

SPANISH PORTFOLIO INVESTMENT STOCK AND THE COORDINATED PORTFOLIO INVESTMENT SURVEY (CPIS)

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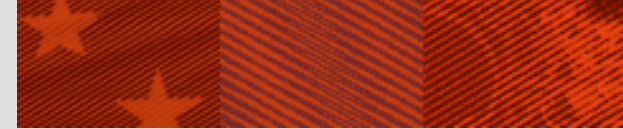
INTERNATIONAL CONFERENCE ON THE CO-ORDINATED PORTFOLIO
INVESTMENT SURVEY

Madrid (Spain)

1-2 March 2006

DIRECTORATE GENERAL OF INTERNATIONAL AFFAIRS
BALANCE OF PAYMENTS DEPARTMENT

STRUCTURE AND SCOPE



Why are the portfolio investment data so important?

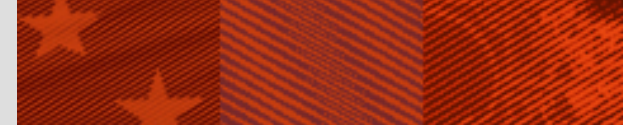
CPIS exercise in Spain: the collection system and data reported

Stock of Spanish portfolio investment abroad: a descriptive analysis

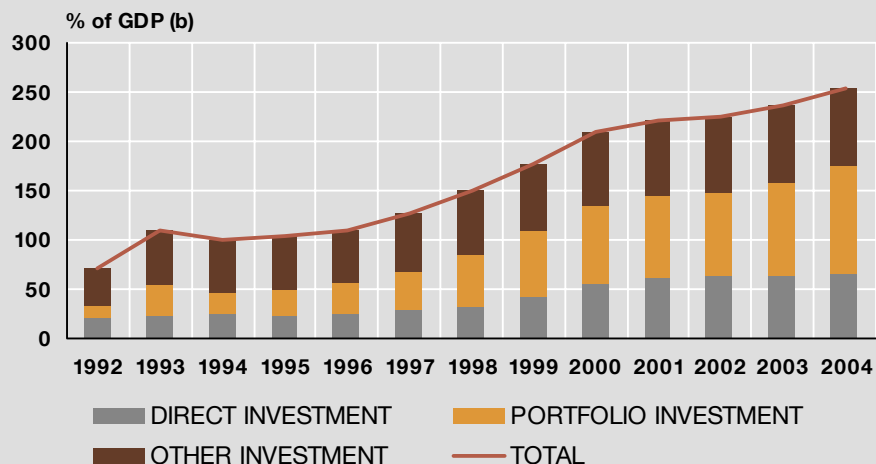
Stock of foreign portfolio investment in Spain: a descriptive analysis

Conclusions

WHY ARE THE PORTFOLIO INVESTMENT DATA SO IMPORTANT?



FINANCIAL OPENNESS OF SPAIN
Breakdown by instrument (a)



	1992	2004
Portfolio investment (a)	18.2	43.5
Assets (b)	8.4	42.5
Liabilities (b)	22.5	44.1

SOURCE: Banco de España

- (a) Stock of portfolio assets plus liabilities in total international investment assets plus liabilities stock, excluding Banco de España.
- (b) Stock of portfolio assets / liabilities in total international investment assets / liabilities stock, excluding Banco de España.

SOURCE: Banco de España, Instituto Nacional de Estadística.

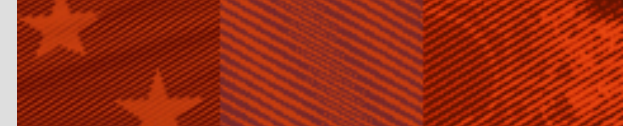
(a) Stock of gross assets plus liabilities. Excluding Monetary Authority

Enormous expansion in cross-border securities transactions and holdings: An increase in the financial openness and dependence between countries

Portfolio investment flows and holdings increased more than other types of capital: It is now more important to have reliable and accurate information

CPIS: One of the most important advances for improving the availability, quality and international comparability of portfolio investment data stocks

THE CPIS EXERCISE IN SPAIN: THE COLLECTION SYSTEM (I)



Spain has participated in the CPIS survey since its beginning in 1997

Spain's cross-border portfolio investment collection system: CPIS encouraged the introduction of a new system

1997/2001 (Old system)

Data: Security-by-security system, annual data on stocks

Reporting population: Resident financial intermediaries and end-investors

No identification of **reverse transactions**

Geographical breakdown: Partly based on the country where securities were issued

Differences in **CPIS and IIP** data

2002/2004 (New system)

A security-by-security system, monthly data on flows and stocks

Resident financial intermediaries; resident end-investors; Centralised Securities Depository (Iberclear): a better coverage

Identification of reverse transactions

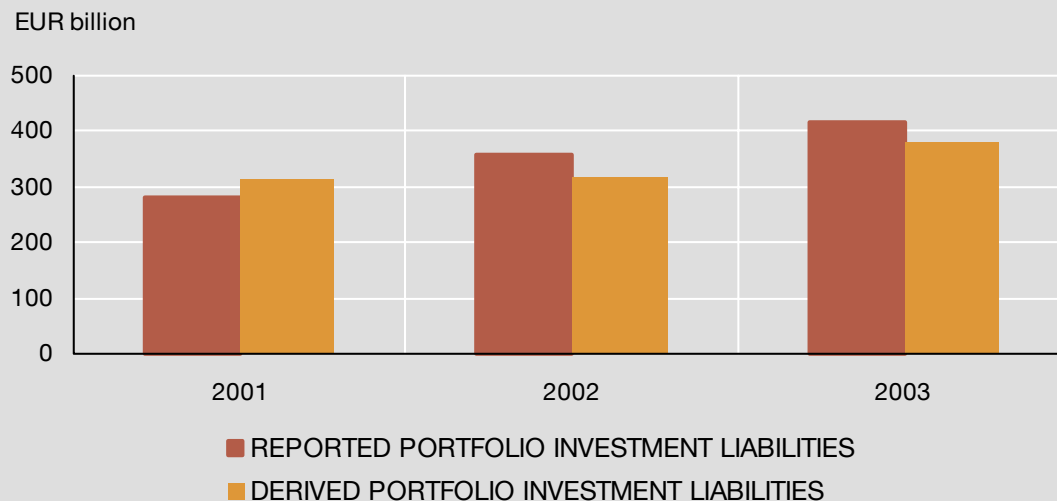
Based on the country of issuer

Consolidation of flows and IIP/CPIS



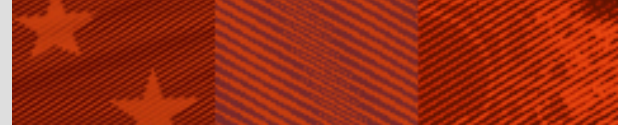
Data collected: The new system mainly improved the coverage and the quality of the foreign holdings of Spanish securities (liabilities)

SPAIN'S INTERNATIONAL INVESTMENT LIABILITIES



SOURCE: Banco de España, International Monetary Fund

CPIS allows countries to check their own liabilities data by using information on partner country creditor sources



Data reported (2002-2004)

Portfolio investment **assets** breakdown by:

Type of securities: *Equity, long-term and short-term debt securities*

Geographical breakdown: *By country of residence of non-resident issuer*

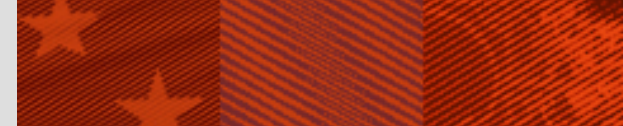
Institutional sector of final holder: *Banks, non-Bank Financial Institutions, Non-financial Sectors*

Portfolio investment **liabilities** breakdown by:

Type of securities: *Equity, long-term and short-term debt securities*

Geographical breakdown: *By country of residence of non-resident investor (First Known Counterparty)*

PORTFOLIO INVESTMENT HOLDINGS (ASSETS): IN WHICH SECURITIES DO SPANISH RESIDENTS INVEST? (I)



Intense process of internationalization of the Spanish economy accompanied by a shift towards safer securities

SPAIN'S STOCK OF PORTFOLIO INVESTMENT (ASSETS)

	EUR billion	DOMESTIC BIAS (a)
1997	43	7
2001	196	20
2002	257	27
2003	320	28
2004	359	29

Breakdown by instrument

%	2001	2002	2004
Equity	33.9	19.7	21.7
Total Debt	66.1	80.3	78.3
Long-term Debt	59.7	77.7	75.5
Short-term Debt	6.4	2.5	2.7
TOTAL	100.0	100.0	100.0

SOURCE: Banco de España, Ministerio de Industria, Comercio y Turismo
(a) Weight of foreign holdings in total portfolio (foreign + domestic) investment assets

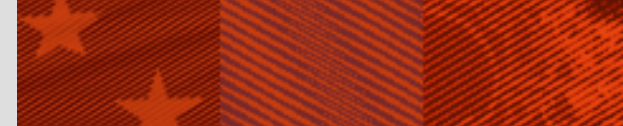
 **Low risk profile for type of securities**

Reasons behind Spanish residents behaviour:

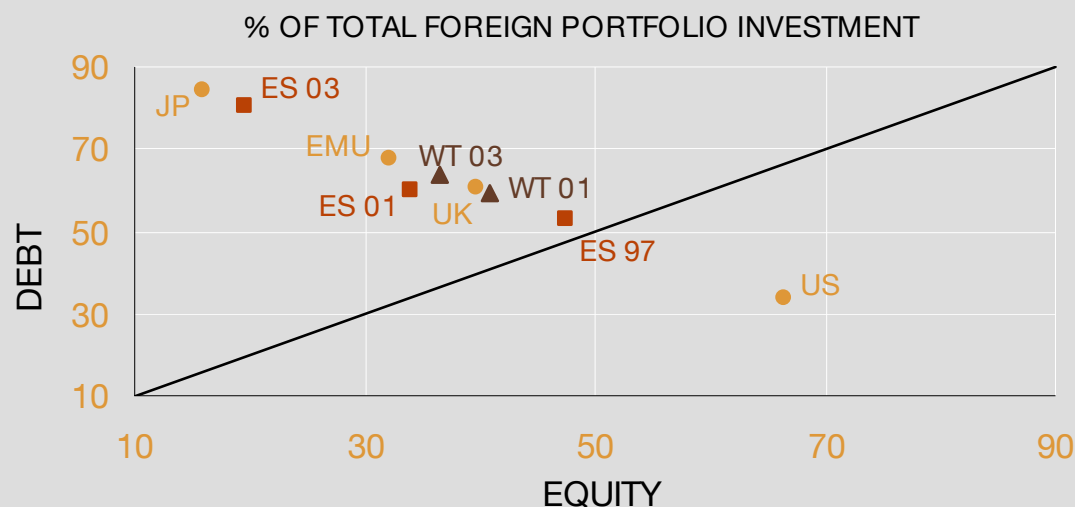
Permanent: The beginning of the EMU and legislative reforms in the Spanish financial market

Temporary: Financial crisis, bursting of the stock market bubble and geopolitical uncertainty

PORTFOLIO INVESTMENT HOLDINGS (ASSETS): IN WHICH SECURITIES DO SPANISH RESIDENTS INVEST? (II)



An international comparison (2003)



STOCK OF PORTFOLIO INVESTMENT (ASSETS)

%	2001	2003
SPAIN		
Equity	33.9	19.6
Debt	66.1	80.4
TOTAL CPIS		
Equity	40.9	36.5
Debt	59.1	63.5

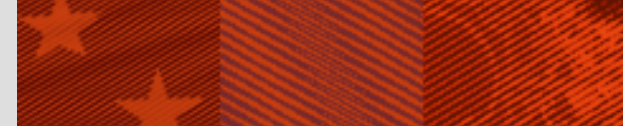
SOURCE: International Monetary Fund, Banco de España.

UNITED STATES (US), JAPAN (JP), UNITED KINGDOM (UK), ECONOMIC MONETARY UNION (EMU), SPAIN, (ES), WORLD TOTAL (WT)

In 2003 Spanish investors showed a greater preference for debt securities (80.4%) than the world total (63.5%) and this gap has widened since 2001

Significant differences across individual countries: Japan (long-term debt) and US (equity) holders are extreme cases

PORTFOLIO INVESTMENT HOLDINGS (ASSETS): IN WHICH COUNTRIES DO SPANISH RESIDENTS INVEST? (I)



High geographical concentration:

10 countries account for 89%

Strong bias to long-term debt:

especially in securities issued by Euro Area countries, except in Luxembourg

A strong shift towards securities issued by residents in Euro Area:

EMU accounted for 66.8% at end-2004 (36.2% in 1997)

A similar geographical pattern in the majority of Euro Area countries

Economic/Financial assessment: Moderate credit risk, moderate exchange rate risk and moderate exposure to changes in prices

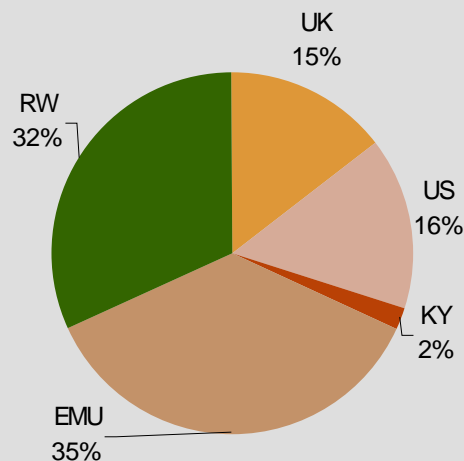


Low risk profile of debtor countries

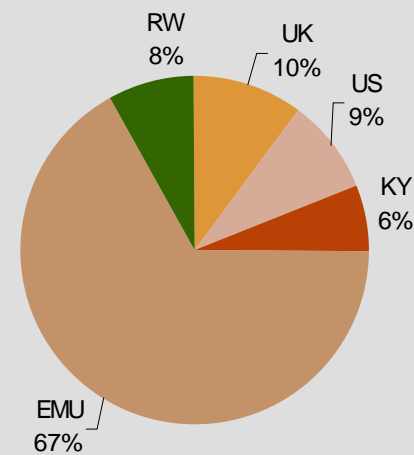
SPAIN'S STOCK OF PORTFOLIO INVESTMENT (ASSETS)

GEOGRAPHICAL BREAKDOWN

CPIS 1997



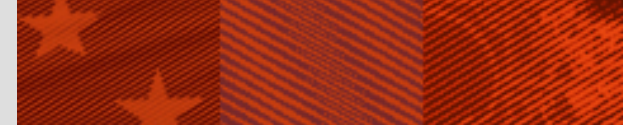
CPIS 2004



SOURCE: Banco de España, Ministerio de Industria, Comercio y Turismo.

UNITED STATES (US), UNITED KINGDOM (UK), ECONOMIC MONETARY UNION (EMU), CAYMAN ISLANDS (KY), REST OF THE WORLD (RW)

PORTFOLIO INVESTMENT HOLDINGS (ASSETS): IN WHICH COUNTRIES DO SPANISH RESIDENTS INVEST? (II)



Investors' holdings abroad are not distributed according to the weight of the recipient country in world markets: Investment in Euro Area countries is overweighed, and in the US and Japan it is underweighed

STRUCTURE OF FOREIGN PORTFOLIO OF SECURITIES. 2003
BREAKDOWN BY RECIPIENT COUNTRY OF INVESTMENT

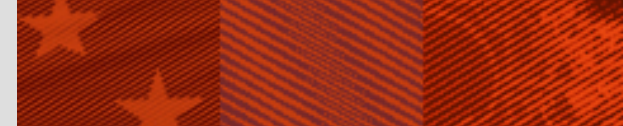
% of the total of each instrument

INVESTMENT TO

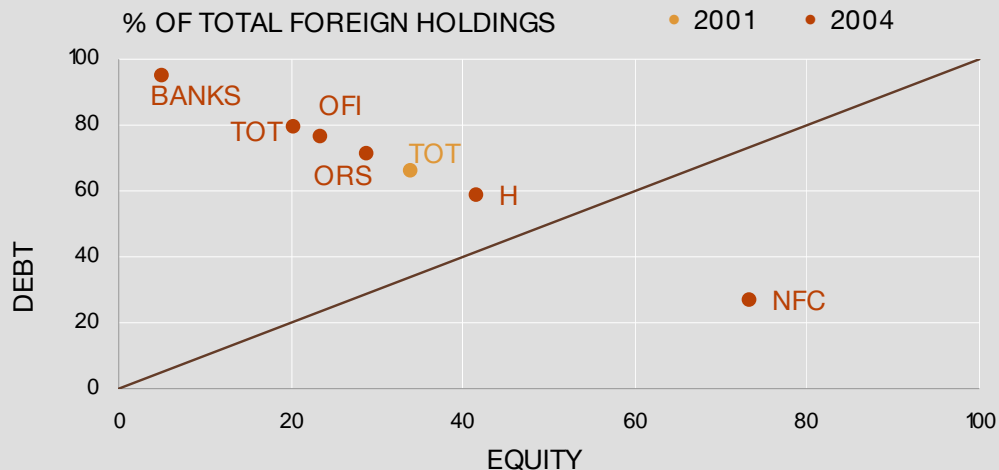
INVESTMENT FROM	Euro area		United States		United Kingdom		Japan	
	Equity	Debt	Equity	Debt	Equity	Debt	Equity	Debt
Spain (2004 data)	60.3	68.6	11.1	7.8	17.1	7.6	1.4	0.1
Euro area	48.8	62.3	21.4	13.1	10.3	7.6	4.2	1.0
CPIS Participants	33.5	44.7	18.4	24.0	12.9	7.4	7.1	2.1
Memorandum item:								
Weight of each market in world total	15.7	26.5	42.2	38.6	7.7	4.8	10.6	15.6

SOURCE: International Monetary Fund, Bloomberg, Bank for International Settlements and Banco de España

PORTFOLIO INVESTMENT HOLDINGS (ASSETS): WHO ARE THE SPANISH INVESTORS? (I)



SPAIN'S STOCK OF PORTFOLIO INVESTMENT (ASSETS)



SOURCE: Banco de España, International Monetary Fund

TOT (All sectors), Banks, ORS (Other resident sectors), OFI (Non-bank financial institutions), NFC (Non-financial corporations), H (Households)

BREAKDOWN BY SECTOR

%	% OF TOTAL		% EMU OF TOTAL		DOMESTIC BIAS (a)
	2001	2004	2001	2004	2004
	BANKS	28	30	59	65
ORS	72	70	64	67	28
OFI	56	57	68	72	58
NFC	7	6	43	54	8
H	8	7	48	40	8

SOURCE: Banco de España, Ministerio de Industria, Comercio y Turismo

(a) Weight of foreign holdings in total portfolio investment assets.

There are differences across institutional sectors, but a low risk profile is widespread:

Non-Bank sectors are the **main investors abroad**, mainly due to mutual funds

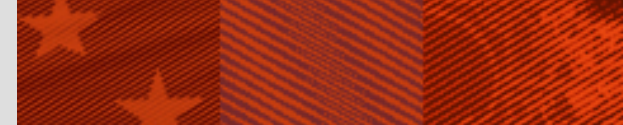
Non-Bank sectors have the **lowest domestic bias**

Banks have a **high concentration on long-term debt** compared to Non-Financial sectors

Non-Financial sectors hold a much **more diversified portfolio**: households mainly in long-term debt and Non-Financial Corporations in equity

Financial sectors show a higher preference for euro area securities than Non-financial sectors do

PORTFOLIO INVESTMENT HOLDINGS (LIABILITIES): IN WHICH SECURITIES DO NON-RESIDENTS INVEST? (I)



Intense process of internationalization of the Spanish economy, accompanied by a shift towards safer securities

**SPAIN'S STOCK OF PORTFOLIO INVESTMENT (LIABILITIES)
BREAKDOWN BY INSTRUMENT**

	STOCK (EURO billion)			% OF TOTAL			% OF TOTAL IIP LIABILITIES	
	1997	2002	2004	1997	2002	2004	1997	2004
Equity	60	117	183	56.3	32.5	32.6	15	14
Debt	47	242	379	43.7	67.5	67.4	11	30
Long term	45	238	371	42.1	66.1	66.1	11	29
Short term	2	5	7	1.7	1.3	1.3	0	1
Total	107	359	562	100	100	100	26	44

SOURCE: Banco de España, Ministerio de Industria, Comercio y Turismo.

Reasons for increasing weight of debt: Recent development of the Spanish financial market (corporate debt and asset securitization) and the stock market prices evolution

Foreign holdings of Spanish securities versus:

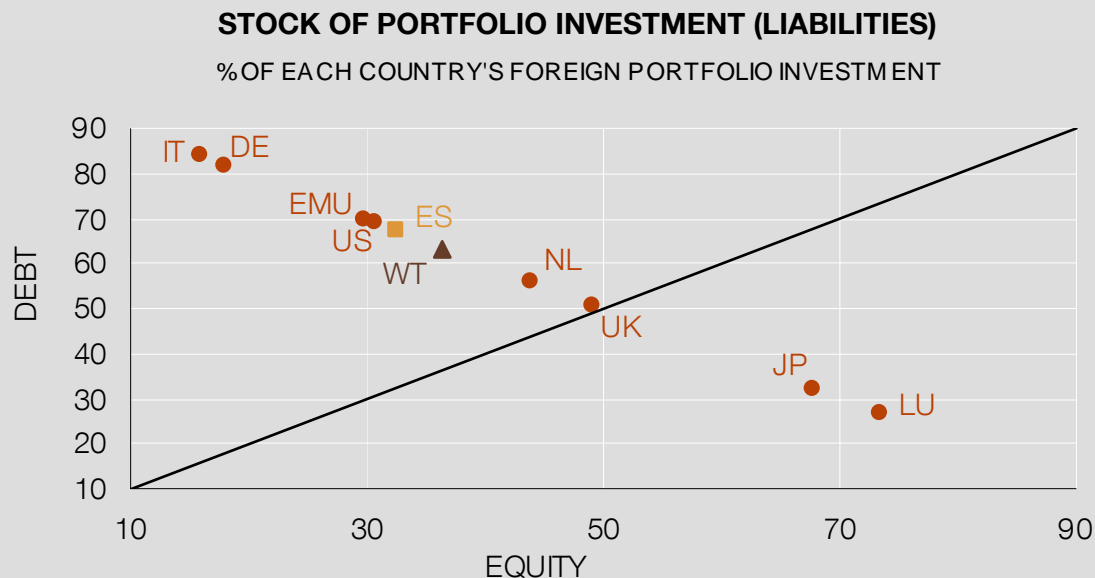
The bias of **total cross-border holdings** towards debt securities also increased (64% in 2004, 59% in 2001)

Spanish holdings of domestic securities show a lower bias towards debt (50% of their total, foreign and domestic, holdings)

PORTFOLIO INVESTMENT HOLDINGS (LIABILITIES): IN WHICH SECURITIES DO NON-RESIDENTS INVEST? (II)



An international comparison (2003)

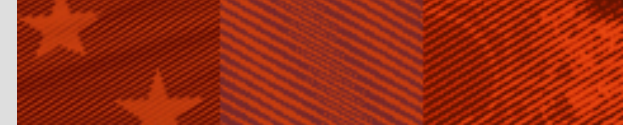


UNITED STATES (US), UNITED KINGDOM (UK), JAPAN (JP), ECONOMIC MONETARY UNION (EMU), LUXEMBURG (LU), THE NETHERLANDS, GERMANY (DE), ITALY (IT), SPAIN, (ES), WORLD TOTAL (WT)

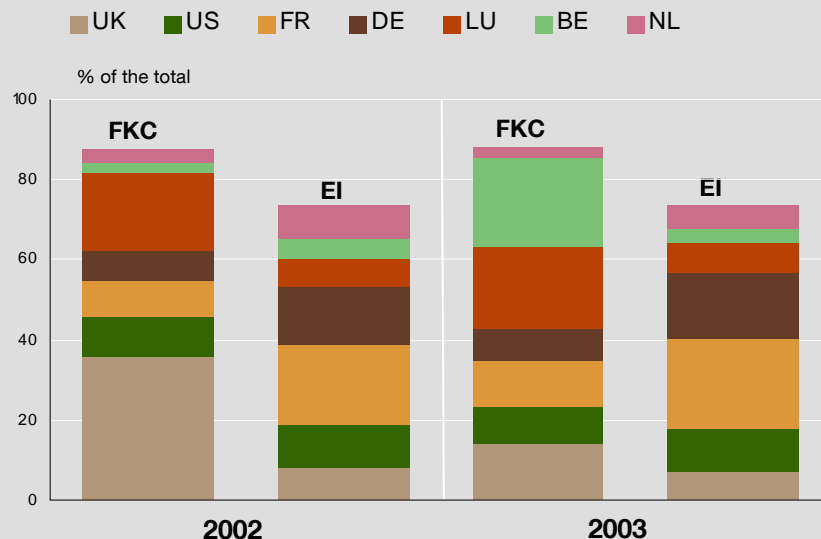
At the end of 2003 foreign investors in Spanish securities held more debt than equity, as in the World Total

Differences exist across countries: foreign investors in Japan and in Luxemburg hold mainly equities, whereas in DE, IT and US they hold debt securities

PORTFOLIO INVESTMENT HOLDINGS (LIABILITIES): BREAKDOWN BY COUNTRY OF HOLDERS (I)



STOCK OF PORTFOLIO INVESTMENT (LIABILITIES)
BREAKDOWN BY COUNTRY



SOURCE: Banco de España, International Monetary Fund.

MOST IMPORTANT CHANGES BETWEEN FKC AND EI PRINCIPLE

	FKC			EI
	TOTAL	% OF TOTAL	RANKING	RANKING
Belgium	92	22.2	1	9
Luxemburg	86	20.8	2	4
United Kingdom	57	13.8	3	5
France	47	11.4	4	1
United States	39	9.4	5	3
Germany	33	7.9	6	2
Total Liabilities	415	100.0	-	-

FKC: Geographical assignment under the First Known Counterparty principle (the financial intermediary)

EI: Geographical assignment by End-Investor based on the stock of assets of the credit countries (the real holder)

CPIS offers the only reliable means to know the country of the end-investor:

The geographical breakdown according to the **EI** principle is the only relevant one: the **FKC** data show a **high fluctuation from one year to the next and do not reflect investors' preferences**

Under the **EI** classification **France and Germany are the largest investors in Spain**, in contrast with Belgium and Luxemburg based on the FKC

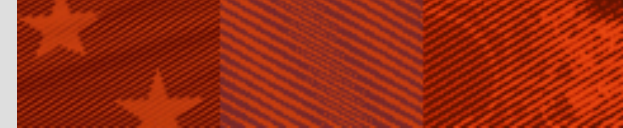
According to the end-investor geographical breakdown:

High concentration of countries: 10 ones account for 89% of the total

Euro Area countries account for 68% of the total Spanish liabilities

Euro Area investors prefer **long-term debt securities** (80%), while Non-Euro Area investors hold mainly equity securities (50%)

PORTFOLIO INVESTMENT HOLDINGS (LIABILITIES): BREAKDOWN BY COUNTRY OF HOLDERS (II)



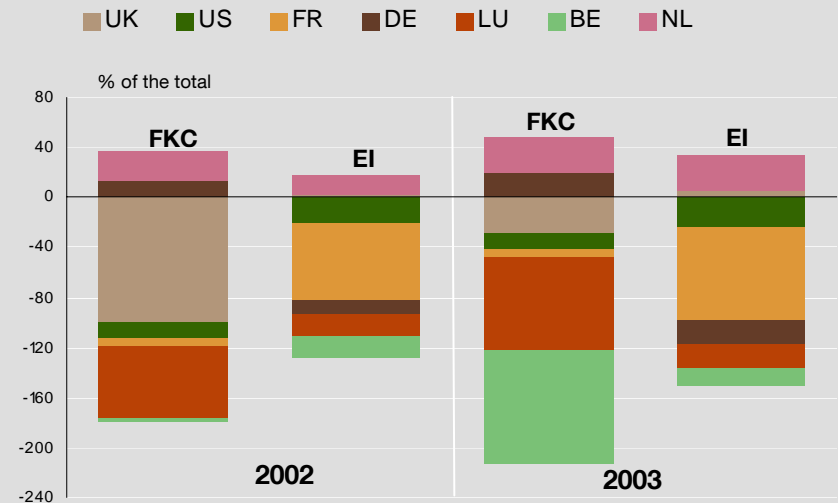
FINANCIAL INTEGRATION OF SPAIN (a)

%	2003	
	FKC	EI
France	23.7	28.6
Germany	21.3	25.0
United States	19.9	20.1
Luxembourg	20.8	13.2
United Kingdom	34.4	30.5
Belgium	15.4	5.4

SOURCE: Banco de España, International Monetary Fund

(a) Financial integration is defined as the ratio of assets plus liabilities of Spain vis-a-vis each country to Spanish nominal GDP

SPAIN'S TOTAL NET PORTFOLIO POSITION
BREAKDOWN BY COUNTRY



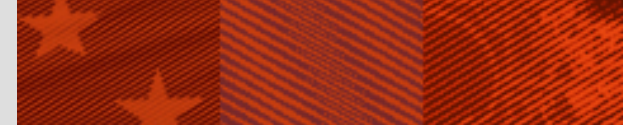
SOURCE: Banco de España, International Monetary Fund

To correctly assess the degree of the Spanish **bilateral financial integration** or the **net portfolio investment position** vis-à-vis another country, it is necessary to use the geographic breakdown by End-Investor country



Low risk profile of debtor countries

SPAIN'S PORTFOLIO INVESTMENT ASSETS AND LIABILITIES: A COMPARISON



SPAIN'S STOCK OF PORTFOLIO INVESTMENT. 2003

% OF ASSETS OR % OF LIABILITIES IN EACH CASE

	ASSETS	LIABILITIES	ASSESSMENT
Breakdown by instrument (a)			
Equity securities	19.6	35.6	IN ASSETS, DEBT REPRESENTS A HIGHER PERCENTAGE OF THE TOTAL THAN IN LIABILITIES DEBT WEIGHT IN SPANISH HOLDINGS OF FOREIGN SECURITIES GREATER THAN IN OTHER COUNTRIES
World total equity securities		36.5	
Debt securities	80.4	64.4	FOREIGN HOLDINGS OF SPANISH SECURITIES FOLLOW A SIMILAR PATTERN TO TOTAL CROSS-BORDER HOLDINGS
World total debt securities		63.5	
Breakdown by country (b)			
First ten countries	88.9	EI 89.3	HIGH GEOGRAPHICAL CONCENTRACION BOTH IN ASSETS AND LIABILITIES
First five countries (c)	64.3	56.5	SPAIN INVESTS MAINLY IN THE COUNTRIES INVESTING IN SPAIN
Breakdown by sector			
BANKS	31.0	26.3	NON-BANK FINANCIAL SECTORS EXPLAIN THE INTERNATIONALIZATION OF PORTFOLIOS
ORS	69.0	34.3	
GENERAL GOVERNMENT	0.0	39.4	

SOURCE: Banco de España, International Monetary Fund

- (a) Weight of equity or debt securities in stock of portfolio investment
- (b) EI: geographical assignment by end-investor based on the stock of assets of the creditor countries
- (c) The first five countries are based on the first five countries by assets

CONCLUSIONS

Increasing importance of having reliable and accurate statistics relating to international portfolio investment flows and related stocks

CPIS has improved the coverage and the quality of foreign portfolio investment holdings and has allowed compilers to obtain the geographical composition of liabilities according to the End-Investor country

Spain has participated in the CPIS since 1997: a new collection system has improved the coverage and quality of the data and has increased the consistency between Spanish external statistics (IIP/BP and CPIS) since 2002

Spain's portfolio investment assets: holdings of debt securities are predominant; they are issued by EMU countries and owned mainly by Financial institutions. Low risk profile by type of securities and by type of debtor countries

Spain's portfolio investment liabilities: foreign holdings are concentrated mainly in debt, and Euro Area residents are the main investors. Low risk profile of holders according to the End-Investor country



Low risk exposure of the Spanish economy to external shocks

PATROCINIO TELLO

THANK YOU FOR YOUR ATTENTION

BANCO DE **ESPAÑA**



150 AÑOS DE HISTORIA
1856 - 2006

DIRECTORATE GENERAL OF INTERNATIONAL AFFAIRS
BALANCE OF PAYMENTS DEPARTMENT