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The Spanish economy and banking system's exposure to material third countries

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Rationale

Each year, the Banco de España identifies a list of third countries (i.e. those outside the European Economic Area) to which Spanish credit institutions have relevant exposures. To that end, it is important to analyse the Spanish economy's exposure to these material third countries from a number of perspectives.

Takeaways

- In 2022, the Banco de España identified the United Kingdom, the United States, Mexico, Brazil, Türkiye, Chile, Peru and Colombia as material third countries for the Spanish banking system. This article describes the Spanish economy's banking, trade and financial exposure to these countries.
- The most significant exposures are to the United Kingdom, which heads most of the variables under consideration. The United States also ranks very highly among the developed countries.
- Among the emerging market economies, the exposure to Brazil and Mexico in terms of bank assets and liabilities and Spanish outward foreign direct investment is noteworthy. The degree of exposure to other countries is much lower, with Chile and Türkiye ranking above Colombia and Peru.

Keywords

Material third countries, trade exposure, exports, imports, bank assets and liabilities, foreign direct investment, portfolio investment.

JEL classification

F10, F20, G21.

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THE SPANISH ECONOMY AND BANKING SYSTEM'S EXPOSURE TO MATERIAL THIRD COUNTRIES[1]

Introduction

The growing internationalisation of the Spanish banking sector has increased the Spanish economy's exposure to macro-financial developments in the jurisdictions into which it has expanded. Each year, the Banco de España identifies third countries (i.e. those outside the European Economic Area – EEA)[2] that are materially significant to the Spanish banking system for the purpose of the countercyclical capital buffer.[3] To do so, the volume of Spanish banks' international exposure is analysed according to the European Systemic Risk Board's (ESRB) methodological guidance, which stipulates that for a country to be identified as "material", exposures to that third country must be at least 1% of total (domestic and international) exposure for at least one of three metrics: (i) original exposure, (ii) risk-weighted exposure, and (iii) defaulted exposures. This threshold must be exceeded in each of the two quarters preceding the reference date and by the arithmetic mean of the eight quarters preceding the reference date (31 December of the year prior to the exercise).[4] According to this criterion, and using 2021 bank exposure data, the Banco de España identified the United Kingdom, the United States, Mexico, Brazil, Türkiye, Chile, Peru and Colombia as material third countries for the Spanish banking system in 2022 (Chart 1).[5]

Alongside the bank exposure that must be considered for regulatory reasons,[6] this article also describes the Spanish economy's exposure in other highly relevant areas in order to capture the spillover effects of those material third countries on the Spanish economy's macro-financial position. To be specific, trade positions (in goods and services), foreign direct investment (FDI) and portfolio investment are considered for 2022, the latest year for which data are available and in which a certain normality had returned following the changes brought about as a consequence of the pandemic and the related response measures. Figure 1 shows the external aspects of the Spanish economy that are analysed in this paper. The various variables taken into account, a detailed description of each and their sources are provided in the annex.

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1 The authors thank the Balance of Payments and Financial Accounts Division, the Macroprudential Analysis Division and the Financial Stability Analysis Division of the Banco de España for their help in providing data and for their comments and suggestions on how best to use them.

2 The EEA comprises the 27 European Union countries and the following members of the European Free Trade Association: Iceland, Liechtenstein and Norway.

3 See Box 3.2 of the November 2017 Financial Stability Report.

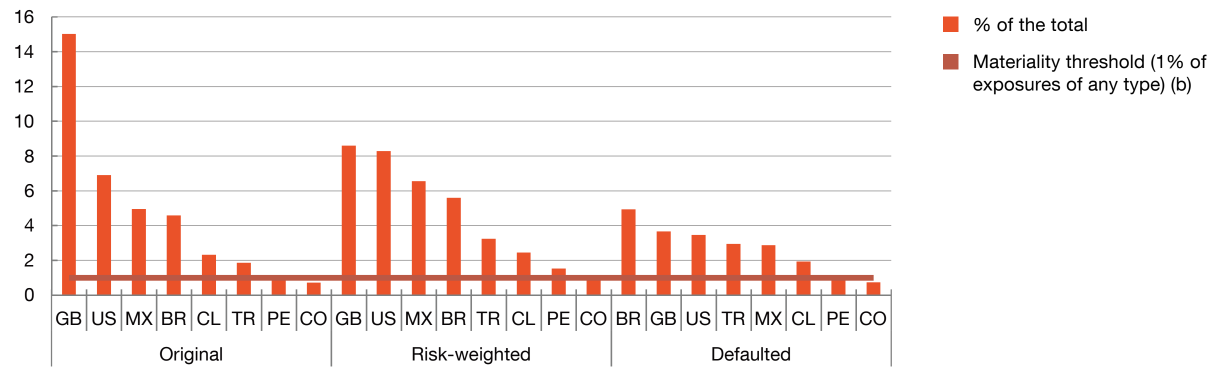
4 ESRB decision ESRB/2015/3 stipulates that the data for the calculations must be drawn from specific financial reporting returns (C 09.01 and C 09.02) submitted by Spanish credit institutions. Only those with exposures to third countries greater than 10% are required to submit these returns. This means that the domestic exposures of institutions that stand below this threshold are ignored, which introduces a bias to the calculations. In Spain, this means omitting nearly 47% of domestic exposures (the average in the period 2016-2018). The Banco de España corrects for this bias by supplementing the data with other financial reporting returns (C 07.00 and C 08.01). The European Central Bank uses this same correction in its identification of material third countries for the euro area.

5 Third countries considered to be material between 2016 and 2021 are listed under the subheading List of material third countries for the Spanish banking sector.

6 With additional variables to those under consideration when calculating the materiality of these countries for the Spanish banking system.

Chart 1

Exposure of the Spanish banking system to material third countries (2021) (a)



SOURCE: Banco de España.

a To calculate these exposures, the loans and assets of non-financial corporations and households held by Spanish credit institutions are considered by the borrower's country of residence (against the total overseas and domestic assets of Spanish credit institutions).

b In the ESRB decision ESRB/2015/3, this body stipulated that a country outside the EEA is to be identified as material if the exposures of an EEA member state's banking system's exposure to that country exceeds 1% of total exposures in at least one of three metrics: (i) original exposure, (ii) risk-weighted exposure, and (iii) defaulted exposures. Specifically, this threshold must be exceeded in each of the last two quarters of the previous year and on average over the eight last quarters prior to the reference date, defined as December of the year prior to the identification exercise.

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Figure 1

Scope of analysis to quantify Spain's exposure to material countries outside the EEA:

United Kingdom, United States, Mexico, Brazil, Türkiye, Chile, Peru and Colombia

2022

Spanish bank exposure

— Assets
— Liabilities

Trade exposure
(imports and exports)

— Goods
— Services
— Value added

Investment exposure
Foreign direct investment

— Assets
— Liabilities

Portfolio investment
— Assets

SOURCE: Banco de España.

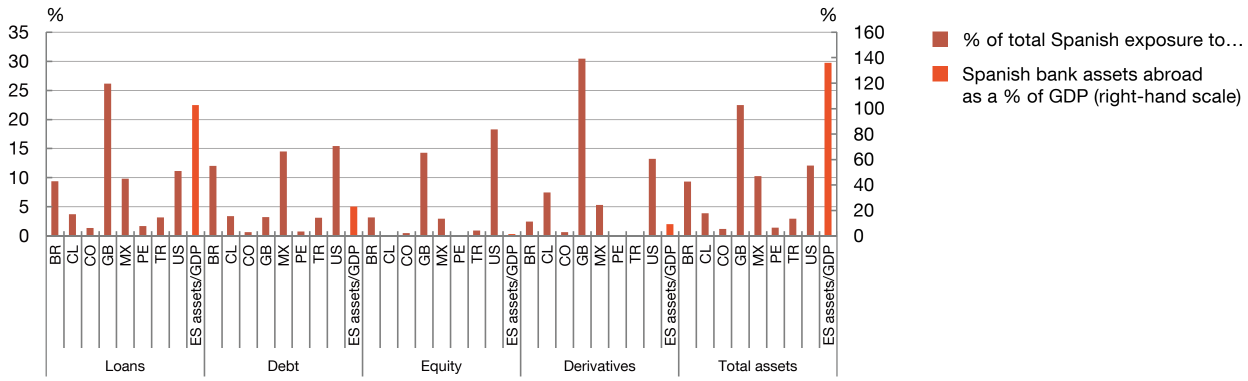
Before setting out the Spanish economy's exposure to material third countries in the various areas under consideration, it is worth noting that these economies, which are subject to regular analysis and monitoring in other Banco de España publications,[7] are relatively heterogeneous. For example, the United States and Brazil have particularly closed economies in terms of international trade.[8] It

7 For example, the main macro-financial indicators of the Latin American economies addressed in this article can be viewed here and those of the Turkish economy here.

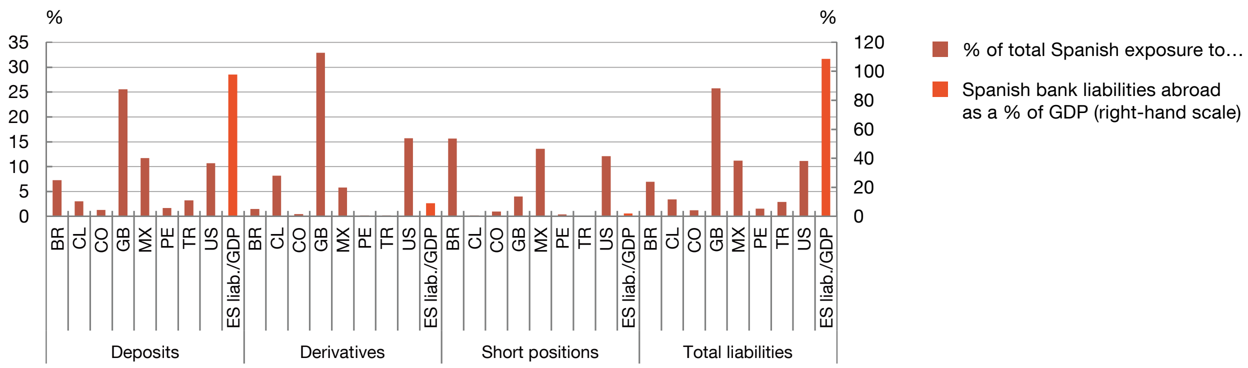
8 In the case of the United States, the ratio of (imports + exports)/GDP stood slightly above 20% in 2022 and reached 33% in Brazil. By comparison, it was slightly below 65% in Spain in 2022.

Chart 2
Exposure of the Spanish banking system (2022)

2.a Bank assets



2.b Bank liabilities



SOURCE: Banco de España.
NOTE: Financial reporting from Spanish deposit-taking institutions. Geographical breakdown of assets and liability by counterparty country of residence. Calculations performed using the FINREP return F20 for Spanish deposit-taking institutions. All assets/liabilities are considered by borrower/lender country of residence as a share of total overseas assets/liabilities of Spanish deposit-taking institutions. Liab.: liabilities.

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is also worth noting that there are other factors not covered in this article that could make these economies more relevant to the Spanish economy than could be expected on the basis of the exposures considered here. An example of this would be one or several of these economies being a major supplier of a certain good or service that was essential to the Spanish economy, as was the case recently with Russian energy imports to the European Union (EU).

The Spanish banking system’s exposure

Chart 2 shows the Spanish banking system’s exposure in terms of assets and liabilities and their components for each material third country.[9] The amounts are expressed as a percentage of the total non-domestic exposure of Spanish deposit-taking institutions (DIs). The aggregate exposure

9 The calculations are performed using the FINREP return F20 for all Spanish DIs.

of Spanish DIs to the eight material third countries as a percentage of Spanish GDP is also shown to give an indication of the scale of each variable under consideration.

Taken together, the greatest bank exposure is to the United Kingdom, which is the only material third country for which the value of assets and liabilities represents more than 20% and 25% of total Spanish exposure, respectively. The United States, Brazil and Mexico follow, with Spanish exposure reaching around 10%.

Although Chart 2.a shows all the asset components (derivatives, debt securities, equity and loans), derivatives and equity assets only account for a small proportion of total assets. In terms of debt securities, Brazil and Mexico top the table, followed by the United States, with exposure levels above 10%. However, the most significant exposure is from loans, which account for around 75% of the total asset exposure. The United Kingdom leads here, with around 25% of total overseas loans, while Brazil, Mexico and the United States stand at around 10%.

Bank liabilities comprise deposits, derivatives and short positions (Chart 2.b), although deposits account for nearly all of the liabilities. Their exposure is quite similar to bank lending, i.e. around 25% to the United Kingdom and 10% each to Brazil, Mexico and the United States.

The Spanish economy's trade exposure

The analysis of the Spanish economy's trade exposure takes into account bilateral Spanish imports and exports with the eight material third countries in terms of customs goods, balance of payments services and Spanish foreign value-added exports.[10] Chart 3 shows Spain's imports from and exports to the material third countries as a percentage of its global totals and the total Spanish trade exposure (both in imports and exports) as a percentage of Spanish GDP.

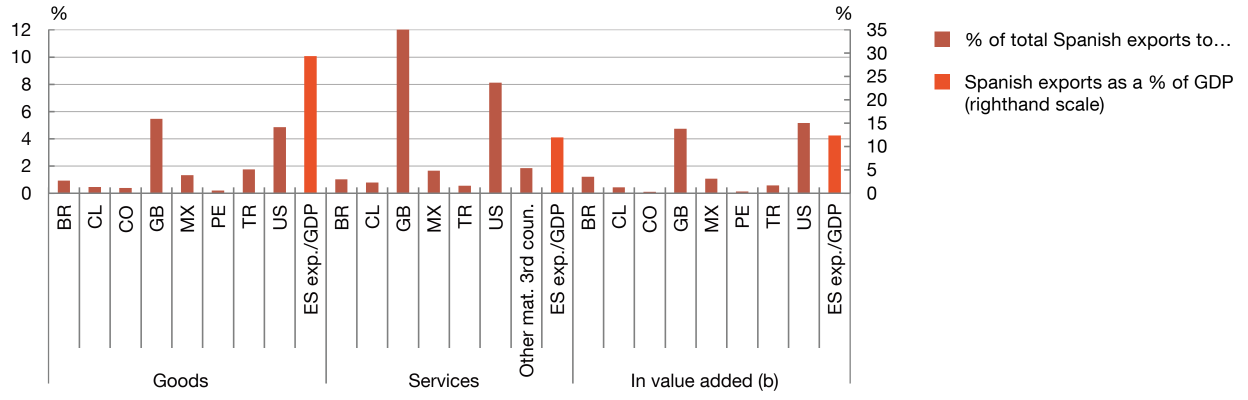
Chart 3.a shows that Spain exports goods mainly to the United Kingdom (5.5% of total Spanish exports), the United States (4.9% of the total), and to a lesser degree to Türkiye (1.7% of the total) and Mexico (1.3% of the total). The importance of the United Kingdom and the United States to Spanish exports can also be seen in services exports, where the United Kingdom accounts for 14% of the total. Likewise, 5% of the value added of Spanish exports originates in the United Kingdom and the United States.

Looking at imports (Chart 3.b), the United Kingdom and the United States are again the countries to which Spain has the most exposure for goods and services, with goods imported from Türkiye also being relatively significant (2.2%). The share of Spanish value added exported by the United Kingdom stands at around 5%, while the Latin American countries account for a small share.

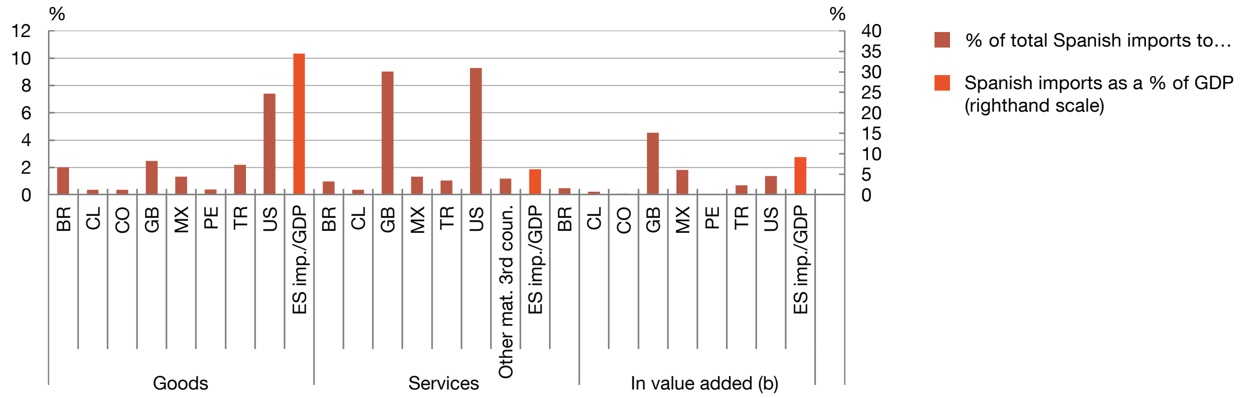
10 The share of value added by third countries to Spanish exports offers a measurement of the value added by foreign workers and firms to the goods and services exported from Spain.

Chart 3
Trade exposure of the Spanish economy (2022)

3.a Exports



3.b Imports



SOURCES: Banco de España, United Nations Conference on Trade and Development and Ministerio de Industria, Comercio y Turismo.

a Exports in value added correspond to foreign value added exported from Spain. 2019 data.
b Imports in value added correspond to Spanish value added exported by material third countries. 2019 data. The category "Other material third countries" comprises Colombia and Peru. Exp.: exports. Imp.: imports. Other mat. 3rd coun.: other material third countries.

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The Spanish economy's investment exposure

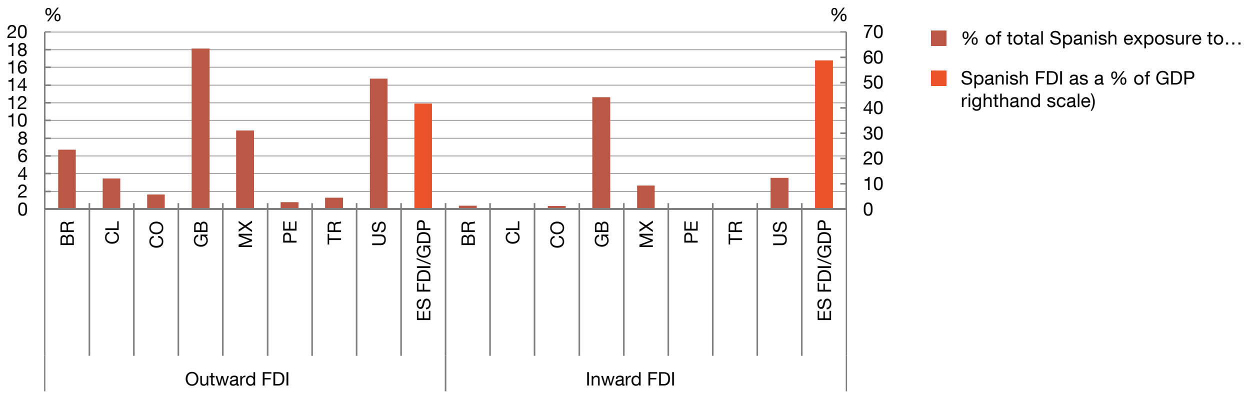
The Spanish economy's investment exposure is analysed by differentiating between Spanish outward FDI, inward FDI and asset-side portfolio investment (debt and equity securities). Chart 4 shows the financial exposure broken down by material third country in terms of historically accumulated stock.

The United Kingdom received nearly 20% of Spanish outward FDI and the United States nearly 15%, as shown in Chart 4.a. In Brazil and Mexico, the accumulated stock stood between 5% and 10% of all Spanish outward FDI. In terms of inward FDI, only the United Kingdom stands out, exceeding the 10% mark. Other countries represent lesser shares,[11] with those of Brazil, Chile,

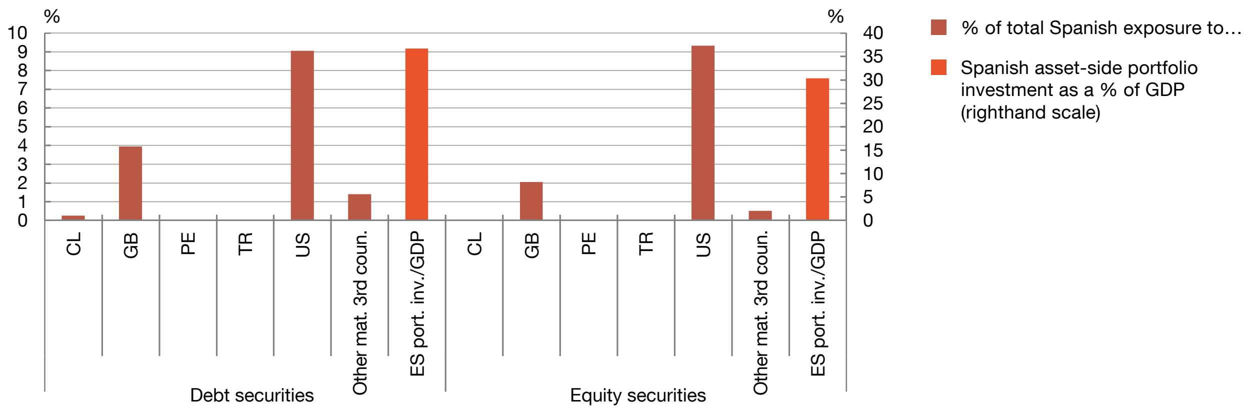
11 Note that in the case of the United States, a large part of Spanish inward FDI comes indirectly via the Netherlands and Luxembourg (through holding companies located there). If the ultimate investing economy criterion were used for US FDI in Spain, the accumulated stock would jump from €27.390 billion in 2022 to €94.813 billion – close to the amounts from the United Kingdom.

Chart 4
Investment exposure of the Spanish economy (2022)

4.a Spanish outward FDI and inward FDI



4.b Asset-side portfolio investment



SOURCE: Banco de España (Balance of Payments data).
NOTE: The variables are measured as a percentage of the stock of FDI or portfolio investment. Other material third countries comprise Brazil, Colombia and Mexico. Port.inv.: portfolio investment. Other mat. 3rd coun.: other material third countries.

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Colombia, Peru and Türkiye's being almost zero. Spain posted a net credit position in FDI with all the material third countries, despite its net debit position in outward FDI. In other words, the exposure to these countries – and their impact on the Spanish economy in terms of the net FDI position – is greater than that to non-material third countries.

With regard to the stock of portfolio investment made by Spain, as Chart 4.b shows, the pattern of exposure is similar for debt and equity securities: the largest exposure is to the United States (9% of the total), followed by the United Kingdom (4% in debt securities and 2% in equity). The exposure to the other material third countries is very small.

Lastly, Table 1 presents a summary of the shares of material third countries for each of the variables considered for 2022, as well as their aggregates. In terms of changes over time of these shares, when compared with 2019 levels (the last year before the pandemic), the most noteworthy

Table 1
Spain's exposure
Breakdown of material third country share in Spain's external position (2022)

Share (%)	Brazil	Chile	Colombia	United Kingdom	Mexico	Peru	Türkiye	United States	Aggregate of material third countries
Total bank assets	9.28	3.85	1.16	22.44	10.21	1.38	2.92	12.05	63.29
Loans	9.36	3.69	1.33	26.12	9.78	1.66	3.16	11.12	66.23
Debt instruments	11.99	3.37	0.61	3.22	14.50	0.70	3.06	15.41	52.85
Equity instruments	3.14	0.10	0.42	14.26	2.94	0.05	0.86	18.29	40.06
Derivatives	2.40	7.44	0.62	30.44	5.31	0.13	0.12	13.20	59.66
Total bank liabilities	6.93	3.39	1.20	25.75	11.20	1.51	2.88	11.10	63.96
Deposits	7.26	3.01	1.28	25.52	11.66	1.65	3.19	10.66	64.23
Derivatives	1.46	8.17	0.39	32.88	5.76	0.17	0.18	15.66	64.67
Short positions	15.64	0.17	0.92	3.95	13.56	0.34	0.00	12.07	46.65
Goods exports	0.92	0.46	0.38	5.47	1.34	0.20	1.74	4.86	15.36
Goods imports	1.99	0.35	0.34	2.46	1.30	0.38	2.18	7.40	16.41
Services exports (a)	1.02	0.79	—	14.08	1.65	—	0.55	8.10	28.03
Services imports (b)	0.97	0.34	—	9.01	1.31	—	1.03	9.28	23.11
Tourism exports	—	—	—	—	—	—	—	—	14.12
Tourism imports	—	—	—	—	—	—	—	—	10.97
Value-added exports (c)	1.22	0.43	0.11	4.73	1.07	0.14	0.57	5.15	13.42
Value-added imports(c)	0.46	0.20	0.07	4.53	1.80	0.04	0.69	1.36	9.15
Spanish outward FDI in…	6.71	3.43	1.62	18.10	8.84	0.77	1.25	14.72	55.43
Spanish inward FDI in…	0.36	0.01	0.34	12.63	2.64	0.08	0.00	3.52	19.58
Spanish asset-side portfolio investment in debt securities in... (d)	—	0.26	—	3.94	—	0.02	0.04	9.04	14.69
Spanish asset-side portfolio investment in equity securities in... (e)	—	0.01	—	2.05	—	0.01	0.00	9.32	11.89

SOURCES: Banco de España, United Nations Conference on Trade and Development and Ministerio de Industria, Comercio y Turismo.

a The aggregate of Colombia and Peru is 1.84.
b The aggregate of Colombia and Peru is 1.17.
c Data are for 2019.
d The aggregate of Brazil, Colombia and Mexico is 1.40.
e The aggregate of Brazil, Colombia and Mexico is 0.50.

are (i) the fall in the Spanish banking system's share of bank assets and liabilities in the United States and the United Kingdom; (ii) the fall in the share of trade positions with the United Kingdom (all of this during the EU-UK Brexit implementation negotiations); and (iii) the rise/fall of the share of Spanish FDI in Mexico/Brazil, such that the figure for Mexico overtook that of Brazil in 2022, as shown in Table 1.

Conclusions

Spain's external position for the non-EEA countries identified as material in 2022 is concentrated in the United Kingdom, which is the top-ranked country in most of the variables under consideration (bank assets and liabilities, imports and exports of goods and services, FDI and portfolio investment). Likewise, the second-highest exposure of the Spanish economy is to the United States, both in trade variables and investment flows. In fact, in terms of portfolio investment, the United States tops the list of material third countries. In terms of the emerging market economies, the Spanish economy's exposure to Brazil and Mexico in bank assets and liabilities is noteworthy (being similar to that of the United States), as is their level of Spanish outward FDI. This significant exposure is not reflected in trade, especially in value added terms, where it is clear that Spain has no meaningful share in their value chains.

Annex

This article mainly draws on balance of payment (BP) and international investment position (IIP) data prepared by the Banco de España. These data are prepared following the methodological recommendations of the sixth edition of the International Monetary Fund's Balance of Payments and International Investment Position Manual (global scope) and are subject to strict quality controls by various international organisations (especially, but not exclusively, European organisations). This ensures the comparability of the data. The BP and IIP are published in the external statistics section of the Banco de España website,[12] where the release calendar can also be found.[13]

The data for goods exports and imports are published by the Ministry of Industry, Trade and Tourism,[14] which in turn uses as a source the statistics for external trade in goods provided by the Customs and Excise Department of the State tax revenue service. With regard to the external trade in goods, our analysis takes into account Spain's role in global value chains (GVCs).[15] Data for trade in value added are therefore used, given that the flows of goods within these global production chains are not always reflected in conventional measures of international trade. The volume of gross exports breaks down into the contribution of domestic value added and the contribution of foreign value added. In this case the source is UNCTAD-Eora, which provides the data for foreign value added in Spanish exports and Spanish value added in the rest of the world's exports.

The data for services imports and exports are drawn from the BP. These are prepared drawing on the International Trade in Services Survey (ITSS) conducted by the National Statistics Institute (INE by its Spanish acronym), which publishes the survey results and methodology on its website.[16] Although the ITSS and BP data are consistent, there are some methodological differences between the two that are detailed in the general methodological note of the BP and IIP.

The foreign direct investment (FDI) position and portfolio investment series are also based on the IIP published by the Banco de España.[17] Asset-side portfolio investment (which is the portfolio investment considered in this article) breaks down into fixed income investments (such as medium and long-term bonds, Treasury bills and commercial paper) and equity (such as company shares and investment fund shares or units). For the purposes of this article, we consider the total amount of FDI and portfolio investment and do not take into account their breakdown.

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12 https://www.bde.es/webbe/en/estadisticas/temas/estadisticas-exteriores.html

13 https://www.bde.es/webbe/en/estadisticas/calendario/calendario-difusion-estadisticas.html

14 See the information published at https://datacomex.comercio.es/

15 The degree of integration into GVCs is quantified through the exports and imports series expressed in terms of value added. International production, trade and investment are increasingly organised into GVCs. These can be defined as a set of activities or production stages conducted across different countries for the production and sale of final goods and services, from the initial phases of basic component production through to the provision of after-sales services. Consequently, exported goods and services incorporate ever-more inputs from the rest of the world.

16 https://www.ine.es/dyngs/INEbase/en/operacion.htm?c=Estadistica_C&cid=1254736174702&menu=ultiDatos&idp=1254735576778

17 The balance of payment and international investment position data are published on the Banco de España website: https://www.bde.es/webbde/es/estadis/infoest/temas/te_secext.html

Lastly, information on the banking sector's exposure is taken from the consolidated financial data reported by deposit institutions to the Banco de España (FINREP F20 template)[18] pursuant to European Commission Implementing Regulation (EU) 2021/451.[19] Bank assets comprise equity instruments, debt instruments, derivative assets and loans and advances. Specifically, equity instruments include financial instruments issued by other institutions such as shares, including investment fund shares or units, unless they are holdings in joint businesses or associates. Debt instruments refer to loans and advances and debt securities. Debt securities include bonds and other securities that create or evidence a debt for the issuer, including commercial paper issued for trading among an open group of investors, which accrue remuneration consisting of implicit or explicit interest. Derivative assets belong to the derivative financial instruments category, whose value changes depending on the value of the underlying asset (e.g. an interest rate, commodity or currency) on which the derivative contract is based. This item will also include the fair value of derivatives used in economic hedges not designated as accounting hedges, such as derivatives used to hedge the risk of other derivatives.

Loans and advances include loans (i.e. all financing provided by the institution, including in the form of financial leases, except where they are debt securities) and advances and accounts receivable other than loans (i.e. financial assets not included in other items, such as cheques drawn on credit institutions, amounts receivable from clearing houses and settlement systems for transactions on the stock exchange and organised markets, bonds given in cash, amounts receivable from clearing houses, dividends receivable, capital calls, staff advances and debit balances arising from transactions that do not originate in banking transactions and services, such as the collection of rentals and the like).

Meanwhile, bank liabilities include derivatives, deposits and short positions. Derivatives belong to the derivative financial instruments category, whose value changes depending on the value of the underlying asset (e.g. an interest rate, commodity or currency) on which the derivative contract is based. In this case, the liability gives rise to a payment obligation.

Deposits can be broken down by the form they take: sight deposits (which break down into current accounts, saving accounts and other sight deposits) and deposits with agreed maturity. For the purposes of this article, the breakdown of this item is not taken into account. Short positions include the amount of financial liabilities arising from the outright sale of securities received in reverse repurchase loans, in repurchase loans, in securities lending or from collateral with right of disposal. The above variables are used to build a disaggregated and homogeneous database covering the countries of interest.

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18 Providing the geographical breakdown of the exposures of Spanish deposit institutions by counterparty residence.

19 European Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 laying down implementing technical standards for the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to supervisory reporting of institutions and repealing Implementing Regulation (EU) No 680/2014 (Text with EEA relevance) (Official Journal of the European Union of 19 March 2021).

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