During the first half of the year, the debit balance of the Spanish economy's net international investment position (IIP) increased by €44.7 billion with respect to end-2016. In terms of GDP, its weight also increased (by 2.3 pp, to 86.2%), despite the growth of output (see Chart 1). This increase was the result of the €47.7 billion increase linked to changes in the valuation of claims on and liabilities to non-residents arising from price and exchange rate movements, which more than offset the decrease associated with the slightly positive balance recorded by net financial transactions (€1.5 billion), in line with the nation's net lending, and other changes in volume[1] (€1.5 billion).

The breakdown of assets and liabilities shows that, excluding financial derivatives, between January and June 2017 residents once again acquired, in net terms, a high volume of foreign assets (€92.4 billion, €81.2 billion excluding the Banco de España), which, together with valuation changes and other negative, albeit small, changes in volume (–€24.7 billion), resulted in an increase in the asset balances vis-à-vis the rest of the world of 11.8% of GDP in 2017 H1 (see Chart 2). The net change in liabilities was also

1 The other changes in volume are any change in the value of assets and liabilities that is not due to transactions or revaluations. These include variations arising from debt forgiveness and write-offs, economic appearances and disappearances of assets, reclassifications and those arising from agents' change of residence. In practice, this component may also include statistical discrepancies between the IIP and the Balance of Payments (BP) deriving from update timing differences.

Chart 1
COMPONENTS OF CHANGE IN THE NET IIP (a)

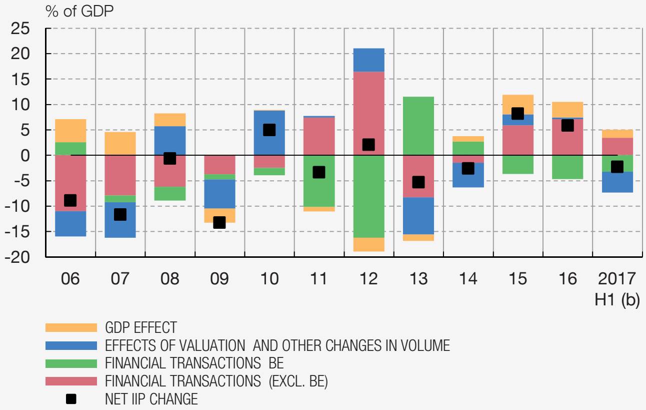


Chart 2
COMPONENTS OF CHANGE IN EXTERNAL ASSETS (c)

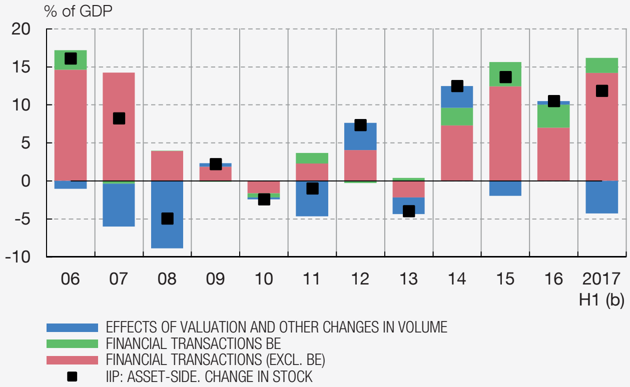


Chart 3
COMPONENTS OF CHANGE IN EXTERNAL LIABILITIES (c)

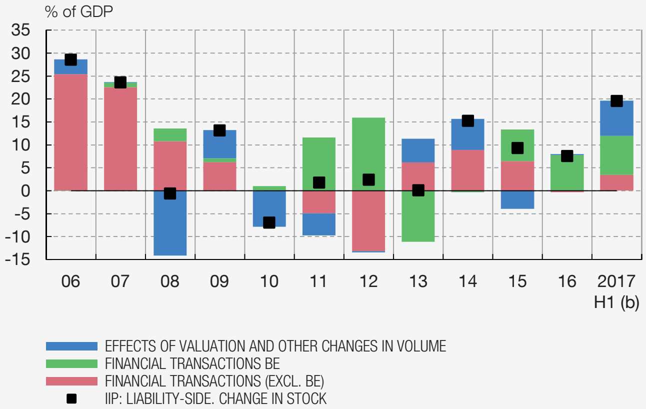
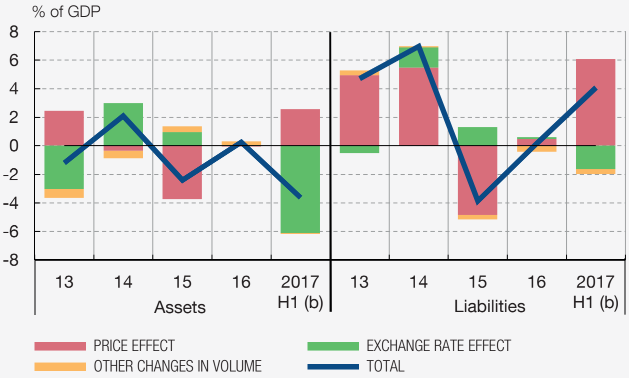


Chart 4
COMPONENTS OF CHANGES IN OTHER FLOWS



SOURCE: Banco de España.

a The net IIP is the difference between the value of the external assets of the resident sectors and that of their liabilities to the rest of the world.
b Cumulative change between January and June 2017. In Charts 2 , 3 and 4, the GDP relates to H1.
c Excluding financial derivatives.
d Excluding the Banco de España and the net position in derivatives.
e The external debt comprises the balance of all liabilities entailing future repayment of principal, payment of interest or both (i.e. all financial instruments, except own funds and financial derivatives).
f Including only direct investment in the form of debt.
g Excluding the Banco de España and direct investment in the form of debt.

positive during the period, reaching 19.6% of GDP in H1 (see Chart 3), both owing to the net positive investment by non-residents in the Spanish economy (€89 billion, €40.5 billion excluding the Banco de España) and to valuation effects and other changes in volume which had a positive impact overall (€23.3 billion).[2]

The positive balance of net financial transactions (€38.9 billion), excluding the Banco de España, amply exceeded the surplus on the current and capital accounts recorded between January and June (€5.6 billion). This resulted in a very negative net balance of the Banco de España's financial transactions with the rest of the world, standing at 6.5% of GDP in H1 (see Charts 2 and 3), mainly owing to the increase in net liabilities vis-à-vis the Eurosystem. This development continued to be largely influenced by the ECB's quantitative easing policy, which has generated excess liquidity within the euro area, prompting financial flows between euro area countries. In particular, the liquidity generated in Spain from the ECB's quantitative easing measures was largely channelled towards the rest of the world. Thus, since end-2014 the net acquisition of foreign assets by resident agents has increased, while net liability flows vis-à-vis the rest of the world, excluding the Banco de España, have declined, against a background of gradual private-sector deleveraging.[3]

As mentioned above, the valuation effects contributed to the decline in the Spanish economy's net IIP (increase in debit balance) in H1. This was the outcome of both the fall in the value of assets and the increase in that of liabilities (see Chart 4). The former led to an appreciation of the euro during Q2, which lowered the value of foreign currency-denominated instruments. This impact was only partially countered by the revaluation of assets and, specifically, of shares in equity and investment funds, which took place over the period (debt instruments, however, depreciated slightly), against a backdrop of increasing share prices. The value of liabilities was also affected by these factors, although in this case the positive impact associated with the revaluation of shares in capital and investment funds was higher, owing to the greater increase in the prices of liabilities as compared with those of assets of this kind, since the proportion of foreign currency-denominated liabilities is substantially lower than that of assets.

The breakdown by institutional sector shows that the increase in the debit balance of the net IIP as a percentage of GDP was the result of the increase in the debtor position of the Banco de España, the non-financial private sector and, to a lesser extent, general government; overall, this more than offset the increase in the credit balance recorded by all other financial institutions (monetary financial institutions other than the central bank and the financial sector of the other resident sectors) (see Chart 5). Excluding the Banco de España, the debit balance of the net IIP relative to GDP had decreased by 1 pp, to 68.2%, although in absolute terms it had also increased (by €3.7 billion, to €777.5 billion).

The breakdown by functional category reveals that, excluding the Banco de España, the Spanish economy's net debtor position, in the form of direct and portfolio investment, increased (by €13.1 billion and €0.4 billion, respectively), while that in other investment decreased (by €10 billion). The decline in direct investment in net terms arose from an increase in external assets lower than the increase in liabilities to the rest of the world. As regards portfolio investment, the increase in the external assets of resident agents was also amply offset by the increase in their liabilities to the rest of the world. These increases (in both assets and liabilities) were posted practically across all sectors and all instruments (except for the balance of debt securities issued by other resident sectors held by foreign agents, which decreased). Lastly, the decline in the net debtor position in other investment arose from both the increase in the assets abroad of residents and the decrease in domestic liabilities held by the rest of the world. In terms of GDP, only direct investment increased its debit balance, which rose by 1.1 pp, to 3.6% (see Chart 6),[4] while the debit balances associated with other investment and portfolio investment decreased (by 1.2 pp to 13.8% and by 0.9 pp to 50.2%, respectively).

To better assess the degree of vulnerability associated with the Spanish economy's international position, it is useful to supplement the IIP information with other indicators, such as the volume of gross external debt (which includes solely the liabilities entailing payment obligations, which in Spain account for around 75% of the total).[5] The gross external debt relative to GDP increased by 1.9 pp, to 168.8%, between December 2016 and June 2017, since the increase in the weight of the Banco de España's external debt (by 3.6 pp, to 38.2% of GDP) was higher than the fall relating to other sectors (see Chart 7). The weight of financial institutions other than the Banco de España and of other resident sectors declined, during the same period, by 1.3 pp and 0.7 pp, to 35.1% and 25.7%, respectively,[6] in line with the deleveraging process these sectors are undergoing. Conversely, the weight of general government increased in absolute terms, although slightly less than the growth of output and, accordingly, there was hardly any

2 In net terms, financial derivatives had a highly marginal negative effect on the IIP, owing to the negative balance posted by net financial transactions, which was not fully offset by the positive impact of the valuation effects and the other changes in volume.

3 For further details, see the article "The Eurosystem quantitative easing measures and the financial account", *Economic Bulletin,* April 2016, Banco de España.

4 The net debit balance of positions in financial derivatives remained unchanged during this period, at 0.5% of GDP.

5 The external debt of a country comprises the balances of all liabilities to non-residents entailing future repayment of principal, payment of interest or both (all financial instruments, except equity and financial derivatives).

6 Excluding direct investment in the form of debt instruments.

change relative to GDP, with the figure remaining close to 49%. Also, the breakdown by maturity continues to evidence a high weight of long-term liabilities – almost 74% of the total, excluding those of Banco de España and direct investment – (see Chart 8), which usually entail lower refinancing risks.

In conclusion, despite the current and capital account surpluses and the growth of output, the Spanish economy's net debtor position in H1 increased in both absolute and GDP terms owing to changes to the valuation of instruments. Therefore, this indicator remains at high levels, which means that there is an element of vulnerability insofar as the substantial refinancing needs which this position generates expose the Spanish economy as a whole to potential adverse changes in international market financing conditions in the future. A reduction of the international debtor position to more comfortable levels requires maintaining recurring external surpluses, for which purpose it is necessary to persevere in accumulating the competitive gains which make them possible.

Chart 5
NET IIP (a). BREAKDOWN BY INSTITUTIONAL CATEGORY

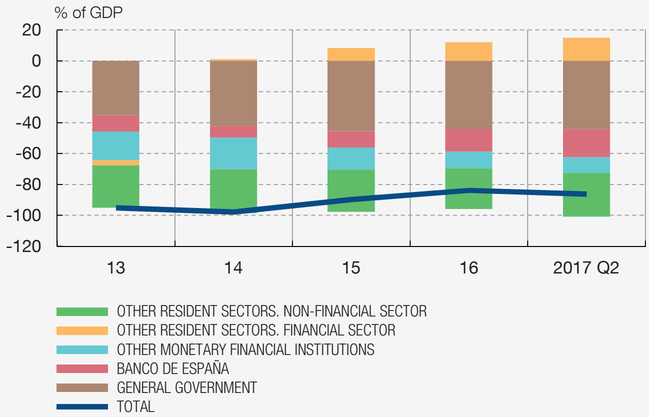


Chart 6
NET IIP (a) (d). BREAKDOWN BY FUNCTIONAL CATEGORY

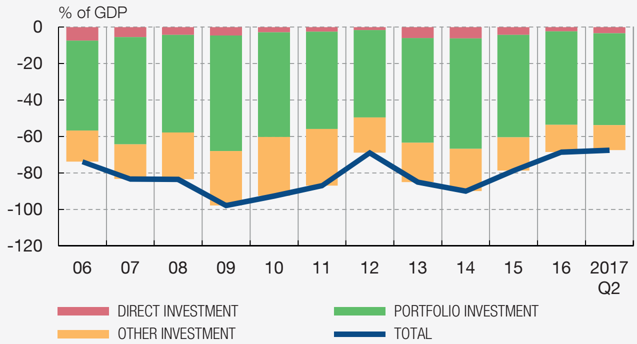


Chart 7
GROSS EXTERNAL DEBT (e). BREAKDOWN BY SECTOR

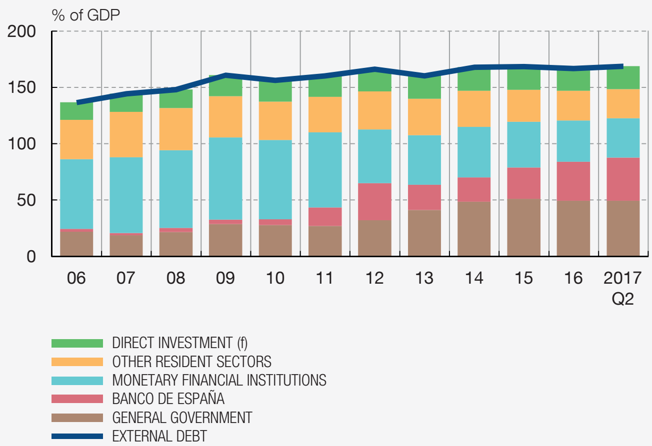
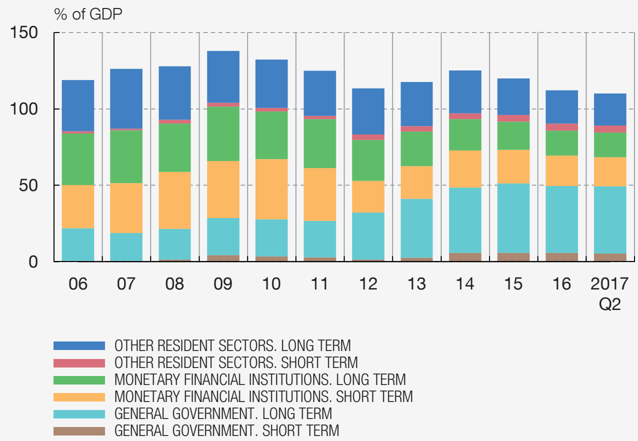


Chart 8
GROSS EXTERNAL DEBT STRUCTURE BY INSTITUTIONAL SECTOR AND MATURITY (e) (g)



SOURCE: Banco de España.

a The net IIP is the difference between the value of the external assets of the resident sectors and that of their liabilities to the rest of the world.
b Cumulative change between January and June 2017. In Charts 2 , 3 and 4, the GDP relates to H1.
c Excluding financial derivatives.
d Excluding the Banco de España and the net position in derivatives.
e The external debt comprises the balance of all liabilities entailing future repayment of principal, payment of interest or both (i.e. all financial instruments, except own funds and financial derivatives).
f Including only direct investment in the form of debt.
g Excluding the Banco de España and direct investment in the form of debt.