

4 Spain's international investment position in 2008

4.1 International investment position in 2008: analysis of aggregate data

The net debit position of the Spanish economy vis-à-vis the external sector, measured via the international investment position (IIP), continued increasing in nominal terms in 2008, although more slowly than in previous years (see Chart 4.1). The net debit IIP amounted to €876 bn, which, with respect to end-2007, represented an increase of 1.2 percentage points (pp) of GDP to stand at 80% (see Table 4.1). The relative weight of assets in GDP decreased by 3 pp to 125%, while that of liabilities declined by 1.8 pp to 206% of GDP. Box 4.1 is an international comparison of recent developments in the IIP.

In the case of Spain, the change in the debit balance in 2008 was due to the nation's net borrowing and to the effect of the changes in the prices of the instruments composing the IIP and in the euro exchange rate (the so-called "valuation effect")¹ (see Table 4.2). Net financial transactions, which are the counterpart of net borrowing,² contributed to increasing the debt vis-à-vis the external sector by €94.9 bn (by €64.8 bn excluding Banco de España transactions). A substantial part of this impact was countered by the valuation effect, which in 2008 was positive, i.e. contributed to reducing the debit balance, which contrasts with the customary negative sign shown recently. On this occasion, the negative impact of exchange rate developments³ was more than offset by the favourable effect of the decrease in financial instrument prices, such that the valuation component of liabilities decreased (3.6%) more than that of assets (2.7%) (see Table 4.3).⁴ When evaluating the size of the debit balance vis-à-vis the external sector, it should be taken into account that a significant part of the liabilities, such as shares and other equity is, by its very nature, not claimable, which means that the actual debt of the Spanish economy is less than suggested by that debit balance.⁵

4.2 Composition of the international investment position by institutional sector

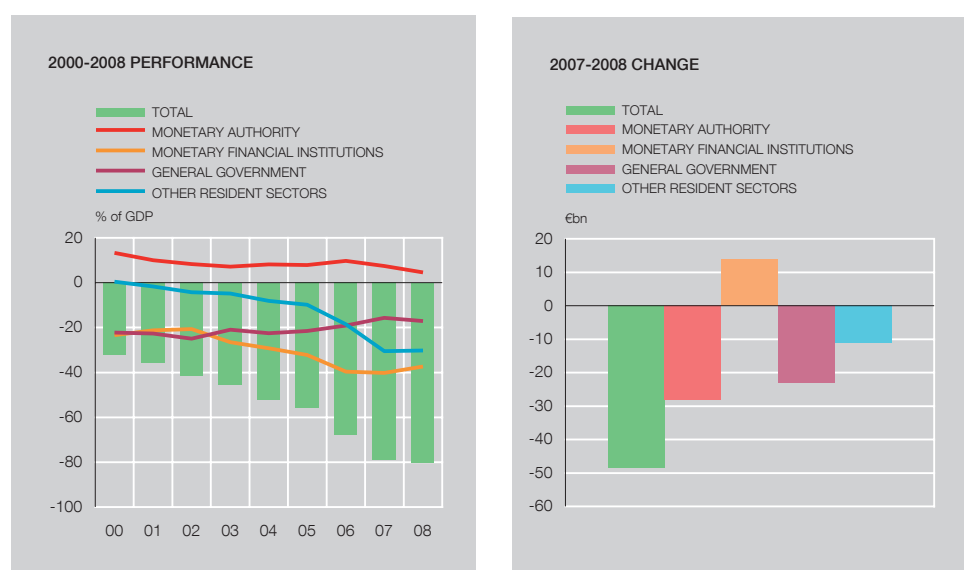
In 2008 all institutional sectors contributed to the widening of the net debit IIP, except for monetary financial institutions (MFIs). A notable development was the decrease in the credit position of the Banco de España, both in absolute terms and as a percentage of GDP (see Table 4.4 and Chart 4.2). The debit balance of general government also increased, while that of other resident sectors (ORSs) remained relatively steady as a percentage of GDP.

The debit balance of ORSs increased in nominal terms, although as a percentage of GDP it fell by 0.2 pp to 30.3% of GDP. The funds raised abroad by this sector (€12,971 million) were only

1. In accordance with international statistical standards, the IIP values external financial assets and liabilities at the market prices and exchange rates prevailing at the end of the reporting period. Therefore, the change in prices, expressed in national currency, of the assets composing the IIP has a direct impact on the credit or debit balance vis-à-vis the foreign sector. It follows that the change in the IIP between two points in time is determined not only by the financial transactions between the residents of an economy and the rest of the world, which reflects the nation's net borrowing or lending in that period, but also by the changes in value of the financial instruments composing the stock of financial assets and liabilities (the so-called *valuation effect*). In addition to these two factors, there is a third one, known as *other adjustments*, which occasionally affects the IIP. 2. In this article, net lending or borrowing has been proxied by the net financial transactions of the economy. The existence of errors and omissions means that, year-to-year, the two figures do not coincide. However, over long periods of time these errors and omissions tend to cancel out. 3. In most developed economies, the percentage of assets denominated in foreign currency exceeds that of liabilities, which means that the value of assets is more sensitive to exchange-rate fluctuations. In the case of Spain, which has a net credit position in foreign currency (31% of assets and 17% of liabilities were denominated in foreign currency in December 2008), the strong appreciation of the euro against the pound sterling outweighed its slight depreciation against the dollar, so the valuation effect associated with exchange-rate changes acted to increase Spain's net debit position, since it reduced the value of assets denominated in national currency more than that of liabilities. 4. The decrease in prices was, on average, greater in the financial instruments composing liabilities than in those composing assets, which, together with the net debit position of the Spanish economy in the more price-sensitive securities, explains the positive sign of the valuation effect in 2008. 5. At end-2008, shares and other equity, whether in the form of direct investment or portfolio investment, represented around 24% of Spain's total foreign liabilities.

NET IIP BY SECTOR
2000-2008 PERFORMANCE AND 2007-2008 CHANGE

CHART 4.1



SOURCE: Banco de España.

INTERNATIONAL INVESTMENT POSITION. SUMMARY

TABLE 4.1

€bn	2006	2007	2008			
			Q1	Q2	Q3	Q4
NET INTERNATIONAL INVESTMENT POSITION (A-L)	-664.6	-827.7	-852.5	-867.4	-870.3	-876.1
Excluding Banco de España	-760.3	-906.6	-933.1	-934.6	-927.3	-927.0
<i>Foreign direct investment</i>	-35.7	-9.9	-26.3	-27.0	-16.8	-23.7
<i>Portfolio investment</i>	-508.9	-647.6	-604.1	-612.5	-627.6	-595.3
<i>Other investment (a)</i>	-206.1	-230.3	-281.9	-271.6	-271.2	-301.6
<i>Financial derivatives</i>	-9.6	-18.8	-20.7	-23.4	-11.7	-6.4
Banco de España	95.7	78.9	80.6	67.2	57.0	50.9

SOURCE: Banco de España.

a. Principally, loans, deposits and repos.

partially offset by a positive valuation effect (€1,963 million). By instrument, their debit position increased in direct investment (by 1.2 pp of GDP, to 7.8% of GDP) and in other investment (by 0.2 pp of GDP, to 3.8% of GDP). The increase in the FDI debit balance is explained by the notable fall in Spanish investment abroad, compared with the relative steadiness of foreign investment in Spain. By contrast, the debit position in portfolio investment decreased (by 1.6 pp of GDP, to 18.5%), since the net inflows of capital were outweighed by the valuation effect derived from the stock market falls.

The net debit position of MFIs vis-à-vis the external sector decreased by approximately 3 pp of GDP in 2008, to 37% of GDP. The net inflows of funds generated by the sector's financial transactions, which amounted to €34.6 bn, were outweighed by a positive valuation effect of €48.8 bn, derived mainly from the fall in stock market prices. This moderate correction of MFIs' debit balance took place against a background marked by a decrease in their liquidity needs (due to the narrowing of the gap between deposits and loans), but, at the same time, by a

In the past decade the degree of economic and financial integration of economies has increased notably, as reflected by the increase in both trade and financial cross-border flows. Many of the economies which lent funds to the rest of the world at the beginning of the period have continued to do so to an increasing extent, while those which were net borrowers have had recourse to external saving, also to an ever-greater extent. This persistence in the sign of financial flows has meant that the international investment position (IIP) in the major developed countries has taken a differing path in recent years. However, this trend was broken at the outset of the financial crisis, both due to the changes in the volume and direction of international financial flows and to the general decreases in financial asset prices. Chart 1 shows the net IIP of the main euro area countries and of the euro area as a whole,¹ of the United Kingdom and of the United States for the period 2000-2008.² As can be seen, from end-2007 the net IIP tended to decline in GDP terms in most countries, or, at least, to grow more slowly. The differences in its growth are explained by the differing composition of the IIP by type of instrument, which affects the impact of financial asset price changes on the net balance, and by the sign of the capital account.

Chart 2 shows the composition of the net IIP by type of instrument for the main countries and areas analysed in 2008. In that year the FDI of all countries except Spain had a credit balance. Also most notable is the generally high debit balance of the developed countries in fixed income portfolio investment, which may indicate the attractiveness of

debt securities (low risk) for foreign investors. Unlike in FDI and fixed income portfolio investment, the countries do not seem to exhibit any easily identifiable common pattern in the balance of other investment and of equities. Nevertheless, the debit balance of Spain in both these types of investment is higher than that of other countries, some of which have a credit balance. Moreover, in the case of other investment this difference has widened in the past year as a result of Spain's higher recourse to instruments of this type to cover its borrowing requirement.

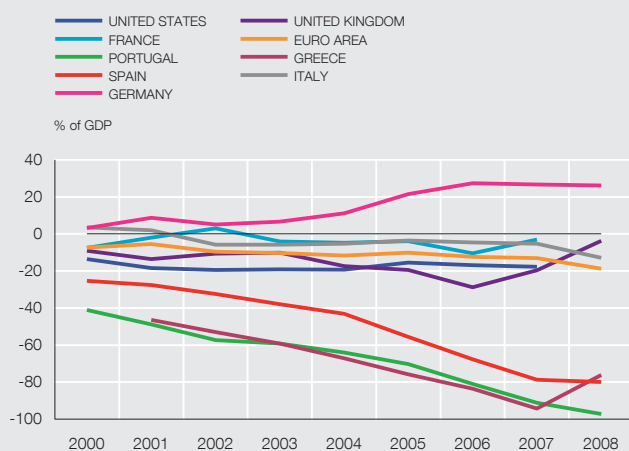
External assets and liabilities (see Charts 3 to 6), after remaining relatively steady in all countries until 2004, showed notable and uninterrupted growth until 2007 (see Charts 3 and 4). However, in 2008, as a result of the impact of the economic and financial crisis on international financial flows (see Box 3.1) and on asset prices (especially equity prices), the value of external assets and liabilities contracted significantly in most countries. As might be expected, this decline was particularly sharp in the United Kingdom³ because of its status as an international financial centre. Although less abruptly, in the euro area as a whole and in Germany and Italy, the value of the stock of euro-denominated external assets and liabilities fell, whereas it remained practically unchanged in Spain. As regards France and the United States, although the IIP data for 2008 have not yet been published, the behaviour of financial flows suggests that the expansion of

1. The IIP of the euro area excludes the inter-country positions between the euro area member countries. 2. For France and the United Kingdom there are only data until end-2007.

3. The data have been expressed in euro for the purposes of comparing the stocks of external financial assets and liabilities. In the case of the United Kingdom, where the pound sterling depreciated significantly in 2008, the valuation in terms of euro reduces the value of both assets and liabilities with respect to the sterling-denominated figure.

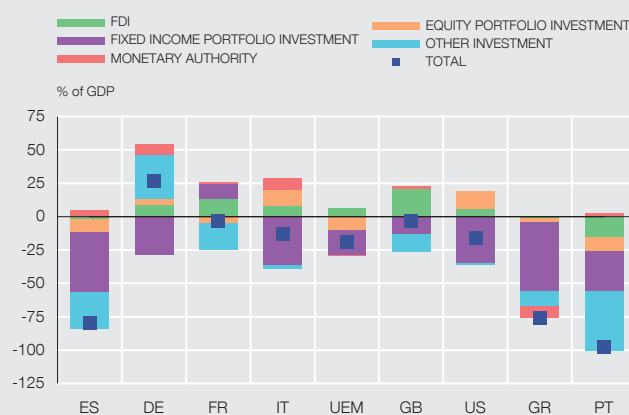
NET IIP BY COUNTRY AND INSTRUMENT (a)

1 NET IIP BALANCE (b)



SOURCE: National statistics.

2 IN 2008 (b)



a. Countries are denoted by their ISO code, as follows: ES: Spain, DE: Germany, FR: France, IT: Italy, UEM: Euro area, GB: United Kingdom, US: United States, GR: Greece and PT: Portugal.
 b. Latest available data, which relate to end-2008 for all countries except the United States and France, for which the latest data relate to end-2007.

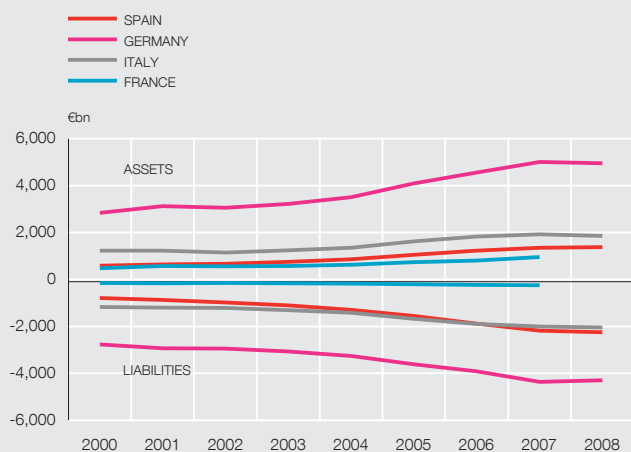
asset and liability holdings ceased in that year. Nevertheless, the degree of financial openness of the economies considered, defined as the ratio of external assets and liabilities to GDP, remained very high, fluctuating between 813% of GDP in the case of the United Kingdom and 246% in the United States. Spain, at 331% of GDP, was in an intermediate position.

Lastly, the structure of the stock of external assets and liabilities by country also exhibits significant differences. As regards assets, noteworthy in Spain were the holdings in the form of direct investment (more

than 35% of the total in 2008) in comparison with their weight in other countries (18% in Germany and 19% in the United States). This reflects the importance that the internationalisation of Spanish firms has had in the process of financial integration of the Spanish economy. As an opposing phenomenon, the balance of shares and other equity in portfolio investment was lower than that in other countries, perhaps indicating that Spanish investors prefer safer assets. Moving on to liabilities, in Spain, as in the major euro area countries, the holdings of non-residents are basically in the form of fixed income portfolio investment (also very important in Italy) and in other investment.

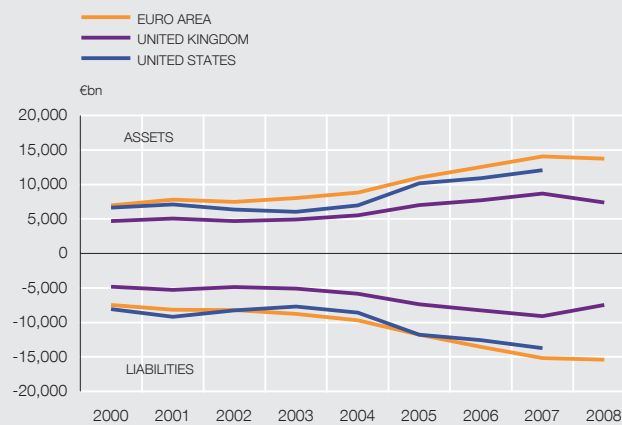
ASSET-SIDE AND LIABILITY-SIDE IIP, BY COUNTRY

3 EURO AREA COUNTRIES



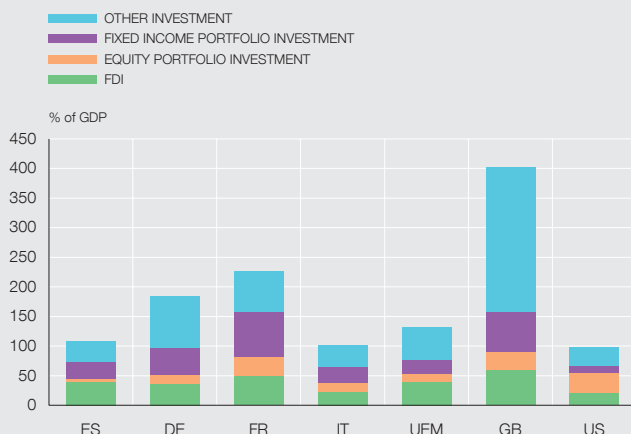
SOURCE: National statistics.

4 OTHER DEVELOPED COUNTRIES

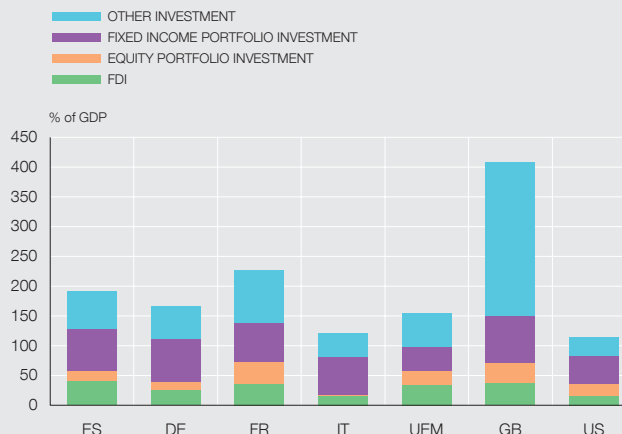


ASSET-SIDE AND LIABILITY-SIDE IIP, BY INSTRUMENT (a) (b)

5 ASSETS



6 LIABILITIES



SOURCE: National statistics.

a. Countries are denoted by their ISO code, as follows: ES: Spain, DE: Germany, FR: France, IT: Italy; UEM: Euro area, GB: United Kingdom, US: United States, GR: Greece and PT: Portugal.
 b. Latest available data, which relate to end-2008 for all countries except the United States and France, for which the latest data relate to end-2007.

FINANCIAL MARKET DEVELOPMENTS
Prices, interest rates and exchange rates

TABLE 4.2

	STOCK EXCHANGE INDICES (a)			EXCHANGE RATE (a)		LONG-TERM INTEREST RATE (b)		
	IBEX-35	EUROSTOXX 50	S&P 500	DOLLAR/EURO	STERLING/EURO	EURO AREA	US	UK
2006	31.8	15.1	13.6	11.6	-2.0	3.90	4.57	4.54
2007	7.3	6.8	3.5	11.8	9.2	4.38	4.10	4.68
2008	-39.4	-44.4	-38.5	-5.5	29.9	3.89	2.42	3.48

SOURCES: European Central Bank and Banco de España.

- a. Cumulative rate of change. End-period data.
b. Ten-year government bond yield. Mean of the final month of the period.

RECONCILIATION OF CHANGE IN STOCK WITH BALANCE OF PAYMENTS TRANSACTIONS (a)

TABLE 4.3

€bn	NET (b)		ASSETS				LIABILITIES				
	CHANGE IN STOCK	TRANSACTION	VALUATION EFFECT AND OTHER ADJUSTMENTS LEVEL	CHANGE IN STOCK	TRANSACTION	VALUATION EFFECT AND OTHER ADJUSTMENTS		CHANGE IN STOCK	TRANSACTION	VALUATION EFFECT AND OTHER ADJUSTMENTS	
						LEVEL	% (c)			LEVEL	% (c)
	2006	-183.0	-111.4	-71.6	145.7	143.3	2.4	0.2	328.7	254.7	74.1
2007	-146.4	-86.7	-59.6	140.2	153.9	-13.8	-1.3	286.5	240.7	45.8	2.5
2008	-20.3	-64.8	44.4	21.2	53.6	-32.4	-2.7	41.5	118.4	-76.9	-3.6

SOURCE: Banco de España.

- a. Excluding Banco de España.
b. A (-) sign denotes a larger change in liabilities than in assets.
c. Difference between the change in the stock and the balance of payments transaction, in terms of stock at beginning of the period.

INTERNATIONAL INVESTMENT POSITION
Distribution by sector

TABLE 4.4

% of GDP	MONETARY AUTHORITY			MFIs			GENERAL GOVERNMENT			ORSs		
	NET	ASSETS	LIABILITIES	NET	ASSETS	LIABILITIES	NET	ASSETS	LIABILITIES	NET	ASSETS	LIABILITIES
2006	9.7	9.8	0.0	-39.7	38.6	78.3	-19.1	2.9	22.0	-18.5	73.3	91.9
2007	7.5	7.9	0.3	-40.2	44.7	84.9	-15.6	3.3	18.9	-30.5	72.7	103.2
2008	4.6	7.9	3.2	-37.3	49.0	86.3	-17.1	3.7	20.8	-30.3	65.0	95.3

SOURCE: Banco de España.

tightening of the conditions of access to foreign funding on the wholesale markets, in some of which Spanish institutions had been very active. As noted above, since the onset of the crisis, MFIs have changed the way in which they cover their liquidity needs, as they now have greater recourse to short-term external funding and to Eurosystem loans. In line with this behaviour, the partial correction of the MFIs' debit balance was mainly due to the decrease in the net debit position of portfolio investment and, in particular, to the decrease in liabilities (by 7.2 pp of GDP, to 28.8%), since assets remained nearly unchanged (at around 9% of GDP). By con-



SOURCE: Banco de España.

trast, and in line with the trend of financial transactions in 2008 as a whole, the debit balance of other investment widened by 5 pp of GDP, to 23%.

The net external debt of general government increased by 1.5 pp of GDP to stand at 17.1% (almost entirely as a result of transactions in the year), thereby interrupting the downward path of the past three years.⁶

Lastly, in 2008 the Banco de España's net credit position decreased by 2.9 pp of GDP, to 4.6%, mainly as a result of transactions with the Eurosystem which reflect MFIs' greater recourse to the supply of liquidity from the Eurosystem. The transactions by the Banco de España in other net assets gave rise to an increase in the Banco de España's credit balance of 0.1 pp of GDP (compared with 1.3 pp in 2007), similar to that generated by reserves.

4.3 Composition of the international investment position by type of investment⁷

In 2008 the net debit IIP of the Spanish economy, excluding the Banco de España, decreased by 1.7 pp of GDP, to 84.6% (see Table 4.5 and Chart 4.3). This was because the decrease in the debit balance of portfolio investment outweighed the widening of the net debit positions of direct investment and, above all, of other investment. For its part, the debit balance of financial derivatives moderated further, from a low level. This change in composition reflects the fact that the Spanish economy obtained external financing in 2008, basically in the form of other investment (mainly deposits, loans and repos) and, to a much lesser extent, in the form of portfolio investment.

In the case of *foreign direct investment* (FDI), the debit balance – which had declined since 2003 to nearly zero in 2007 (0.9% of GDP) – widened again in 2008 to 2.2% of GDP.⁸ This increase resulted because foreign liabilities grew more than foreign assets (see Chart 4.4). The value of the FDI liabilities at end-2008 stood at 41.6% of GDP, 2.5 pp above the percentage at

6. In 2008 public sector debt rose not only because of the higher deficit, but also because of the impact of the financial sector support measures, specifically the fund set up to acquire financial assets. 7. Given that the external assets of the Banco de España are characterised by their liquidity and low risk, and that what is important about them is not so much their composition by instrument, but rather the monetary authority status of their holder, they have been excluded from the analysis which follows. 8. In September 2008 information from the investment register of the Ministry of Industry, Tourism and Trade began to be used to calculate the "Shares and other equity" heading of direct investment by other resident sectors in the IIP. This gave rise to an extraordinary review of the time series. For a more detailed description of the changes in the calculation procedure entailed by the use of this source of information, see Box 5.1 of this report.

INTERNATIONAL INVESTMENT POSITION
Breakdown by instrument (a)

TABLE 4.5

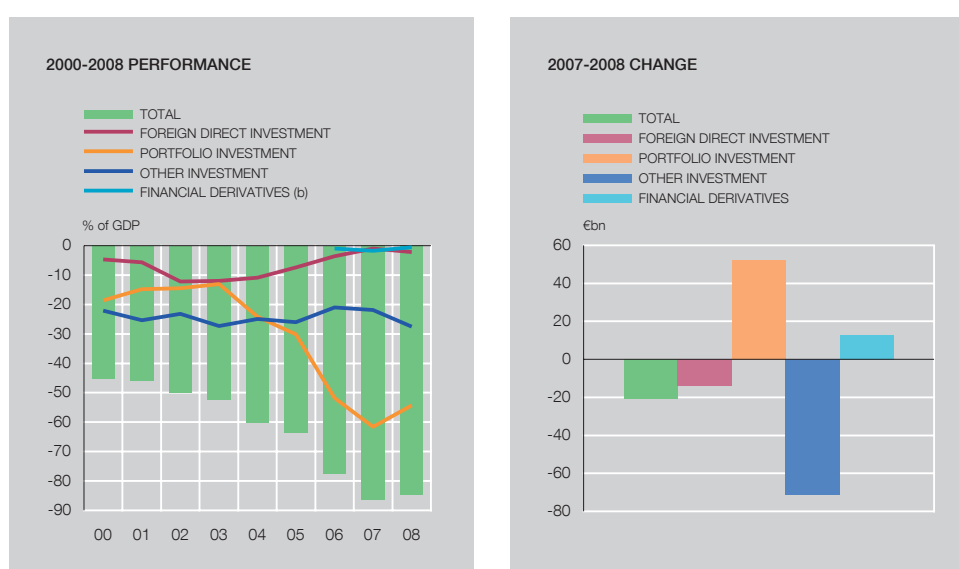
% of total	FOREIGN DIRECT INVESTMENT		PORTFOLIO INVESTMENT		OTHER INVESTMENT		FINANCIAL DERIVATIVES	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
	Average 2003-2005	25.9	22.6	45.9	43.2	28.2	34.2	...
2006	27.9	18.5	40.4	51.1	28.8	28.1	2.9	2.3
2007	31.6	18.9	35.0	50.2	29.9	28.0	3.5	2.9
2008	33.6	20.6	28.3	43.3	29.8	31.0	8.4	5.1

SOURCE: Banco de España.

a. Excluding Banco de España.

NET IIP BY INSTRUMENT
2000-2008 PERFORMANCE AND 2007-2008 CHANGE (a)

CHART 4.3



SOURCE: Banco de España.

a. Excluding Banco de España.

b. In 2006 Q4 the Banco de España began to publish data on the financial derivatives position.

end-2007, due to the transactions in the period, since valuation effects were insignificant.⁹ As regards assets, the value of Spanish foreign direct investment holdings amounted to 39.5% of GDP in 2008, up 1.3 pp on end-2007. Unlike with liabilities, the valuation effect reduced the value of assets notably (by more than 5%), reflecting, above all, the impact of the depreciation of the pound sterling (see Table 4.6).

In regard to its geographical distribution (see Table 4.7), the FDI of residents was concentrated in the EU (61% of the total), with 41% in the euro area and 12% in the United Kingdom. Latin

⁹ Note that the procedure used to calculate 2008 FDI data does not adequately reflect price changes, since in the reporting year and in the year prior to it the old procedure based on the accumulation of flows continued to be used for the heading cited in footnote 8. See Box 5.1 for a more detailed description.



SOURCE: Banco de España

a. Excluding financial derivatives and the Banco de España.

America was again the second most important region after the euro area, with 23% of total FDI. The EU also clearly predominated as the source of foreign investors in Spanish firms, most markedly on the assets side (81% of the total), with most of those assets relating to the euro area (66%).

The net debit position of *portfolio investment* decreased significantly in 2008 (by 7.3 pp of GDP, to 54.4%) as a result of the fairly pronounced fall in the value of the stock of liabilities with respect to the stock of assets. The net sales by Spaniards of portfolio investment securities issued by foreigners (€21.8 bn) and, above all, the negative valuation effect (€57.1 bn) associated mainly with equities meant that at end-2008 foreign assets in the form of portfolio investment securities stood at 33% of GDP, down 8.9 pp on end-2007 (see Table 4.8). Meanwhile, portfolio investment liabilities underwent an even more significant correction, decreasing by 16 pp, to 87.6%. This sharp fall reflected net divestments by non-residents (€17.6 bn) and, above all, the negative impact of the valuation effect (10.4% of the stock, i.e. €113.7 bn). The notable drop in stock market prices (the Ibex-35 fell by 39%) explains why most of the valuation effect was, as on the assets side, concentrated in equities. The widespread nature,

FOREIGN DIRECT INVESTMENT

TABLE 4.6

Reconciliation of the change in the IIP stock with the balance of payments transactions (a)

	€bn											
	NET (b)			ASSETS					LIABILITIES			
	CHANGE IN STOCK	TRANSACTION	% VALUATION EFFECT AND OTHER ADJUSTMENTS LEVEL	CHANGE IN STOCK	TRANSACTION	% VALUATION EFFECT AND OTHER ADJUSTMENTS LEVEL	% (c)	CHANGE IN STOCK	TRANSACTION	% VALUATION EFFECT AND OTHER ADJUSTMENTS LEVEL	% (c)	
2006	31.4	58.5	-27.2	55.1	83.1	-28.0	-10.8	23.8	24.6	-0.8	-0.2	
2007	25.8	50.9	-25.1	87.1	101.2	-14.1	-4.5	61.4	50.3	11.1	3.2	
2008	-13.8	8.0	-21.8	31.3	52.8	-21.5	-5.4	45.1	44.7	0.3	0.1	

SOURCE: Banco de España.

a. Excluding Banco de España.

b. A (-) sign denotes a larger change in liabilities than in assets.

c. Difference between the change in the stock and the balance of payments transaction, in terms of stock at beginning of the period.

FOREIGN DIRECT INVESTMENT IIP IN 2007 AND 2008 (a)

TABLE 4.7

Breakdown by geographical area and selected economies

	SPANISH FOREIGN DIRECT INVESTMENT				FOREIGN DIRECT INVESTMENT IN SPAIN			
	2007		2008		2007		2008	
	€bn	% OF TOTAL	€bn	% OF TOTAL	€bn	% OF TOTAL	€bn	% OF TOTAL
WORLD TOTAL	401.2	100.0	432.5	100.0	411.1	100.0	456.1	100.0
EU 27 (b)	253.7	63.2	263.5	60.9	329.1	80.1	369.5	81.0
Euro area	168.3	41.9	177.7	41.1	278.1	67.6	302.3	66.3
Germany	22.7	5.7	24.9	5.7	20.0	4.9	33.6	7.4
France	29.5	7.3	30.2	7.0	44.2	10.7	47.0	10.3
Netherlands	41.0	10.2	41.2	9.5	76.9	18.7	91.3	20.0
Luxembourg	29.8	7.4	28.6	6.6	58.8	14.3	49.0	10.7
Portugal	21.1	5.3	23.5	5.4	12.1	3.0	13.4	2.9
United Kingdom	57.1	14.2	52.4	12.1	43.4	10.6	58.5	12.8
New EU members (c)	24.7	6.2	29.4	6.8	0.7	0.2	0.8	0.2
Switzerland	7.9	2.0	9.4	2.2	10.6	2.6	10.8	2.4
United States	30.8	7.7	41.5	9.6	46.3	11.3	46.6	10.2
LATIN AMERICA	92.4	23.0	97.9	22.6	10.8	2.6	11.7	2.6
Argentina	20.1	5.0	21.4	4.9	0.4	0.1	0.4	0.1
Brazil	26.6	6.6	25.8	6.0	5.6	1.4	5.7	1.3
Chile	9.7	2.4	9.7	2.2	.	0.1	.	0.1
Mexico	24.2	6.0	25.7	5.9	1.3	0.3	1.5	0.3
Morocco	1.7	0.4	2.4	0.6	.	0.0	.	0.0
Japan	0.4	0.1	0.7	0.2	2.3	0.6	2.3	0.5
Australia	1.9	0.5	1.9	0.4	.	0.0	.	0.0
MEMORANDUM ITEM: OECD	322.0	80.3	346.4	80.1	395.6	96.2	437.2	95.9

SOURCE: Banco de España.

a. "." Amount below €0.3 billion.

b. EU 27: International institutions of the European Union, European Central Bank, France, Belgium, Netherlands, Germany, Italy, United Kingdom, Ireland, Denmark, Greece, Portugal, Luxembourg, Austria, Finland, Sweden, Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovenia, Slovakia, Bulgaria, Romania and the corresponding dependencies of their economic territory.

c. New EU members: Bulgaria, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Romania and Slovakia.

PORTFOLIO INVESTMENT

TABLE 4.8

Reconciliation of the change in the IIP stock with balance of payments transactions (a)

€bn	NET (b)			ASSETS				LIABILITIES			
	CHANGE IN STOCK	TRANSACTION	% VALUATION EFFECT AND OTHER ADJUSTMENTS LEVEL	CHANGE IN STOCK	TRANSACTION	% VALUATION EFFECT AND OTHER ADJUSTMENTS LEVEL	% (c)	CHANGE IN STOCK	TRANSACTION	% VALUATION EFFECT AND OTHER ADJUSTMENTS LEVEL	% (c)
	TOTAL										
2006	-235.2	-199.6	-35.6	1.0	-3.9	4.9	1.1	236.2	195.7	40.5	5.6
2007	-138.7	-104.8	-33.9	-12.4	-8.6	-3.8	-0.8	126.2	96.2	30.1	3.1
2008	52.3	-4.3	56.6	-79.0	-21.8	-57.1	-12.9	-131.3	-17.6	-113.7	-10.4
EQUITIES											
2006	-19.3	40.0	-59.3	29.0	21.3	7.7	7.4	48.3	-18.6	67.0	33.9
2007	-39.0	-18.6	-20.4	1.6	-6.6	8.2	6.1	40.5	12.0	28.6	11.6
2008	42.0	-28.0	70.0	-69.9	-27.8	-42.2	-31.3	-111.9	0.2	-112.2	-39.2
FIXED INCOME											
2006	-215.9	-239.6	23.6	-28.1	-25.2	-2.8	-0.8	187.9	214.3	-26.5	-5.0
2007	-99.7	-86.2	-13.5	-14.0	-2.0	-12.0	-3.7	85.7	84.2	1.5	0.2
2008	10.3	23.7	-13.4	-9.0	5.9	-15.0	-4.8	-19.3	-17.8	-1.5	-0.2

SOURCE: Banco de España.

a. Excluding Banco de España.

b. A (-) sign denotes a larger change in liabilities than in assets.

c. Difference between the change in the stock and the balance of payments transaction, in terms of stock at beginning of the period.

**STOCK OF FOREIGN PORTFOLIO INVESTMENT BY SPAIN
Breakdown by geographical area and by instrument. 2007**

TABLE 4.9

€bn	EQUITY SECURITIES	DEBT SECURITIES	TOTAL	WEIGHT IN TOTAL (%)
France	21.4	51.5	72.9	16.4
Germany	11.8	41.7	53.5	12.1
Italy	4.7	41.3	46.1	10.4
United Kingdom	7.3	38.2	45.5	10.3
Netherlands	4.3	38.8	43.1	9.7
Luxembourg	41.2	4.3	45.5	10.3
United States	9.8	27.5	37.3	8.4
Cayman Islands	1.2	11.9	13.1	3.0
Ireland	6.0	14.7	20.7	4.7
Belgium	2.1	6.2	8.3	1.9
Portugal	3.8	4.1	8.0	1.8
Other	21.1	28.3	49.4	11.2
Total assets	134.8	308.5	443.3	100.0

SOURCES: Banco de España and IMF.

STOCKS OF FOREIGN PORTFOLIO INVESTMENT IN SPAIN (a)

TABLE 4.10

Breakdown by geographical area and by instrument, and comparison with CPIS data (b). 2007

	EQUITY SECURITIES		DEBT SECURITIES		TOTAL (c)		WEIGHT IN TOTAL (%)	
	FKC	EI	FKC	EI	FKC	EI	FKC	EI
	€bn							
France	25.2	16.9	70.5	155.6	95.7	172.5	8.8	19.3
Germany	12.2	19.1	93.2	162.1	105.4	181.2	9.7	20.3
Luxemburg	26.5	19.2	174.2	61.0	200.7	80.2	18.4	9.0
United Kingdom	87.7	21.8	21.8	47.6	109.4	69.4	10.0	7.8
United States	88.8	72.4	41.8	27.0	130.5	99.5	12.0	11.1
Netherlands	8.4	7.3	19.7	47.1	28.1	54.4	2.6	6.1
Ireland	1.1	8.0	6.1	46.6	7.1	54.6	0.7	6.1
Japan	0.4	6.0	.	16.7	0.4	22.7	0.0	2.5
Italy	12.7	4.9	230.6	26.1	243.3	31.0	22.3	3.5
Belgium	2.0	4.4	4.3	20.1	6.3	24.5	0.6	2.7
Unassigned	-1.2	.	133.2	.	132.0	.	12.1	0.0
Other	22.4	35.0	9.3	64.6	31.7	102.8	2.9	11.5
Total liabilities	286.2	215.0	804.5	674.4	1,090.7	892.7	100.0	100.0

SOURCES: Banco de España and IMF.

a. "." Amount below €0.3 billion.

b. FKC: geographical assignment of liabilities under the first-known counterparty principle. EI: geographical assignment by end-investor principle, based on the stock of assets of the creditor countries.

c. The value of the total stock of foreign portfolio investment in Spain differs from the sum of the stock of equity securities and debt securities because certain countries which participate in the CPIS, for reasons of confidentiality, provide the geographical breakdown of their total portfolio investment assets but not the breakdown of the various instruments in which they are invested.

and similar size, of the stock market falls at international level explain why Spain's debit balance in shares and other equity also decreased significantly (by 4.4 pp of GDP). As for fixed income, the valuation effect also acted to reduce the debit position vis-à-vis the external sector, but to a much lesser extent than in the case of equities. As a result, the partial correction to the debit balance of fixed income in 2008 (3 pp of GDP, to 44%) must be attributed mainly to the financial transactions in the period. In this respect, the foreign investors' interest shifted from medium- and long-term bonds, the debit balance of which fell by 3.5 pp of GDP to 42%, to money market instruments, the net debit position of which widened by 0.6 pp of GDP to more than 2%.

Notable in portfolio investment abroad was the high concentration of holdings of assets issued by residents in the EU (80% of total), and particularly in the euro area (68% of the total). In regard to the country of origin of the foreign investors in Spanish securities, the IIP does not give an adequate breakdown, since it only provides information on the first-known non-resident counterpart, which in many cases differs from the final holder of the securities, the important party for the purpose of economic analysis. The analysis under the final-investor criterion is based on the geographical breakdown of the portfolio assets of other countries vis-à-vis Spain contained in the latest edition of the Coordinated Portfolio Investment Survey (CPIS) of the IMF¹⁰ (see Tables 4.9 and 4.10). The latest available data, relating to end-2007, show the predominance of euro area countries, which hold around 68% of the total, while the United Kingdom and the United States account for around 10% and 8% of liabilities, respectively.

10. For further information, see "El stock de la inversión de cartera de España y la Encuesta Coordinada del Fondo Monetario Internacional", *Boletín Económico*, June 2005. For the CPIS data, see IMF website: <http://www.imf.org/external/np/sta/pi/cpis.htm>.

OTHER INVESTMENT

TABLE 4.11

Reconciliation of the change in the IIP stock with the balance of payments transactions (a)

€bn	NET (b)			ASSETS				LIABILITIES			
	CHANGE IN STOCK	TRANSACTION	% VALUATION EFFECT AND OTHER ADJUSTMENTS LEVEL	CHANGE IN STOCK	TRANSACTION	% VALUATION EFFECT AND OTHER ADJUSTMENTS		CHANGE IN STOCK	TRANSACTION	% VALUATION EFFECT AND OTHER ADJUSTMENTS	
						LEVEL	% (c)			LEVEL	% (c)
	2006	30.4	31.6	-1.2	56.6	66.1	-9.5	-3.5	26.2	34.4	-8.2
2007	-24.2	-37.0	12.8	53.8	57.2	-3.4	-1.0	78.0	94.2	-16.2	-3.1
2008	-71.3	-76.2	4.9	5.9	15.0	-9.1	-2.4	77.2	91.2	-14.0	-2.3

SOURCE: Banco de España.

a. Excluding Banco de España.

b. A (-) sign denotes a larger change in liabilities than in assets.

c. Difference between the change in the stock and the balance of payments transaction, in terms of stock at beginning of the period.

The debit balance of *other investment* vis-à-vis the external sector widened in 2008 by 5.6 pp of GDP, to 27.5%. Liabilities grew significantly (4.7 pp of GDP, to 62.7%), driven by the increase in funds raised abroad (€91.2 bn), mainly by MFIs. By contrast, the valuation effect reduced the debit position by €14 bn (a reduction of 2.3%), mainly due to the impact of the depreciation of the pound sterling against the euro, which was partly offset by the strengthening of the dollar at the end of the year (see Table 4.11). Financial assets, although they increased in nominal terms by €5.9 bn, lost relative weight in GDP, ceding 0.9 pp to stand at 35%. Part of the increase in holdings derived from financial transactions in the period (€15 bn) was also counteracted by a negative valuation effect (€9.1 bn, 2.4% of the stock at end-2007).

Based on analysis by original maturity of loans, deposits and repos, the financial transactions conducted in 2008 show a preference for short-term instruments over long-term ones, reflecting investors' interest for more liquid instruments, as would be expected in the present situation of uncertainty. Thus long-term instruments lost weight in total other investment liabilities, accounting for 38% of the total in December 2008, against 43% at end-2007, while their weight in assets remained unchanged at 28%. The disaggregation by geographical area of Spanish other investment shows a very high concentration in the EU (which accounts for more than 80% of assets and 85% of liabilities), with the euro area having a majority share (56% of assets and 47% of liabilities). Meanwhile the United Kingdom accounts for a significant fraction of the foreign assets and liabilities under this heading (21% of assets and 29% of liabilities), in line with the role of London as an international financial centre.