

# The balance of payments and international investment position of Spain in 2017

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According to the balance of payments (BoP) statistics, the Spanish economy once again became a net lender in 2017, despite the rise in oil prices and the strength of domestic demand. Factors that are foreseeably temporary, such as low interest rates, and other long-term factors, mainly relating to the increase in the number of exporting firms and the gains in competitiveness accumulated in recent years, contributed to this. The Spanish economy's negative net International Investment Position (IIP), in terms of GDP, declined again for the third consecutive year (to 80.8%), since Spain's lending position and the expansion of GDP offset the negative impact of valuation effects and other adjustments on the net IIP.

## THE BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION OF SPAIN IN 2017

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### Introduction

In 2017 the Spanish economy posted an external surplus for the sixth year running. On balance of payments (BoP) data, the nation's lending position in the past year amounted to 2.1% of GDP, slightly lower than in 2016 (2.2% of GDP).<sup>1</sup> The widening of the goods deficit, mainly owing to the increase in the energy bill, countered the rise in the services surplus and the decline in net payments of primary and secondary income. The financial account, excluding the Banco de España, once again had a credit balance (equivalent to 4.7% of GDP), resulting from Spain's investment in the rest of the world (11% of GDP) once again exceeding the increase in liabilities issued by residents held by international investors (6.2% of GDP), and from slightly negative transactions with financial derivatives in net terms<sup>2</sup> (0.2% of GDP). Since the credit balance was greater than the nation's net lending, this resulted in another increase, albeit smaller than in the previous two years, in the Banco de España's negative position vis-à-vis the rest of the world (2.7% of GDP).

The economy's net lending position and the increase in nominal GDP enabled the nation's negative net position to decline again in the past year in terms of GDP (by 2.6 pp, to 80.8%). In any event, Spain's indebtedness continues to be high both in historical terms and in comparison with other developed countries.

This article first reviews the performance of the current and capital account balances and their main components during 2017. Second, it describes Spain's financial transactions with the rest of the world, by institutional sector and functional category and, finally, it analyses the economy's financial position vis-à-vis the rest of the world.<sup>3</sup>

### Current and capital account balances

On BoP data, in 2017 the Spanish economy once again recorded net lending of 2.1% of GDP. The build-up of positive balances vis-à-vis the rest of the world over a prolonged period is essential to reduce the Spanish economy's high external indebtedness. The current expansionary economic cycle is proving compatible with persistent external surpluses, owing to highly diverse factors, some of which are temporary, such as low interest rates, and others more long term. The latter include most notably, on the side of exports, the internationalisation of Spain's corporate sector in recent years, underpinned by the gains in competitiveness accumulated since the onset of the crisis.<sup>4</sup> As regards imports, in the most recent period signs have been detected of the possible start of a process of import substitution.<sup>5</sup> These developments, together with the improvement in

<sup>1</sup> On Quarterly National Accounts (QNA) data, the Spanish economy's net lending position stood at 2% of GDP in 2017.

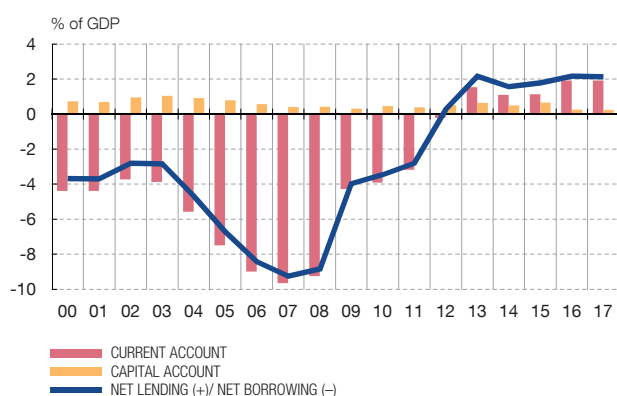
<sup>2</sup> Following international methodological recommendations and in view of the difficulty of correctly allocating the transactions of this component to assets or liabilities, financial derivatives figures are only shown in net terms throughout this article.

<sup>3</sup> The time series data on the various components of the BoP, the IIP and external debt are available on the external sector statistics page of the Banco de España's website. On this page the note entitled "Balance of payments and international investment position of Spain. Methodological note", which is kept up-to-date at all times, provides a detailed explanation of the methodology and data sources used in preparing these statistics.

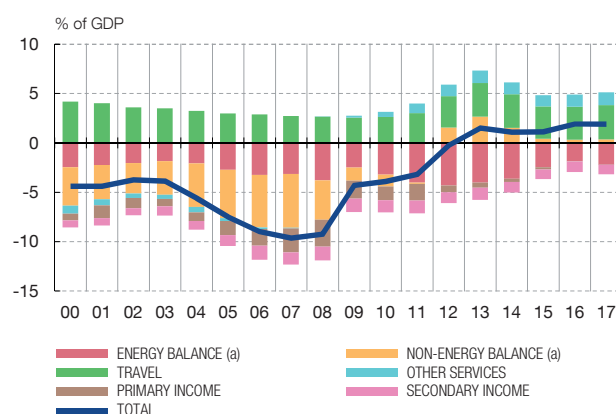
<sup>4</sup> A detailed analysis of the role of gains in competitiveness in the recovery of the Spanish economy is provided in Chapter 2, "Competitive adjustment and recovery in the Spanish economy" of the Banco de España *Annual Report 2015*.

<sup>5</sup> See Chapter 3 of the Banco de España *Annual Report 2016* and the "Quarterly report on the Spanish economy", *Economic Bulletin*, 1/2017, Banco de España.

1 BALANCES



2 CURRENT ACCOUNT BALANCE



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

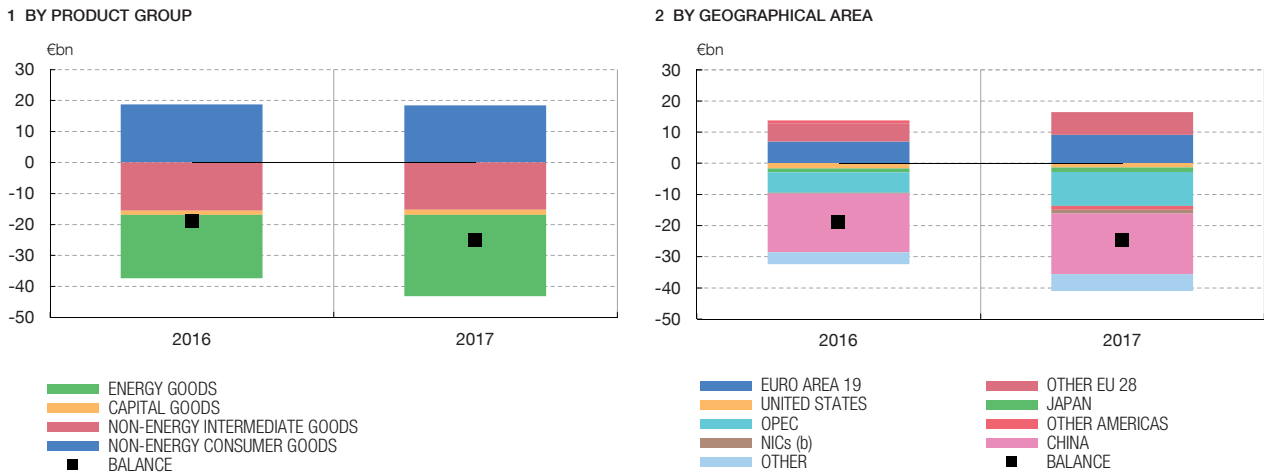
a The energy and non-energy balances are a Banco de España estimate based on Customs data.

the external markets, counteracted, at least partially, the rise in oil prices and the appreciation of the euro over the course of 2017.

Against this backdrop, in 2017 the goods trade deficit widened (by 0.3 pp, to 1.9% of GDP) mainly owing to the increase in the energy bill (of around 0.5 pp, to 2.3% of GDP, based on Customs data) (see Chart 1). This performance countered the improvement in the services surplus (0.2 pp, to 4.8% of GDP) and the decline in net payments of primary and secondary income (0.1 pp, to 1% of GDP). The capital account surplus remained practically stable at 0.2% of GDP.

The deterioration of the trade balance basically reflected the worsening of the terms of trade owing to higher commodity prices, particularly oil prices, in the first half of the year. Also, based on Customs data, the non-energy surplus declined slightly once again (by 0.1 pp, to 0.1% of GDP). This was due to the increase in capital goods deficits and the decrease in net exports of consumer goods, while the intermediate goods deficit corrected partially. By geographical area, the worsening of the trade deficit was concentrated in extra-EU countries, mainly oil producing countries, followed by the Latin American economies. These developments countered the increase in the surplus vis-à-vis the EU (see Chart 2).

Exports of goods in real terms grew by 5% in 2017 (4.8% in 2016) according to Quarterly National Accounts (QNA) data. This acceleration was much more pronounced according to Customs data, with real sales to the rest of the world growing 8.2%, compared with 3.5% in 2016. By product type, real exports grew across the board, with the exception of consumer durables, after the buoyancy of the two previous years. The growth of sales of capital goods and especially intermediate goods (particularly energy goods) was noteworthy in 2017 (see Chart 3). By geographical area, growth in extra-EU exports was more pronounced than in EU exports (11.7% and 6.4%, respectively) despite the appreciation of the euro. As regards extra-EU exports, the disaggregated country-by-country information, which is available in nominal terms, highlights the increase in exports to China, Russia and associated countries, and Latin America. Within the EU, the behaviour



SOURCE: Departamento de Aduanas e Impuestos Especiales, de la Agencia Estatal de la Administración Tributaria.

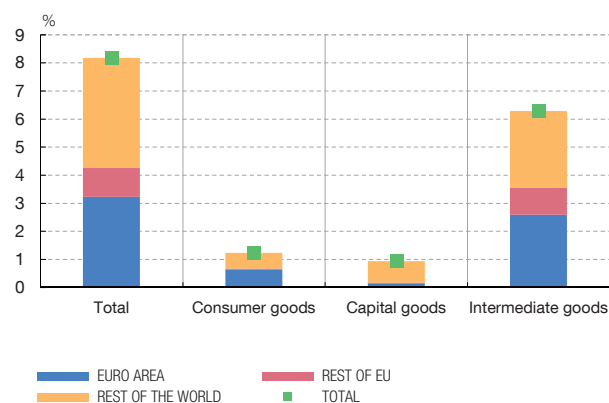
- a Provisional data.
- b Comprising South Korea, Taiwan, Hong Kong and Singapore.

of exports to the main euro area countries was buoyant across the board. By contrast, exports to the United Kingdom decreased moderately, weighed down by the falls in sales of consumer goods, particularly vehicles, while the behaviour of all other items was in line with exports to the EU as a whole.

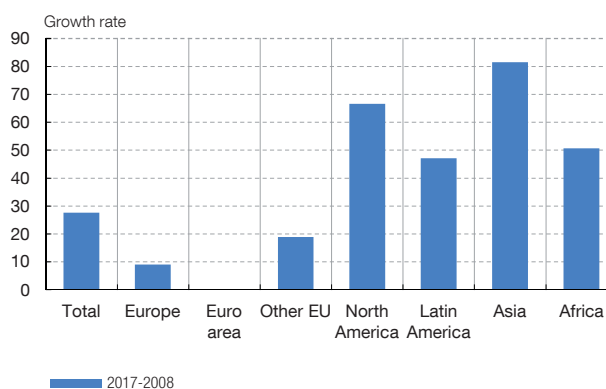
The growth of goods exports took place against the background of a rebound in international trade, prompted, particularly in the second half of the year, by the strength of the euro area and of other advanced economies. The growth of Spanish exports was more pronounced than that experienced by world trade, which enabled Spain to continue increasing its share in the international markets. Against this backdrop, the number of exporting firms, including those which export on a regular basis, continued to increase. Specifically, in 2017 the number of exporting firms increased by 8.6% according to ICEX data, after the sluggishness shown in the period 2015-2016. The pace of growth in the number of regular exporters (defined as those which exported in the last four consecutive years) moderated in 2017, increasing by 1.6%, although there was growth in practically all geographical areas. On the back of this information, the cumulative increase in the number of regular exporters since 2008 was 27.5%, with geographical diversification becoming more marked at the same time, since the sharpest increases relate to firms which export to extra-EU countries, especially America and Asia (see Chart 3). As regards price-competitiveness, despite the containment of relative unit labour costs, in 2017 there was a loss of competitiveness relative to competitors, owing to the appreciation of the euro and the positive price differential (see Chart 4).

Goods imports also accelerated their growth in 2017 according to QNA data (5%, compared with 1.3% in 2016). This profile is similar to that shown by Customs data, according to which the pace of growth of real purchases increased from 2.8% in 2016 to 5.5%. This increase was underpinned by purchases from the rest of the world of capital goods and, especially, of intermediate products (particularly energy goods). Consumer goods imports slowed down in 2017, even though purchases of durables grew at a slightly faster pace than in 2016. The rebound in imports reflected, at least partially, the composition of growth in final demand, skewed towards components with a greater

1 CONTRIBUTION TO GROWTH OF REAL EXPORTS  
By geographical area and by product  
2017



2 REGULAR EXPORTERS (a)  
By geographical area



SOURCES: ICEX and Ministerio de Economía, Industria y Competitividad.

a A firm is deemed to be a regular exporter if it exported consecutively in the previous four years.

import content, such as exports and investment in capital goods. In any event, import elasticity to final demand stood below its historical average, in line with microeconomic evidence suggesting the existence of signs of incipient import substitution.<sup>6</sup>

The surplus on the services balance widened by 0.2 pp, to 4.8% of GDP in 2017 (see Chart 1), against a backdrop of growth in receipts and in payments, underpinned in both cases by the buoyancy of those relating to travel services (10.1% and 12.4%, respectively). The positive travel balance stood at 3.5% of GDP (0.2 pp more than in 2016). Net exports of non-travel services increased slightly as a proportion of GDP, to 1.3%, against a background of moderation of the pace of growth of receipts and payments.

The strength of travel receipts was supported by the improvement in the economic situation of the euro area countries and the increase in the weight of tourist inflows from regions whose daily average expenditure is higher, assisted by improvements in the quality of services provided.<sup>7</sup> Also, the depreciation of the pound sterling did not give rise to a significant negative impact on arrivals of British tourists in 2017.<sup>8</sup> However, a certain weakening of travel exports was seen from the final stretch of the year, possibly related to the situation in Catalonia and to the incipient recovery of competitor destinations in the Mediterranean region, after several years during which the area's geopolitical risks led to a redistribution of tourist flows towards Spain. Nevertheless, the growth observed in 2016 in the share of Spanish exports of travel services in the international markets continued during the past year. The buoyancy of travel payments runs parallel to the strength of private consumption.

Other services receipts moderated their growth rate in 2017, conditioned by the modest increase in those relating to other business services, following the strong growth posted

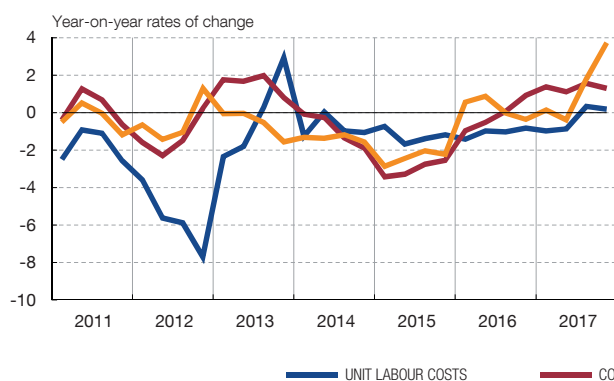
6 See Chapter 3 of the *2016 Annual Report*, Banco de España.

7 See Box 7, "Dynamism of non-resident tourism in 2016 and its determinants", in the "Quarterly report on the Spanish economy", *Economic Bulletin*, 1/2017, Banco de España.

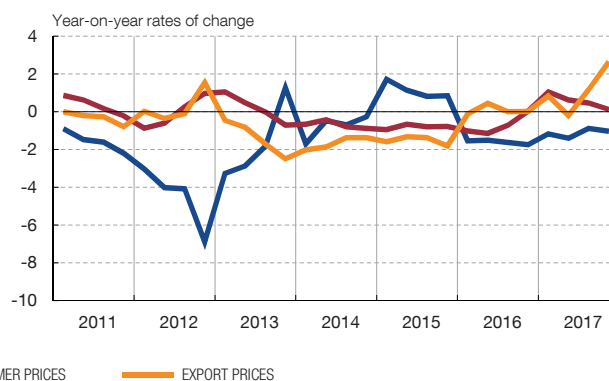
8 See Box 3, "Recent developments in trade in goods and tourist services with the United Kingdom", in the "Quarterly report on the Spanish economy", *Economic Bulletin*, 2/2017, Banco de España.



1 VIS-À-VIS DEVELOPED COUNTRIES



2 VIS-À-VIS EURO AREA 19



SOURCE: Banco de España.

a Quarterly data. Positive rates of change denote loss of competitiveness and vice versa.

by this item in recent years, largely linked to the performance of engineering projects, particularly in Asian countries.<sup>9</sup> The growth recorded in 2017 was mainly driven by the increase in receipts relating to telecommunications, IT and information services, use of intellectual property and transport services, in a setting of growth in goods and travel exports. By geographical area, this was mainly due to the increase in sales to the EU and North America, while those targeting the Asian markets decreased. According to the results of the Survey on International Trade in Services (ECIS by its Spanish acronym) for the fourth quarter of 2017, there are indications that the share of Spanish non-travel services in the international markets did not decline in 2017. As for imports of non-travel services, the items which contributed most to the increase recorded in 2017 were transport services and, particularly, other business services (see Chart 5).

The primary income balance<sup>10</sup> remained in a practically balanced position in 2017 (see Chart 6). The investment income deficit continued at low levels, similar to those of the previous year (0.5% of GDP), in an environment of very low interest rates again. The composition of the investment income balance by functional category did not experience noteworthy changes and, therefore, Spain maintains a deficit on portfolio investment income (marketable securities) and on other investment (mainly loans and deposits) which is partially offset by net receipts arising from foreign direct investment.

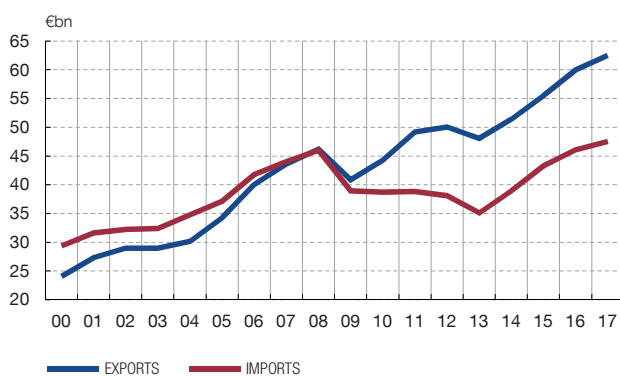
The deficit on the balance of secondary income, which includes the bulk of current transfers, decreased by 0.1 pp, to 1% of GDP, because receipts grew more buoyantly than payments, which slowed, mainly reflecting the decline in payments to the EU (see Table 1).

The capital account surplus, which is determined basically by EU capital transfers, also remained practically stable, at around 0.2 pp of GDP (see Chart 1).

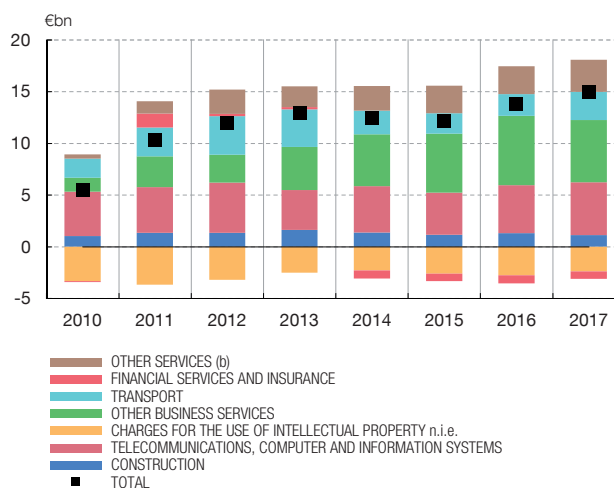
<sup>9</sup> See Box 7, "Net exports of non-tourism services in Spain since 2008", in the "Quarterly report on the Spanish economy", *Economic Bulletin*, 1/2018, Banco de España.

<sup>10</sup> Primary income includes employment income, investment income, taxes on production and imports, and subsidies. Secondary income includes personal transfers, current taxes, social contributions and benefits, transfers relating to insurance transactions, current international cooperation and other miscellaneous items.

1 TRADING VOLUME (a)



2 BALANCES (a)  
By type of service



SOURCE: Banco de España.

- a Changes in the ECIS gave rise to a certain statistical break in 2013 in the overall structure of other services.
- b Includes processing and repair services, government services and personal, cultural and leisure services.

### Financial transactions with the rest of the world

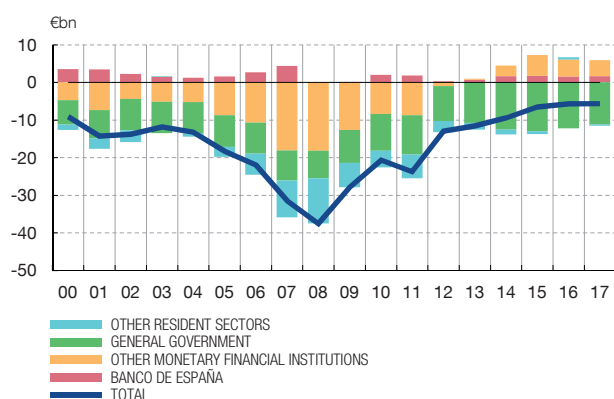
In 2017, the net financial transactions of the Spanish economy, excluding the Banco de España,<sup>11</sup> with the rest of the world, showed net assets, for the third consecutive year, of €54.4 billion, equivalent to 4.7% of GDP (see Chart 7.1 and Table 2). The reason for this was that the increase in international asset holdings by residents (11% of GDP) was higher than the increase in liabilities issued by residents and held by foreign investors (6.2% of GDP), and that transactions linked to financial derivatives recorded a net negative flow (-0.2% of GDP). The positive sign of the financial account excluding the Banco de España continued to be shaped by the nation's net lending (2.1% of GDP), especially the private sector, and also, although to a lesser extent than in recent years, by the Eurosystem's asset purchase programme.<sup>12</sup> Assisted by this factor, the Banco de España's net financial transactions with the rest of the world once again showed a negative balance (2.7% of GDP), albeit below the figure recorded in 2015 and 2016. The change in the financial account balance attributable to the Banco de España was not uniform throughout 2017, as the positive balance in the last three quarters of the year (€11.4 billion) was not sufficient to offset the negative sum recorded in Q1 (-€43 billion). This suggests that, as the year progressed, an ever smaller proportion of the liquidity generated in Spain by the Eurosystem's monetary policy was channelled abroad. The significant increase in the bank reserves held by Spain's deposit institutions at the Banco de España,<sup>13</sup> and the more moderate increase than in the two previous years in

11 Since the start of Economic and Monetary Union in 1999, in addition to reserves, the net position of the Banco de España vis-à-vis the Eurosystem must be considered an accommodating item. In consequence, to facilitate economic analysis, the data are presented with an initial separation between the financial account of the Banco de España and that of the other sectors. For a detailed explanation of the reasons for this form of presentation, see the Banco de España's statistical note "Banco de España claims on the Eurosystem and the treatment of euro banknotes in the Balance of Payments and the International Investment Position".

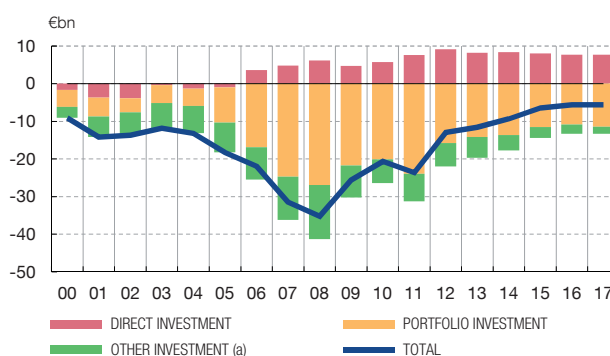
12 See J. Martínez Pagés (2016), "The Eurosystem's quantitative easing measures and the financial account", *Economic Bulletin*, April, Banco de España.

13 The data on the reserves that credit institutions hold with the Banco de España are published in its economic indicator 8.1.b, available at <https://www.bde.es/webbde/es/estadis/infoest/e0801e.pdf>.

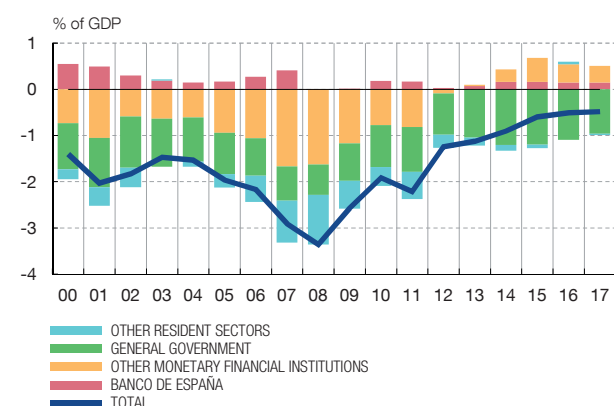
1 BALANCE BY SECTOR



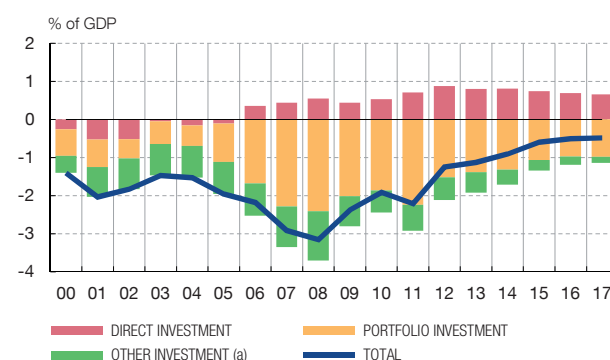
2 BALANCE BY FUNCTIONAL CATEGORY



3 BALANCE BY SECTOR



4 BALANCE BY FUNCTIONAL CATEGORY



SOURCE: Banco de España.

a Includes income arising from reserves.

the Spanish economy's debit balance in TARGET2<sup>14</sup> (the EU's interbank payment system in euro), reflected the same pattern.

The assets side of the financial accounts of the Spanish economy's balance of payments shows that net investment by resident agents (excluding the Banco de España) in the rest of the world was positive again in 2017 (by €128.3 billion, equivalent to 11% of GDP), as it has been since 2014, and higher than in 2016 when it amounted to 7% of GDP (see Chart 7.3 and Table 2). The breakdown by functional category shows that net financial transactions were positive in all headings, with the largest amount corresponding to portfolio investment (with funds totalling 6.9% of GDP, 4.6 pp more than in 2016), followed by direct investment (2.1% of GDP, compared with 4.1% in 2016) and other investment (2% of GDP, 1.4 pp more than in 2016). By institutional sector, the significant increase in portfolio investment was a result of the net acquisitions made mostly by the other resident sectors (ORSs, 6.2% of GDP), especially non-monetary financial institutions (4.7% of GDP), in the form of investment fund shares or units and, to a lesser extent, the purchase

14 Spain's TARGET2 balance may be found in the Banco de España's economic indicator 8.1.b, and the TARGET2 balance of the other euro area countries at <http://sdw.ecb.europa.eu/reports.do?node=1000004859>.



CURRENT AND CAPITAL TRANSFERS VIS-À-VIS THE EUROPEAN UNION  
€m

TABLE 1

	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Receipts</b>	<b>11,645</b>	<b>12,308</b>	<b>12,754</b>	<b>13,542</b>	<b>12,518</b>	<b>11,636</b>	<b>12,151</b>	<b>9,451</b>	<b>9,357</b>
Primary income (a)	6,596	6,231	5,990	6,049	5,553	5,478	4,597	5,955	5,769
Secondary income Transfers (b)	1,125	676	1,747	1,623	1,251	1,193	525	1,022	1,237
Capital transfers (c)	3,924	5,401	5,017	5,869	5,713	4,965	7,029	2,474	2,352
<b>Payments</b>	<b>11,430</b>	<b>10,390</b>	<b>11,768</b>	<b>11,331</b>	<b>12,089</b>	<b>11,415</b>	<b>11,977</b>	<b>13,128</b>	<b>11,261</b>
Primary income (d)	1,336	1,544	1,560	1,447	1,324	1,514	2,459	2,611	2,599
Secondary income Transfers	10,095	8,846	10,208	9,884	10,765	9,901	9,518	10,518	8,662
<b>Balance</b>	<b>214</b>	<b>1,918</b>	<b>986</b>	<b>2,210</b>	<b>429</b>	<b>221</b>	<b>174</b>	<b>-3,678</b>	<b>-1,903</b>

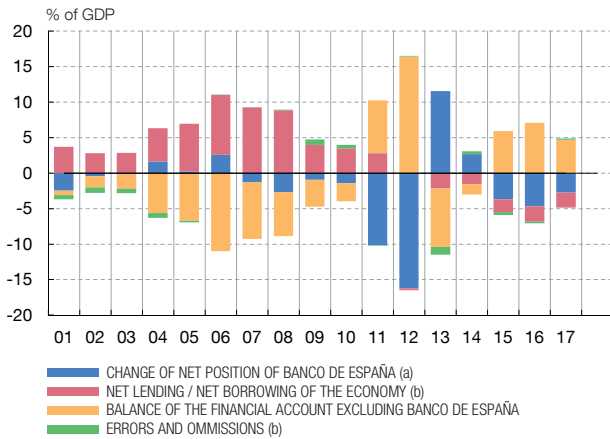
SOURCES: Ministerio de Economía, Industria y Competitividad, Ministerio de Hacienda y Función Pública, Ministerio de Agricultura y Pesca, Alimentación y Medio Ambiente, Ministerio de Asuntos Exteriores y de Cooperación and Banco de España.

- a In BoP terminology, the related heading is Other primary income, which includes taxes on production and imports, and subsidies (EAGF and others).
- b Includes current international cooperation (European Social Fund and others) and VAT- and GNI-based resources.
- c Comprises the European Regional Development Fund (ERDF), the European Agricultural Fund for Rural Development (EAFRD) and the Cohesion Funds. Cohesion Funds are not included in the 2014-2020 multiannual financial framework.
- d Contributions to the Single Resolution Fund by financial institutions are included from 2015.

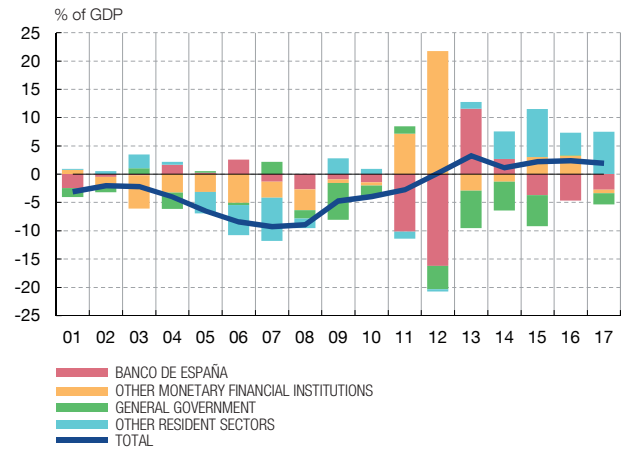
of long-term debt securities. Under the direct investment heading, the net volume of transactions was considerably lower than in the three previous years (2.1% of GDP, 2 pp less than in 2016). However, this change was heavily influenced by one-off restructuring at some corporate groups, which affected both assets and liabilities. By contrast, this contraction was not observed in the direct investment data according to the directional principle, as this restructuring, since it affects both assets and liabilities, cancels itself out (see Box 1). Lastly, other investment was channelled primarily through other monetary financial institutions (OMFIs, 1.4% of GDP), into loans (0.8% of GDP), both short and long-term, and deposits (0.5% of GDP).

In turn, the net volume associated with liabilities-side transactions of resident agents, excluding the Banco de España, with the rest of the world turned positive in 2017 (€71.9 billion, 6.2% of GDP), after being slightly negative in 2016 (-0.3% of GDP), thus resuming the pattern recorded in the period 2013-15 (see Chart 7.4 and Table 2). Although net acquisitions of Spanish assets by international investors were positive in all headings, the bulk of these acquisitions was in the form of portfolio investment (which amounted to 5.5% of GDP, compared with the drop of 1.1% in 2016). Within this heading, most net purchases by the rest of the world were of shares of OMFIs and long-term debt securities issued by general government and OMFIs. High capital inflows into long-term debt securities were influenced by high net borrowing by general government, in a setting in which the volume of these assets acquired by the Banco de España (under the Eurosystem's asset purchase programme) decreased. In the case of credit institutions, the present favourable market conditions and the Basel III capital requirements have led them to issue convertible bonds (hybrid instruments that entail a stake in equity) and subordinated bonds (long-term debt securities) as both are eligible as regulatory capital, with part of these funds being raised abroad. It is noteworthy that last year, portfolio investment by the rest of the world in this institutional sector recorded its highest figure since 2007 (3% of GDP). Under the direct investment heading, by contrast, net purchases by non-resident agents were well below the 2016 figure (0.4% of GDP in 2017, compared with 2.6% a year earlier), at their lowest level, both in absolute

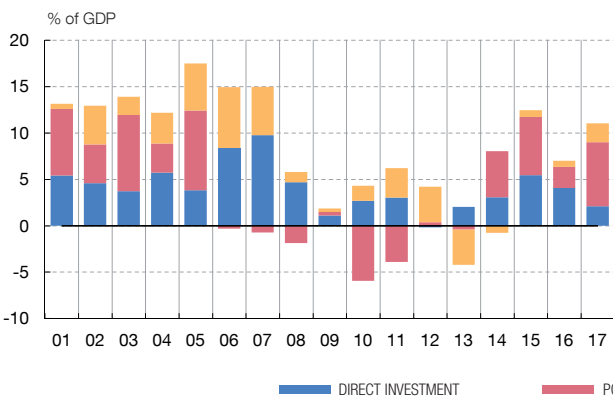
1 BALANCE ON CURRENT AND CAPITAL ACCOUNTS AND CROSS-BORDER FINANCIAL TRANSACTIONS



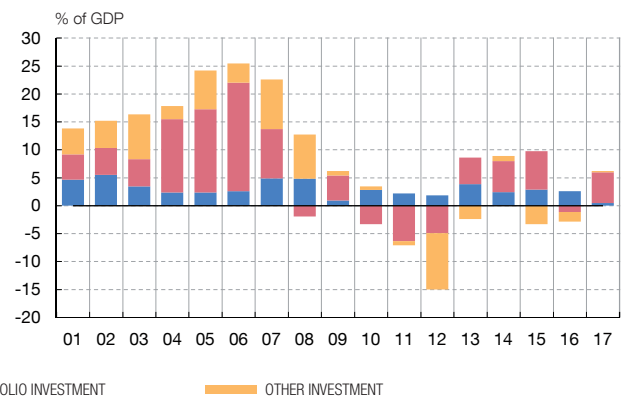
2 NET FINANCIAL TRANSACTIONS (NCA-NCL) SECTORAL BREAKDOWN



3 NET CHANGE IN ASSETS (NCA) (c)



4 NET CHANGE IN LIABILITIES (NCL) (c)



SOURCE: Banco de España.

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

terms and as a proportion of GDP, since the series began in 1993. As indicated earlier, this change was heavily influenced by restructuring at some corporate groups. Foreign investment in Spain, in accordance with the directional principle, which was not influenced by this restructuring as it affected both assets and liabilities, fell very slightly (see Box 1). Lastly, other investment by the rest of the world in Spain was marginally positive (0.2% of GDP), after being negative in 2016 (-1.8% of GDP), with these funds chiefly going to ORSs (0.4% of GDP) and essentially in the form of long-term instruments other than loans.

By institutional sector, the financial account balance (the difference between assets and liabilities, excluding financial derivatives) was positive for the other resident sectors (7.5% of GDP) and negative for the general government sector (-2% of GDP); this is consistent with the net lending position of the ORSs and the net borrowing position of the general government sector (see Chart 7.2). Unlike in 2016, in net terms the other monetary financial institutions raised funds from abroad in 2017, although in a moderate amount (0.6% of GDP).

**BREAKDOWN OF THE FINANCIAL ACCOUNT OF THE BALANCE OF PAYMENTS**
**TABLE 2**

% of GDP	2010	2011	2012	2013	2014	2015	2016	2017
Financial account balance (NCA - NCL) (a)	-2.5	7.4	16.4	-8.3	-1.5	5.9	7.1	4.7
Net change in external assets (NCA) (a) (b)	-1.6	2.3	4.0	-2.2	7.3	12.4	7.0	11.0
Direct investment	2.7	3.0	-0.2	2.0	3.0	5.4	4.1	2.1
Monetary financial institutions	-0.6	1.6	0.0	0.0	0.8	1.1	0.6	0.5
Other resident sectors	3.3	1.4	-0.2	2.0	2.2	4.4	3.5	1.6
Portfolio investment	-6.0	-3.9	0.4	-0.4	5.0	6.3	2.3	6.9
General government	-0.6	-0.1	-0.5	-0.3	-0.4	-0.3	0.0	0.0
Monetary financial institutions	-3.2	-0.7	2.1	-0.7	0.6	-0.1	-0.1	0.7
Other resident sectors	-2.2	-3.1	-1.3	0.5	4.8	6.7	2.4	6.2
Other investment (c)	1.6	3.2	3.8	-3.8	-0.8	0.7	0.6	2.0
General government	0.3	0.6	1.9	0.9	0.5	-0.1	-0.1	0.1
Monetary financial institutions	0.8	1.6	1.5	-5.1	-0.8	0.9	0.5	1.4
Other resident sectors	0.6	0.9	0.5	0.4	-0.4	-0.1	0.3	0.6
Net change in external liabilities (NCL) (a) (b)	0.1	-4.9	-13.2	6.2	8.9	6.4	-0.3	6.2
Direct investment	2.8	2.2	1.8	3.8	2.4	2.9	2.6	0.4
Monetary financial institutions	0.2	0.2	0.3	0.1	0.1	0.0	0.2	-0.1
Other resident sectors	2.6	2.0	1.6	3.7	2.3	2.9	2.4	0.5
Portfolio investment	-3.3	-6.4	-5.0	4.7	5.5	6.9	-1.1	5.5
General government	1.3	-1.0	0.3	6.6	4.7	5.9	0.0	2.5
Monetary financial institutions	-2.0	-3.1	-3.9	0.0	1.2	1.3	-0.8	3.0
Other resident sectors	-2.7	-2.3	-1.3	-1.8	-0.4	-0.3	-0.3	0.1
Other investment (c)	0.6	-0.8	-10.1	-2.4	0.9	-3.3	-1.8	0.2
General government	0.5	0.2	5.3	0.7	0.5	-0.8	-0.2	-0.4
Monetary financial institutions	-0.7	-1.8	-14.5	-3.0	0.6	-2.4	-1.7	0.2
Other resident sectors	0.8	0.8	-0.9	-0.1	-0.1	-0.1	0.1	0.4
Financial derivatives (d)	-0.8	0.2	-0.8	0.1	0.1	-0.1	-0.2	-0.2
Change in net external position of the Banco de España (e)	-1.5	-10.2	-16.2	11.5	2.6	-3.7	-4.7	-2.7
Reserve assets	0.1	0.9	0.2	0.1	0.4	0.5	0.7	0.3
Net position vis-à-vis the Eurosystem	-0.9	-11.6	-14.9	13.3	4.5	-4.7	-5.3	-2.7
Other net assets	-0.6	0.4	-1.6	-1.9	-2.3	0.5	-0.1	-0.4
Errors and omissions (f)	-0.5	0.0	-0.1	1.1	-0.4	0.4	0.2	-0.2
Memorandum item								
Balance of the financial account, including the Banco de España	-4.0	-2.8	0.2	3.2	1.2	2.2	2.4	1.9

SOURCE: Banco de España.

**a** Excluding the Banco de España.

**b** Excluding financial derivatives.

**c** Mainly including 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 net foreign liabilities of the Banco de España.

**f** A positive sign indicates that receipts are being understated and/or payments are being overstated, which in the financial accounts is the same as understating liabilities and/or overstating assets. A negative sign denotes the opposite.

Ebn

	2016				2017				Position at period-end
	Position at period-end	Change in balance	Transactions in the period	Other flows in the period (a) (I + II)	Revaluations (I)	Arising from changes in prices	Arising from exchange rate movements	Other changes in volume (II)	
<b>TOTAL NET POSITION (ASSETS – LIABILITIES)</b>	<b>-932.8</b>	<b>-7.6</b>	<b>22.5</b>	<b>-30.1</b>	<b>-28.6</b>	<b>23.6</b>	<b>-52.1</b>	<b>-1.5</b>	<b>-940.4</b>
<i>In terms of GDP (%)</i>	<i>-83.4</i>	<i>2.6</i>							<i>-80.8</i>
Excluding the Banco de España	-768.2	30.0	54.4	-24.4	-22.9	24.5	-47.5	-1.5	-738.2
Direct investment	-23.9	-15.4	19.3	-34.7	-35.0	4.3	-39.3	0.3	-39.3
Portfolio investment	-570.2	29.0	16.0	13.0	14.5	20.3	-5.9	-1.4	-541.2
Other investment (b)	-167.9	17.9	21.2	-3.3	-2.9	-0.6	-2.4	-0.4	-149.9
Financial derivatives	-6.2	-1.5	-2.1	0.6	0.5	0.5	0.0	0.1	-7.7
Banco de España	-164.6	-37.6	-31.9	-5.6	-5.7	-1.0	-4.7	0.0	-202.2
Reserves	59.9	-2.8	3.7	-6.4	-6.4	-1.5	-4.9	0.0	57.1
Net position of the Banco de España vis-à-vis the Eurosystem	-225.0	-31.3	-31.3	0.0	0.0	0.0	0.0	0.0	-256.2
Other	0.4	-3.5	-4.3	0.8	0.8	0.8	0.0	0.0	-3.1
Assets, excluding the Banco de España (c)	1,454.7	91.8	128.3	-36.5	-32.2	30.8	-63.0	-4.3	1,546.5
Direct investment	650.1	-3.0	24.2	-27.2	-25.6	18.0	-43.6	-1.5	647.2
Portfolio investment	464.6	82.6	80.5	2.1	2.8	13.3	-10.5	-0.7	547.2
Other investment	339.9	12.2	23.6	-11.5	-9.4	-0.6	-8.9	-2.0	352.1
Liabilities, excluding the Banco de España (c)	2,216.7	60.3	71.9	-11.6	-8.8	6.7	-15.5	-2.7	2,277.0
Direct investment	674.1	12.5	5.0	7.5	9.3	13.7	-4.4	-1.8	686.5
Portfolio investment	1,034.8	53.6	64.6	-10.9	-11.6	-7.0	-4.6	0.7	1,088.4
Other investment	507.8	-5.8	2.4	-8.1	-6.5	0.0	-6.5	-1.6	502.0
Memorandum item									
Gross external debt	1,864.6	53.5							1,918.1
<i>In terms of GDP (%)</i>	<i>166.7</i>	<i>-1.9</i>							<i>164.8</i>

SOURCE: Banco de España.

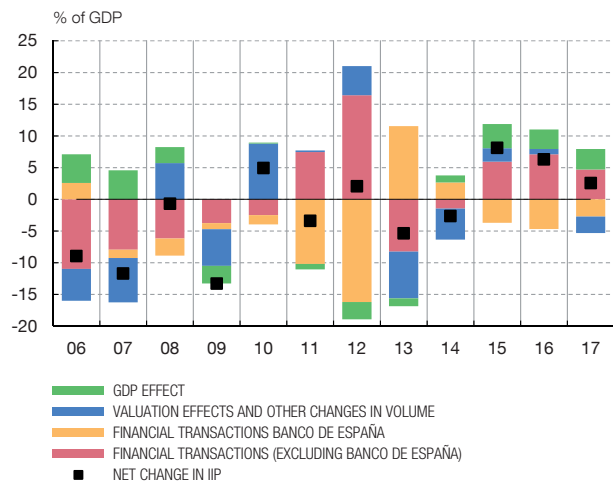
- a Other flows include revaluations (either due to changes in exchange rates or to changes in prices), other changes in volume (including, inter alia, forgiveness, unilateral loan write-offs or reclassifications and statistical discrepancies between the IIP and the financial account of the BoP).
- b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

### International Investment Position and gross external debt

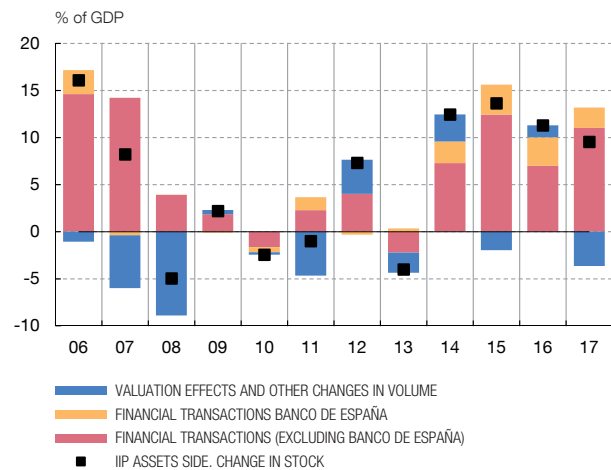
In 2017, the negative net IIP of the Spanish economy with the rest of the world rose by €7.6 billion, to €940.4 billion, compared with the 2016 close. By contrast, as a proportion of GDP, it declined again (by 2.6 pp to 80.8%) as a result of GDP growth (see Table 3 and Chart 8.1). The cumulative fall from the peak recorded in 2014 amounts to 17 pp. This increase in the negative net IIP was despite the positive sum of net financial transactions (€22.5 billion), which was consistent with the nation's net lending, as it was more than offset by the net negative sum (€30.1 billion) linked to the other flows, the result of changes in the valuation of assets and liabilities vis-à-vis non-residents, owing to price and exchange rate moves, and other changes in volume.<sup>15</sup>

<sup>15</sup> Other changes in volume are any change in the value of assets or liabilities not owing to transactions or revaluations. They include changes arising from debt forgiveness and write-offs, economic appearances and disappearances of assets, reclassifications and those owing to changes in agents' residence. In practice, this item may also include statistical discrepancies between the IIP and the BoP arising from data inclusion timing differences.

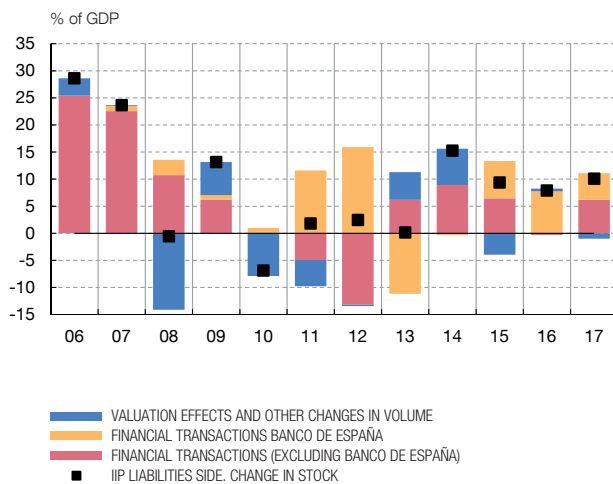
1 COMPONENTS OF CHANGE IN NET IIP (a)



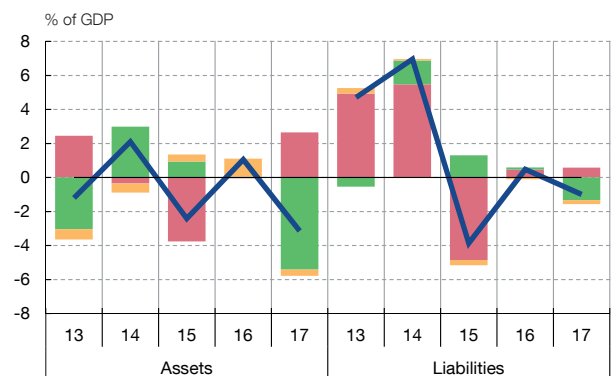
2 COMPONENTS OF CHANGE IN EXTERNAL ASSETS (b)



3 COMPONENTS OF CHANGE IN EXTERNAL LIABILITIES (b)



4 COMPONENTS OF CHANGE IN OTHER FLOWS (c)



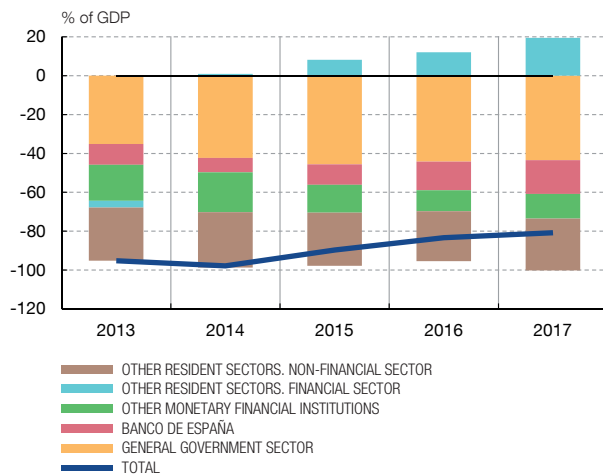
SOURCE: Banco de España.

- a The net IIP is the difference between the value of the external assets of the resident sectors and that of the liabilities with the rest of the world.  
 b Excluding financial derivatives.  
 c Excluding the Banco de España and the net derivatives position.

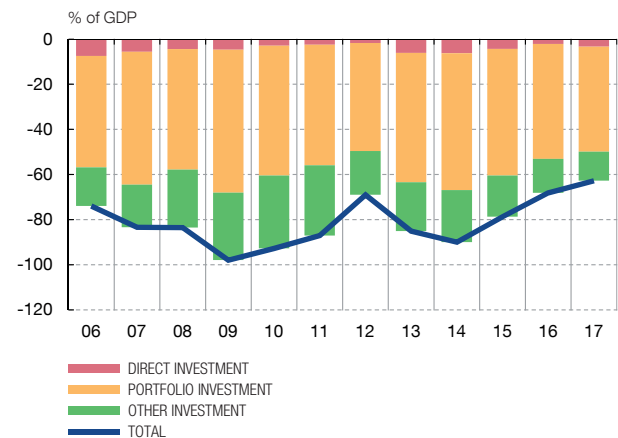
The contribution of the other flows to the increase in the negative net IIP of the Spanish economy was essentially attributable to a decrease in the value of assets that was greater than the decrease in the value of liabilities (see Charts 8.2 to 8.4). The decrease in the value of assets and liabilities was mainly a consequence of the appreciation of the euro, which reduced the value of instruments denominated in foreign currency, an effect that was only partially offset by the higher price of financial instruments. The negative exchange rate impact on investments by non-residents in Spain was much more moderate, since the proportion of liabilities denominated in foreign currency is considerably lower than that of assets. Regarding revaluations linked to price moves, the stock price rise observed in 2017 was reflected in an increase in the value of equity and of investment funds, which was higher in assets than in liabilities, whereas in debt instruments depreciation was more pronounced in the case of liabilities.



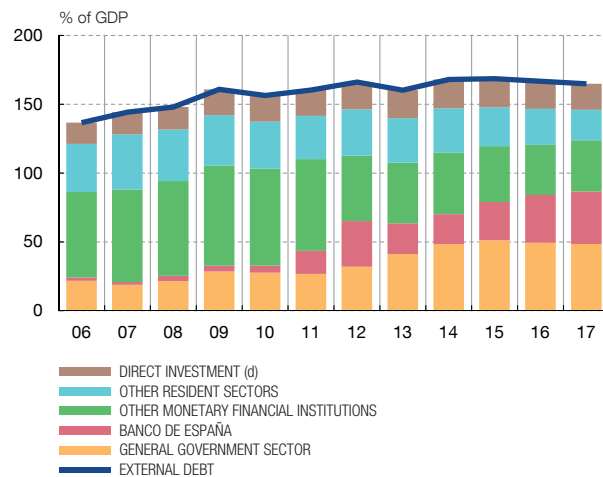
5 NET IIP (a). BREAKDOWN BY INSTITUTIONAL SECTOR



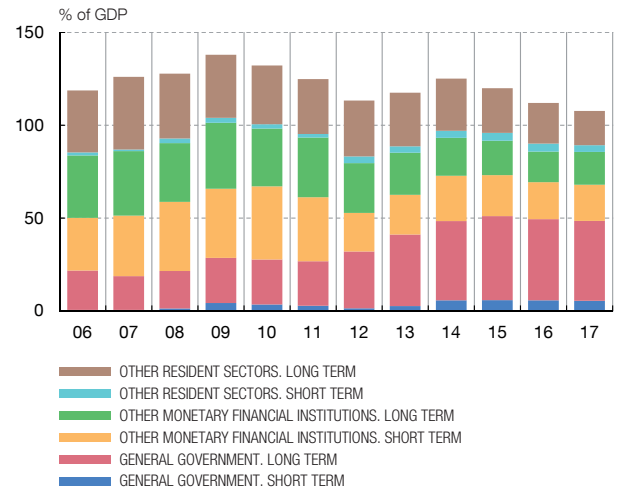
6 NET IIP (a) (b). BREAKDOWN BY FUNCTIONAL CATEGORY



7 GROSS EXTERNAL DEBT (c). BREAKDOWN BY SECTOR



8 GROSS EXTERNAL DEBT STRUCTURE BY INSTITUTIONAL SECTOR AND ISSUE TERM (c) (e)



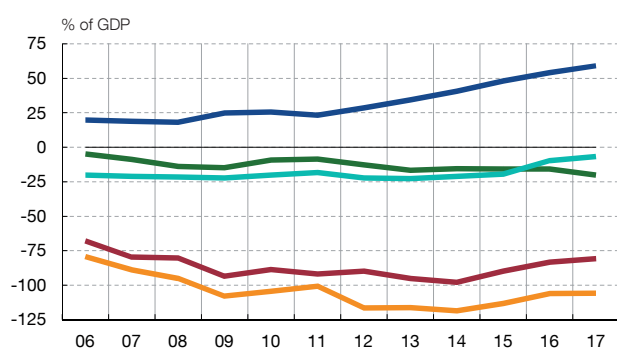
SOURCE: Banco de España.

- a The net IIP is the difference between the value of the external assets of the resident sectors and that of the liabilities to the rest of the world.  
 b Excluding the Banco de España and the net derivatives position.  
 c External debt comprises the balance of all liabilities that entail future repayment of principal, payment of interest or both (that is, all financial instruments except equity and financial derivatives).  
 d Includes only direct investment in the form of debt.  
 e Excluding the Banco de España and direct investment in the form of debt.

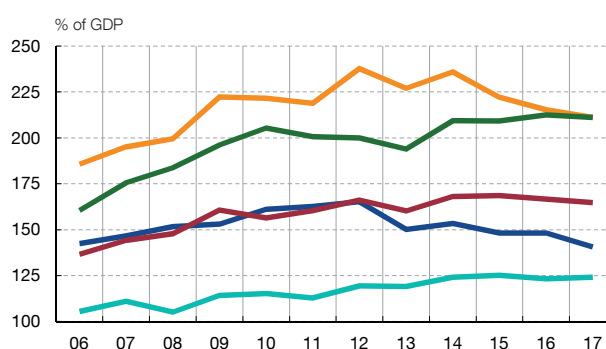
The breakdown by sector shows a mixed performance. Thus, the net external asset position of the non-monetary financial institutions grew once more, and markedly (by 7.4 pp to 19.4% of GDP). The net liability position of the general government sector fell slightly as a proportion of GDP (by 0.8 pp to 43.5%), although in absolute terms the sector's net liabilities increased<sup>16</sup> (see Chart 8.5). The liability positions of the other sectors expanded, both in absolute terms and as a proportion of GDP. In particular, the liability position of the OMFIs increased by 1.9 pp to 12.7% of GDP, while the liability position of

<sup>16</sup> In absolute terms, the net liabilities of the general government sector increased by €10.9 billion.

1 NET IIP (a)



2 GROSS EXTERNAL DEBT (b)



— GERMANY — PORTUGAL — FRANCE — ITALY — SPAIN

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 the liabilities with the rest of the world.  
 b External debt comprises the balance of all liabilities that entail future repayment of principal, payment of interest or both (that is, all financial instruments except equity and financial derivatives).

the non-financial private sector grew by 1 pp to 26.7%. Similarly, the net liability position of the Banco de España rose by 2.7 pp to 17.4% of GDP. Excluding the Banco de España, the negative net IIP declined both as a proportion of GDP (by 5.2 pp to 63.4%) and in absolute terms (by €30 billion to €738.2 billion).

The breakdown by functional category, excluding the Banco de España, reveals lower net liabilities in the portfolio investment and other investment headings compared with 2016, but higher net liabilities in the direct investment heading (see Chart 8.6). The portfolio investment liability position continues to be the largest (46.5% of GDP), while the direct investment liability position is the smallest (3.5% of GDP). By instrument, the net liability positions in the form of currency and deposits, debt and loans declined, as did the net asset positions in the form of equity.

Although the net external liability position of the Spanish economy has shrunk in recent years, in terms of GDP, it remains high both from a time standpoint and in comparison with other countries (see Chart 9.1). This reflects vulnerability to potential adverse shocks, especially those which translate into a tightening of credit conditions on the international markets. Redirecting the position towards moderate levels will require current account surpluses being maintained over an extended period.

To better assess the degree of vulnerability of the international position of the Spanish economy, it is useful to supplement the IIP data with other indicators, such as the volume of gross external debt (which includes only liabilities that generate payment obligations and which in Spain account for some 70% of the total).<sup>17</sup> In 2017, gross external debt increased by €53.5 billion, although as a proportion of GDP it contracted by 1.9 pp to 164.8%, thanks to nominal GDP growth. This figure is 3.7 pp below the 2015 peak. The

<sup>17</sup> A country's external debt comprises the balances of all liabilities to non-residents that entail future repayment of principal, payment of interest or both (all financial instruments, except equity and financial derivatives).

comparison with other countries shows that Spain's gross external debt remained at a medium level, higher than that of Germany and Italy but lower than that of France or Portugal (see Chart 9.2).

The breakdown by sector reveals that the gross external debt of the other resident sectors declined both as a proportion of GDP (by 4.2 pp to 22.1%) and in absolute terms, whereas the increase in the gross external debt of the general government sector was lower than the increase in GDP, meaning that it fell slightly as a proportion of GDP, to 48.5% (see Chart 8.7).<sup>18</sup> The gross external debt of the sector comprising other monetary financial institutions other than the Banco de España rose slightly, to 37.2%, while that attributable to the Banco de España increased by 3.5 pp to 38.2% of GDP.

The data on the composition of gross external debt continue to reflect a predominance of long-term instruments, which generally entail lower refinancing risks (see Chart 8.8). Specifically, if the liabilities of the Banco de España and direct investment are excluded,<sup>19</sup> at end-2017 long-term instruments accounted for 73.6% (slightly – 0.4 pp – more than a year earlier), of which almost 45% were debt securities issued by the general government sector.

4.5.2018.

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<sup>18</sup> Excluding direct investment in the form of debt instruments.

<sup>19</sup> This functional category comprises more stable investment, which is why, in the breakdown of external debt by financial instrument, direct investment is not broken down by term.

As discussed in the main body of the article, there was a severe contraction in foreign direct investment (FDI) assets and liabilities in 2017 linked to restructuring at several corporate groups. To better assess these flows in 2017, directional principle data must be used.

Following OECD and IMF recommendations, the FDI statistics compiled by the Banco de España are presented according to two alternative analytical approaches: the asset/liability approach and the directional principle. In the main body of the article, as it refers to the balance of payments (BoP) and the international investment position (IIP) and their components, the direct investment data calculated using the asset/liability approach are analysed. This approach classifies investment according to whether it relates to an asset or a liability for the economy concerned. This form of presentation facilitates analysis of the BoP and the IIP, as it follows the same principle as the other functional categories, thus enabling total assets and liabilities to be broken down into their different components. It also ensures better correlation between the data provided by the BoP and the IIP and that provided by other macroeconomic statistics, and is consistent with the data presentation in the national financial accounts and related income.

In some cases, as in 2017, FDI assets and liabilities are heavily influenced by corporate restructuring that affects a group's assets and liabilities, without it being possible to extract any implications as to the reason for the changes in investment or their economic consequences on the country analysed (for instance, mutual cancellation of debt between a non-resident parent company and its resident subsidiary that may take place in the context of such restructuring).

In these cases, it is particularly important to analyse the data according to the directional principle.<sup>1</sup> Under this approach, FDI flows and positions are organised according to the direction of the investment for the economy concerned, drawing a distinction between: i) *outward direct investment*, which reflects net transactions (assets minus liabilities) between firms of the same group when the parent company is resident; and ii) *inward direct investment*, which reflects net liabilities (liabilities minus assets) between the firms of a group when the parent company is non-resident.<sup>2</sup> Directional presentation of FDI is more useful than asset/liability presentation when the aim is to focus in particular on the analysis of FDI, on the nature and grounds for it and on the breakdown by country or by economic activity issuing or receiving

funds. Figure 1 provides a graphical representation of the correspondence between the two approaches.

As Chart 1 shows, in 2017 Spain's outward direct investment transactions according to the directional principle amounted to €36.2 billion, slightly more than in 2016 (€34.4 billion). As in previous years, the bulk of these transactions corresponded to the non-financial private sector (€28.4 billion, compared with €23.2 billion in 2016), whereas the figures for both the monetary and non-monetary financial sector were positive but much lower (€6.5 billion and €1.3 billion, respectively). By geographical area (see Chart 3), these funds went mainly to European countries outside the euro area (€19.1 billion, of which €15.9 billion to the United Kingdom), followed by North America (€6.7 billion) and the euro area (€6.6 billion, chiefly France and Ireland). This breakdown was different from previous years as since 2013, the first year available using the current methodology,<sup>3</sup> Latin America had been the main destination for Spanish investment, followed by North America and the rest of Europe, while until last year Spain was divesting in the euro area.

The breakdown by economic activity shows that finance and insurance was again the sector that made the most foreign investment, amounting to €12.2 billion, somewhat less than in previous years (see Chart 5). It was followed by the manufacturing and supply industry (€12 billion, much higher than the €0.4 billion recorded in 2016), transport and telecommunications (€4.6 billion) and wholesale and retail trade and hotel and catering (€4.2 billion).

In turn, Chart 1 shows that the volume of FDI transactions in Spain (€16.9 billion) in 2017 was consistent with that observed in recent years, albeit slightly lower than in 2016 (€17.8 billion). The breakdown by sector of destination reveals, as in previous years, that the bulk of the funds (€18.4 billion) were channelled towards non-financial corporations, somewhat more than in 2016 (€16.8 billion), with no investment for other monetary financial institutions (unlike 2016 when they received €1.6 billion) and divestments in non-monetary financial enterprises (€1.4 billion, more than the €0.6 billion recorded in 2016). As regards the source of this international investment,<sup>4</sup> the great majority came, as usual, from other euro area countries, which increased as a proportion of the total (€15.2 billion compared with a flow of €10.6 billion in

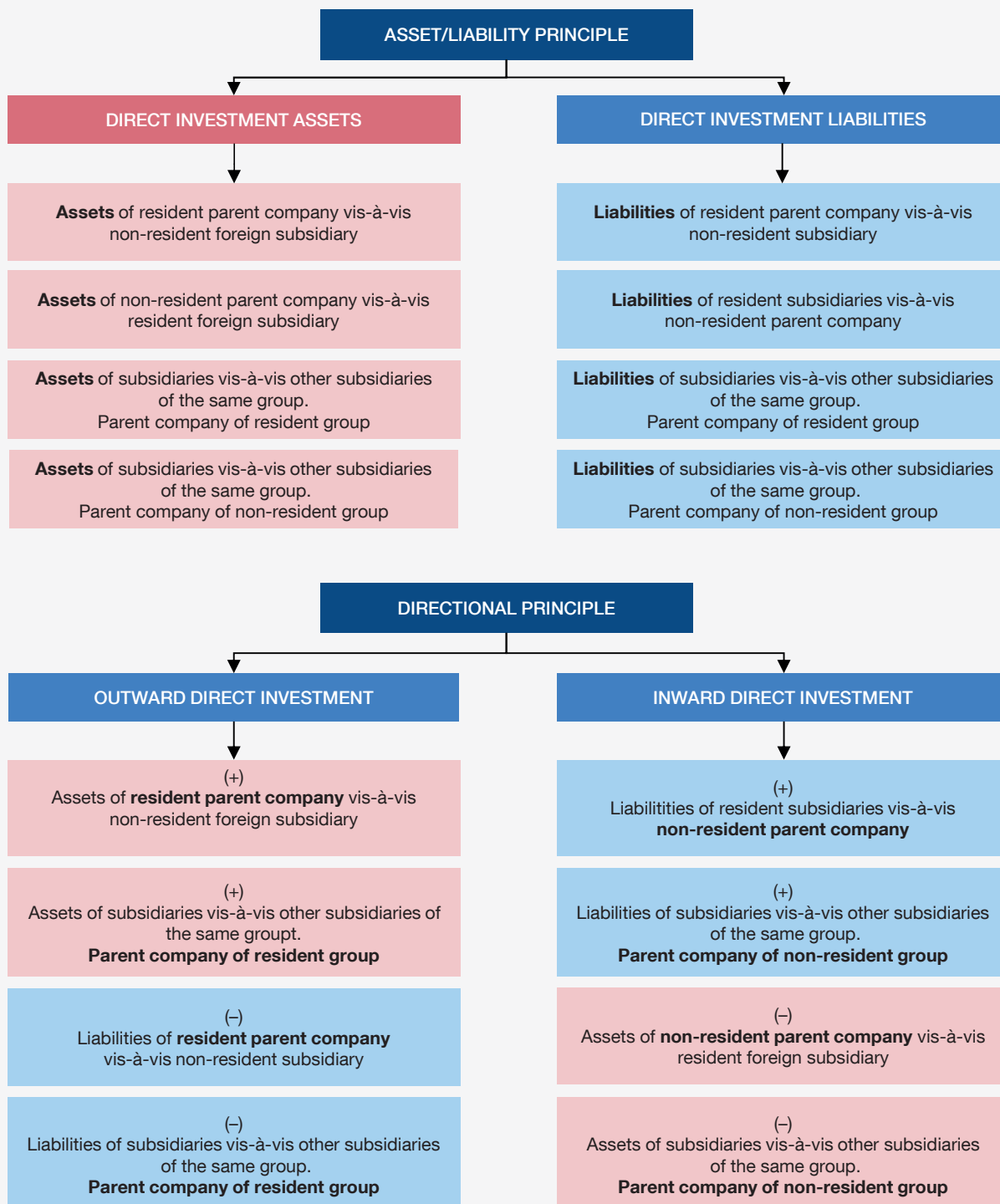
1 The Banco de España releases data on transactions and the direct investment position according to the directional principle quarterly in Tables 17.40 and 17.41 of the *Statistical Bulletin*.

2 These assets and liabilities between group firms may correspond to parent-subsidiary, subsidiary-parent or subsidiary-subsidiary (two subsidiaries of the same group) relationships. For more details, see the General Methodological Note on the Balance of Payments and International Investment Position, on the [External Sector Statistics page of the Banco de España's website](#).

3 The data published according to the former methodology are set out in the Statistics Department's annual publications *The Spanish Balance of Payments and International Investment Position* up to 2014 and in international organisations' publications on direct investment.

4 It is important to note that the geographical breakdown of foreign investment in Spain is on an immediate country rather than an ultimate country basis. The weight of countries such as the Netherlands and Luxembourg would be lower on an ultimate country basis. For details on ultimate country, see the primary statistics in the investment register of the Ministry of Economic Affairs, Industry and Competitiveness which are more detailed than those compiled in the framework of the BoP/IIP, although with methodological and timing differences.

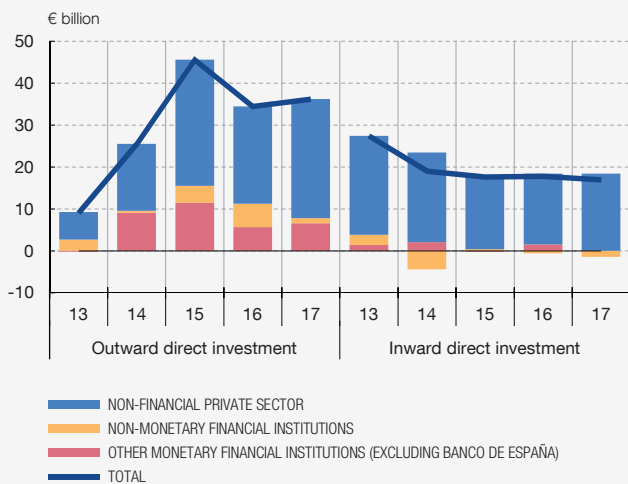
Figure 1  
CORRESPONDENCE BETWEEN ASSET/LIABILITY PRINCIPLE AND DIRECTIONAL PRINCIPLE



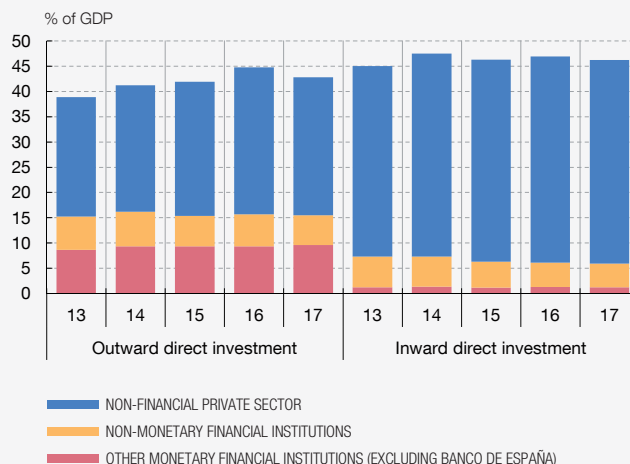
SOURCE: Banco de España.



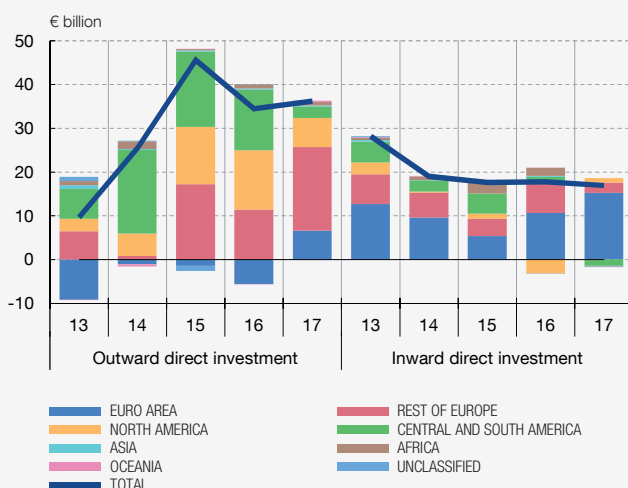
**Chart 1**  
DIRECT INVESTMENT. TRANSACTIONS. BREAKDOWN BY INSTITUTIONAL SECTOR



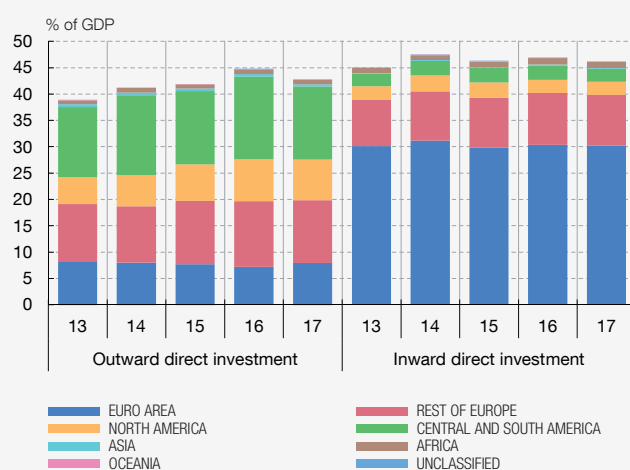
**Chart 2**  
DIRECT INVESTMENT. POSITION. BREAKDOWN BY INSTITUTIONAL SECTOR



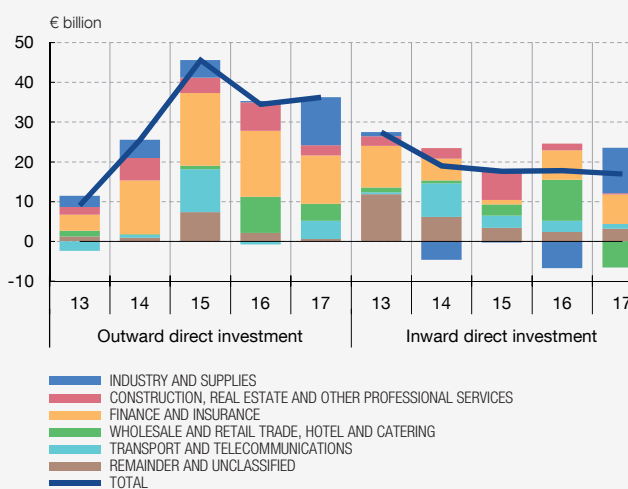
**Chart 3**  
DIRECT INVESTMENT. TRANSACTIONS. BREAKDOWN BY GEOGRAPHICAL AREA



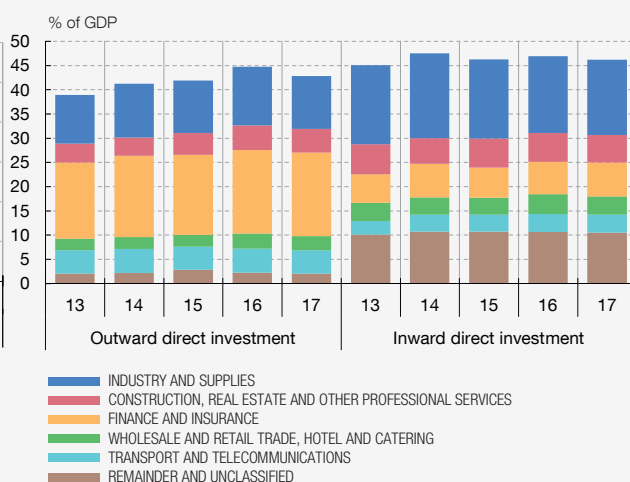
**Chart 4**  
DIRECT INVESTMENT. POSITION. BREAKDOWN BY GEOGRAPHICAL AREA



**Chart 5**  
DIRECT INVESTMENT. TRANSACTIONS. BREAKDOWN BY ECONOMIC ACTIVITY



**Chart 6**  
DIRECT INVESTMENT. POSITION. BREAKDOWN BY ECONOMIC ACTIVITY



SOURCE: Banco de España.

2016) (see Chart 3), with the largest flows originating in the Netherlands (€10.3 billion), Ireland (€5 billion), Germany (€3.7 billion) and Luxembourg (€2.4 billion). The remaining foreign investment came from other European economies (€2.3 billion, compared with €6.7 billion in 2016), particularly from Switzerland (€1.4 billion), with only a negligible amount from other geographical areas. By economic activity, in 2017 industry and supplies were the main destination (€11.5 billion) (see Chart 5), by contrast to previous years when the volume of foreign investment in this sector was low or negative. Finance and insurance came next with €7.4 billion (virtually the same as the previous year), followed by transport and telecommunications with €1.3 billion (slightly less than half the figure of the past two years).

At end-2017, Spain's stock of outward direct investment amounted to 42.8% of GDP, 1.9 pp less than a year earlier (see Chart 2). Most of this investment was by non-financial corporations (27.3% of GDP), followed by the monetary and non-monetary financial sectors (9.6% and 5.9% of GDP, respectively). By geographical breakdown, Spain's direct investment position in 2017 amounted to 13.9% of GDP in Latin America (mainly Brazil and Mexico), 11.9% in Europe excluding the euro area, 7.9% in the euro area and 7.7% in North America (see Chart 4).

This position was mainly attributable to finance and insurance, which accounted for 17.3% of GDP at end-2017 (see Chart 6), followed by industry and supplies (10.9% of GDP), construction and transport and telecommunications (each with 4.8% of GDP) and lastly wholesale and retail trade and hotel and catering (2.9% of GDP at end-2017).

As for the inward direct investment position, at the 2017 close it accounted for 46.2% of GDP, 0.7 pp less than in 2016 (see Chart 2). Most of the investment stock was in non-financial corporations (40.3% of GDP), followed by the non-monetary and monetary financial sectors (4.7% and 1.2% of GDP, respectively). On an immediate country basis,<sup>5</sup> the bulk of these funds came from the euro area (30.2% of GDP, mainly the Netherlands, Luxembourg, France and Germany) and the rest of Europe (9.6% of GDP, essentially the United Kingdom and Switzerland), whereas North and Latin America accounted for just 2.5% of GDP each (see Chart 4). By economic sector, the manufacturing and supply industry was the main recipient, accounting for 15.5% of GDP, while investment in finance and insurance amounted to 7% of GDP and investment in construction to 5.7% (see Chart 6).

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<sup>5</sup> See previous footnote.