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THE BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION OF SPAIN IN 2021

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ABSTRACT

On balance of payments statistics, in 2021 Spain's net lending amounted to 1.8% of GDP (1.2% in 2020). This increase mainly reflected the partial recovery in the travel surplus, thanks to the improvement in the epidemiological situation prompted by the headway in vaccination, and the widening of the capital account surplus, boosted by the credits corresponding to Next Generation EU. This countered the deterioration in the goods deficit, against the backdrop of the rising energy bill. Meanwhile, Spain's negative net international investment position decreased significantly (to 70.4% of GDP, its lowest level since 2006), thanks to the positive financial transactions with the rest of the world and, to a greater degree, GDP growth and the increase in value of external financial assets. Conversely, Spain's gross external debt reached another all-time high (€2,329 billion) due to the assumption of new liabilities, particularly by general government and the Banco de España. However, it fell as a percentage of GDP thanks to economic growth.

Keywords: net lending, current account, financial transactions, foreign direct investment, TARGET balances, international investment position, foreign debt, NGEU, SURE, SDRs.

JEL classification: F10, F21, F30, F32, F34, E50.

THE BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION OF SPAIN IN 2021

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Introduction

On balance of payments data, in 2021 the Spanish economy's surplus recovered partially to 1.8% of GDP (1.2% in 2020), after contracting sharply at the height of the pandemic. This improvement primarily reflected the widening of the travel surplus (by 0.8 percentage points (pp) of GDP, to 1.6%), thanks to the recovery, albeit partial, in credits, which grew more vigorously than the debits. The capital account surplus also grew, reaching 0.9% of GDP (up 0.5 pp from 2020), boosted by the credits corresponding to Next Generation EU (NGEU) funds. This countered the widening of the goods deficit, from 0.8% of GDP to 1.7%, mainly as a result of the deterioration in the energy deficit, prompted by rising energy commodity prices. In 2021, the financial transactions of the Spanish economy with the rest of the world, excluding the Banco de España, again posted a positive balance, amounting to 1.1% of GDP, compared with 8.8% a year earlier. This was mainly the result of capital inflows, essentially in the form of debt securities issued by general government and private financial institutions.

The negative net international investment position (IIP) corrected sharply in 2021, to stand at 70.4% of GDP, its lowest level since 2006. This was the consequence of the financial account surplus, positive valuation effects (thanks mainly to the increase in asset values) and GDP growth. Conversely, the nation's external debt continued to grow, reaching another all-time high. However, economic growth meant that as a percentage of GDP it fell to 193.3%.

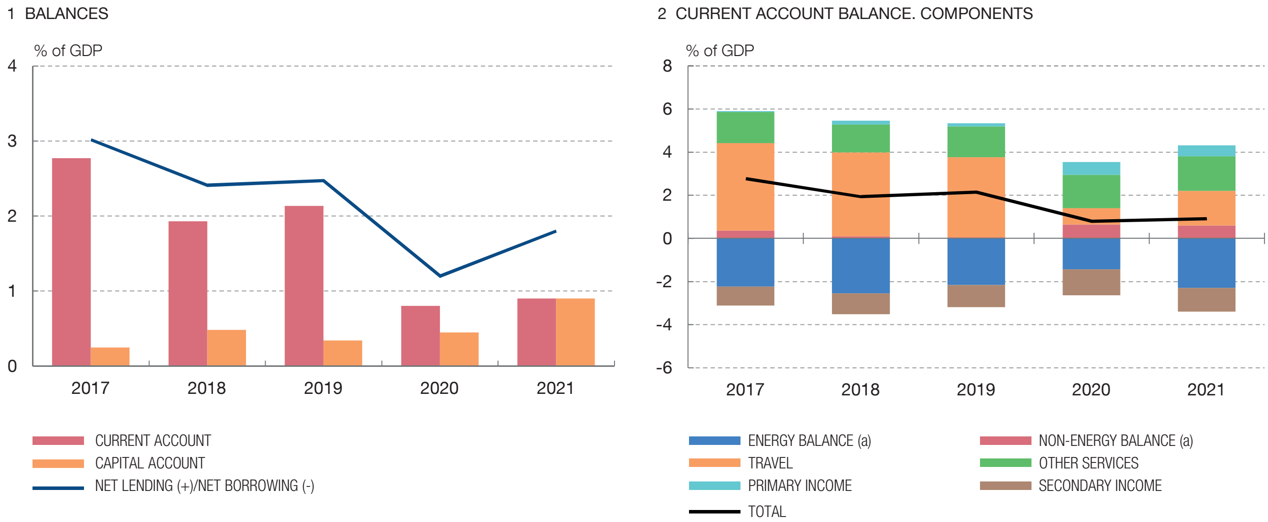
First, this article analyses the performance of the current and capital account balances and their main components. Next, it describes financial transactions with the rest of the world. Lastly, it addresses Spain's financial position vis-à-vis the rest of the world.[1] The article contains a box analysing recent developments in foreign direct investment under the "directional principle".[2]

1 The balance of payments, IIP and external debt data are available on the Banco de España's website. For further details on the current methodology, see Banco de España (2021b).

2 See Box 1, "Analytical approaches to foreign direct investment and recent developments", in Alves et al. (2018).

Chart 1
THE SPANISH ECONOMY'S NET LENDING RECOVERED PARTIALLY IN 2021

Net lending increased significantly in 2021, albeit without returning to pre-health crisis levels. This increase was mainly due to the partial recovery in the travel surplus and the increase in the capital account surplus. This offset the deterioration in the goods balance, which basically reflected the increase in the energy deficit.



SOURCES: Banco de España and Departamento de Aduanas e Impuestos Especiales de la Agencia Estatal de la Administración Tributaria.

a The energy and non-energy balances are Banco de España estimates drawing on Customs data.

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The balance on current account and capital account

In 2021, on balance of payments data, the Spanish economy's net lending stood at 1.8% of GDP, up from 1.2% the previous year (see Chart 1 and Table 1). However, it remained below pre-health crisis levels. The improvement in 2021 largely reflected the gradual easing of the pandemic containment measures, aided by the headway in the vaccination campaign throughout the year, with the positive knock-on effect on travel credits. Nonetheless, these remained below their pre-pandemic levels.[3] In addition, the recovery in the external balance was curtailed in 2021 H2 by global bottlenecks, which affected export momentum, and by higher commodity (above all energy commodity) prices, which drove up the cost of imports. Looking ahead to 2022, amid high uncertainty, the war in Ukraine will exacerbate precisely these higher commodity prices, of which Spain is a net importer, and the bottlenecks (which are also affected by the zero-COVID measures adopted in China). That said, thanks to vaccination and the gradual normalisation of international mobility, the recovery in tourism flows is expected to continue.

3 For a more detailed analysis of developments in the external sector throughout 2021 and its future outlook, see Banco de España (2022b).

Table 1
BALANCE OF PAYMENTS. BALANCES

% of GDP

	2017	2018	2019	2020	2021
Net lending (+) / net borrowing (-)	3.0	2.4	2.4	1.2	1.8
Current account	2.8	1.9	2.1	0.8	0.9
Goods	-1.9	-2.4	-2.2	-0.8	-1.7
Services	5.5	5.2	5.1	2.3	3.2
Travel	4.1	3.9	3.7	0.8	1.6
Other services	1.5	1.3	1.4	1.5	1.6
Primary income	0.0	0.1	0.2	0.6	0.5
Secondary income	-0.9	-1.0	-1.0	-1.2	-1.1
Capital account	0.2	0.5	0.3	0.4	0.9

SOURCE: Banco de España.

The rise in net lending in 2021 was mainly the result of the widening of the travel (by 0.8 pp) and capital account (by 0.5 pp) surpluses to 1.6% and 0.9% of GDP, respectively. This offset the deterioration in the goods deficit (from 0.8% of GDP in 2020 to 1.7%), which was essentially explained by the increase in the energy bill (from 1.4% of GDP in 2020 to 2.3%). Changes in the other balances were smaller. Thus, the non-travel services surplus widened by 0.1 pp of GDP to 1.6%. Overall, the balance on primary and secondary income improved slightly (by close to 0.1 pp of GDP), in an environment where interest rates remained at very low levels.

The widening of the goods deficit in 2021 was the result of stronger growth in imports than in exports[4] (24.6% and 21%, respectively, according to the balance of payments). On Customs data, which are broken down in more detail, this was the result of imports growing faster than exports, in real terms, and of a deterioration in the terms of trade, against a background of significantly higher commodity (particularly energy commodity) import prices.

The services surplus grew by 0.9 pp to stand at 3.2% of GDP, after the steep decline in 2020 at the height of the pandemic. Unlike a year earlier, this increase was the result of rather more vigorous growth in exports than in imports (27.4% and 16.2%, respectively). Travel transactions, especially exports, grew quite considerably (80.3% versus 36.4% in the case of imports). Travel credits picked up as tourist arrivals and expenditure partially recovered their pre-health crisis levels (37.3% and 37.9%, respectively, of the 2019 levels in 2021 as a whole, according to the Frontur and Egatur statistics compiled by the INE). This occurred as headway in the vaccination campaign allowed for the gradual easing of restrictions on movement. However, developments in inbound tourism

4 For a more detailed analysis of the performance and drivers of goods and services transactions with the rest of the world, see Banco de España (2022b).

Table 2
NON-TRAVEL SERVICES TRANSACTIONS
% of total and year-on-year rates

	Share of total		Rates of growth				
	2020	2021	2017	2018	2019	2020	2021
Credits	100.0	100.0	5.1	3.7	10.2	-9.1	13.7
Transportation	22.5	21.1	12.2	4.0	10.9	-15.8	6.5
Construction	1.3	1.4	-14.8	1.7	-9.2	-26.6	20.8
Finance, insurance and pensions	7.8	7.9	5.7	-10.5	7.8	13.3	15.9
Royalties and licence fees	4.1	4.6	20.1	2.8	42.4	-16.1	26.8
Telecommunication, IT and information	16.1	17.1	5.1	9.5	9.9	-24.5	20.4
Other business services	38.7	37.5	0.3	0.9	9.0	3.3	10.1
Other non-travel services	9.4	10.4	6.5	14.4	7.3	-13.5	25.8
Debits	100.0	100.0	3.3	8.9	10.1	-12.4	12.8
Transportation	22.9	22.9	12.6	9.9	2.6	-19.4	30.6
Construction	0.2	0.2	-12.5	2.8	7.5	10.2	0.9
Finance, insurance and pensions	8.5	8.4	-9.0	-9.7	6.0	-0.5	-2.8
Royalties and licence fees	9.7	9.7	-0.6	25.6	8.5	-26.7	11.8
Telecommunication, IT and information	17.3	17.3	1.3	9.5	9.6	5.8	16.0
Other business services	37.4	37.5	4.9	9.4	15.4	-11.2	9.7
Other non-travel services	4.0	3.9	-0.9	5.8	17.2	-26.9	-10.2

SOURCE: Banco de España.

continued to be influenced by the subsequent waves of the pandemic in 2021, particularly in the summer, which held back the recovery in tourism activity.[5] Against a background of a more sluggish economic recovery than in the euro area as a whole and of resident tourism shifting to the domestic market, tourism imports recovered significantly more slowly than tourism exports.

Non-travel services imports and exports both grew in 2021 (12.8% and 13.7%, respectively). In both cases, while uneven, these increases were fairly widespread across service types (see Table 2). Within exports, the growth of those corresponding to royalties and licence fees, construction and telecommunication, IT and information services stood out. Turning to imports, the increase in those of transport services was notable, while those of insurance, pension and financial services decreased. By geographical area, export growth was widespread and more pronounced in exports to the EU than in those to the rest of the world, affected by the weak growth of exports to the United Kingdom, perhaps due to the adverse impact of Brexit.[6] Imports from within the EU grew less sharply than those from outside it, despite the sluggishness of those from the United Kingdom.

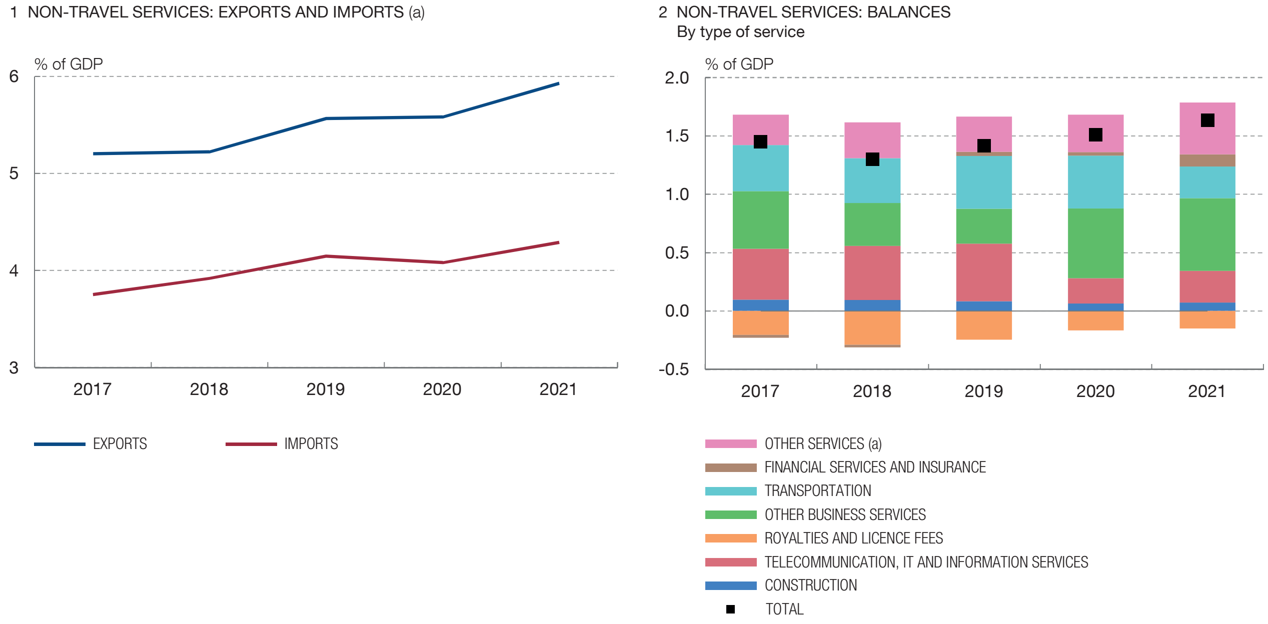
5 See Banco de España (2021a).

6 See Buesa et al. (2020).

Chart 2

THE NON-TRAVEL SERVICES SURPLUS ROSE MODERATELY IN 2021

The non-travel services surplus widened against a backdrop of stronger growth in exports than in imports. The improvement in balances was widespread across types of services, except for transportation services.



SOURCE: Banco de España.

a Includes processing, repair, government, personal, cultural and recreational services.

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The primary income surplus[7] narrowed by 0.1 pp in 2021 to 0.5% of GDP. The modest investment income surplus decreased slightly, practically disappearing in terms of GDP (see Chart 3), due to the decline in net income from foreign direct investment, which offset the improvement in the debt instrument deficit attributable to portfolio investment, in a context of very low interest rates throughout the year.

The secondary income deficit, which includes the bulk of current transfers, narrowed to 1.1% in 2021 (1.2% a year earlier). This reflected the decrease in net payments to the European Union, against the background of a sharper increase in credits than in debits (see Table 3).

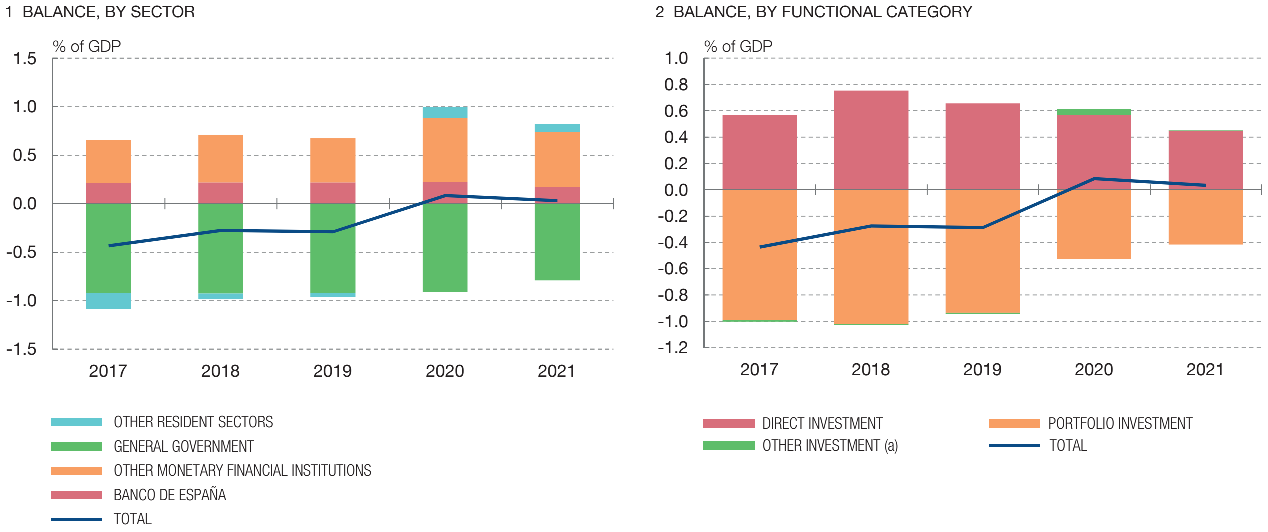
The capital account surplus, which is basically determined by capital transfers from the European Union, increased significantly, by 0.5 pp to stand at 0.9% of GDP (see Chart 1 and Table 3), boosted by the receipt of European funds under NGEU,[8] mostly in the form of capital transfers.

7 Primary income includes employment income, investment income, taxes on production and imports, and subsidies. Secondary income includes personal transfers, current taxes, social security contributions and benefits, transfers relating to insurance transactions, current international cooperation and other miscellaneous items.

8 See Banco de España (2022a).

Chart 3
THE INVESTMENT INCOME BALANCE AS A PERCENTAGE OF GDP ALMOST REACHED EQUILIBRIUM IN 2021

The slight narrowing of the investment income surplus of monetary financial institutions was largely offset by the partial correction of the general government's deficit. By functional category, the narrowing of the investment income deficit of portfolio investment was countered by the deterioration in the balances of direct investment and of other investment.



SOURCE: Banco de España.

a Includes income from reserves.

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Table 3
CURRENT AND CAPITAL TRANSFERS WITH THE EUROPEAN UNION
% of GDP

	2017	2018	2019	2020	2021
Credits	0.8	1.1	0.9	1.0	1.7
Primary income (a)	0.5	0.5	0.5	0.5	0.5
Secondary income. Transfers (b)	0.1	0.2	0.1	0.2	0.4
Capital transfers (c)	0.2	0.4	0.3	0.3	0.9
Debits	1.0	1.1	1.1	1.2	1.3
Primary income (d)	0.2	0.2	0.2	0.2	0.2
Secondary income. Transfers (e)	0.7	0.9	0.9	1.0	1.1
Balance	-0.1	-0.1	-0.2	-0.2	0.4

SOURCES: IGAE (Ministerio de Hacienda), Tesoro Público (Ministerio de Asuntos Económicos y Transformación Digital), Fondo Español de Garantía Agraria, FROB and Banco de España.

a Includes subsidies (European Agricultural Guarantee Fund (EAGF) and others).
b Includes current international cooperation (European Social Fund and others, including a small share of NGEU funds).
c Comprises European Regional Development Fund (ERDF), European Agricultural Fund for Rural Development (EAFRD), Cohesion Funds and most of the NGEU funds.
d Includes taxes on production and imports. Since 2015 it has also included financial institutions' contributions to the Single Resolution Fund.
e Includes current international cooperation payments (European Development Fund and others) and VAT and GNI-based resources.

Financial transactions with the rest of the world

In line with the trend since 2015, in 2021 the financial account of the balance of payments, excluding the Banco de España,[9] had a surplus once again, equivalent to 1.1% of GDP, down significantly from the surplus of 8.8% a year earlier (see Table 4 and Chart 4.1). This was due to net purchases of foreign assets by resident agents in Spain (10.5% of GDP, down 1.3 pp from 2020) exceeding net capital inflows (9.8% of GDP, which contrasts with the 2.4% recorded in 2020) and positive net transactions linked to financial derivatives[10] (0.3% of GDP). Only 0.6 pp of the steep decline in the financial account surplus in terms of GDP is attributable to growth in the denominator.

Net outward investment by resident agents was positive under all headings, as has been the case in recent years (see Chart 4.2). More than half of outward investment was channelled through portfolio investment (5.9% of GDP), mainly via purchases of investment fund shares or units by the other resident sectors[11] (4.5% of GDP). Net direct investment transactions were considerably lower than in 2020 (1.4% of GDP, down 3 pp), as a result of a lower volume of equity purchases by the private non-financial sector and the financial sector divesting itself of these instruments. The lower volume of transactions under this heading would be consistent with changes in Spanish outward foreign direct investment under the "directional principle" (see Box 1).

After the steep decline at the onset of the pandemic, capital inflows returned to normal in 2021. Thus, net purchases by international investors were positive across all headings, with the bulk of the funds raised in portfolio investment, whose volume far exceeded that of 2020 (6% of GDP, versus 1% a year earlier) (see Chart 4.3). This was due to the net purchases of debt securities issued by general government (2.1% of GDP), banks (2% of GDP in convertible bonds and subordinated debt, thus bolstering their regulatory capital) and, to a lesser extent, non-financial corporations (0.9% of GDP). Net purchases of government debt by non-residents would indicate renewed international investor confidence in the Spanish economy, although pre-health crisis volumes are yet to be recovered. Unlike in 2020, other investment showed positive net liability transactions (1.3% of GDP),

9 Since the start of the Economic and Monetary Union (EMU) in 1999, the financial account of the Banco de España must largely be considered an accommodative item as, in addition to reserve holdings, it also includes the net position of the Banco de España vis-à-vis the Eurosystem. In consequence, to facilitate economic analysis, the financial account is separated from that of the other resident sectors. For more details, see Banco de España (2015) (only available in Spanish).

10 Given the difficulty of correctly assigning financial derivative transactions as assets or liabilities, and following international methodological recommendations, the figures are only presented in net terms.

11 "Other resident sectors" comprises the resident sectors other than general government and monetary financial institutions.

Table 4
BREAKDOWN OF THE FINANCIAL ACCOUNT OF THE BALANCE OF PAYMENTS

% of GDP

	2017	2018	2019	2020	2021
Financial account balance (NCA - NCL) (a)	5.9	3.9	0.8	8.8	1.1
Net change in external assets (NCA) (a) (b)	12.1	10.2	10.0	11.8	10.5
Direct investment	3.6	2.6	2.3	4.4	1.4
Monetary financial institutions	0.6	0.9	0.6	0.9	0.0
Other resident sectors	3.0	1.7	1.7	3.5	1.4
Portfolio investment	6.8	3.9	2.7	5.8	5.9
General government	0.0	0.1	0.1	0.1	0.1
Monetary financial institutions	0.6	1.1	0.6	1.8	0.2
Other resident sectors	6.2	2.7	2.0	3.9	5.6
Other investment (c)	1.8	3.7	5.0	1.7	3.2
General government	0.1	0.1	0.0	0.1	-0.3
Monetary financial institutions	1.3	2.8	4.2	1.3	2.8
Other resident sectors	0.4	0.8	0.8	0.3	0.7
Net change in external liabilities (NCL) (a) (b)	6.9	6.3	8.5	2.4	9.8
Direct investment	2.5	4.0	1.8	2.6	2.5
Monetary financial institutions	0.0	0.3	-0.3	0.4	0.3
Other resident sectors	2.5	3.7	2.0	2.2	2.3
Portfolio investment	4.6	2.7	6.5	1.0	6.0
General government	2.5	3.1	4.2	-0.3	2.1
Monetary financial institutions	2.6	0.5	1.4	0.7	2.1
Other resident sectors	-0.5	-0.9	0.9	0.6	1.8
Other investment (c)	-0.2	-0.5	0.2	-1.2	1.3
General government	-0.4	-0.7	-0.1	0.8	1.7
Monetary financial institutions	0.2	-1.3	0.1	-2.0	-0.5
Other resident sectors	0.0	1.6	0.2	0.0	0.0
Financial derivatives (d)	0.7	-0.1	-0.6	-0.6	0.3
Banco de España net transactions with the rest of the world (e)	-2.8	-1.2	1.2	-7.2	1.3
Reserves	0.3	0.2	0.1	0.0	0.9
Net position vis-à-vis the Eurosystem	-2.7	-0.8	1.7	-9.1	0.1
Other net assets	-0.4	-0.6	-0.5	1.9	0.4
Errors and omissions (f)	0.0	0.3	-0.4	0.3	0.6
Memorandum item					
Financial account balance, including the Banco de España	3.0	2.7	2.0	1.5	2.4

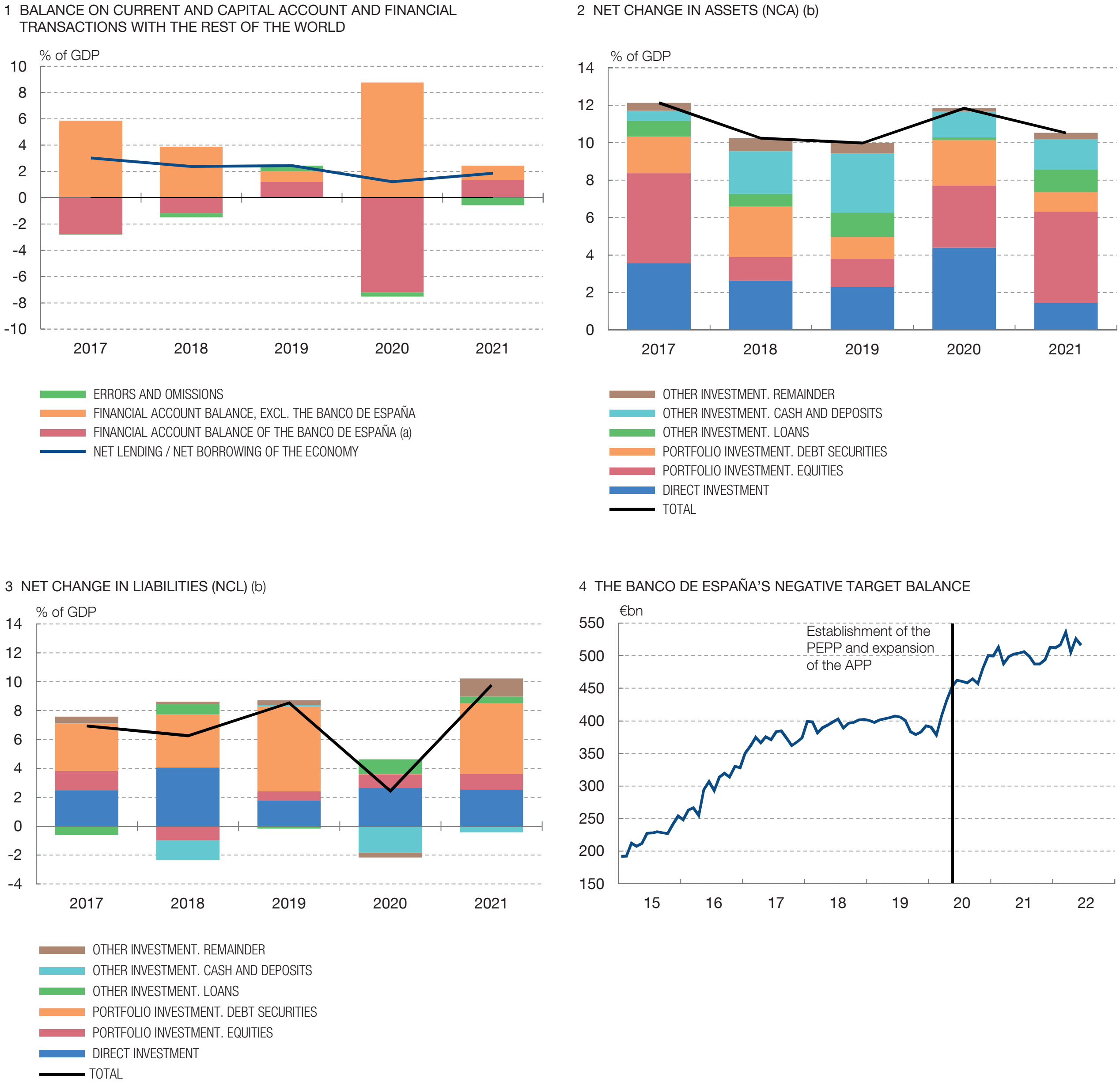
SOURCE: Banco de España.

a Excluding the Banco de España.
b Excluding financial derivatives.
c Mainly includes loans, deposits and repos.
d Recorded as net of assets and liabilities.
e Change in assets less change in liabilities. A positive (negative) sign denotes a decrease (increase) in the Banco de España's net foreign liabilities.
f A positive sign indicates that credits are being understated and/or debits are being overstated, which in the financial account is the same as understating liabilities and/or overstating assets. A negative sign denotes the opposite.

Chart 4

THE SURPLUS OF THE FINANCIAL ACCOUNT OF THE BALANCE OF PAYMENTS WAS MORE MODERATE IN 2021 DUE TO THE PICK-UP IN CAPITAL INFLOWS

The surplus of the financial account, excluding the Banco de España, amounted to 1.1% of GDP in 2021, compared with 8.8% a year earlier, mainly as a result of the recovery in net purchases by non-residents of general government and bank debt securities, as well as the receipt of European funds under NGEU and SURE. The financial account of the Banco de España had a surplus of 1.3% of GDP, despite the Eurosystem's asset purchase programmes continuing throughout 2021, which would be consistent with the stability of the negative TARGET balance. This stability reflects the counterbalancing effect associated with the renewed flow of net purchases of government debt by non-residents, the statistical effect of the NGEU funds and the increase in the Banco de España's reserves.



SOURCE: Banco de España.

a Change in assets less change in liabilities. A positive (negative) sign denotes a decrease (increase) in the net foreign liabilities of the Banco de España.
b Excluding the Banco de España and financial derivatives.

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mainly as a result of general government receiving European funds under NGEU[12] and the loans provided through SURE.[13]

The financial account of the Banco de España recorded a surplus equivalent to 1.3% of GDP in 2021, compared with the deficit of 7.2% in 2020. This arose despite the Eurosystem's asset purchase programmes (APP and PEPP) remaining in force in 2021, which, in principle, would tend to push up the negative TARGET balance[14] and, therefore, that of the Banco de España[15] (see Chart 4.4). However, this effect appears to have been countered by the return in 2021 of net purchases of general government debt by non-residents, the statistical effect of the receipt of NGEU funds and the increase in the Banco de España's reserves as a result of a new allocation of special drawing rights (SDRs) by the IMF.[16] The SDRs were expanded to support a group of countries that are struggling with the impact of the pandemic and have a greater need for foreign currency to obtain basic supplies when they are shut out of international capital markets. Spain has almost tripled its previous SDR balance with this increase.

The breakdown by institutional sector shows that, as has been customary in recent years, in net terms only general government raised funds abroad (4% of GDP), mainly as a result of investment by non-residents in government debt and, on this occasion, funds from the EU.[17] The other sectors of the economy were net lenders to the rest of the world (4.8% of GDP), which is consistent with their net lending capacity.[18]

The international investment position and gross external debt

Following the initial negative impact of the pandemic, the Spanish economy's negative net IIP underwent a significant correction in 2021, falling to 70.4% of GDP, its lowest level since 2006 (see Chart 5.1). This represents a 14.5 pp decline on 2020,

12 The credit of grants from the European Commission to Spain under NGEU is recognised as a reduction in the liabilities of the financial account of the Banco de España, under *other investment - deposits.* The balancing entry is an increase in the general government's liabilities in the financial account under *other investment - other accounts payable.*

13 SURE is the European instrument for temporary Support to mitigate Unemployment Risks in an Emergency. In 2021 Spain received from the European Commission loans provided through SURE totalling €11 billion, thereby completing the total amount allocated. It had already received €10 billion in 2020. For further details, see "The European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE)". European Commission.

14 The Eurosystem's TARGET2 platform processes payments in euro with bank reserves, i.e. with central bank money. Cross-border transactions channelled through this platform result in claims and liabilities between Eurosystem central banks which, when aggregated and netted, give rise to the TARGET balances.

15 For a detailed explanation of the effect of the Eurosystem's asset purchase programmes on the TARGET balance and the financial account of the Banco de España, see Alves, Millaruelo and del Río (2018) and Martínez Pagés (2016). For further details on the methodological treatment, see Banco de España (2015).

16 See Pérez Álvarez (2022).

17 Specifically, the NGEU funds and those provided through SURE.

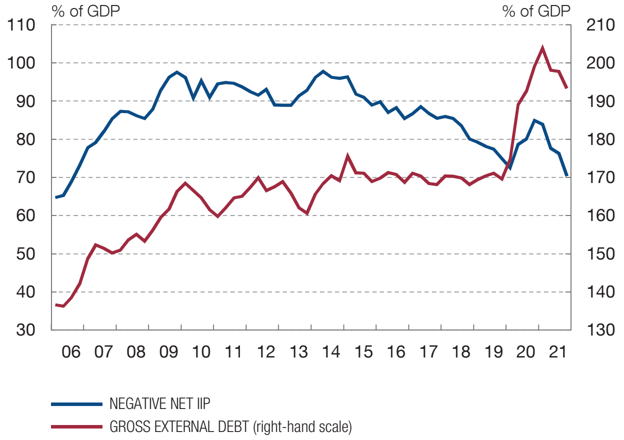
18 According to the Financial Accounts of the Spanish Economy for 2021, the net lending of financial institutions, non-financial corporations and households amounted to 3%, 2.5% and 2.9% of GDP, respectively.

Chart 5

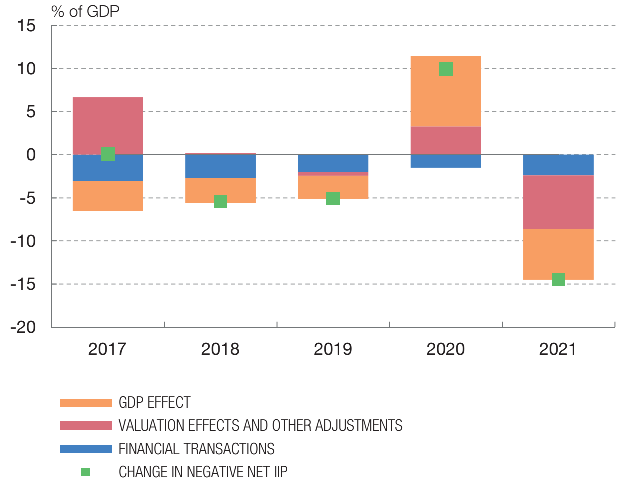
SPAIN'S NEGATIVE NET IIP CORRECTED SIGNIFICANTLY IN 2021 TO 70.4% OF GDP, ITS LOWEST LEVEL SINCE 2006

This reduction in the negative net IIP, in terms of GDP, was due to the surplus of financial transactions with the rest of the world, equally positive valuation effects and GDP growth. The positive valuation effects were the result of the increase in asset value and the decrease in the value of liabilities. In 2021 gross external debt fell by 5.8 pp to 193.3% of GDP, thanks mainly to economic growth, as in volume terms it increased by €95 billion, thus marking a new all-time high.

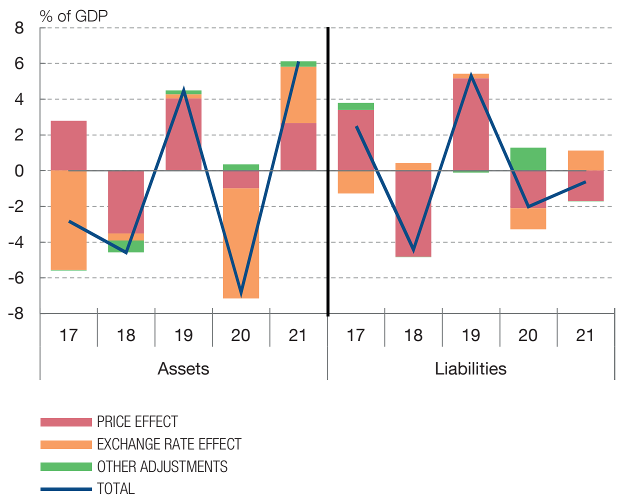
1 NEGATIVE NET IIP AND GROSS EXTERNAL DEBT (a) (b)



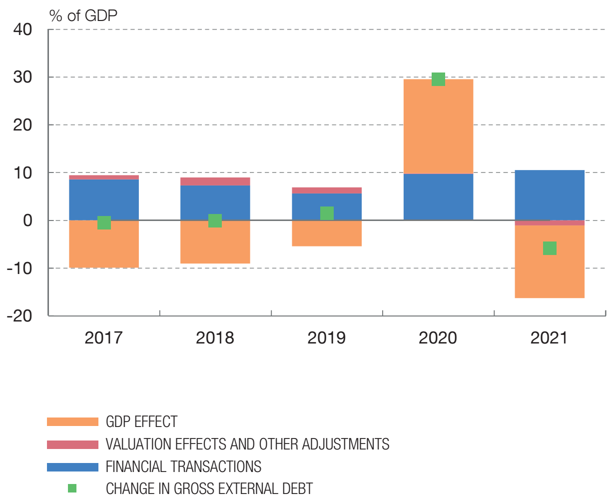
2 COMPONENTS OF THE CHANGE IN NEGATIVE NET IIP (a)



3 CHANGE IN IIP COMPONENTS, BY VALUATION EFFECT AND OTHER ADJUSTMENTS (c)



4 COMPONENTS OF THE CHANGE IN GROSS EXTERNAL DEBT (b)



SOURCE: Banco de España.

a The net IIP is the difference between the value of resident sectors' foreign assets and that of the liabilities to the rest of the world.
b External debt is the balance of all liabilities that entail a future payment obligation for principal, interest or both (i.e. all financial instruments except for equities, financial derivatives and gold bars).
c Excluding the Banco de España and the net derivatives position.

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Table 5
INTERNATIONAL INVESTMENT POSITION. BREAKDOWN OF FINANCIAL TRANSACTIONS AND OTHER FLOWS

€bn

	2020	2021							
	End-period position	Change in balance	Transactions in the period	Other flows in the period (a) (I + II)	Revaluations (I)	*Due to changes in prices*	*Due to exchange rate fluctuations*	Other changes in volume (II)	End-period position
Total net position (assets - liabilities)	-952.3	104.4	29.2	75.2	70.8	41.7	29.1	4.4	-847.9
In terms of GDP (%)	-84.9	14.5							-70.4
Excluding the Banco de España	-681.9	88.4	13.2	75.3	71.0	46.4	24.6	4.3	-593.5
Direct investment	-191.9	-3.3	-13.2	9.9	1.6	-11.8	13.4	8.3	-195.2
Portfolio investment	-479.5	67.7	-0.6	68.3	70.8	64.6	6.2	-2.5	-411.8
Other investment (b)	-4.4	25.6	22.7	2.9	4.8	-0.2	5.0	-2.0	21.2
Financial derivatives	-6.2	-1.6	4.2	-5.8	-6.2	-6.2	0.0	0.4	-7.7
Banco de España	-270.4	16.0	16.0	0.0	-0.2	-4.7	4.5	0.1	-254.4
Reserves	66.3	15.1	10.3	4.8	4.8	0.3	4.5	0.0	81.4
Net position vis-à-vis the Eurosystem	-347.8	0.9	0.9	0.0	0.0	0.0	0.0	0.0	-346.9
Other	11.1	0.0	4.8	-4.9	-3.8	-3.8	0.0	0.0	11.1
Assets, excluding the Banco de España (c)	1,899.8	200.4	126.8	73.7	70.1	32.0	38.1	3.6	2,100.2
Direct investment	694.6	35.9	17.2	18.8	20.4	4.4	16.1	-1.6	730.5
Portfolio investment	712.3	111.9	71.6	40.4	39.0	27.8	11.3	1.3	824.2
Other investment	493.0	52.6	38.1	14.5	10.6	-0.1	10.8	3.9	545.5
Liabilities, excluding the Banco de España (c)	2,575.6	110.4	117.8	-7.4	-7.1	-20.6	13.5	-0.3	2,686.0
Direct investment	886.5	39.2	30.3	8.9	18.9	16.2	2.7	-9.9	925.7
Portfolio investment	1,191.8	44.2	72.1	-28.0	-31.7	-36.8	5.1	3.8	1,235.9
Other investment	497.3	27.0	15.3	11.7	5.8	0.0	5.8	5.9	524.3
Memorandum item:									
Gross external debt	2,234.0	95.2	126.4	-33.3	-33.2	-46.7	13.5	2.1	2,329.3
In terms of GDP (%)	199.1	-5.8							193.3

SOURCE: Banco de España.

a Other flows include revaluations (due to exchange rate fluctuations or changes in prices) and other changes in volume (including, inter alia, unilateral loan write-offs and reclassifications, and statistical discrepancies between the IIP and the financial account of the balance of payments).
b Includes mainly loans, repos and deposits.
c Excluding financial derivatives. Following international methodological recommendations and in view of the difficulty of correctly allocating this heading, especially its transactions, to assets or liabilities, it is shown only in net terms in the upper part of the table.

of which only 5.9 pp can be explained by GDP growth (see Chart 5.2). In terms of volume, 2021 saw the negative net IIP fall by €104.4 billion, to €847.9 billion, thanks to the positive financial transactions with the rest of the world (€29.2 billion) and, above all, to the positive valuation effects and other adjustments[19] (€74.5 billion) (see Table 5).

19 These flows are divided into valuation effects (namely, variations due to changes in instrument prices and on account of the euro exchange rate) and other changes in volume (which include debt forgiveness, unilateral loan write-offs and reclassifications, and statistical discrepancies between the international investment position and the financial account of the balance of payments).

The changes in valuation effects and other adjustments were essentially caused by an increase in the value of assets (€71 billion) and, to a lesser degree, a fall in the value of liabilities (-€10 billion). Most of the increase in the value of assets was in the shares and units held by other resident sectors in investment funds, due to the increase in the price of such instruments (€42.6 billion), albeit also to the depreciation of the euro (€19.7 billion), which fell 5% against the US dollar (see Chart 5.3). The fall in the value of liabilities was essentially the result of the rise in long-term interest rates, which affected debt securities (-€46.7 billion), particularly those issued by general government (-€35.4 billion). However, this was partially offset by the increase in value - via prices - of the equity securities issued by residents (€26.1 billion).

The breakdown by institutional sector shows that only the financial sector, including both the monetary and non-monetary[20] sectors, posted a net credit position (3.5% and 29.3% of GDP, respectively), which increased in both cases in 2021. By contrast, general government, the private non-financial sector and the Banco de España posted a debit position, standing at 51.6%, 30.5% and 21.1% of GDP, respectively, at end-2021, falling below the figures posted a year previously in all cases. Nonetheless, in the case of general government and the Banco de España, the figures remain above their pre-pandemic levels.

Spain's gross external debt[21] rose by €95.2 billion in 2021, to €2,329.3 billion, another all-time high and €219.1 billion more than before the health crisis. The assumption of new debts (€126.4 billion) was partially offset by negative valuation effects (-€33.3 billion) (see Chart 5.4). The latter were mainly due to the rise in long-term interest rates, essentially resulting in a fall in the value of general government debt securities (-€35.3 billion). Gross external debt as a percentage of GDP fell by 5.8 pp to 193.3%, thanks mainly to output growth (see Chart 5.1). A high level of external debt constitutes a vulnerability in the event of a possible tightening of financing conditions. Nonetheless, the composition of such liabilities is a mitigating factor, since public sector debt (general government and Banco de España) accounts for 57% of the total, the great majority of which is long-term, fixed-interest, euro-denominated debt.

6.7.2022.

20 Comprising financial institutions that cannot issue deposits or money market fund shares or units. This sub-sector includes pension funds, insurance companies, investment funds, other financial intermediaries and auxiliaries and special purpose entities (SPEs).

21 Gross external debt comprises all of a country's liabilities to the rest of the world that entail a future payment obligation. It therefore excludes equities (shares and other equity and investment fund shares or units), financial derivatives and gold bars. The Banco de España's liabilities to the Eurosystem are included in this category, even though they have no explicit maturity.

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BOX 1

FOREIGN DIRECT INVESTMENT: RECENT DEVELOPMENTS

In accordance with balance of payments criteria, the data on foreign direct investment (FDI)[1] analysed in the main body of this article are classified, like the other financial components, into assets and liabilities of resident sectors vis-à-vis the rest of the world. This box provides a complementary analysis of this FDI information classified in accordance with the "directional principle", whereby transactions are grouped based on the residence of the investment decision-making centre.[2] Thus, where the decision-making centre (the group's parent) is resident in Spain, reference is made to *Spanish outward foreign direct investment,* which includes assets, but also any intra-group liabilities that might entail a reduction in such investment. Meanwhile, *inward foreign direct investment in Spain* comprises transactions where the decision-making centre is non-resident, and includes liabilities net of the relevant intra-group assets. As per the international guidelines,[3] this approach is recommended where the aim is to provide a more detailed breakdown of FDI, whether by counterpart country or by sector of economic activity.

In 2021, the volume of FDI transactions in Spain as a percentage of GDP, based on the directional principle, remained very similar to 2020 in terms of inward investment, whereas outward investment fell notably, a development that stands in contrast to the recovery seen in global investments of this nature.[4] This global trend was driven by the significant reinvested earnings left by parents in their subsidiaries. In the case of Spain, this more subdued outward investment offset the more encouraging trend seen the previous year, which took place amid sharp declines in FDI at international level due to the health crisis. 2021 saw various restructuring processes and cases of profit repatriation in the form of equity instruments, together with repayments of financing to group companies.

Foreign investment in Spain according to the directional principle amounted to €12.2 billion in 2021, slightly above the figure for 2020 (€10.2 billion) (see Chart 1). There was a slight increase in GDP terms, mitigated by the notable increase in output (the denominator of the ratio). As far as Spanish foreign direct investment is concerned and much like the trend observed in France, according to data based on the directional principle Spain divested €0.9 billion abroad, in contrast to the positive investment recorded in previous years and the trends in such investment in other major European countries.[5]

Chart 2 shows that non-financial corporations and, to a lesser degree, monetary financial institutions received new investments from abroad in net terms (€15.5 billion and €1.1 billion, respectively), while, as in 2020, there was divestment in the non-monetary financial sector (-€4.3 billion). The breakdown by instrument (see Chart 3) shows that the amount of new foreign investment in the capital of Spanish subsidiaries was slightly higher than the previous year (€20.2 billion vs €18.7 billion), while Spanish companies continued to reduce their debts to group companies, in an amount similar to that for 2020 (€7.9 billion vs €8.5 billion). In terms of the origin of foreign investment in accordance with the immediate investing country criterion,[6] Chart 4 shows that, unlike in 2020 and in line with the historical trend, euro area countries posted a positive amount of €16.4 billion, driven by investments from France (€7.6 billion), the Netherlands (€6.3 billion), Luxembourg (€5.1 billion) and Germany (€1.1 billion), with the most notable divestments coming from Portugal

1 FDI comprises all financial transactions (except for derivatives) between companies in the same group. It includes both parent-subsidiary transactions (provided that the direct or indirect ownership interest exceeds 10%) and those between two subsidiaries of the same group. With regard to its end-purpose, FDI encompasses the purchase/sale of pre-existing capital (mergers and acquisitions), the creation of new companies (greenfield investments), capital increases and debt financing (essentially loans and inter-company accounts).

2 For further details on methodological aspects and differences between the two approaches, see P. Alves, E. López, C. Martín and I. Roibás (2018), "Analytical approaches to foreign direct investment and recent developments", Box 1, "The balance of payments and international investment position of Spain in 2017", Analytical Articles, Economic Bulletin 2/2018, Banco de España, and "Balance of Payments and International Investment Position in Spain. Methodological Note," in the external sector statistics section of the Banco de España website.

3 See the IMF's BPM6 and the OECD direct investment manual.

4 As noted by the OECD in its report *FDI in figures,* April 2022, which includes further details on global FDI trends.

5 The negative levels in Spain and France are the result of both equity divestments and reductions in intra-company debt.

6 Countries such as Luxembourg, the Netherlands and Ireland are often transit countries for final investors, who are not normally resident in such countries. Investment from these countries would probably be much lower based on the ultimate investing country criterion, which shows the country of residence of the entity that ultimately controls a subsidiary and which, in turn, is not controlled by any other entity. In September 2021, coinciding with the publication of the review of the balance of payments and IIP data for 2017-2020, the stocks of direct investment by ultimate investor country for 2017-2019 were published. For further information, see the Statistical Note "Foreign direct investment in Spain: which are the immediate and which are the ultimate investing countries?".

(-€2.1 billion) and Italy (-€1.5 billion). For its part, the United Kingdom recorded divestments of -€4.1 billion, in stark contrast to the investments received in 2020. Elsewhere, worth noting were the investments from Central and South America (€2.6 billion), while divestments by North America amounted to €4.2 billion (associated with restructuring in the pharmaceutical sector). In terms of economic activity, Chart 5 shows that the construction sector was the main recipient of foreign investment in Spain in 2021 (€5.1 billion), followed by transport and communication (€2 billion). Meanwhile, the manufacturing sector recorded divestments (-€2.3 billion).

Spanish direct investment in the rest of the world was made by non-financial corporations (€5.7 billion), while the non-monetary financial sector and other monetary financial institutions divested €4.6 billion and €2 billion, respectively (see Chart 2). Chart 3, which breaks down

Chart 1
FDI. TRANSACTIONS. INTERNATIONAL COMPARISON

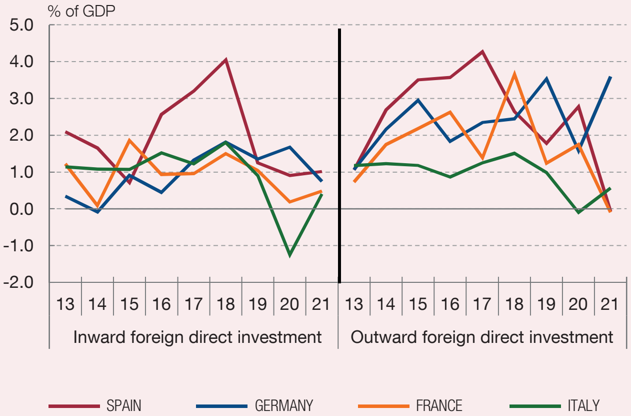


Chart 2
FDI. TRANSACTIONS. BREAKDOWN BY INSTITUTIONAL SECTOR

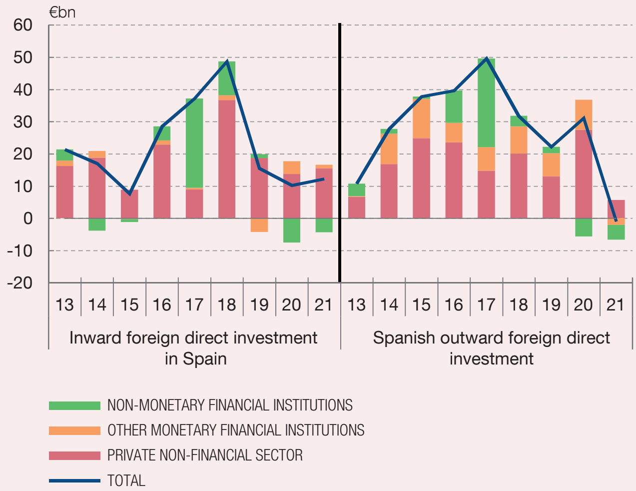


Chart 3
FDI. TRANSACTIONS. BREAKDOWN BY FINANCIAL INSTRUMENT

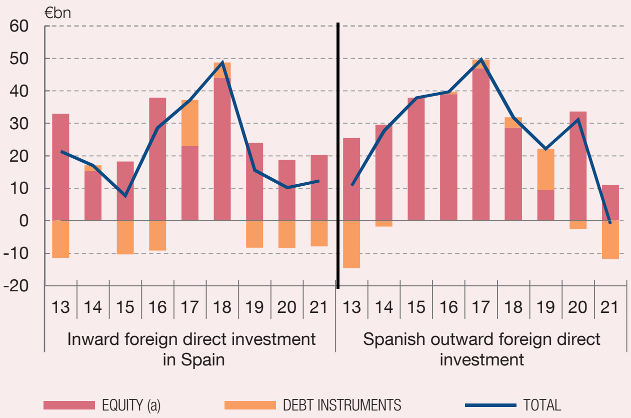
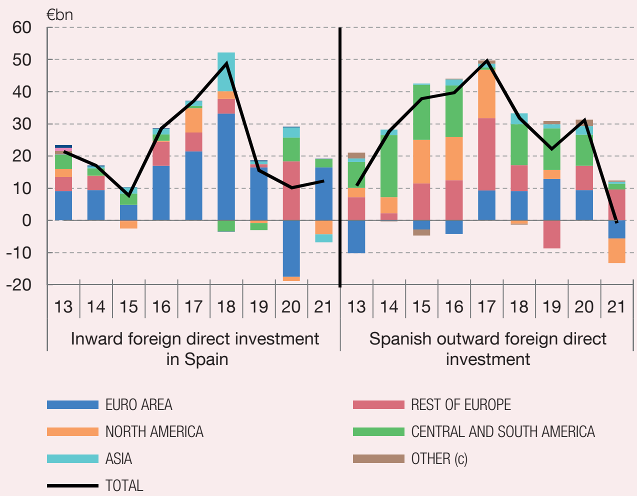


Chart 4
FDI. TRANSACTIONS. BREAKDOWN BY GEOGRAPHICAL AREA (b)



SOURCES: Banco de España and OECD.

a Includes shares, other forms of equity and reinvested profits (i.e. the direct investor's share, in proportion to the direct ownership interest in the equity capital, in the profits or losses that the subsidiaries have not distributed as dividends).
b According to the immediate-country criterion.
c Includes Africa, Oceania, indeterminate geographical information and amounts of international organisations other than those of the European Union.

such flows by financial instrument, shows that funds materialising in equity holdings fell compared with the average for 2013-2020 and with 2020 (€11 billion, vs €33.6 billion in 2020), albeit remaining positive. Meanwhile, and as in 2020, net investment in foreign debt instruments was negative (-€11.9 billion vs -€2.5 billion in 2020). This trend is due mainly to the repayment of intra-group financing, largely driven by companies that recorded positive flows in 2020, in the context of the pandemic. Chart 4 shows that Spanish investment abroad[7] was concentrated in European countries outside the euro area (€9.5 billion), followed by Central and South America (€1.8 billion) and Asia (€0.6 billion). North America recorded divestments (-€7.6 billion), mainly from the financial sector, as did the euro area countries (-€5.6 billion), something which had not happened since 2016 and which was influenced by divestments in Ireland (-€8.9 billion) - essentially in the telecommunications sector-, Luxembourg (-€5.5 billion) and Germany (-€4.8 billion), whereas France and Italy recorded positive flows (€6.4 billion and €4.1 billion, respectively). The breakdown by economic activity (see Chart 5) shows that in 2021 the real estate activities and other professional services sector was the biggest foreign investor (€3.5 billion), while the financial sector significantly reduced its investment (€1.1 billion vs €11.7 billion in 2020). Meanwhile, the manufacturing industry and utilities divested abroad (€6.4 billion and €3 billion, respectively).

The ratio of the stock of direct investment in Spain by the rest of the world relative to GDP was 60.4% at end-2021, down 2.5 pp on 2020, thereby slightly narrowing the gap in this indicator with the rest of the main euro area economies (see Chart 6). This decline was the result of an increase in the denominator of this ratio, since new investments and valuation effects had a positive effect. The destination of most of the balance of this investment was non-financial corporations (47.1% of GDP), followed by the non-monetary financial sector (12.2%). According to the immediate-country criterion,[8] and in line with previous

Chart 5
FDI. TRANSACTIONS. BREAKDOWN BY SECTOR OF ECONOMIC ACTIVITY

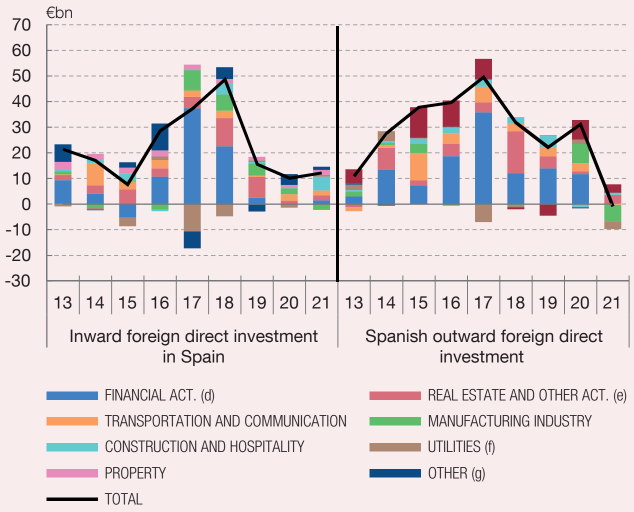
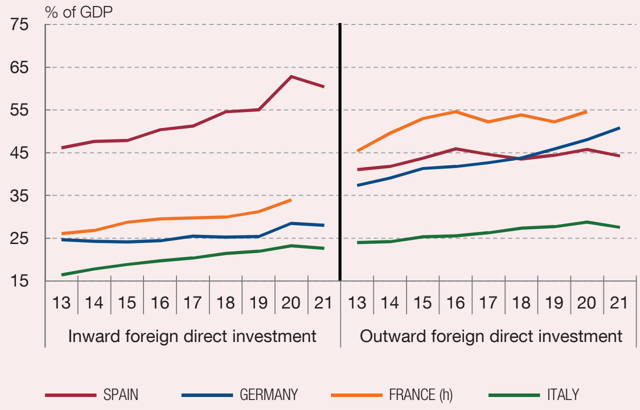


Chart 6
FDI. POSITION. INTERNATIONAL COMPARISON



SOURCES: Banco de España and OECD.

d Includes financial intermediation, activities of holding companies, foreign-equity holding companies, collective investment, financial leasing and other financial activities (except insurance and pension funds).
e Includes real estate activities, professional, scientific and technical services, and administrative activities.
f Includes electricity, gas, steam and air conditioning supply, water supply, and sewerage, waste management and remediation activities.
g Includes other economic activities (insurance and pension funds, mining and quarrying, wholesale and retail trade, agriculture, livestock breeding, forestry and fishing, and other services), and indeterminate amounts.
h There are no data available for France's FDI position in 2021.

7 According to the immediate investor country criterion. See footnote 6.
8 See footnote 6.

years, the bulk of these funds came from the euro area (38.5% of GDP), followed by the other European countries (13%). By sector of activity, real estate (14.1% of GDP) and financial activities (11.6%) were the main recipients of the investment. At end-2021 the ratio of Spain's direct investment position in the rest of the world relative to GDP was 44.2%, 1.5 pp down on the previous year. The increase in the denominator, together with the net divestments referred to earlier, contributed to the decline in the ratio, albeit mitigated by the increase in value associated with changes in prices (€4.2 billion) and exchange rate fluctuations (€14.2 billion, in part caused by the euro's depreciation against the US dollar and the pound sterling). Most of the balance of this investment was made by non-financial corporations (28.7% of GDP), followed by the monetary and non-monetary financial sectors (7.7% and 7.8%, respectively). By region, Latin America was once again the major recipient (13.4% of GDP), followed by both non-euro area and euro area European countries (11.7% and 9.6%, respectively). By economic activity, the funds were mainly from the financial sector (16.9% of GDP), followed at some distance by the real estate and other professional services sector (5.2%) and the transportation and telecommunication sector (5% of GDP).