

THE INTERNATIONAL INVESTMENT POSITION OF SPAIN IN THE FIRST HALF OF 2014

The authors of this article are César Martín Machuca and Cristina Rodríguez Llorens, of the Directorate General Economics, Statistics and Research.

This article describes the main features of the International Investment Position (IIP) of Spain at the end of the first half of 2014, highlighting the most significant changes with respect to end-2013 and their determining factors. We also present the composition of the IIP by institutional sector and analyse its behaviour by type of investment and geographical area.

The publication of the IIP figures for the end of June 2014 coincided with the first-time application of the sixth methodological manual of the IMF (BPM6) and the full implementation of the new system of information sources in their compilation.¹ These changes introduce a methodological break requiring revision of the time series. At the time of preparation of this article, homogeneous time series had only been published since 2012, although they will soon be extended back to 1992.

Changes in the International Investment Position in the first half of 2014: an aggregate analysis

The recent methodological changes and new information sources prompted a downward revision of the net debit balance of the IIP by 5.6 percentage points (pp) of GDP in 2013 to 92.6% (see Chart 1), as a result of a larger upward revision of external assets than of external liabilities. The methodological changes gave rise to substantial variations in several headings which largely cancel each other out.² Additionally, the upward revision of the GDP associated with the adoption of ESA 2010 in the National Accounts explains a significant proportion of the decrease in the ratio of IIP to GDP (2.4 pp). For the same reasons, the external debt to GDP ratio was revised downwards by 6.7 pp in 2013 to 153% (of which 3.9 pp relate to the denominator effect).

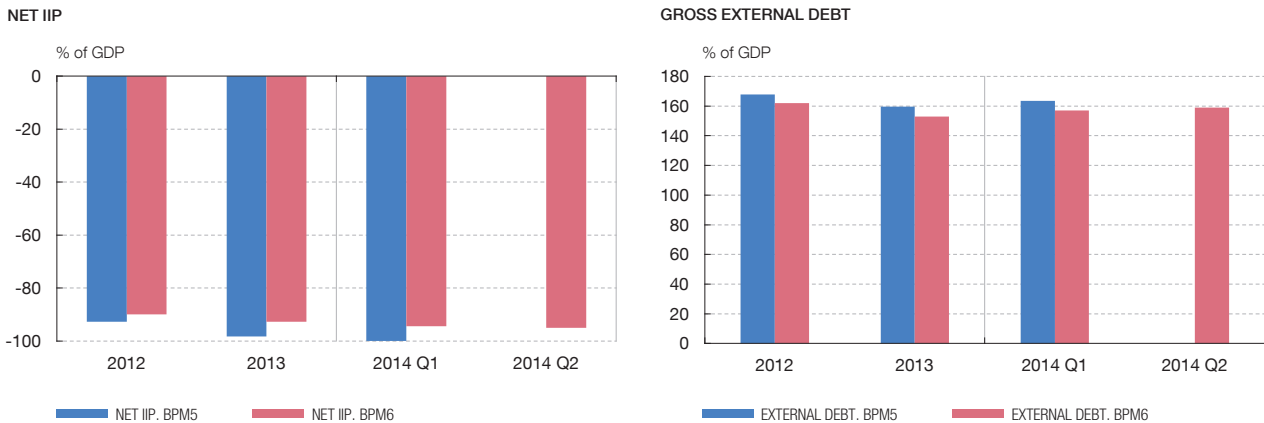
The net debtor position of the Spanish economy vis-à-vis the rest of the world increased in the first half of 2014 as a result of the impact on the value of external assets and liabilities exerted by changes in the prices of different instruments and in exchange rates (so-called valuation effects),³ since the new cross-border financial transactions contributed to decreasing the debit balance at the end of the previous year (see Chart 2).

At end-June 2014, Spain's debit balance vis-à-vis the rest of the world amounted to 95% of GDP, up 2.4 pp on its value at end-2013 (see Table 1). This increase was caused by the valuation of external liabilities rising more sharply than that of external assets, so as to reach, respectively, 231.1% and 136.1% of GDP. External debt, i.e. the portion of external liabilities which is claimable, amounted to 159.1% of GDP. Excluding the Banco de España, the net debtor IIP stood at 81.7% of GDP (2.8 pp more than at end-2013).

¹ This change is made on a coordinated basis throughout Europe and is also consistent with the entry into force of the European System of National and Regional Accounts (ESA 2010) for the National Accounts and the Financial Accounts. For more information see <http://www.bde.es/webbde/es/estadis/bpagos/balpag.html>.

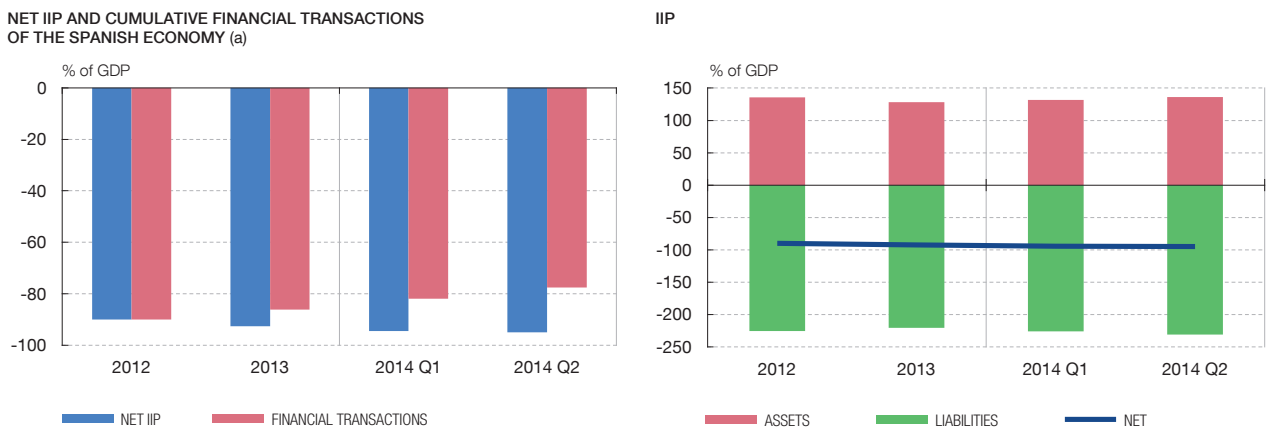
² The decrease in the total debit balance basically reflects the regular yearly revision of direct investment associated with the inclusion of data from the investments register of the Ministry of Economy and Competitiveness. Some of the main changes in methodology and information sources affecting the IIP are as follows: i) direct investment is now classified on an asset and liability basis instead of according to the directional principle, and ii) use of a new system of direct reporting to the Banco de España based on Circular 4/2012. For more information on these changes, see the note entitled "Changes in the balance of payments and in the international investment position in 2014", http://www.bde.es/webbde/es/estadis/bpagos/Cambios-BPyPII_jun2014.pdf.

³ In addition to these two factors, there is a third known as *other adjustments*, which occasionally affects the IIP.



SOURCE: Banco de España

IIP AND FINANCIAL TRANSACTIONS
Net IIP and cumulative BoP financial transactions



SOURCE: Banco de España.

a The first figure of the cumulative financial transactions is the net IIP at end-2012. In subsequent periods, to this initial figure are progressively added the net financial flows of Spain with the rest of the world.

In the first half of 2014, the Spanish economy was a slight net borrower from the rest of the world, while the financial conditions of the Spanish economy continued to improve. Stock market prices rose more sharply than in other advanced areas and Spanish government debt interest rates dropped further to historically low levels and the spread over German bonds continued to narrow. There were also falls in yields and in the risk premia on private-sector fixed-income securities. The cost of new bank credit to the private sector decreased slightly in corporate loans below €1 million and in household consumer credit and other lending and barely changed in the other segments, although it remained too high for the expansionary stance of monetary policy.

Owing to this behavior of the financial markets, the aggregate impact of price changes in the assets and liabilities underlying the net position was negative in the first half (see Table 2). The depreciation of the euro against the dollar and pound sterling prompted an increase in the value of external assets denominated in foreign currency (see Table 3). This effect was not large enough to offset that of opposite sign generated as a result of the increase, sharper in Spain than in the rest of the world, in the prices of debt and equity

INTERNATIONAL INVESTMENT POSITION. SUMMARY

TABLE 1

€bn

							% of GDP		
	2012	2013		2014		2012	2013	2014	
		Q3	Q4	Q1	Q2	Q4	Q4	Q2	
Net international investment position (A-L)	-949.2	-973.3	-971.9	-991.3	-998.9	-90.0	-92.6	-95.0	
Excluding Banco de España	-695.7	-777.2	-827.6	-835.1	-859.3	-65.9	-78.9	-81.7	
Direct investment	-22.9	-50.8	-62.2	-53.8	-62.7	-2.2	-5.9	-6.0	
Portfolio investment	-504.2	-534.7	-584.5	-592.3	-628.7	-47.8	-55.7	-59.8	
Other investment (a)	-170.8	-193.9	-183.5	-188.4	-164.8	-16.2	-17.5	-15.7	
Financial derivatives	2.2	2.2	2.6	-0.6	-3.1	0.2	0.2	-0.3	
Banco de España	-253.6	-196.1	-144.2	-156.1	-139.6	-24.0	-13.7	-13.3	

SOURCE: Banco de España.

a Mainly loans, deposits and repos.

RECONCILIATION OF CHANGE IN STOCKS TO BALANCE OF PAYMENTS FLOWS

TABLE 2

€bn

	Net (a)				Assets				Liabilities			
	Change in stock	Transaction	Valuation effects and other adjustments	% diff. (b)	Change in stock	Transaction	Valuation effects and other adjustments	% diff. (b)	Change in stock	Transaction	Valuation effects and other adjustments	% diff. (b)
2013	-22.6	40.6	-63.2	6.7	-87.8	-51.2	-36.6	-2.6	-65.2	-91.8	26.6	1.1
2013 Q3	-31.4	10.9	-42.3	4.5	-38.2	-32.9	-5.3	-0.4	-6.8	-43.8	37.0	1.6
2013 Q4	1.5	18.6	-17.2	1.8	-17.0	-1.7	-15.2	-1.1	-18.4	-20.3	1.9	0.1
2014 Q1	-19.4	1.5	-20.9	2.2	38.9	29.3	9.6	0.7	58.3	27.8	30.5	1.3
2014 Q2	-7.6	14.6	-22.2	2.2	49.0	30.4	18.5	1.3	56.6	15.9	40.7	1.7
2014 H1	-27.0	16.1	-43.1	4.4	87.8	59.7	28.1	2.1	114.8	43.6	71.2	3.1

SOURCE: Banco de España.

a A negative sign denotes a larger change in liabilities than in assets.

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

securities, which, through this channel, contributed to the liabilities rising more sharply in value than assets.

An international comparison shows relatively moderate changes in the positions of the main net debtor countries of the euro area for which information is available (see Chart 3).⁴

Composition of the International Investment Position by institutional sector and instrument

The growth of the debtor position vis-à-vis the rest of the world in the period under analysis resulted in larger debit balances of general government and, to a lesser extent, of other monetary financial institutions (MFIs), which approached 40% of GDP in the former and 20% of GDP in the latter (see Table 4 and Chart 4). Contrastingly, the net debtor position

⁴ IIP data up to the second half of 2014 consistent with the new Balance of Payments Manual are only available for a small number of countries.

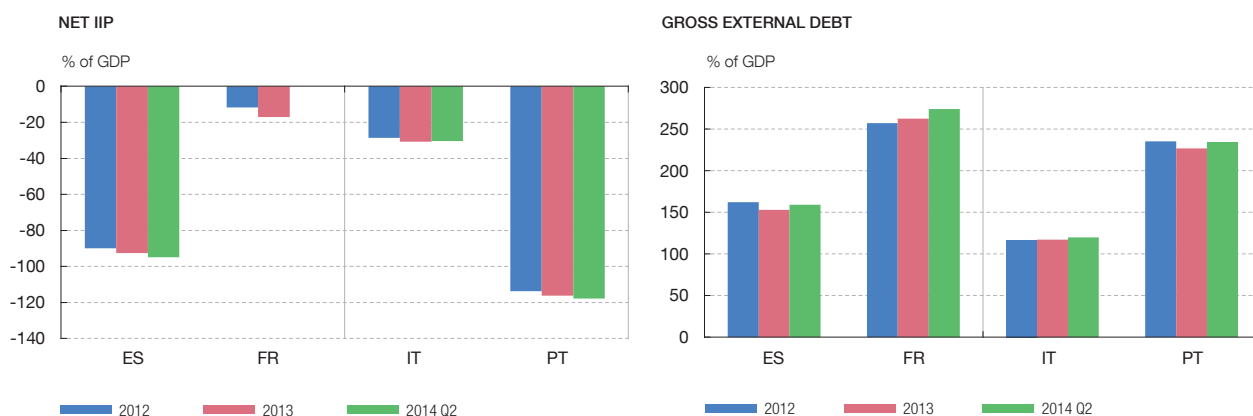
	Stock exchange indices (a)			Exchange rate (b)		Long-term interest rate (c)			
	IBEX 35	EUROSTOXX 50	S&P 500	Dollar	Pound sterling	Germany	Spain	US	UK
2011	-13.1	-17.1	0.0	-3.0	-3.2	1.9	5.5	2.1	2.0
2012	-4.7	13.8	13.4	-2.3	2.0	1.3	5.3	1.9	1.7
2013	21.4	17.9	29.6	2.2	4.5	1.8	4.1	2.9	2.9
2013 Q3	18.3	11.2	4.7	-2.5	3.2	1.9	4.4	2.9	2.8
2013 Q4	8.0	7.5	9.9	-0.3	2.1	1.8	4.1	2.9	2.9
2014 Q1	4.3	1.7	1.3	-0.7	0.0	1.5	3.3	2.7	2.7
2014 Q2	5.6	2.1	4.7	-3.2	-0.9	1.3	2.7	2.7	2.6
2014 H1	10.2	3.8	6.1	-3.9	-1.0	1.3	2.7	2.7	2.6

SOURCES: Banco de España and ECB.

- a Cumulative change in index between the end of the immediately preceding period and the end of the reference period.
b Cumulative change in exchange rate of the euro against the currency in question from the end of the immediately preceding period to the end of the reference period. A positive (negative) sign denotes an appreciation (depreciation) of the euro against the currency in question.
c Mean of the last month of the period.

INTERNATIONAL INVESTMENT POSITION AND GROSS EXTERNAL DEBT (a)

CHART 3



SOURCES: IMF and national sources.

- a Countries denoted by ISO code (ES: Spain; FR: France; IT: Italy; PT: Portugal).

of the Banco de España decreased, prolonging the path of last year, to stand at 13.3% of GDP in June, basically due to the decline in the Banco de España's net debtor position vis-à-vis the Eurosystem. There was also a decrease in the net debt of other resident sectors (ORSs),⁵ which amounted to 24% of GDP in June.

The increase in the debit balance of MFIs is explained by the negative impact of valuation effects, since in the first half the purchases of external assets exceeded the increase in liabilities held by non-residents. Meanwhile, the smaller net debtor position of ORSs reflected the net outflow of funds between January and June 2014, which outweighed the negative impact of the valuation effects. The enlargement of the general government debit balance vis-à-vis the

⁵ This institutional sector includes households, non-financial corporations, non-monetary financial institutions and insurance corporations and pension funds.

INTERNATIONAL INVESTMENT POSITION
Sectoral breakdown

TABLE 4

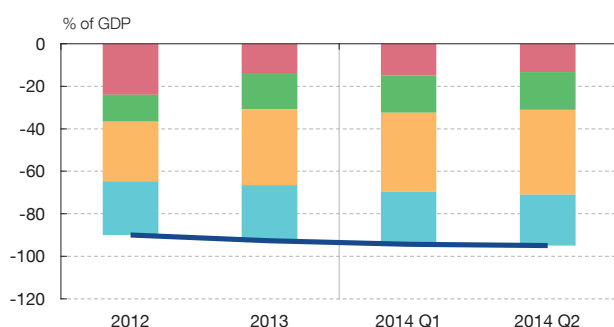
	Banco de España			Other MFIs			General government			ORs		
	Net	Assets	Liabilities	Net	Assets	Liabilities	Net	Assets	Liabilities	Net	Assets	Liabilities
Value of stock (€bn)												
2012	-253.6	87.1	340.6	-132.5	583.7	716.2	-296.7	45.0	341.7	-266.5	715.0	981.5
2013	-144.2	72.7	217.0	-178.9	466.8	645.6	-374.8	51.9	426.7	-273.9	751.6	1,025.5
2014 Q1	-156.1	74.4	230.5	-185.2	478.8	664.0	-390.0	47.5	437.5	-260.0	781.2	1,041.1
2014 Q2	-139.6	73.1	212.7	-187.9	494.8	682.7	-418.6	49.5	468.1	-252.8	813.4	1,066.2
% of GDP												
2012	-24.0	8.3	32.3	-12.6	55.3	67.9	-28.1	4.3	32.4	-25.3	67.8	93.0
2013	-13.7	6.9	20.7	-17.0	44.5	61.5	-35.7	4.9	40.7	-26.1	71.6	97.7
2014 Q1	-14.9	7.1	22.0	-17.6	45.6	63.2	-37.1	4.5	41.7	-24.8	74.4	99.2
2014 Q2	-13.3	7.0	20.2	-17.9	47.1	64.9	-39.8	4.7	44.5	-24.0	77.4	101.4

SOURCE: Banco de España.

NET IIP BY SECTOR

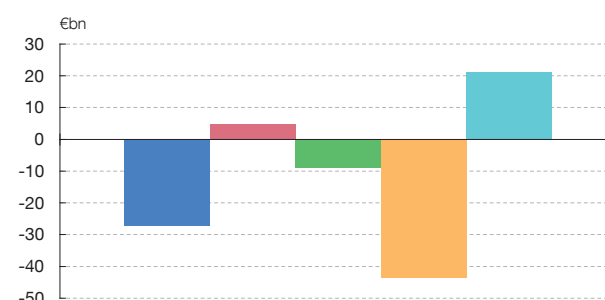
CHART 4

PERIOD: 2012 TO 2014 Q2



■ BANCO DE ESPAÑA
■ OTHER MONETARY FINANCIAL INSTITUTIONS
■ GENERAL GOVERNMENT
■ OTHER RESIDENT SECTORS
— TOTAL

CHANGE BETWEEN 2013 AND 2014 Q2



■ TOTAL
■ BANCO DE ESPAÑA
■ OTHER MONETARY FINANCIAL INSTITUTIONS
■ GENERAL GOVERNMENT
■ OTHER RESIDENT SECTORS

SOURCE: Banco de España.

rest of the world came as a result of the cumulative capital inflows in the first half of 2014 and of the negative impact of the valuation effects. The funds raised by general government are basically explained by non-residents' purchases of short-term government debt.⁶

By instrument, the higher net debtor IIP of the Spanish economy in the first half of 2014, excluding the Banco de España, was mainly due to an increase in the debit balance of portfolio investment and, rather less so, to changes in the position in financial derivatives, which switched sign from positive to negative. By contrast, the debit balance of other investment decreased. For its part, the balance of direct investment remained almost unchanged (see Table 5 and Chart 5).

In the first six months of the year the debit balance of direct investment held at 6% of GDP, against a background marked by increases in foreign assets held by residents and in investment

⁶ The percentage of unstripped held-to-maturity government debt held by non-residents remained practically unchanged in the first half of 2014 with respect to end-2013, at slightly below 44% of the total.

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

TABLE 5

	Direct investment			Portfolio investment			Other investment			Derivatives		
	Net	Assets	Liabilities	Net	Assets	Liabilities	Net	Assets	Liabilities	Net	Assets	Liabilities
% of GDP												
2012	-2.2	49.3	51.5	-47.8	27.2	75.0	-16.2	36.7	52.9	0.2	14.1	13.9
2013	-5.9	48.8	54.8	-55.7	29.6	85.3	-17.5	33.3	50.8	0.2	9.4	9.1
2014 Q1	-5.1	50.2	55.3	-56.4	32.0	88.4	-17.9	33.2	51.1	-0.1	9.1	9.2
2014 Q2	-6.0	50.4	56.4	-59.8	33.7	93.5	-15.7	35.4	51.0	-0.3	9.6	9.9

SOURCE: Banco de España.

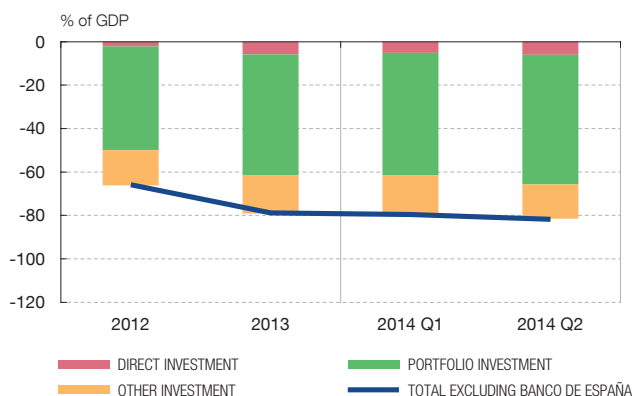
a Excluding Banco de España.

b The breakdown by type of instrument coincides with the classification by functional category.

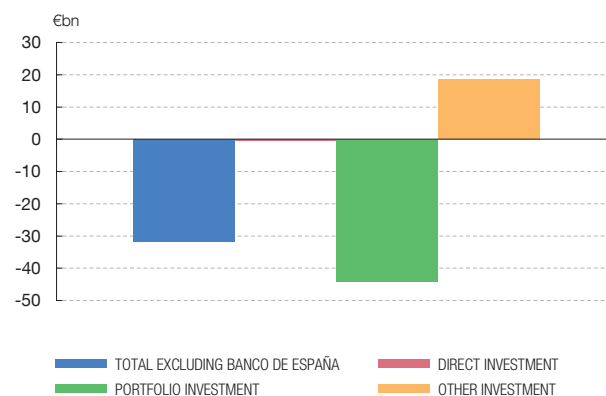
NET IIP BY INSTRUMENT (a)

CHART 5

PERIOD: 2012 TO 2014 Q2



CHANGE BETWEEN 2013 AND 2014 Q2



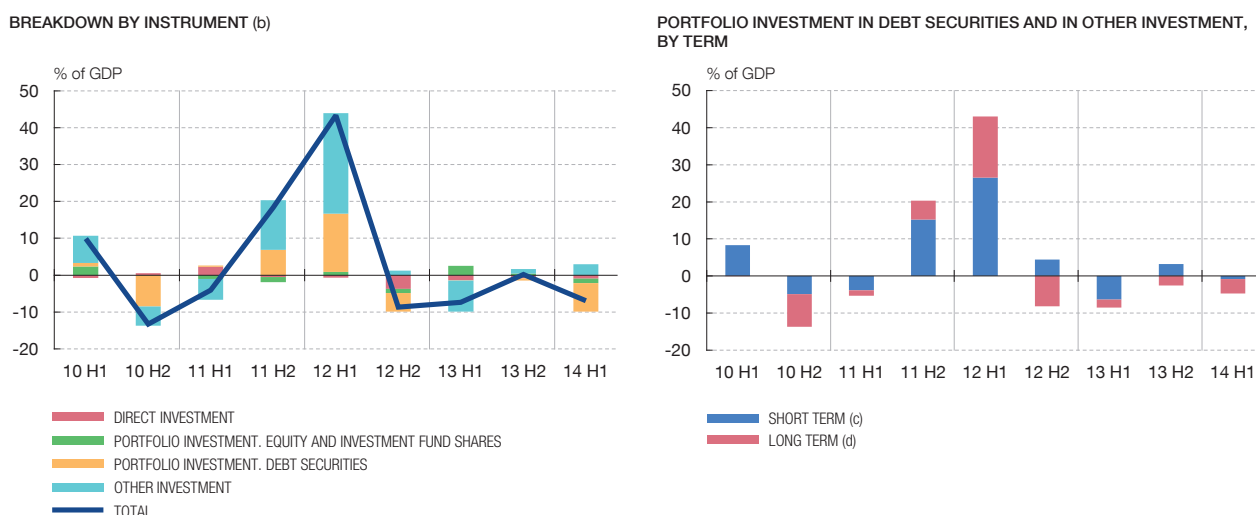
SOURCE: Banco de España.

a Excluding Banco de España. Financial derivatives not included.

in Spain by non-residents (see Chart 6). As regards the destination of Spanish investment, the EU is the area where the presence of Spanish firms is highest (55% of the total direct investment assets, with 35% in the euro area). Latin America continued to be the second most important area, with 24% of direct investment. As regards the origin of foreign investors in Spanish firms, the EU also clearly predominates (81% of the total) and most are from the euro area (67%).

The net debtor position of portfolio investment increased by 4.1 pp of GDP to 59.8% as a result of liabilities rising more sharply than assets. Both these rises reflect the impact of transactions between Spain and the rest of the world in the first half of 2014 and of valuation effects, which were particularly significant in external liabilities as interest rates on Spanish fixed income securities fell substantially.

Analysis of portfolio investment by type of instrument shows that the enlargement of the net debtor position was due to an increase in the debit balance of shares and investment fund shares (by 1 pp of GDP to 10.6%) and, more importantly, to an increase in the debit balance of debt securities (by 3.1 pp to 49.2% of GDP). In both types of instruments, the value of the stock of liabilities rose more sharply than that of assets and the valuation effects were negative (most markedly in shares and investment fund shares), which offset the cumulative net outflows in the first half of 2014.



SOURCE: Banco de España.

- a Net change in assets minus net change in liabilities. Half-yearly data. Excluding Banco de España.
 b Excluding financial derivatives.
 c Short-term debt securities and other short-term investment (up to 12 months).
 d Long-term debt securities and other long-term investment.

Notable on the assets side of portfolio investment was the high concentration of holdings of assets issued by EU residents (85% of the total), particularly by euro area residents (77% of the total). As regards the country of origin of foreign investors in Spanish securities, the IIP provides information only on the first-known non-resident counterparty, which often differs from the final holder of the securities, which is the relevant party for the purpose of economic analysis. The Coordinated Portfolio Investment Survey (CPIS) of the IMF provides information on the geographical breakdown of portfolio assets of other countries representing claims on Spain.⁷ The latest available figures, relating to end-2013, show a predominance of investments from the EU (approximately 70% of the total), especially from France and Germany as end-investors (nearly 40% of inward portfolio investment), although the United States and the United Kingdom also had notable shares (13% and 7% of liabilities, respectively).

The debit balance of other investment decreased by 1.8 pp to 15.7% of GDP as a result of the stock of assets increasing in value by more than the stock of liabilities. The breakdown of other investment by geographical area shows a very high concentration in the EU, particularly for liabilities (90% against 72% for assets). The euro area accounts for 69% of liabilities and 49% of assets. The United Kingdom also accounts for a significant fraction of the external financial assets and liabilities in the form of other investment (23% of assets and 21% of liabilities).

Finally, the position in financial derivatives changed sign between end-2013 and June 2014, switching from a credit balance of 0.2% of GDP to a debit balance of 0.3% of GDP.

13.11.2014.

⁷ The CPIS figures available are consistent with the BPM5. They can be found on the IMF website: <http://cpis.imf.org/>.

