9</b>
Direct investment (c)	21,062.3	35,372.6	-14,310.3	19,611.6	30,091.6	-10,480.0	18,204.5	28,405.1	-10,200.7
Portfolio investment	40,364.9	21,283.6	19,081.2	40,127.2	21,933.3	18,193.9	40,038.2	22,131.8	17,906.4
Other investment	233.8	9,679.0	-9,445.2	-191.4	8,976.5	-9,168.0	-528.9	8,949.8	-9,478.6

SOURCE: Banco de España.

a. The difference between the world total amounts and the sum of the geographical areas corresponds to geographically unallocated information, which in no case represents large amounts, and to amounts corresponding to international organisations other than the European Union.

b. Derivatives not included.

c. In the case of direct investment, the change in assets corresponds to Spain's investment abroad, which includes, among other transactions, loans received by Spanish parent companies from their non-resident subsidiaries, which reduce such investment. Likewise, the change in liabilities corresponds to foreign investment in Spain, which includes loans granted by Spanish subsidiary companies to their non-resident parents (see Chapter V).

NOTE:

EUROPEAN UNION: International institutions of the European Union, European Central Bank, France, Belgium, Netherlands, Germany, Italy, United Kingdom, Ireland, Denmark, Greece, Portugal, Luxembourg, Austria, Finland, Sweden, Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovenia, Slovakia and their dependencies.

**BALANCE OF PAYMENTS IN 2004** (cont'd)  
**Breakdown by selected economic area (a)**

TABLE 6.2.11

EUR m	EURO AREA			UNITED KINGDOM			SWEDEN		
	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET
	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)
<b>CURRENT ACCOUNT</b>	<b>139,921.5</b>	<b>155,727.7</b>	<b>-15,806.3</b>	<b>38,543.4</b>	<b>29,550.7</b>	<b>8,992.7</b>	<b>2,702.2</b>	<b>3,273.7</b>	<b>-571.5</b>
<b>Goods</b>	<b>89,818.9</b>	<b>111,933.2</b>	<b>-22,114.2</b>	<b>13,967.4</b>	<b>12,702.5</b>	<b>1,264.9</b>	<b>1,531.0</b>	<b>2,683.1</b>	<b>-1,152.1</b>
<b>Services</b>	<b>30,186.6</b>	<b>20,689.9</b>	<b>9,496.7</b>	<b>20,354.7</b>	<b>8,176.1</b>	<b>12,178.6</b>	<b>1,018.3</b>	<b>482.4</b>	<b>535.9</b>
Travel	15,672.3	3,762.6	11,909.7	13,957.9	1,928.0	12,029.9	700.1	73.1	626.9
Other services	14,514.3	16,927.3	-2,413.0	6,396.8	6,248.1	148.8	318.2	409.2	-91.1
Labour income	374.4	381.2	-6.8	153.9	75.4	78.5	3.2	4.7	-1.4
Investment income	16,628.6	21,045.6	-4,417.1	2,628.8	8,150.5	-5,521.8	105.8	78.2	27.6
Monetary financial institutions	6,040.6	5,710.1	330.5	1,256.3	3,392.1	-2,135.8	32.0	11.0	20.9
General government	10.0	5,512.9	-5,503.0	0.0	2,141.0	-2,141.0	0.0	0.0	0.0
Other resident sectors	10,578.0	9,822.6	755.4	1,372.4	2,617.4	-1,245.0	73.9	67.2	6.6
<b>Current transfers</b>	<b>2,912.9</b>	<b>1,677.8</b>	<b>1,235.1</b>	<b>1,438.6</b>	<b>446.2</b>	<b>992.4</b>	<b>43.9</b>	<b>25.3</b>	<b>18.6</b>
<b>CAPITAL ACCOUNT</b>	<b>466.9</b>	<b>416.2</b>	<b>50.7</b>	<b>242.3</b>	<b>115.5</b>	<b>126.8</b>	<b>5.4</b>	<b>32.1</b>	<b>-26.8</b>
<b>FINANCIAL ACCOUNT</b> <b>(excluding Banco de España) (b)</b>	...	...	...	...	...	...	...	...	...
<b>Monetary financial institutions</b>	<b>43,000.1</b>	<b>2,410.0</b>	<b>40,590.1</b>	<b>34,821.7</b>	<b>23,616.1</b>	<b>11,205.5</b>	<b>-9.4</b>	<b>651.4</b>	<b>-660.7</b>
Direct investment (c)	-501.6	-3,921.6	3,420.0	84.0	12,591.7	-12,507.6	4.0	0.1	3.9
Portfolio investment	29,461.1	-5,619.0	35,080.1	19,620.8	7,197.3	12,423.5	4.3	194.7	-190.4
Other investment	14,040.6	11,950.7	2,089.9	15,116.8	3,827.1	11,289.7	-17.7	456.5	-474.3
<b>General government</b>	<b>15,723.4</b>	<b>1,281.1</b>	<b>14,442.3</b>	<b>12,201.0</b>	<b>-0.2</b>	<b>12,201.2</b>	<b>-11.0</b>	<b>0.0</b>	<b>-11.0</b>
Portfolio investment	12,125.5	880.3	11,245.1	12,332.5	-0.3	12,332.8	-11.0	0.0	-11.0
Other investment	3,597.9	400.8	3,197.2	-131.5	0.0	-131.5	0.0	0.0	0.0
<b>Other resident sectors</b>	<b>32,586.8</b>	<b>49,928.4</b>	<b>-17,341.7</b>	<b>23,060.6</b>	<b>6,343.4</b>	<b>16,717.2</b>	<b>1,186.1</b>	<b>580.4</b>	<b>605.7</b>
Direct investment (c)	12,006.3	21,222.5	-9,216.2	4,837.9	4,585.6	252.3	1,155.1	471.1	684.0
Portfolio investment	20,450.3	20,492.0	-41.8	19,107.4	1,059.4	18,048.0	21.1	107.7	-86.6
Other investment	130.2	8,213.9	-8,083.7	-884.7	698.4	-1,583.1	9.9	1.7	8.3

SOURCE: Banco de España.

a. The difference between the world total amounts and the sum of the geographical areas corresponds to geographically unallocated information, which in no case represents large amounts, and to amounts corresponding to international organisations other than the European Union.

b. Derivatives not included.

c. In the case of direct investment, the change in assets corresponds to Spain's investment abroad, which includes, among other transactions, loans received by Spanish parent companies from their non-resident subsidiaries, which reduce such investment. Likewise, the change in liabilities corresponds to foreign investment in Spain, which includes loans granted by Spanish subsidiary companies to their non-resident parents (see Chapter V).

NOTE:

EURO AREA: France, Belgium, Luxembourg, Netherlands, Germany, Italy, Ireland, Portugal, Austria, Finland, Greece and European Central Bank.

**BALANCE OF PAYMENTS IN 2004** (cont'd)  
**Breakdown by selected economic area (a)**

TABLE 6.2.11

EUR m	DENMARK			NEW MEMBERS			EUROPEAN INSTITUTIONS		
	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET
<b>CURRENT ACCOUNT</b>	<b>1,665.6</b>	<b>1,906.3</b>	<b>-240.7</b>	<b>5,089.0</b>	<b>5,431.7</b>	<b>-342.8</b>	<b>9,013.2</b>	<b>9,372.3</b>	<b>-359.1</b>
<b>Goods</b>	<b>1,059.2</b>	<b>1,516.1</b>	<b>-456.9</b>	<b>4,415.0</b>	<b>4,706.7</b>	<b>-291.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Services</b>	<b>471.8</b>	<b>292.3</b>	<b>179.5</b>	<b>401.5</b>	<b>653.3</b>	<b>-251.8</b>	<b>350.1</b>	<b>20.4</b>	<b>329.6</b>
Travel	289.2	81.6	207.6	122.2	147.4	-25.3	2.1	0.0	2.1
Other services	182.6	210.7	-28.1	279.4	505.9	-226.5	347.9	20.4	327.5
Labour income	5.8	5.2	0.6	3.2	13.8	-10.6	0.1	2.1	-2.0
Investment income	99.9	80.2	19.7	225.6	43.3	182.3	111.8	919.2	-807.3
Monetary financial institutions	36.0	7.7	28.4	26.7	37.7	-11.0	69.8	258.8	-189.0
General government	0.0	0.1	-0.1	0.3	0.0	0.3	0.0	226.9	-226.9
Other resident sectors	63.8	72.4	-8.6	198.6	5.5	193.1	42.1	433.5	-391.4
<b>Current transfers</b>	<b>28.9</b>	<b>12.5</b>	<b>16.4</b>	<b>43.7</b>	<b>14.6</b>	<b>29.1</b>	<b>8,551.2</b>	<b>8,430.6</b>	<b>120.6</b>
<b>CAPITAL ACCOUNT</b>	<b>4.5</b>	<b>3.4</b>	<b>1.2</b>	<b>6.6</b>	<b>2.4</b>	<b>4.2</b>	<b>7,758.7</b>	<b>0.0</b>	<b>7,758.7</b>
	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)
<b>FINANCIAL ACCOUNT</b> <b>(excluding Banco de España) (b)</b>	...	...	...	...	...	...	...	...	...
<b>Monetary financial institutions</b>	<b>-104.7</b>	<b>46.0</b>	<b>-150.8</b>	<b>778.5</b>	<b>575.6</b>	<b>203.0</b>	<b>1,470.7</b>	<b>42.1</b>	<b>1,428.7</b>
Direct investment (c)	0.5	0.1	0.4	0.0	42.1	-42.0	0.0	0.0	0.0
Portfolio investment	-34.2	298.0	-332.1	-0.4	5.4	-5.8	0.0	-9.4	9.4
Other investment	-71.1	-252.0	180.9	778.9	528.1	250.8	1,470.7	51.5	1,419.2
<b>General government</b>	<b>431.5</b>	<b>0.0</b>	<b>431.5</b>	<b>-0.1</b>	<b>-4.4</b>	<b>4.3</b>	<b>1,609.3</b>	<b>588.4</b>	<b>1,020.9</b>
Portfolio investment	431.5	0.0	431.5	0.0	0.0	0.0	0.0	-0.1	0.1
Other investment	0.0	0.0	0.0	-0.1	-4.4	4.3	1,609.3	588.4	1,020.9
<b>Other resident sectors</b>	<b>136.9</b>	<b>446.7</b>	<b>-309.7</b>	<b>64.8</b>	<b>2,122.6</b>	<b>-2,057.8</b>	<b>678.6</b>	<b>37.2</b>	<b>641.4</b>
Direct investment (c)	151.4	339.7	-188.3	53.7	1,785.3	-1,731.6	0.0	0.0	0.0
Portfolio investment	-14.9	103.6	-118.5	2.4	305.0	-302.6	472.0	37.0	435.0
Other investment	0.5	3.4	-2.9	8.7	32.2	-23.6	206.5	0.1	206.4

SOURCE: Banco de España.

a. The difference between the world total amounts and the sum of the geographical areas corresponds to geographically unallocated information, which in no case represents large amounts, and to amounts corresponding to international organisations other than the European Union.

b. Derivatives not included.

c. In the case of direct investment, the change in assets corresponds to Spain's investment abroad, which includes, among other transactions, loans received by Spanish parent companies from their non-resident subsidiaries, which reduce such investment. Likewise, the change in liabilities corresponds to foreign investment in Spain, which includes loans granted by Spanish subsidiary companies to their non-resident parents (see Chapter V).

NOTE:

NEW MEMBERS: Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovenia and Slovakia.



**BALANCE OF PAYMENTS IN 2004** (cont'd)  
**Breakdown by selected economic area (a)**

TABLE 6.2.11

EUR m									
	REST OF EUROPE			SWITZERLAND			NORTH AMERICA		
	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET
<b>CURRENT ACCOUNT</b>	<b>15,673.9</b>	<b>17,717.6</b>	<b>-2,043.8</b>	<b>6,239.8</b>	<b>6,631.5</b>	<b>-391.7</b>	<b>15,465.9</b>	<b>18,743.9</b>	<b>-3,278.0</b>
<b>Goods</b>	<b>8,707.6</b>	<b>11,654.6</b>	<b>-2,947.1</b>	<b>1,679.0</b>	<b>2,904.7</b>	<b>-1,225.7</b>	<b>7,009.3</b>	<b>7,944.5</b>	<b>-935.2</b>
<b>Services</b>	<b>5,351.9</b>	<b>4,432.6</b>	<b>919.3</b>	<b>3,402.4</b>	<b>2,740.9</b>	<b>661.5</b>	<b>5,622.9</b>	<b>5,679.9</b>	<b>-56.9</b>
Travel	1,826.1	871.3	954.8	724.6	152.8	571.8	2,600.7	1,670.7	930.0
Other services	3,525.8	3,561.3	-35.5	2,677.8	2,588.1	89.7	3,022.2	4,009.1	-987.0
Labour income	99.7	79.8	20.0	73.4	48.1	25.3	127.5	152.3	-24.8
Investment income	740.5	952.6	-212.0	477.8	776.9	-299.1	1,368.4	4,637.1	-3,268.6
Monetary financial institutions	188.5	328.7	-140.2	69.8	207.8	-138.1	656.7	654.3	2.4
General government	0.7	5.2	-4.5	0.0	3.2	-3.2	1.9	448.0	-446.2
Other resident sectors	551.4	618.7	-67.3	408.1	565.9	-157.8	709.8	3,534.7	-2,824.9
<b>Current transfers</b>	<b>773.9</b>	<b>598.0</b>	<b>175.9</b>	<b>607.2</b>	<b>160.9</b>	<b>446.3</b>	<b>1,337.7</b>	<b>330.1</b>	<b>1,007.6</b>
<b>CAPITAL ACCOUNT</b>	<b>217.2</b>	<b>73.8</b>	<b>143.5</b>	<b>125.0</b>	<b>46.7</b>	<b>78.3</b>	<b>275.9</b>	<b>69.0</b>	<b>206.9</b>
	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)
<b>FINANCIAL ACCOUNT (excluding Banco de España) (b)</b>	...	...	...	...	...	...	...	...	...
<b>Monetary financial institutions</b>	<b>370.1</b>	<b>2,341.1</b>	<b>-1,971.0</b>	<b>67.4</b>	<b>-6.6</b>	<b>74.0</b>	<b>4,963.5</b>	<b>2,609.4</b>	<b>2,354.1</b>
Direct investment (c)	8.7	528.9	-520.3	8.8	27.0	-18.2	15.3	-33.0	48.3
Portfolio investment	16.5	425.1	-408.6	18.3	46.6	-28.3	565.7	2,743.6	-2,177.9
Other investment	345.0	1,387.0	-1,042.1	40.3	-80.2	120.5	4,382.5	-101.2	4,483.7
<b>General government</b>	<b>38.0</b>	<b>45.3</b>	<b>-7.3</b>	<b>39.2</b>	<b>0.5</b>	<b>38.7</b>	<b>-279.9</b>	<b>2.8</b>	<b>-282.7</b>
Portfolio investment	38.0	0.3	37.8	39.2	0.0	39.2	-260.0	1.1	-261.1
Other investment	0.0	45.2	-45.1	0.0	0.5	-0.5	-19.9	1.7	-21.6
<b>Other resident sectors</b>	<b>1,833.6</b>	<b>1,514.7</b>	<b>318.9</b>	<b>1,438.3</b>	<b>1,182.4</b>	<b>255.9</b>	<b>1,270.3</b>	<b>1,030.4</b>	<b>239.9</b>
Direct investment (c)	1,407.1	1,686.5	-279.3	1,100.6	1,489.0	-388.4	225.0	-846.4	1,071.4
Portfolio investment	89.0	-198.5	287.5	33.7	-323.5	357.2	591.1	1,489.3	-898.2
Other investment	337.5	26.7	310.6	304.1	16.9	287.1	454.3	387.5	66.7

SOURCE: Banco de España.

a. The difference between the world total amounts and the sum of the geographical areas corresponds to geographically unallocated information, which in no case represents large amounts, and to amounts corresponding to international organisations other than the European Union.

b. Derivatives not included.

c. In the case of direct investment, the change in assets corresponds to Spain's investment abroad, which includes, among other transactions, loans received by Spanish parent companies from their non-resident subsidiaries, which reduce such investment. Likewise, the change in liabilities corresponds to foreign investment in Spain, which includes loans granted by Spanish subsidiary companies to their non-resident parents (see Chapter V).

NOTE:

REST OF EUROPE: Countries not included in the European Union.

**BALANCE OF PAYMENTS IN 2004** (cont'd)  
**Breakdown by selected economic area (a)**

TABLE 6.2.11

EUR m	UNITED STATES			CANADA			CENTRAL AND SOUTH AMERICA		
	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET
<b>CURRENT ACCOUNT</b>	<b>14,270.7</b>	<b>17,361.3</b>	<b>-3,090.6</b>	<b>1,195.0</b>	<b>1,366.7</b>	<b>-171.7</b>	<b>14,501.4</b>	<b>16,073.9</b>	<b>-1,572.6</b>
<b>Goods</b>	<b>6,336.2</b>	<b>7,073.4</b>	<b>-737.2</b>	<b>673.1</b>	<b>856.4</b>	<b>-183.3</b>	<b>7,264.1</b>	<b>7,863.7</b>	<b>-599.6</b>
<b>Services</b>	<b>5,208.9</b>	<b>5,217.8</b>	<b>-8.9</b>	<b>413.9</b>	<b>460.9</b>	<b>-47.0</b>	<b>2,765.2</b>	<b>2,528.0</b>	<b>237.1</b>
Travel	2,490.1	1,460.8	1,029.2	110.7	209.9	-99.2	666.6	680.8	-14.2
Other services	2,718.9	3,757.0	-1,038.1	303.2	251.0	52.2	2,098.6	1,847.3	251.3
Labour income	125.8	146.0	-20.2	1.7	6.3	-4.6	114.8	236.5	-121.7
Investment income	1,286.8	4,606.3	-3,319.5	81.6	30.7	50.8	3,741.8	1,965.2	1,776.6
<i>Monetary financial institutions</i>	<i>628.0</i>	<i>649.9</i>	<i>-21.9</i>	<i>28.7</i>	<i>4.4</i>	<i>24.4</i>	<i>1,257.5</i>	<i>1,888.4</i>	<i>-630.8</i>
<i>General government</i>	<i>1.9</i>	<i>448.0</i>	<i>-446.2</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>20.8</i>	<i>4.1</i>	<i>16.6</i>
<i>Other resident sectors</i>	<i>656.9</i>	<i>3,508.4</i>	<i>-2,851.4</i>	<i>52.9</i>	<i>26.4</i>	<i>26.5</i>	<i>2,463.6</i>	<i>72.7</i>	<i>2,390.8</i>
<b>Current transfers</b>	<b>1,312.9</b>	<b>317.8</b>	<b>995.1</b>	<b>24.8</b>	<b>12.4</b>	<b>12.4</b>	<b>615.5</b>	<b>3,480.5</b>	<b>-2,864.8</b>
<b>CAPITAL ACCOUNT</b>	<b>271.0</b>	<b>61.1</b>	<b>209.9</b>	<b>4.9</b>	<b>7.9</b>	<b>-2.9</b>	<b>265.2</b>	<b>181.5</b>	<b>83.6</b>
	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)
<b>FINANCIAL ACCOUNT</b> <b>(excluding Banco de España) (b)</b>	...	...	...	...	...	...	...	...	...
<b>Monetary financial institutions</b>	<b>4,593.4</b>	<b>2,676.2</b>	<b>1,917.2</b>	<b>370.0</b>	<b>-66.8</b>	<b>436.8</b>	<b>-25,868.3</b>	<b>1,468.3</b>	<b>-27,336.6</b>
Direct investment (c)	15.3	-33.0	48.3	0.0	0.1	0.0	1.5	4,167.4	-4,165.8
Portfolio investment	209.4	2,788.1	-2,578.7	356.3	-44.5	400.8	-129.3	-1,408.1	1,278.7
Other investment	4,368.8	-78.8	4,447.6	13.7	-22.4	36.1	-25,740.4	-1,291.0	-24,449.5
<b>General government</b>	<b>-279.2</b>	<b>2.8</b>	<b>-281.9</b>	<b>-0.8</b>	<b>0.0</b>	<b>-0.8</b>	<b>-5.0</b>	<b>189.9</b>	<b>-195.0</b>
Portfolio investment	-259.3	1.1	-260.3	-0.8	0.0	-0.8	-5.0	-9.4	4.3
Other investment	-19.9	1.7	-21.6	0.0	0.0	0.0	0.0	199.3	-199.3
<b>Other resident sectors</b>	<b>639.9</b>	<b>1,700.4</b>	<b>-1,060.5</b>	<b>630.4</b>	<b>-670.0</b>	<b>1,300.4</b>	<b>478.3</b>	<b>3,293.1</b>	<b>-2,814.8</b>
Direct investment (c)	-366.2	-374.9	8.6	591.2	-471.6	1,062.8	886.5	5,856.4	-4,969.9
Portfolio investment	548.5	1,689.7	-1,141.1	42.5	-200.4	242.9	-444.8	-2,785.6	2,340.7
Other investment	457.6	385.6	72.0	-3.4	1.9	-5.3	36.6	222.4	-185.8

SOURCE: Banco de España.

- a. The difference between the world total amounts and the sum of the geographical areas corresponds to geographically unallocated information, which in no case represents large amounts, and to amounts corresponding to international organisations other than the European Union.
- b. Derivatives not included.
- c. In the case of direct investment, the change in assets corresponds to Spain's investment abroad, which includes, among other transactions, loans received by Spanish parent companies from their non-resident subsidiaries, which reduce such investment. Likewise, the change in liabilities corresponds to foreign investment in Spain, which includes loans granted by Spanish subsidiary companies to their non-resident parents (see Chapter V).

**BALANCE OF PAYMENTS IN 2004** (cont'd)  
**Breakdown by selected economic area (a)**

TABLE 6.2.11

EUR m	AFRICA			ASIA			JAPAN		
	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET
<b>CURRENT ACCOUNT</b>	<b>6,998.9</b>	<b>14,788.4</b>	<b>-7,789.5</b>	<b>10,055.7</b>	<b>31,642.3</b>	<b>-21,586.6</b>	<b>1,635.9</b>	<b>5,913.3</b>	<b>-4,277.4</b>
<b>Goods</b>	<b>6,065.7</b>	<b>12,522.1</b>	<b>-6,456.4</b>	<b>8,230.3</b>	<b>28,361.6</b>	<b>-20,131.3</b>	<b>1,197.5</b>	<b>5,336.9</b>	<b>-4,139.4</b>
<b>Services</b>	<b>699.6</b>	<b>1,515.4</b>	<b>-815.8</b>	<b>1,285.1</b>	<b>2,629.7</b>	<b>-1,344.6</b>	<b>361.0</b>	<b>491.7</b>	<b>-130.7</b>
Travel	62.3	287.2	-224.9	373.6	228.1	145.5	153.5	21.3	132.1
Other services	637.2	1,228.2	-591.0	911.5	2,401.6	-1,490.2	207.6	470.4	-262.8
Labour income	22.4	32.1	-9.6	14.1	45.9	-31.8	4.0	15.8	-11.9
Investment income	153.8	82.1	71.6	165.5	200.7	-35.2	49.8	59.6	-9.8
<i>Monetary financial institutions</i>	<i>30.2</i>	<i>48.7</i>	<i>-18.5</i>	<i>60.8</i>	<i>119.1</i>	<i>-58.3</i>	<i>22.6</i>	<i>12.7</i>	<i>10.0</i>
<i>General government</i>	<i>13.8</i>	<i>0.0</i>	<i>13.8</i>	<i>19.1</i>	<i>13.3</i>	<i>5.8</i>	<i>0.0</i>	<i>11.9</i>	<i>-11.9</i>
<i>Other resident sectors</i>	<i>109.8</i>	<i>33.4</i>	<i>76.4</i>	<i>85.6</i>	<i>68.3</i>	<i>17.2</i>	<i>27.1</i>	<i>35.0</i>	<i>-7.8</i>
<b>Current transfers</b>	<b>57.4</b>	<b>636.6</b>	<b>-579.3</b>	<b>360.8</b>	<b>404.4</b>	<b>-43.7</b>	<b>23.6</b>	<b>9.4</b>	<b>14.3</b>
<b>CAPITAL ACCOUNT</b>	<b>109.2</b>	<b>37.0</b>	<b>72.2</b>	<b>20.1</b>	<b>21.7</b>	<b>-1.6</b>	<b>2.4</b>	<b>3.2</b>	<b>-0.7</b>
	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)
<b>FINANCIAL ACCOUNT</b> <b>(excluding Banco de España) (b)</b>	...	...	...	...	...	...	...	...	...
<b>Monetary financial institutions</b>	<b>1,172.3</b>	<b>10.6</b>	<b>1,161.7</b>	<b>480.5</b>	<b>-203.4</b>	<b>683.9</b>	<b>-69.7</b>	<b>-133.3</b>	<b>63.6</b>
Direct investment (c)	0.3	0.6	-0.3	-733.7	-0.7	-733.0	1.1	0.9	0.1
Portfolio investment	-0.6	-12.6	12.0	-14.0	67.8	-81.8	-0.5	-5.7	5.2
Other investment	1,172.7	22.7	1,150.0	1,228.2	-270.5	1,498.7	-70.3	-128.5	58.2
<b>General government</b>	<b>-1.0</b>	<b>25.8</b>	<b>-26.8</b>	<b>-43.2</b>	<b>11.3</b>	<b>-54.5</b>	<b>-41.1</b>	<b>0.0</b>	<b>-41.1</b>
Portfolio investment	-0.4	0.0	-0.4	-13.2	0.0	-13.2	-11.0	0.0	-11.0
Other investment	-0.6	25.8	-26.4	-30.0	11.3	-41.3	-30.0	0.0	-30.0
<b>Other resident sectors</b>	<b>35.3</b>	<b>638.4</b>	<b>-603.1</b>	<b>265.2</b>	<b>284.2</b>	<b>-19.1</b>	<b>98.0</b>	<b>283.2</b>	<b>-185.2</b>
Direct investment (c)	14.9	607.7	-592.8	272.7	337.7	-65.0	164.8	85.6	79.2
Portfolio investment	18.4	-3.2	21.5	60.2	-90.4	150.6	0.5	186.9	-186.4
Other investment	2.0	33.8	-31.8	-67.8	36.9	-104.6	-67.3	10.8	-78.0

SOURCE: Banco de España.

- a. The difference between the world total amounts and the sum of the geographical areas corresponds to geographically unallocated information, which in no case represents large amounts, and to amounts corresponding to international organisations other than the European Union.
- b. Derivatives not included.
- c. In the case of direct investment, the change in assets corresponds to Spain's investment abroad, which includes, among other transactions, loans received by Spanish parent companies from their non-resident subsidiaries, which reduce such investment. Likewise, the change in liabilities corresponds to foreign investment in Spain, which includes loans granted by Spanish subsidiary companies to their non-resident parents (see Chapter V).

**BALANCE OF PAYMENTS IN 2004** (cont'd)  
**Breakdown by selected economic area** (a)

TABLE 6.2.11

EUR m	CHINA			OCEANIA AND POLAR REGIONS			OECD		
	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET
<b>CURRENT ACCOUNT</b>	<b>1,312.8</b>	<b>8,622.8</b>	<b>-7,310.0</b>	<b>1,263.2</b>	<b>883.4</b>	<b>379.8</b>	<b>230,354.2</b>	<b>246,359.5</b>	<b>-16,005.3</b>
<b>Goods</b>	<b>1,176.3</b>	<b>7,958.8</b>	<b>-6,782.5</b>	<b>898.7</b>	<b>696.8</b>	<b>202.0</b>	<b>126,755.6</b>	<b>158,043.2</b>	<b>-31,287.6</b>
<b>Services</b>	<b>96.2</b>	<b>565.1</b>	<b>-468.8</b>	<b>178.0</b>	<b>139.6</b>	<b>38.4</b>	<b>64,361.4</b>	<b>40,511.9</b>	<b>23,849.5</b>
Travel	4.8	40.8	-36.0	103.0	38.2	64.7	35,379.2	8,114.7	27,264.6
Other services	91.4	524.3	-432.9	75.0	101.3	-26.3	28,982.2	32,397.2	-3,415.0
Labour income	0.5	7.1	-6.6	1.3	4.4	-3.1	792.2	725.1	67.0
Investment income	23.5	5.4	18.1	160.9	34.4	126.5	23,303.6	35,905.1	-12,601.5
Monetary financial institutions	11.3	5.3	6.0	65.2	22.2	42.9	9,027.7	10,369.4	-1,341.7
General government	6.5	0.0	6.5	0.0	7.4	-7.4	19.4	8,344.3	-8,324.9
Other resident sectors	5.6	0.1	5.5	95.7	4.8	91.0	14,256.5	17,191.3	-2,934.9
<b>Current transfers</b>	<b>16.3</b>	<b>86.5</b>	<b>-70.2</b>	<b>24.2</b>	<b>8.2</b>	<b>16.0</b>	<b>15,141.4</b>	<b>11,174.1</b>	<b>3,967.3</b>
<b>CAPITAL ACCOUNT</b>	<b>3.6</b>	<b>2.7</b>	<b>0.9</b>	<b>4.2</b>	<b>4.7</b>	<b>-0.5</b>	<b>8,929.0</b>	<b>725.6</b>	<b>8,203.4</b>
	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)
<b>FINANCIAL ACCOUNT</b> <b>(excluding Banco de España) (b)</b>	...	...	...	...	...	...	...	...	...
<b>Monetary financial institutions</b>	<b>39.6</b>	<b>-133.8</b>	<b>173.4</b>	<b>1,081.2</b>	<b>1,831.9</b>	<b>-750.8</b>	<b>86,272.6</b>	<b>38,054.0</b>	<b>48,218.6</b>
Direct investment (c)	0.0	0.4	-0.4	0.0	0.7	-0.7	-387.6	13,291.7	-13,679.3
Portfolio investment	0.0	-24.7	24.7	220.0	1,198.4	-978.3	49,838.0	6,451.3	43,386.7
Other investment	39.6	-109.5	149.1	861.1	632.9	228.3	36,822.2	18,311.1	18,511.2
<b>General government</b>	<b>0.0</b>	<b>-7.7</b>	<b>7.7</b>	<b>-1,958.9</b>	<b>0.0</b>	<b>-1,958.9</b>	<b>27,707.4</b>	<b>1,877.1</b>	<b>25,830.3</b>
Portfolio investment	0.0	0.0	0.0	-1,958.9	0.0	-1,958.9	22,681.7	881.1	21,800.7
Other investment	0.0	-7.7	7.7	0.0	0.0	0.0	5,025.7	996.0	4,029.7
<b>Other resident sectors</b>	<b>4.6</b>	<b>-489.9</b>	<b>494.4</b>	<b>50.9</b>	<b>-48.7</b>	<b>99.6</b>	<b>60,429.8</b>	<b>65,359.8</b>	<b>-4,930.0</b>
Direct investment (c)	4.8	75.6	-70.9	40.3	-711.5	751.9	19,828.8	31,716.3	-11,887.4
Portfolio investment	-0.2	-575.5	575.3	12.8	663.5	-650.6	40,434.7	24,156.0	16,278.7
Other investment	0.0	10.0	-10.0	-2.3	-0.6	-1.7	166.3	9,487.6	-9,321.3

SOURCE: Banco de España.

- a. The difference between the world total amounts and the sum of the geographical areas corresponds to geographically unallocated information, which in no case represents large amounts, and to amounts corresponding to international organisations other than the European Union.
- b. Derivatives not included.
- c. In the case of direct investment, the change in assets corresponds to Spain's investment abroad, which includes, among other transactions, loans received by Spanish parent companies from their non-resident subsidiaries, which reduce such investment. Likewise, the change in liabilities corresponds to foreign investment in Spain, which includes loans granted by Spanish subsidiary companies to their non-resident parents (see Chapter V).

NOTE:

OECD: International institutions of the European Union, European Central Bank, France, Belgium, Netherlands, Germany, Italy, United Kingdom, Ireland, Denmark, Greece, Portugal, Luxembourg, Iceland, Norway, Sweden, Finland, Switzerland, Austria, Turkey, USA, Canada, Japan, Australia, New Zealand, Mexico, Czech Republic, Hungary, Poland and South Korea, and their dependencies.

**BALANCE OF PAYMENTS IN 2004** (cont'd)  
**Breakdown by selected economic area (a)**

TABLE 6.2.11

EUR m	NAFTA			OPEC			NICS		
	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET
<b>CURRENT ACCOUNT</b>	<b>20,096.8</b>	<b>21,016.5</b>	<b>-919.7</b>	<b>4,713.2</b>	<b>13,399.5</b>	<b>-8,686.2</b>	<b>1,644.9</b>	<b>4,664.3</b>	<b>-3,019.5</b>
<b>Goods</b>	<b>9,311.1</b>	<b>9,600.4</b>	<b>-289.3</b>	<b>3,851.7</b>	<b>12,196.9</b>	<b>-8,345.2</b>	<b>1,342.1</b>	<b>4,111.7</b>	<b>-2,769.6</b>
<b>Services</b>	<b>6,453.3</b>	<b>6,161.8</b>	<b>291.5</b>	<b>520.0</b>	<b>951.4</b>	<b>-431.3</b>	<b>268.3</b>	<b>498.9</b>	<b>-230.5</b>
Travel	2,956.6	1,828.9	1,127.7	104.4	24.3	80.2	44.0	31.4	12.5
Other services	3,496.7	4,332.9	-836.2	415.6	927.1	-511.5	224.4	467.4	-243.0
Labour income	157.6	166.7	-9.1	14.9	50.3	-35.4	3.7	7.2	-3.5
Investment income	2,735.8	4,714.7	-1,978.9	161.1	126.2	34.8	12.7	30.2	-17.5
Monetary financial institutions	1,347.7	714.9	632.8	88.4	99.9	-11.5	6.8	24.6	-17.8
General government	8.6	448.0	-439.5	13.4	0.0	13.3	0.0	1.4	-1.4
Other resident sectors	1,379.5	3,551.7	-2,172.2	59.3	26.3	33.0	5.9	4.3	1.7
<b>Current transfers</b>	<b>1,439.0</b>	<b>373.0</b>	<b>1,066.0</b>	<b>165.5</b>	<b>74.7</b>	<b>90.8</b>	<b>18.0</b>	<b>16.3</b>	<b>1.7</b>
<b>CAPITAL ACCOUNT</b>	<b>308.9</b>	<b>96.8</b>	<b>212.1</b>	<b>133.7</b>	<b>34.0</b>	<b>99.7</b>	<b>1.6</b>	<b>0.3</b>	<b>1.2</b>
	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)
<b>FINANCIAL ACCOUNT</b> <b>(excluding Banco de España) (b)</b>	...	...	...	...	...	...	...	...	...
<b>Monetary financial institutions</b>	<b>5,452.3</b>	<b>6,768.4</b>	<b>-1,316.1</b>	<b>1,165.5</b>	<b>59.4</b>	<b>1,106.1</b>	<b>494.8</b>	<b>84.9</b>	<b>409.9</b>
Direct investment (c)	15.6	4,018.7	-4,003.2	0.4	2.8	-2.4	0.0	1.9	-1.9
Portfolio investment	546.8	2,746.4	-2,199.5	-4.5	78.2	-82.7	-6.7	97.5	-104.2
Other investment	4,889.9	3.3	4,886.6	1,169.7	-21.6	1,191.3	501.5	-14.5	516.0
<b>General government</b>	<b>-279.4</b>	<b>-26.6</b>	<b>-252.8</b>	<b>-0.1</b>	<b>14.4</b>	<b>-14.5</b>	<b>-2.3</b>	<b>0.0</b>	<b>-2.3</b>
Portfolio investment	-259.5	0.9	-260.4	-0.1	0.1	-0.2	-2.3	0.0	-2.3
Other investment	-19.9	-27.5	7.6	0.0	14.3	-14.3	0.0	0.0	0.0
<b>Other resident sectors</b>	<b>1,034.4</b>	<b>4,301.3</b>	<b>-3,266.9</b>	<b>133.0</b>	<b>466.2</b>	<b>-333.2</b>	<b>42.4</b>	<b>26.7</b>	<b>15.6</b>
Direct investment (c)	246.4	2,442.5	-2,196.1	74.5	475.8	-401.3	16.1	-25.7	41.8
Portfolio investment	326.9	1,349.8	-1,022.9	62.5	-12.5	75.1	23.1	54.4	-31.3
Other investment	461.1	509.0	-47.9	-4.0	3.0	-7.0	3.1	-1.9	5.0

SOURCE: Banco de España.

a. The difference between the world total amounts and the sum of the geographical areas corresponds to geographically unallocated information, which in no case represents large amounts, and to amounts corresponding to international organisations other than the European Union.

b. Derivatives not included.

c. In the case of direct investment, the change in assets corresponds to Spain's investment abroad, which includes, among other transactions, loans received by Spanish parent companies from their non-resident subsidiaries, which reduce such investment. Likewise, the change in liabilities corresponds to foreign investment in Spain, which includes loans granted by Spanish subsidiary companies to their non-resident parents (see Chapter V).

NOTES:

NAFTA: USA, Canada and Mexico.

OPEC: Algeria, Libya, Nigeria, Venezuela, Iraq, Iran, Saudi Arabia, Kuwait, Qatar, United Arab Emirates and Indonesia.

NEWLY INDUSTRIALISED COUNTRIES (NICS): Singapore, South Korea, Taiwan and Hong Kong.

**BALANCE OF PAYMENTS IN 2004** (cont'd)  
**Breakdown by selected economic area (a)**

TABLE 6.2.11

EUR m	ASEAN			COMMONWEALTH OF INDEPENDENT STATES			TAX HAVENS		
	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET	CREDITS	DEBITS	NET
<b>CURRENT ACCOUNT</b>	<b>1,270.0</b>	<b>4,446.8</b>	<b>-3,176.8</b>	<b>1,493.4</b>	<b>4,861.7</b>	<b>-3,368.3</b>	<b>5,285.8</b>	<b>4,879.0</b>	<b>406.7</b>
<b>Goods</b>	<b>1,075.1</b>	<b>3,794.9</b>	<b>-2,719.8</b>	<b>1,219.2</b>	<b>4,427.5</b>	<b>-3,208.3</b>	<b>3,209.7</b>	<b>1,653.8</b>	<b>1,555.9</b>
<b>Services</b>	<b>162.8</b>	<b>454.6</b>	<b>-291.8</b>	<b>233.4</b>	<b>346.9</b>	<b>-113.5</b>	<b>823.1</b>	<b>1,139.4</b>	<b>-316.2</b>
Travel	6.5	63.6	-57.1	161.0	55.1	105.9	260.2	571.6	-311.4
Other services	156.3	391.0	-234.7	72.4	291.8	-219.4	562.9	567.8	-4.8
Labour income	0.9	4.4	-3.6	3.0	7.5	-4.5	50.4	16.0	34.4
Investment income	23.1	27.6	-4.5	20.0	34.0	-14.0	763.8	1,843.6	-1,079.8
<i>Monetary financial institutions</i>	4.3	22.6	-18.3	4.5	33.0	-28.5	331.1	1,777.3	-1,446.2
<i>General government</i>	10.4	0.0	10.4	0.8	0.0	0.8	2.3	7.5	-5.2
<i>Other resident sectors</i>	8.4	5.0	3.5	14.6	1.0	13.6	430.4	58.8	371.6
<b>Current transfers</b>	<b>8.0</b>	<b>165.2</b>	<b>-157.2</b>	<b>17.8</b>	<b>45.7</b>	<b>-28.0</b>	<b>438.6</b>	<b>226.2</b>	<b>212.4</b>
<b>CAPITAL ACCOUNT</b>	<b>6.9</b>	<b>5.3</b>	<b>1.6</b>	<b>70.9</b>	<b>5.8</b>	<b>65.1</b>	<b>60.2</b>	<b>23.9</b>	<b>36.3</b>
	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)	NET CHANGES IN LIABILITIES (NCL)	NET CHANGES IN ASSETS (NCA)	NET (NCL-NCA)
<b>FINANCIAL ACCOUNT (excluding Banco de España) (b)</b>	...	...	...	...	...	...	...	...	...
<b>Monetary financial institutions</b>	<b>503.2</b>	<b>2.1</b>	<b>501.1</b>	<b>226.9</b>	<b>51.9</b>	<b>175.0</b>	<b>-26,995.4</b>	<b>-1,816.2</b>	<b>-25,179.2</b>
Direct investment (c)	0.0	-3.6	3.6	0.2	0.2	0.0	-734.6	39.4	-774.1
Portfolio investment	1.9	20.5	-18.5	2.4	1.7	0.8	-128.7	-1,352.1	1,223.4
Other investment	501.3	-14.8	516.1	224.3	50.0	174.3	-26,132.1	-503.5	-25,628.6
<b>General government</b>	<b>0.0</b>	<b>11.0</b>	<b>-10.9</b>	<b>0.1</b>	<b>0.8</b>	<b>-0.7</b>	<b>-0.2</b>	<b>-5.7</b>	<b>5.5</b>
Portfolio investment	0.0	0.0	0.0	0.1	0.1	0.0	-0.2	-9.4	9.2
Other investment	0.0	11.0	-11.0	0.0	0.7	-0.7	0.0	3.7	-3.7
<b>Other resident sectors</b>	<b>5.4</b>	<b>151.9</b>	<b>-146.5</b>	<b>68.3</b>	<b>39.5</b>	<b>28.8</b>	<b>113.0</b>	<b>-1,708.1</b>	<b>1,821.0</b>
Direct investment (c)	3.5	134.9	-131.4	56.1	7.5	48.6	259.2	789.0	-529.8
Portfolio investment	-0.1	16.2	-16.3	5.9	27.7	-21.7	-184.4	-2,592.0	2,407.6
Other investment	2.1	0.8	1.2	6.3	4.3	2.0	38.2	95.0	-56.8

SOURCE: Banco de España.

a. The difference between the world total amounts and the sum of the geographical areas corresponds to geographically unallocated information, which in no case represents large amounts, and to amounts corresponding to international organisations other than the European Union.

b. Derivatives not included.

c. In the case of direct investment, the change in assets corresponds to Spain's investment abroad, which includes, among other transactions, loans received by Spanish parent companies from their non-resident subsidiaries, which reduce such investment. Likewise, the change in liabilities corresponds to foreign investment in Spain, which includes loans granted by Spanish subsidiary companies to their non-resident parents (see Chapter V).

NOTES:

ASEAN: Thailand, Indonesia, Malaysia, Brunei, Singapore, Philippines, Vietnam, Cambodia, Democratic Republic of Laos and Myanmar.

CIS: Russia, Ukraine, Belarus, Moldova, Armenia, Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan, Tajikistan, Kyrgyzstan and Georgia.

TAX HAVENS: Andorra, Antigua and Barbuda, Anguilla, Dutch Antilles, Barbados, Bahrain, Bermuda, Bahamas, Belize, Cook Islands, Dominica, Grenada, Guernsey, Gibraltar, Hong Kong, Isle of Man, Jersey, Jamaica, St. Kitts and Nevis, Cayman Islands, Lebanon, St. Lucia, Liechtenstein, Liberia, Marshall Islands, Montserrat, Maldives, Nauru, Niue, Panama, Philippines, Singapore, Turks and Caicos, St. Vincent and the Grenadines, British Virgin Islands, US Virgin Islands, Vanuatu and Samoa.



7.1 NET INTERNATIONAL INVESTMENT POSITION. SUMMARY: 1996-2005



INTERNATIONAL INVESTMENT POSITION  
Summary

TABLE 7.1.1

EUR m	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>TOTAL NET POSITION (ASSETS-LIABILITIES)</b>	<b>-107,907.2</b>	<b>-121,560.7</b>	<b>-160,530.1</b>	<b>-165,226.6</b>	<b>-158,675.2</b>	<b>-186,507.3</b>	<b>-232,921.4</b>	<b>-294,071.7</b>	<b>-360,616.2</b>	<b>-421,910.9</b>
<b>Net position excluding Banco de España (assets-liabilities)</b>	<b>-155,309.7</b>	<b>-185,872.1</b>	<b>-213,072.5</b>	<b>-238,953.1</b>	<b>-242,632.1</b>	<b>-254,973.7</b>	<b>-293,563.0</b>	<b>-350,150.4</b>	<b>-428,702.3</b>	<b>-494,096.4</b>
Direct investment: net position (assets-liabilities)	-54,842.5	-47,634.6	-44,505.0	-7,286.9	12,220.5	16,336.1	-22,083.6	-37,361.6	-17,645.3	11,581.8
<i>Spanish investment abroad</i>	33,126.3	48,368.4	63,538.7	117,499.9	180,246.4	217,464.0	223,082.6	231,563.2	272,486.7	323,233.9
<i>Foreign investment in Spain</i>	87,968.8	96,002.9	108,043.7	124,786.9	168,025.9	201,127.8	245,166.2	268,924.8	290,132.0	311,652.2
Portfolio investment: net position (assets-liabilities)	-105,003.2	-124,509.6	-136,412.5	-141,003.9	-115,510.7	-98,962.9	-102,593.2	-98,635.2	-202,123.3	-271,957.3
<i>Spanish investment abroad</i>	17,421.6	33,269.2	73,125.7	127,386.8	193,682.2	232,647.4	256,805.8	319,793.0	359,305.3	454,704.2
<i>Foreign investment in Spain</i>	122,424.9	157,778.7	209,538.2	268,390.7	309,192.9	331,610.3	359,399.0	418,428.2	561,428.7	726,661.5
Other investment: net position (assets-liabilities)	4,536.1	-13,727.9	-32,155.0	-90,662.2	-139,341.9	-172,346.9	-168,886.3	-214,153.6	-208,933.6	-233,720.9
<i>Spanish investment abroad</i>	134,786.2	144,207.0	161,501.9	152,792.9	166,435.9	172,498.1	197,388.3	203,955.7	222,398.2	270,274.5
<i>Foreign investment in Spain</i>	130,250.2	157,934.9	193,656.9	243,455.2	305,777.8	344,845.0	366,274.6	418,109.3	431,331.8	503,995.4
<b>Banco de España: net position (assets-liabilities)</b>	<b>47,402.5</b>	<b>64,311.4</b>	<b>52,542.4</b>	<b>73,726.5</b>	<b>83,956.9</b>	<b>68,466.4</b>	<b>60,641.7</b>	<b>56,078.7</b>	<b>68,086.1</b>	<b>72,185.6</b>
Reserves	47,658.1	64,174.4	52,095.2	37,287.8	38,233.9	38,865.3	38,431.5	21,228.8	14,505.3	14,601.3
Claims on the Eurosystem	0.0	0.0	0.0	36,028.0	45,278.3	29,156.4	22,650.1	18,269.3	31,909.1	17,052.9
Other net assets (assets-liabilities)	-255.6	136.9	447.2	410.7	444.7	444.7	-439.9	16,580.6	21,671.7	40,531.4

SOURCE: Banco de España.

## 7.2 INTERNATIONAL INVESTMENT POSITION IN 2005

INTERNATIONAL INVESTMENT POSITION  
Spanish investment abroad

TABLE 7.2.1

EUR m	2005			
	Q1	Q2	Q3	Q4
<b>Direct investment</b>	<b>287,220.9</b>	<b>303,812.6</b>	<b>311,658.2</b>	<b>323,234.0</b>
Shares and other equity	267,093.9	283,979.1	290,978.4	301,983.7
Intercompany debt transactions	20,127.1	19,833.5	20,679.8	21,250.3
<b>Portfolio investment</b>	<b>392,958.3</b>	<b>422,891.2</b>	<b>453,805.5</b>	<b>492,598.0</b>
Shares and mutual fund shares	79,829.3	83,675.8	93,654.2	104,151.5
<i>Monetary financial institutions</i>	6,342.8	6,923.4	7,217.3	7,725.9
<i>Other resident sectors</i>	73,486.5	76,752.4	86,437.0	96,425.7
Bonds and notes	300,892.1	325,081.2	342,641.7	369,310.7
<i>Banco de España</i>	22,230.3	28,012.8	30,560.5	31,086.0
<i>Other monetary financial institutions</i>	94,510.5	102,999.5	111,340.2	135,699.7
<i>General government</i>	934.3	1,949.5	4,848.8	5,537.0
<i>Other resident sectors</i>	183,217.1	192,119.5	195,892.3	196,988.0
Money market instruments	12,237.0	14,134.3	17,509.6	19,135.8
<i>Banco de España</i>	4,208.9	4,098.0	5,510.6	6,807.9
<i>Other monetary financial institutions</i>	4,923.4	6,384.0	7,310.1	7,645.4
<i>Other resident sectors</i>	3,104.6	3,652.3	4,688.9	4,682.6
<b>Other investment (including Banco de España)</b>	<b>268,199.7</b>	<b>281,430.7</b>	<b>280,482.7</b>	<b>290,091.3</b>
Loans	38,716.1	42,794.5	42,159.3	46,963.6
<i>General government</i>	5,769.4	6,351.2	5,994.4	9,541.4
<i>Monetary financial institutions</i>	30,877.3	34,265.2	33,831.6	34,781.0
<i>Other resident sectors</i>	2,069.4	2,178.1	2,333.2	2,641.2
Deposits	220,376.0	229,253.1	228,357.4	233,002.8
<i>Banco de España</i>	27,109.3	24,227.5	23,463.3	19,384.1
<i>Other monetary financial institutions</i>	108,423.2	119,494.2	116,299.8	122,995.8
<i>Other resident sectors</i>	84,843.5	85,531.3	88,594.4	90,623.0
Other assets	9,107.6	9,383.2	9,966.0	10,124.9
<b>Reserves</b>	<b>13,320.5</b>	<b>13,671.7</b>	<b>14,032.1</b>	<b>14,601.3</b>

SOURCE: Banco de España.

**INTERNATIONAL INVESTMENT POSITION**  
**Foreign investment in Spain**

TABLE 7.2.2

EUR m	2005			
	Q1	Q2	Q3	Q4
<b>Direct investment</b>	<b>295,814.8</b>	<b>298,516.6</b>	<b>302,940.4</b>	<b>311,652.2</b>
Shares and other equity	225,510.4	229,404.8	230,682.6	239,784.1
Intercompany debt transactions	70,304.4	69,111.8	72,257.8	71,868.1
<b>Portfolio investment</b>	<b>597,654.2</b>	<b>650,250.5</b>	<b>695,004.5</b>	<b>726,661.5</b>
Shares and mutual fund shares	184,792.4	178,504.5	204,333.1	197,345.6
<i>Monetary financial institutions</i>	66,127.2	64,637.6	72,463.7	74,882.1
<i>Other resident sectors</i>	118,665.1	113,866.9	131,869.3	122,463.6
Bonds and notes	405,520.8	465,062.3	483,762.8	522,750.9
<i>General government</i>	185,260.9	196,053.1	193,837.2	195,013.7
<i>Monetary financial institutions</i>	121,665.2	135,729.7	147,031.2	160,788.3
<i>Other resident sectors</i>	98,594.7	133,279.6	142,894.5	166,948.9
Money market instruments	7,341.1	6,683.7	6,908.6	6,565.0
<i>General government</i>	2,599.9	2,267.8	3,167.9	2,547.0
<i>Monetary financial institutions</i>	466.9	577.2	339.7	705.3
<i>Other resident sectors</i>	4,274.3	3,838.8	3,401.0	3,312.8
<b>Other investment (including Banco de España)</b>	<b>444,867.2</b>	<b>462,938.3</b>	<b>481,856.4</b>	<b>504,121.7</b>
Loans	108,764.8	110,496.6	112,672.8	118,886.0
<i>General government</i>	18,750.3	17,167.6	17,951.1	17,529.9
<i>Other resident sectors</i>	90,014.5	93,329.0	94,721.7	101,356.1
Deposits	334,498.9	350,071.5	366,794.0	383,486.1
<i>Banco de España</i>	0.5	70.7	41.7	126.3
<i>Other monetary financial institutions</i>	334,498.4	350,000.9	366,752.2	383,359.8
Other liabilities	1,603.4	2,370.2	2,389.7	1,749.6

SOURCE: Banco de España.

### 7.3 INTERNATIONAL INVESTMENT POSITION IN 2004

INTERNATIONAL INVESTMENT POSITION  
Spanish investment abroad

TABLE 7.3.1

EUR m	2004			
	Q1	Q2	Q3	Q4
<b>Direct investment</b>	<b>242,027.3</b>	<b>247,646.2</b>	<b>254,436.3</b>	<b>272,486.7</b>
Shares and other equity	225,194.4	230,135.7	234,812.6	254,695.8
Intercompany debt transactions	16,832.9	17,510.4	19,623.7	17,790.8
<b>Portfolio investment (including Banco de España)</b>	<b>352,306.0</b>	<b>367,495.5</b>	<b>364,175.0</b>	<b>380,119.6</b>
Shares and mutual fund shares	70,575.2	75,270.3	71,013.7	78,052.7
<i>Monetary financial institutions</i>	4,156.7	4,607.0	4,784.6	5,507.2
<i>Other resident sectors</i>	66,418.5	70,663.3	66,229.1	72,545.5
Bonds and notes	264,924.8	274,230.5	275,932.7	290,132.8
<i>Banco de España</i>	14,015.8	15,391.1	16,470.7	18,760.7
<i>Other monetary financial institutions</i>	92,374.5	95,306.6	91,808.0	95,226.8
<i>General government</i>	50.9	18.5	312.8	894.2
<i>Other resident sectors</i>	158,483.6	163,514.3	167,341.1	175,251.1
Money market instruments	16,806.1	17,994.6	17,228.6	11,934.2
<i>Banco de España</i>	5,482.5	4,221.4	3,316.6	2,053.5
<i>Other monetary financial institutions</i>	8,087.2	9,343.8	8,864.6	6,420.8
<i>Other resident sectors</i>	3,236.4	4,429.5	5,047.4	3,459.8
<b>Other investment (including Banco de España)</b>	<b>234,377.3</b>	<b>250,472.6</b>	<b>250,826.7</b>	<b>255,180.6</b>
Loans	34,429.9	35,655.5	34,516.7	38,572.2
<i>General government</i>	5,749.2	5,912.0	5,470.0	9,237.8
<i>Monetary financial institutions</i>	26,905.8	27,819.5	27,076.5	27,450.8
<i>Other resident sectors</i>	1,775.0	1,924.0	1,970.2	1,883.6
Deposits	192,290.0	207,034.1	208,267.3	208,164.5
<i>Banco de España</i>	23,070.8	27,941.1	20,665.1	32,349.7
<i>Other monetary financial institutions</i>	91,262.1	99,326.4	105,569.6	92,422.0
<i>Other resident sectors</i>	77,957.1	79,766.7	82,032.6	83,392.9
Other assets	7,657.5	7,783.0	8,042.7	8,443.9
<b>Reserves</b>	<b>17,577.8</b>	<b>16,245.0</b>	<b>15,889.4</b>	<b>14,505.3</b>

SOURCE: Banco de España.

**INTERNATIONAL INVESTMENT POSITION**  
**Foreign investment in Spain**

TABLE 7.3.2

EUR m	2004			
	Q1	Q2	Q3	Q4
<b>Direct investment</b>	<b>269,775.0</b>	<b>279,651.1</b>	<b>282,414.6</b>	<b>290,132.0</b>
Shares and other equity	208,256.4	214,812.5	218,183.2	223,214.5
Intercompany debt transactions	61,518.6	64,838.6	64,231.4	66,917.5
<b>Portfolio investment</b>	<b>460,222.4</b>	<b>468,399.8</b>	<b>490,538.8</b>	<b>561,428.7</b>
Shares and mutual fund shares	153,500.8	149,108.0	150,701.7	183,210.3
<i>Monetary financial institutions</i>	52,287.4	49,409.8	45,520.6	65,570.6
<i>Other resident sectors</i>	101,213.4	99,698.2	105,181.1	117,639.8
Bonds and notes	300,364.4	313,107.1	333,026.7	370,918.3
<i>General government</i>	174,927.9	172,191.3	177,265.3	184,799.6
<i>Monetary financial institutions</i>	72,417.3	79,569.4	88,483.9	100,710.6
<i>Other resident sectors</i>	53,019.1	61,346.4	67,277.5	85,408.0
Money market instruments	6,357.2	6,184.6	6,810.4	7,300.1
<i>General government</i>	3,675.7	3,269.8	3,136.1	2,955.7
<i>Monetary financial institutions</i>	360.8	353.4	361.9	301.3
<i>Other resident sectors</i>	2,320.7	2,561.4	3,312.5	4,043.1
<b>Other investment (including Banco de España)</b>	<b>424,549.4</b>	<b>448,152.3</b>	<b>439,657.5</b>	<b>431,347.5</b>
Loans	103,446.4	101,502.9	104,213.7	103,336.2
<i>General government</i>	13,543.7	13,579.0	15,129.3	17,567.9
<i>Other resident sectors</i>	89,902.7	87,923.9	89,084.4	85,768.2
Deposits	320,075.8	345,794.7	334,272.9	326,331.6
<i>Banco de España</i>	62.3	0.5	0.5	15.7
<i>Other monetary financial institutions</i>	320,013.4	345,794.2	334,272.4	326,315.9
Other liabilities	1,027.2	854.7	1,170.9	1,679.8

SOURCE: Banco de España.

7.4 INTERNATIONAL INVESTMENT POSITION. BREAKDOWN BY ECONOMIC  
AND GEOGRAPHICAL AREA



INTERNATIONAL INVESTMENT POSITION 2004  
Breakdown by economic and geographical area

TABLE 7.4.1

EUR m	WORLD TOTAL	EURO AREA	EU EXCLUDING EURO AREA	DENMARK	SWEDEN	UNITED KINGDOM	EUROPEAN INSTITUTIONS	OTHER	REST OF THE WORLD	OF WHICH:						
										UNITED STATES	JAPAN	CHINA	REST OF ASIA	LATIN AMERICA	TAX HAVENS	
<b>IIP EXCLUDING BANCO DE ESPAÑA</b>																
<b>Net direct investment (assets-liabilities) (a)</b>	<b>-17,645.2</b>	<b>-37,543.0</b>	<b>-28,270.5</b>	<b>224.5</b>	<b>-2,254.2</b>	<b>-30,917.3</b>	<b>-5.8</b>	<b>4,682.3</b>	<b>48,168.3</b>	<b>-31,951.6</b>	<b>-356.6</b>	<b>275.8</b>	<b>-30.6</b>	<b>76,323.7</b>	<b>1,764.4</b>	
Spanish direct investment abroad	272,486.7	110,849.9	34,524.0	1,101.3	1,145.5	27,177.4	0.2	5,099.6	127,112.8	17,178.7	1,797.5	296.2	1,157.3	81,776.9	5,322.3	
Foreign direct investment in Spain	290,132.0	148,392.9	62,794.6	876.9	3,399.8	58,094.6	6.0	417.3	78,944.5	49,130.3	2,154.0	20.4	1,187.9	5,453.1	3,557.9	
<b>Net portfolio investment (assets-liabilities)</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	
Spanish portfolio investment abroad	359,305.5	240,057.6	43,342.3	1,417.8	2,141.5	36,604.7	2,555.3	623.0	75,905.6	31,897.7	1,479.1	23.2	1,881.2	4,963.2	24,192.2	
<i>General government</i>	894.2	886.8	0.0	0.0	0.0	0.0	0.0	0.0	7.4	2.5	0.0	0.0	0.0	0.2	3.4	
<i>Monetary financial institutions</i>	107,154.8	69,839.1	17,238.7	800.7	639.5	15,139.1	449.4	210.0	20,077.0	8,850.8	123.0	0.0	125.3	460.2	6,549.4	
<i>Other resident sectors</i>	251,256.5	169,331.7	26,103.5	617.1	1,502.0	21,465.6	2,105.8	413.0	55,821.3	23,044.5	1,356.1	23.2	1,755.9	4,502.8	17,639.4	
<b>Net other investment (assets-liabilities)</b>	<b>-208,933.5</b>	<b>-90,105.7</b>	<b>-63,818.3</b>	<b>197.2</b>	<b>689.4</b>	<b>-36,906.4</b>	<b>-26,794.9</b>	<b>-1,003.6</b>	<b>-55,009.5</b>	<b>-10,295.5</b>	<b>58.4</b>	<b>788.9</b>	<b>-2,991.2</b>	<b>297.2</b>	<b>-40,078.3</b>	
Spanish other investment abroad	222,398.2	122,470.6	56,432.7	426.8	1,173.6	48,583.9	5,333.8	914.6	43,494.9	6,170.0	461.3	896.2	1,678.6	9,416.0	10,222.2	
<i>General government</i>	11,795.7	230.0	4,836.2	0.0	0.0	28.9	4,770.5	36.8	6,729.5	36.6	19.4	600.3	649.2	1,942.4	151.0	
<i>Monetary financial institutions</i>	120,233.2	68,952.3	31,410.4	344.9	691.8	29,586.5	51.5	735.7	19,870.5	3,542.1	326.9	275.4	784.0	6,655.9	1,658.8	
<i>Other resident sectors</i>	90,369.5	53,288.3	20,186.3	81.9	481.8	18,968.6	511.8	142.2	16,894.9	2,591.2	115.0	20.4	245.4	817.7	8,412.4	
Foreign other investment in Spain	431,331.8	212,576.3	120,251.1	229.7	484.2	85,490.3	32,128.7	1,918.2	98,504.4	16,465.4	402.9	107.3	4,669.8	9,118.8	50,300.5	
<i>General government</i>	17,567.8	6,601.0	10,277.3	0.0	0.0	1,703.9	8,573.4	0.0	689.5	350.0	102.5	0.0	0.1	0.0	0.0	
<i>Monetary financial institutions</i>	326,315.8	147,212.5	86,625.3	184.2	280.4	74,355.7	9,931.6	1,873.4	92,478.0	14,398.2	97.8	106.2	4,595.8	8,823.5	50,082.4	
<i>Other resident sectors</i>	87,448.0	58,762.9	23,348.2	45.4	203.7	9,430.7	13,623.6	44.8	5,336.9	1,717.3	202.6	1.1	73.9	295.3	218.1	

SOURCE: Banco de España.

a. In the case of direct investment, Spain's investments abroad include loans received by Spanish parent companies from their non-resident subsidiaries, which reduce such investment. Likewise, foreign investments in Spain include loans granted by Spanish subsidiary companies to their non-resident parents (see Chapter V).

NOTES:

EURO AREA: France, Belgium, Luxembourg, Netherlands, Germany, Italy, Ireland, Portugal, Austria, Finland, Greece and European Central Bank.

EU EXCLUDING EURO AREA: United Kingdom, Sweden, Denmark, European institutions, Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovenia and Slovakia. Intra-EU information has been added to this amount, corresponding to geographically unallocated information, which in no case represents large amounts.

OTHER: Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovenia and Slovakia. Intra-EU information has been added to this amount, corresponding to geographically unallocated information, which in no case represents large amounts.

REST OF THE WORLD: Countries not included in the European Union.

LATIN AMERICA: Mexico, Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, Panama, Cuba, Colombia, Venezuela, Ecuador, Peru, Brazil, Chile, Bolivia, Paraguay, Uruguay and Argentina.

TAX HAVENS: Andorra, Antigua and Barbuda, Anguilla, Dutch Antilles, Barbados, Bahrain, Bermuda, Bahamas, Belize, Cook Islands, Dominica, Grenada, Guernsey, Gibraltar, Hong Kong, Isle of Man, Jersey, Jamaica, St. Kitts and Nevis, Cayman Islands, Lebanon, St. Lucia, Liechtenstein, Liberia, Marshall Islands, Montserrat, Maldives, Nauru, Niue, Panama, Philippines, Singapore, Turks and Caicos, St. Vincent and the Grenadines, British Virgin Islands, US Virgin Islands, Vanuatu and Samoa.

INTERNATIONAL INVESTMENT POSITION 2005  
Breakdown by economic and geographical area

TABLE 7.4.2

EUR m	WORLD TOTAL	EURO AREA	EU EXCLUDING EURO AREA	DENMARK	SWEDEN	UNITED KINGDOM	EUROPEAN INSTITUTIONS	OTHER	REST OF THE WORLD	OF WHICH:						
										UNITED STATES	JAPAN	CHINA	REST OF ASIA	LATIN AMERICA	TAX HAVENS	
<b>IIP EXCLUDING BANCO DE ESPAÑA</b>																
<b>Net direct investment (assets-liabilities) (a)</b>	<b>11,581.9</b>	<b>-31,052.2</b>	<b>-22,311.5</b>	<b>617.2</b>	<b>-3,447.6</b>	<b>-30,021.4</b>	<b>-4.6</b>	<b>10,544.9</b>	<b>64,945.6</b>	<b>-29,537.7</b>	<b>-462.0</b>	<b>410.9</b>	<b>-62.2</b>	<b>86,145.4</b>	<b>1,658.1</b>	
Spanish direct investment abroad	323,234.1	132,318.7	43,618.5	1,524.8	1,124.7	29,917.7	0.0	11,051.3	147,296.9	21,991.2	1,866.7	436.0	1,231.6	91,413.7	5,619.5	
Foreign direct investment in Spain	311,652.3	163,370.9	65,930.0	907.6	4,572.3	59,939.1	4.6	506.4	82,351.4	51,528.9	2,328.7	25.0	1,293.7	5,268.4	3,961.4	
<b>Net portfolio investment (assets-liabilities)</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	
Spanish portfolio investment abroad	454,704.3	321,244.7	53,692.3	1,491.7	2,889.4	45,634.3	2,945.4	731.5	79,767.3	37,475.4	2,207.8	35.8	3,361.2	2,764.9	20,500.1	
<i>General government</i>	5,537.0	5,534.1	0.0	0.0	0.0	0.0	0.0	0.0	2.9	1.0	0.0	0.0	0.0	0.0	1.9	
<i>Monetary financial institutions</i>	151,070.9	105,393.0	24,002.8	673.7	1,320.7	21,366.1	420.2	222.1	21,675.1	10,354.7	152.9	5.9	195.5	496.5	6,125.7	
<i>Other resident sectors</i>	298,096.2	210,317.6	29,689.4	817.9	1,568.6	24,268.3	2,525.2	509.4	58,089.2	27,119.7	2,055.0	29.9	3,165.7	2,268.4	14,372.5	
<b>Net other investment (assets-liabilities)</b>	<b>-233,721.0</b>	<b>-103,648.0</b>	<b>-92,453.6</b>	<b>1,251.1</b>	<b>137.4</b>	<b>-59,315.9</b>	<b>-33,202.2</b>	<b>-1,324.0</b>	<b>-37,619.4</b>	<b>-11,227.4</b>	<b>1,010.3</b>	<b>852.8</b>	<b>-2,893.9</b>	<b>1,681.9</b>	<b>-20,774.9</b>	
Spanish other investment abroad	270,274.4	145,735.5	74,740.4	1,495.8	882.4	66,242.6	4,718.0	1,401.6	49,798.5	8,759.9	1,220.1	944.9	2,294.2	10,592.7	10,362.9	
<i>General government</i>	12,335.8	96.9	4,243.0	0.0	0.0	29.2	4,173.0	41.1	7,995.9	78.7	20.0	672.6	758.8	2,570.8	177.7	
<i>Monetary financial institutions</i>	157,974.0	85,338.0	48,574.3	1,405.3	388.5	45,545.8	32.0	1,202.7	24,061.7	5,793.3	1,077.3	245.7	1,268.0	7,095.2	1,755.0	
<i>Other resident sectors</i>	99,964.6	60,300.6	21,923.1	90.6	494.1	20,667.6	513.1	157.7	17,740.9	2,887.9	122.8	26.6	267.5	926.6	8,430.2	
Foreign other investment in Spain	503,995.4	249,383.6	167,193.9	244.7	744.9	125,558.5	37,920.2	2,725.6	87,417.9	19,987.3	209.8	92.0	5,188.1	8,910.8	31,137.8	
<i>General government</i>	17,529.8	6,391.0	10,596.4	0.0	0.1	1,372.0	9,224.3	0.0	542.4	309.2	70.4	0.0	0.1	0.0	0.0	
<i>Monetary financial institutions</i>	383,359.8	179,326.0	123,620.5	226.0	477.8	109,198.1	11,081.9	2,636.7	80,413.3	17,552.8	75.4	86.0	5,070.4	8,516.8	30,771.1	
<i>Other resident sectors</i>	103,105.8	63,666.5	32,977.1	18.8	267.0	14,988.4	17,614.0	88.9	6,462.2	2,125.3	64.0	6.0	117.6	394.2	366.7	

SOURCE: Banco de España.

a. In the case of direct investment, Spain's investments abroad include loans received by Spanish parent companies from their non-resident subsidiaries, which reduce such investment. Likewise, foreign investments in Spain include loans granted by Spanish subsidiary companies to their non-resident parents (see Chapter V).

NOTES:

EURO AREA: France, Belgium, Luxembourg, Netherlands, Germany, Italy, Ireland, Portugal, Austria, Finland, Greece and European Central Bank.

EU EXCLUDING EURO AREA: United Kingdom, Sweden, Denmark, European institutions, Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovenia and Slovakia. Intra-EU information has been added to this amount, corresponding to geographically unallocated information, which in no case represents large amounts.

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