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The Balance of Payments and International Investment Position of Spain in 2022

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Rationale

The balance of payments and international investment position (IIP) are important because of the information they provide on economic relations with the rest of the world, which affect the national economy. Their analysis is of even greater interest in the light of recent events, such as the war in Ukraine and its impact on energy prices.

Takeaways

- In 2022 the Spanish economy's net lending fell, owing largely to the deterioration in the energy trade balance. The services balance performed favourably, particularly in the case of travel services, which returned to pre-pandemic levels.
- The negative net IIP continued to correct in 2022, standing at 60.5% of GDP, the lowest level in 18 years, thanks to GDP growth, the positive amount of financial transactions with the rest of the world and positive valuation effects.
- Spain's outward foreign direct investment and inward foreign investment in Spain recovered their pre-pandemic levels, with a notably strong performance by the non-financial corporations sector.

Keywords

Net lending/net borrowing, current account, capital account, international tourism, energy deficit, Next Generation EU, financial transactions, foreign direct investment, ultimate investing economy, international investment position, foreign debt.

JEL classification

F10, F21, F23, F30, F32, F34, F36, E50.

Authors:

Pana Alves
Macro-financial Analysis and Monetary Policy Department. Banco de España

Patricia Jiménez Martínez
Statistics Department
Banco de España

Gregorio del Portillo Miguel
Statistics Department
Banco de España

María Isabel Simón Gil
Statistics Department
Banco de España

THE BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION OF SPAIN IN 2022

Introduction

The balance of payments posted net lending of 1.5% of GDP in 2022, down on the 1.9% recorded in 2021. Contributing to this were the greater trade deficit, deriving above all from the higher import (particularly energy import) prices, and the easing of global supply chain bottlenecks, which spurred purchases abroad. By contrast, the services balance was highly positive, especially in the case of travel services, which returned to pre-pandemic levels. For its part, the primary income surplus declined while the secondary income and capital account balances held at stable levels with respect to the prior year, with the funds received from the European Union (EU), chiefly under the Next Generation EU (NGEU) programme, making a noteworthy contribution. Notably, the Spanish economy's external balance (which determines net lending) remained positive in the period 2020-2022, despite the pandemic and the energy crisis.

The Spanish economy's financial transactions with the rest of the world, excluding the Banco de España, posted a negative balance of -0.7% of GDP in 2022 (compared with a positive balance of 0.6% in 2021). This was due to a higher net increase in external liabilities than in external assets, attributable to strong net capital inflows under other investment, mainly via short-term deposits at banks.

Spain's negative net international investment position (IIP) saw further sharp corrections in 2022, to stand at 60.5% of GDP, its lowest level in 18 years. This was mainly the result of nominal GDP growth but also, albeit to a lesser extent, the financial account surplus[1] and positive valuation effects in net terms, owing to the sharper fall in the value of liabilities than in assets. For its part, Spain's gross external debt also corrected, to 175.7% of GDP, down 17.7 percentage points (pp) on 2021, thanks almost exclusively to output growth. The Spanish economy continued to assume new liabilities vis-à-vis the rest of the world, although this was offset in full by the strong negative valuation effects stemming from interest rate hikes, which reduced the value of the debt securities.

This article first analyses developments in the current account and capital account balances and their main components, focusing in particular on the funds received from the EU, specifically the NGEU funds. It goes on to analyse Spain's financial transactions with the rest of the world and its external financial position. Lastly, it includes a box analysing recent developments in foreign direct investment.[2]

1 Including the Banco de España.

2 The balance of payments, IIP and external debt data are available on the External Statistics page of the Banco de España's website and in the BExplora interactive table of external statistics. For details of the methodology, see Banco de España (2022a).

Current account and capital account balances

In 2022 the Spanish economy's net lending stood at 1.5% of GDP, below both the 1.9% recorded in 2021 and the levels observed in the years running up to the pandemic (see Chart 1.a and Table 1). Since the crisis that began in 2007, the external sector has acquired notable structural strength, as evidenced by the Spanish economy's continued net lending in recent years, despite the pandemic and the subsequent energy crisis deriving from the war in Ukraine.

The decrease in net lending in 2022 compared with 2021 was attributable to the smaller current account surplus, linked to the deterioration of the trade balance (especially in energy goods) and the primary income balance, which was partially offset by the improvement in the services surplus (particularly in travel services, but also in other services). The capital account surplus, which exceeds the current account surplus, was similar to that of 2021 and more than double the average in 2013-2020, influenced by the transfers from the EU. It should however be noted that, while these flows were particularly high in both the capital and current accounts in 2021 and 2022, Spain would nevertheless have presented significant net lending even in the absence of such transfers.

The higher goods trade deficit was primarily attributable to the energy bill (see Charts 1.b and 2). Energy imports rose to 6.7% of GDP, nearly double their 2021 level. There were notable increases in goods imports from the United States, which doubled in 2021-2022, and from the members of the Organization of the Petroleum Exporting Countries, which rose by over 70% year-on-year. These developments were strongly marked by higher energy prices (up more than 58%),[3] associated with the consequences of Russia's invasion of Ukraine, to which was added the depreciation of the euro, particularly in the first three quarters of the year. Another, albeit smaller, contributor to the deterioration of the energy trade balance was the 23% increase in the volume of imports,[4] which was influenced by the fall-out of the war in Ukraine, specifically the strategy to store and re-export energy goods to other EU countries to tackle potential supply problems (García Esteban, Gómez Loscos and Martín Machuca, 2023b). In this setting, although Spain's energy exports also increased considerably (by over 80% in nominal terms and 25% in volume[5]), it presented an energy trade deficit in GDP terms, which increased by 1.9 pp compared with 2021, to stand at 4.1%.

The trade balance of non-energy goods also deteriorated and moved from a surplus of 0.6% in 2021 to a deficit of -0.3% of GDP in 2022, reflecting higher year-on-year growth in imports (+23%) than in exports (+18%).[6] Contributing to these developments were the easing of global trade bottlenecks, the post-pandemic economic recovery and the deterioration in the real terms of trade (owing to the growth in import prices outpacing that in export prices).[7] Import growth was

3 See unit value indices.

4 Ministerio de Industria, Comercio y Turismo (2023).

5 See footnote 4.

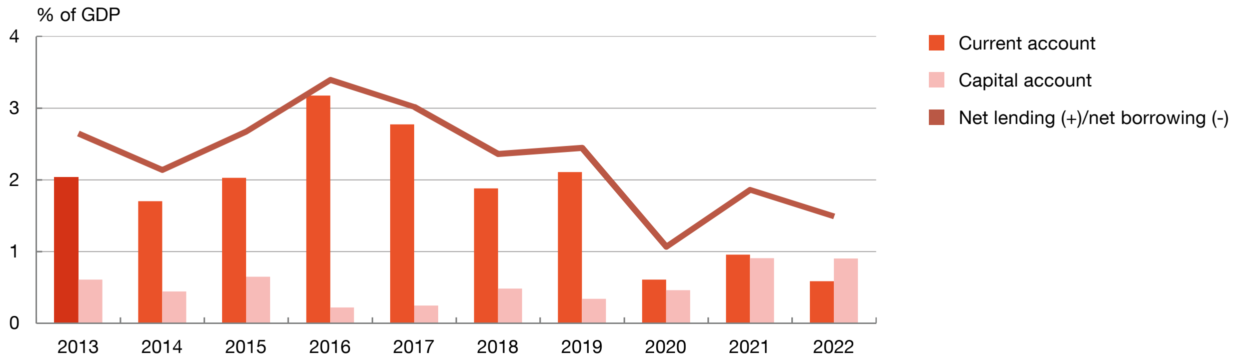
6 The sectors in which non-energy goods imports saw the largest growth were food products, beverages and tobacco, and non-chemical semi-manufactured goods, while exports grew more in the chemicals and capital goods sectors. See Ministerio de Industria, Comercio y Turismo (2023).

7 See unit value indices.

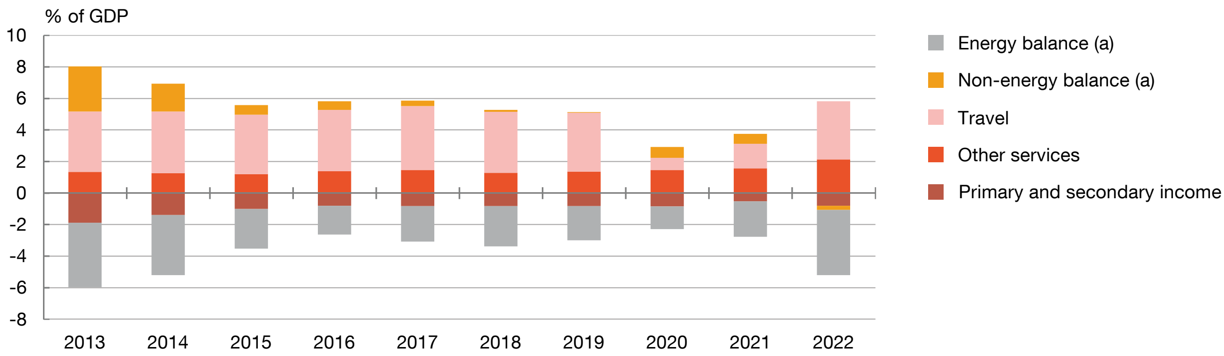
Chart 1

Net lending continued thanks to services and the capital account

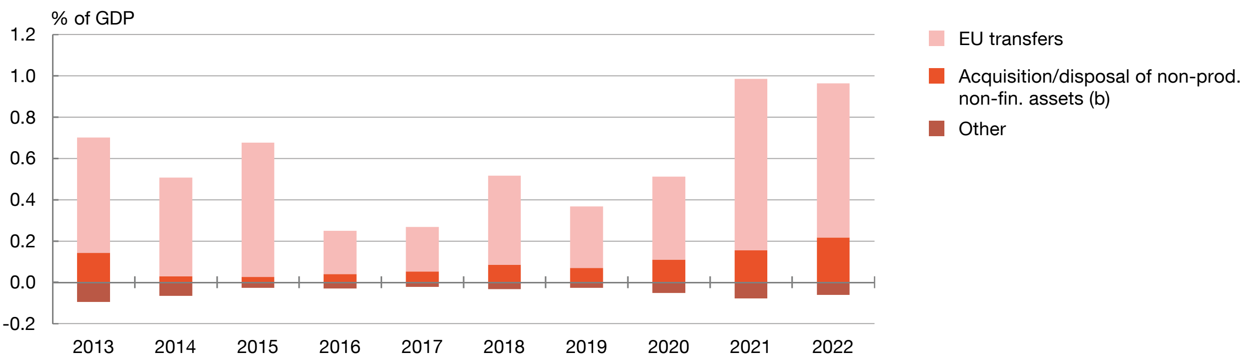
1.a Balances



1.b Current account balance. Components



1.c Capital account. Components



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 Banco de España estimates drawing on Customs data.
b Non-produced non-financial assets comprise transactions associated with assets that may be used or needed for production of goods and services, but that have not been produced, such as trademarks, concessions, etc. and leases or other transferable contracts.

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Table 1
Balance of payments. Balances

% of GDP

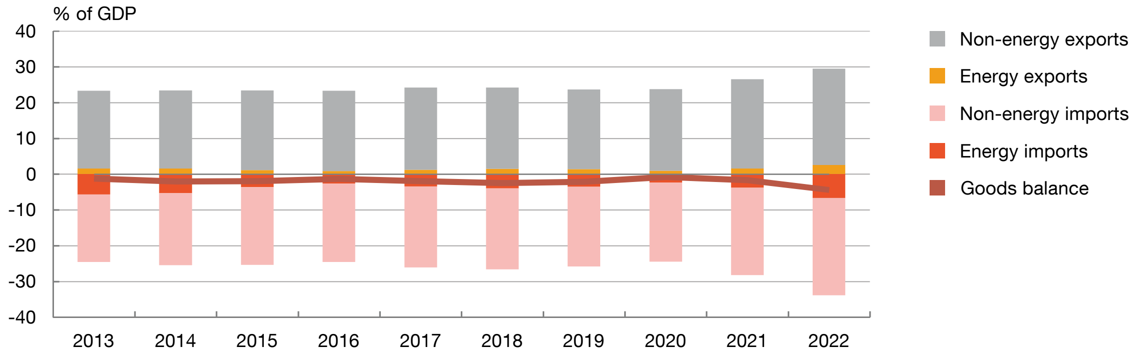
	2018	2019	2020	2021	2022
Net lending (+) / net borrowing (-)	2.4	2.4	1.1	1.9	1.5
Current account	1.9	2.1	0.6	1.0	0.6
Goods	-2.4	-2.1	-0.8	-1.6	-4.4
Services	5.2	5.1	2.2	3.1	5.8
Travel	3.9	3.7	0.8	1.6	3.7
Other services	1.3	1.4	1.5	1.6	2.1
Primary income	0.1	0.2	0.2	0.5	0.3
Investment income	-0.3	-0.3	-0.3	0.0	-0.1
Secondary income	-1.0	-1.0	-1.1	-1.1	-1.1
Capital account	0.5	0.3	0.5	0.9	0.9
Memorandum item					
Transfers with the EU (a)	-0.1	-0.2	0.0	0.4	0.3

SOURCE: Banco de España.

a Spain's transfers with the EU included in primary income, secondary income and the capital account.

Chart 2
The trade deficit worsened in 2022, and exports and imports reached record highs

2.a Energy and non-energy goods: exports and imports (a) (b)



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 Banco de España estimates drawing on Customs data.
b Imports are shown with a negative sign for presentation purposes.

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also spurred by imported products replacing energy-intensive domestic goods production and by a demand composition effect towards products with a higher import content (García Esteban, Gómez Loscos and Martín Machuca, 2023b).

By geographical area, the deterioration in the goods trade balance in 2021-2022 was the result of a higher deficit vis-à-vis non-European countries (which doubled), while the surplus vis-à-vis European countries increased significantly (+47%).[8] Total exports performed more strongly in Spain than in the euro area, whereas imports grew at a slower pace.

The services surplus (5.8% of GDP) was larger than the trade deficit, and developments in travel were particularly notable (see Chart 1.b and Table 1). The travel balance continued the recovery that began in 2021, exceeding 2019 levels and reaching its highest level in the time series. As a percentage of GDP, the travel surplus stood at 3.7% in 2022, the same level as in 2019. One contributor in this respect was the positive performance of credits, which returned to pre-pandemic levels (despite the number of tourists[9] not doing so) thanks to higher prices and the arrivals of tourists with greater spending power (García Esteban, Gómez Loscos and Martín Machuca, 2023a). Travel debits increased significantly, but remained below 2019 levels.[10] This stronger performance of credits compared with debits comes against a backdrop in which the Spanish economy is returning to pre-pandemic levels more slowly than the euro area as a whole.

By counterparty area, nearly half of travel credits came from the euro area (see Chart 3.a). Within this area, German and French tourists accounted for over 50% of credits, recovering their 2019 levels. Credits from the Netherlands and Belgium were up by close to, or more than, 20% compared with 2019 data. Outside the euro area, the United Kingdom recovered its share of total travel credits (20%), whereas the weight of European countries outside the euro area and of the rest of the world declined (especially in the case of Asia, where it was 40% lower than in 2019).

The non-travel services balance saw strong growth (+50% on 2021), exceeding 2.1% of GDP and reaching record figures in both credits and debits. The growth was widespread, with notably positive developments in telecommunications and IT services, consultancy services, goods processing, maintenance and repair (associated with the higher goods trade) and transportation (see Chart 3.b). In transportation, there was an improvement in the passenger transportation balance (linked to the recovery in tourism) and a worsening of the goods transport deficit (associated with the boom in goods trade).

The primary income[11] surplus declined from 0.5% to 0.3% of GDP in 2022. Investment income showed a deficit of 0.1% of GDP (compared with a balance of zero in 2021), on account of a

8 The deterioration in the balance vis-à-vis non-European countries was primarily due to the increase in energy imports, while higher exports of medical products and energy goods played a significant role in the improvement in the surplus vis-à-vis European countries. See Ministerio de Industria, Comercio y Turismo (2023).

9 Instituto Nacional de Estadística (2023a).

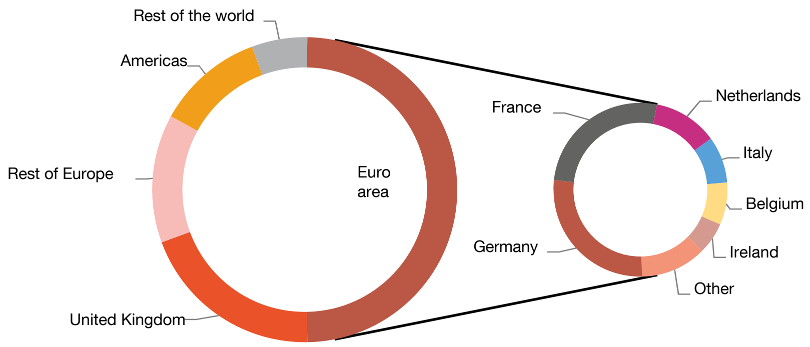
10 According to the Survey of Residents' Travel, the number of trips abroad by residents in Spain was also yet to recover. See Instituto Nacional de Estadística (2023b).

11 Primary income includes compensation of employees, investment income, taxes on production and imports, and subsidies.

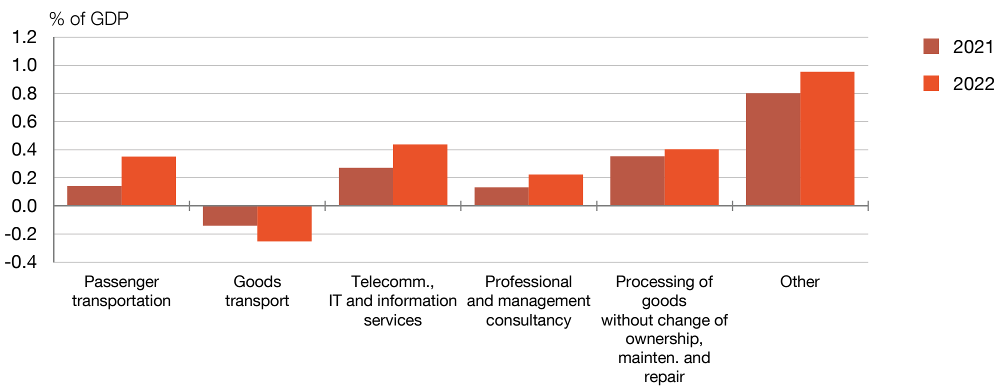
Chart 3

Services performed favourably in 2022, with travel credits returning to pre-pandemic levels and a substantial improvement in other services

3.a Travel credits by source country of tourists arriving in Spain (2022)



3.b Non-travel services: balance



SOURCE: Banco de España.

sharper increase in debits than in credits. The low interest rate setting began to reverse rapidly in 2022 Q3, when the European Central Bank decided to raise rates in order to combat inflation, which influenced the increase in investment income credits and debits, especially in the case of monetary financial institutions.[12]

The secondary income[13] deficit held at 1.1% of GDP, with growth in both debits and credits. The balance of this account with the EU was significantly higher in 2021 and 2022 than in previous years, owing to the contribution of NGEU funds. Workers' remittances from Spain stood at 0.8% of GDP, and the main recipient countries (Morocco, Colombia and Ecuador) remained stable.

12 Includes the investment income of the Banco de España; the interest payments in respect of the TARGET debit balance became particularly important during the last quarter.

13 Secondary income includes personal transfers, current taxes, social security contributions and benefits, transfers relating to insurance transactions, current international cooperation and other miscellaneous items.

The capital account surplus was similar to that in 2021, standing at 0.9% of GDP (see Chart 1.c), with investment grants received from the EU making a notable contribution in recent years. After two years of increases, acquisitions and disposals of non-produced non-financial assets stood at 0.2% of GDP in 2022. Under this heading, credits from the sale of CO_2 emission allowances increased on account of their higher prices, which in turn stem from the progressive reduction in the number of allowances allocated.[14]

The NGEU programme and its impact on net lending

Of particular relevance in the Spanish economy's net lending in recent years has been the balance with the EU (see Chart 1.c and Table 2), owing above all to the positive performance of the funds received in both the current account and the capital account.

Specifically, these funds have been impacted by the NGEU programme, under which Spain had received just over €34.5 billion at December 2022. Although the receipt of these new transfers from the EU only began in 2021, they were initially recorded in the balance of payments data for 2020,[15] when the European Council approved the so-called "recovery package" and the Multiannual Financial Framework 2021-2027. The balance of financial transfers with the EU has turned positive again as a result of the NGEU programme, following the period 2016-2019 when contributions exceeded grants received.

In the current and capital accounts, the transfers Spain receives from the EU are recorded under primary income (subsidies on products and production), secondary income (transfers to finance consumption) or in the capital account (investment grants). Specifically, NGEU funds are recorded as secondary income or in the capital account, depending on their purpose.

These new funds have had a significant impact on the current account and capital account data. In the years preceding the NGEU programme, the largest receipts from the EU were agricultural grants, which accounted for around one-half of the total, followed by investment grants for regional development and current transfers. Between 2019 and 2022, agricultural grants remained stable whereas, under the NGEU package, current transfers and investment grants practically multiplied by 3 and 2.5, respectively. In that period, the subsidies recorded in primary income as a proportion of total receipts from the EU fell (to 28%), while the share of investment grants recorded in the capital account rose (to close to 50%), to become the largest component. Thus, while, as a percentage of GDP, subsidies remained virtually unchanged in this period, current transfers increased by 0.3 pp and investment grants by 0.4 pp.

As regards the current account and capital account balances, it should be noted that, while the NGEU funds made a significant contribution in 2020 and, above all, in 2021-2022, a surplus would

14 Relevant factors here were the greater ambition in the fight against climate change and the return to coal as a fuel due to the war in Ukraine pushing up gas prices.

15 Banco de España (2022b).

Table 2
Transfers with the EU

% of GDP

	2018	2019	2020	2021	2022
Balance	-0.1	-0.2	0.0	0.4	0.3
Credits (a)	1.1	0.9	1.2	1.7	1.5
Primary income. Subsidies on products and production	0.5	0.5	0.5	0.5	0.4
Secondary income. Current transfers (b)	0.2	0.1	0.3	0.4	0.4
Capital account. Investment grants (b)	0.4	0.3	0.4	0.8	0.7
Debits (c)	1.1	1.1	1.3	1.3	1.2
Primary income. Taxes on products and production	0.2	0.2	0.2	0.2	0.3
Secondary income. Current transfers	0.9	0.9	1.0	1.1	0.9

SOURCES: IGAE (Ministerio de Hacienda y Función Pública), Tesoro Público (Ministerio de Asuntos Económicos y Transformación Digital), Fondo Español de Garantía Agraria, the Spanish executive resolution authority and Banco de España.

a When broken down by fund, the subsidies are practically the same as those of the European Agricultural Guarantee Fund. In other credits, in addition to the new Recovery and Resilience Facility, the European Social Fund (in secondary income) and the European Regional Development Fund and the European Agricultural Fund for Rural Development (in the capital account) are notable.
b Includes NGEU funds.
c The most significant payments are the contributions to the EU budget and to the Single Resolution Fund.

still have been posted in the absence of such funds (that is to say, net lending would have been maintained).

Financial transactions with the rest of the world

For the first time since 2014, the financial account of the balance of payments, excluding the Banco de España,[16] had a deficit in 2022, equivalent to -0.7% of GDP, compared with the surplus of 0.6% in the prior year (see Table 3 and Chart 4.a). This was due to net purchases of foreign assets by resident agents (10.9% of GDP, up 0.7 pp on 2021) being somewhat lower than international investors' net purchases of liabilities issued by Spanish agents (11.9% of GDP, 2 pp up on 2021), and to positive net transactions linked to financial derivatives[17] (0.2% of GDP).

In keeping with the usual pattern of recent years, net outward investment by resident agents was positive under all headings (see Chart 4.b). Most of the outward investment was channelled through other investment (4.3% of GDP), mainly via deposits and loans of monetary financial institutions. Net foreign portfolio investment flows were lower than in 2021 (down 2.4 pp, to 3.5% of GDP), and were concentrated in acquisitions of debt securities, particularly long-term debt, by the financial sector (banks and non-monetary financial institutions). Conversely, unlike in the

16 Since the start of the Economic and Monetary Union in 1999, the financial account of the Banco de España must largely be considered an accommodative item as, in addition to reserve holdings, it also includes the net position of the Banco de España vis-à-vis the Eurosystem. In consequence, to facilitate economic analysis, the Banco de España's financial account is separated from that of the other resident sectors. For more details, see Banco de España (2015) (only available in Spanish).

17 Given the difficulty of correctly assigning financial derivative transactions as assets or liabilities, and following international methodological recommendations, the figures are only presented in net terms.

Table 3

Financial account of the balance of payments

% of GDP

	2018	2019	2020	2021	2022
Financial account balance (NCA – NCL) (a)	3.9	0.8	8.1	0.6	-0.7
Net change in external assets (NCA) (a) (b)	10.2	10.2	12.1	10.2	10.9
Direct investment	2.6	2.5	4.5	1.6	3.1
Monetary financial institutions	0.9	0.7	1.0	0.2	0.5
Other resident sectors	1.7	1.8	3.5	1.4	2.6
Portfolio investment	3.9	2.7	5.9	5.9	3.5
General government	0.1	0.1	0.1	0.1	0.1
Monetary financial institutions	1.1	0.6	1.8	0.1	1.6
Other resident sectors	2.7	2.0	4.0	5.8	1.8
Other investment (c)	3.7	5.0	1.7	2.7	4.3
General government	0.1	-0.1	0.1	-0.4	0.0
Monetary financial institutions	2.8	4.2	1.3	2.7	3.4
Other resident sectors	0.8	0.9	0.3	0.4	0.9
Net change in external liabilities (NCL) (a) (b)	6.3	8.8	3.3	9.9	11.9
Direct investment	4.0	1.8	2.9	3.0	2.7
Monetary financial institutions	0.3	-0.3	0.5	0.3	0.3
Other resident sectors	3.7	2.2	2.4	2.8	2.4
Portfolio investment	2.7	6.7	1.5	5.7	0.9
General government	3.1	4.5	-0.3	2.2	0.4
Monetary financial institutions	0.5	1.4	0.8	1.8	0.9
Other resident sectors	-0.9	0.7	1.1	1.7	-0.4
Other investment (c)	-0.5	0.3	-1.1	1.1	8.2
General government	-0.7	-0.1	0.8	1.6	0.2
Monetary financial institutions	-1.3	0.1	-2.0	-0.5	7.0
Other resident sectors	1.6	0.3	0.1	0.0	1.0
Financial derivatives (d)	-0.1	-0.6	-0.6	0.2	0.2
Banco de España net transactions with the rest of the world (e)	-1.2	1.3	-7.3	1.3	2.5
Reserves	0.2	0.1	0.0	0.9	0.3
Net position vis-à-vis the Eurosystem	-0.8	1.6	-9.1	0.1	1.7
Other net assets	-0.6	-0.4	1.9	0.4	0.4
Errors and omissions (f)	0.3	-0.4	-0.3	0.1	0.3
Memorandum item					
Financial account balance, including the Banco de España	2.7	2.1	0.8	1.9	1.8

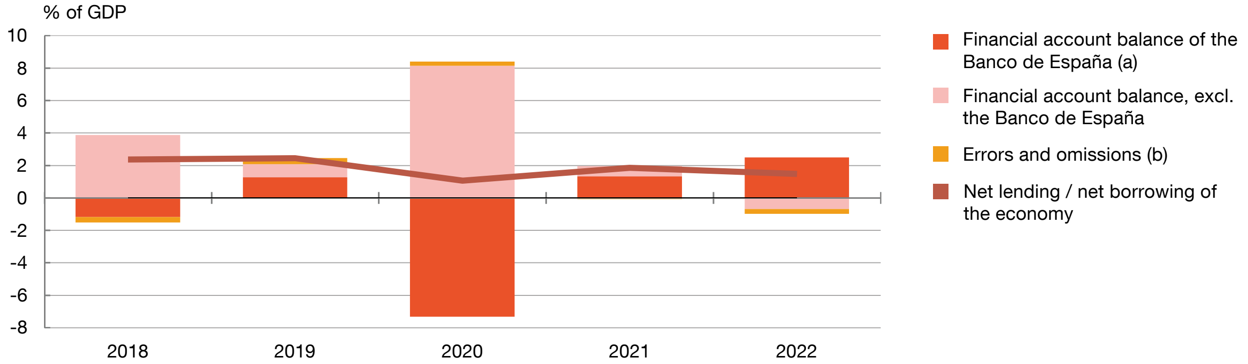
SOURCE: Banco de España.

a Excluding the Banco de España.
b Excluding financial derivatives.
c Mainly includes 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 Banco de España's net foreign liabilities.
f Arises due to the inability to capture exact information of all transactions with the rest of the world. A positive sign indicates that credits are being understated and/or debits are being overstated in the current and capital accounts, which is the same as understating the net change in liabilities and/or overstating the net change in assets in the financial account. A negative sign denotes the opposite.

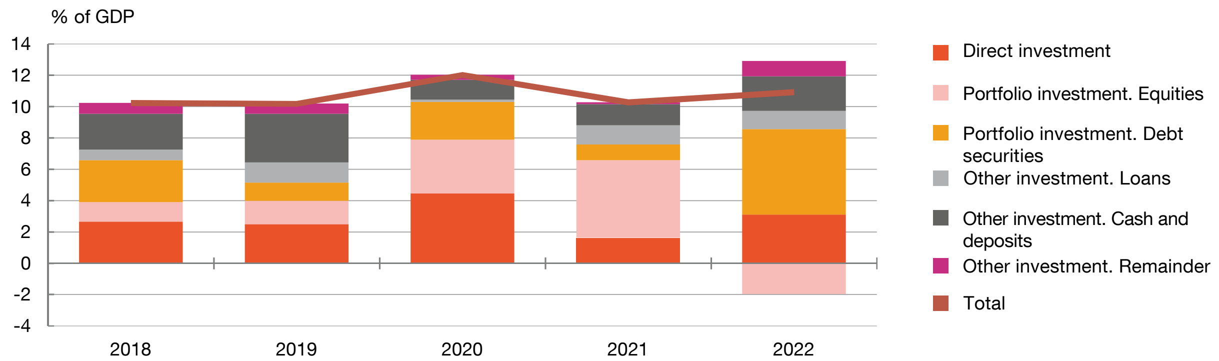
Chart 4

The financial account surplus of the Banco de España in 2022 prevented a deficit in the financial account as a whole

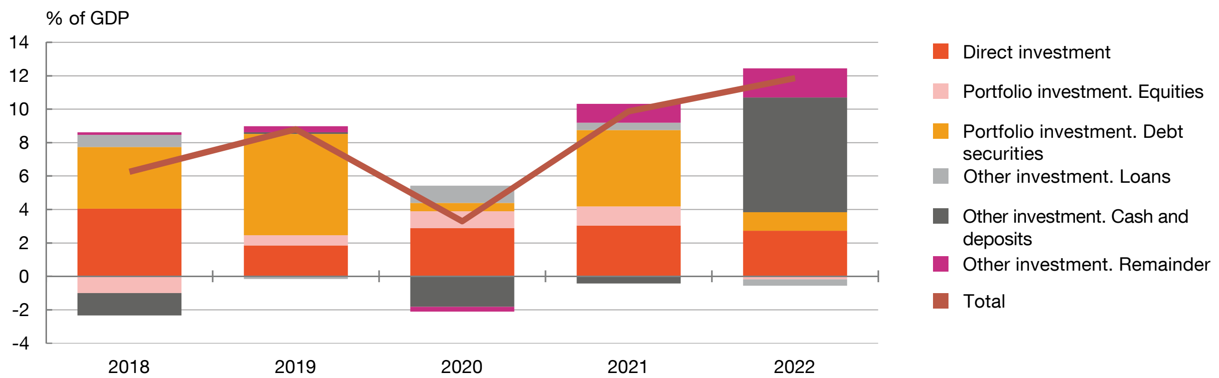
4.a Net lending / net borrowing of the Spanish economy and financial account of the balance of payments



4.b Net change in assets (NCA) (c)



4.c 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 foreign liabilities of the Banco de España.
b The errors and omissions are presented with the sign changed, for reconciliation purposes.
c Excluding the Banco de España and financial derivatives.

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previous year, this sector divested from equity and investment fund shares and units. Net direct investment flows nearly doubled those recorded in 2021 (3.1% of GDP, compared with 1.6% in the prior year), and were channelled mainly through equity purchased by the private non-financial sector.[18]

On the liabilities side, net capital inflows were also positive across all items in 2022, but were especially notable under the other investment heading (8.2% of GDP, compared with 1.1% in 2021) (see Chart 4.c). Thus, the bulk of funds under this heading was channelled in the form of short-term deposits at other monetary financial institutions (7% of GDP), in contrast with the scant flows recorded in these financial instruments the previous year. The volume of net inflows of foreign direct investment was similar to that of 2021 (2.7% of GDP in 2022), materialising, as usual, in the form of shares and other equity purchases in the private non-financial sector. Net portfolio investment purchases were significantly lower than in 2021 (0.9% of GDP, down 4.8 pp). This owed to net capital inflows under this heading being partially offset by international investors' divesting from short-term debt securities issued by general government (and, to a lesser extent, by banks), and of long-term debt securities issued by non-financial corporations.

The breakdown by institutional sector shows that, as has been customary, general government raised funds abroad in net terms, albeit for a substantially lower volume than a year earlier (0.5% of GDP, compared with 4.1% in 2021). This was the result of lower net purchases of government debt by international investors, as mentioned earlier, and of the lower volume of funding from the EU.[19] In contrast to previous years, other monetary financial institutions were also net lenders to the rest of the world (2.7% of GDP) owing to the significant inflow of short-term deposits. Lastly, other resident sectors[20] provided funding abroad (2.2%) in line with the trend of the last decade and with the fact that they are net lenders.[21]

In 2022 the financial account of the Banco de España once again recorded a surplus, amounting to 2.5% of GDP, up from 1.3% in 2021. This was influenced by the discontinuation of net purchases under the Eurosystem's asset purchase programmes. Specifically, net purchases under the pandemic emergency purchase programme (PEPP) ended in March, while those under the asset purchase programme (APP) did so in July. As a result, the negative TARGET[22] balance ceased growing and even decreased by €10.5 billion in 2022, to €502 billion. All this, together with the disbursement of €14.8 billion from the NGEU funds,[23] contributed to the financial account surplus of the Banco de España[24] in 2022.

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18 For a detailed assessment of direct investment flows under the "directional principle", see Box 1.

19 Although receipts from the EU are greater than in 2020, they are slightly lower than those of 2021.

20 "Other resident sectors" comprises the resident sectors other than general government and monetary financial institutions.

21 According to the Financial Accounts of the Spanish Economy for 2022, the net lending of other non-monetary financial institutions, non-financial corporations and households amounted to 0.6%, 2.5% and 0.9% of GDP, respectively.

22 The Eurosystem's TARGET2 platform processes payments in euro with bank reserves, i.e. with central bank money. Cross-border transactions channelled through this platform result in claims and liabilities between Eurosystem central banks which, when aggregated and netted, give rise to the TARGET balances vis-à-vis the Eurosystem.

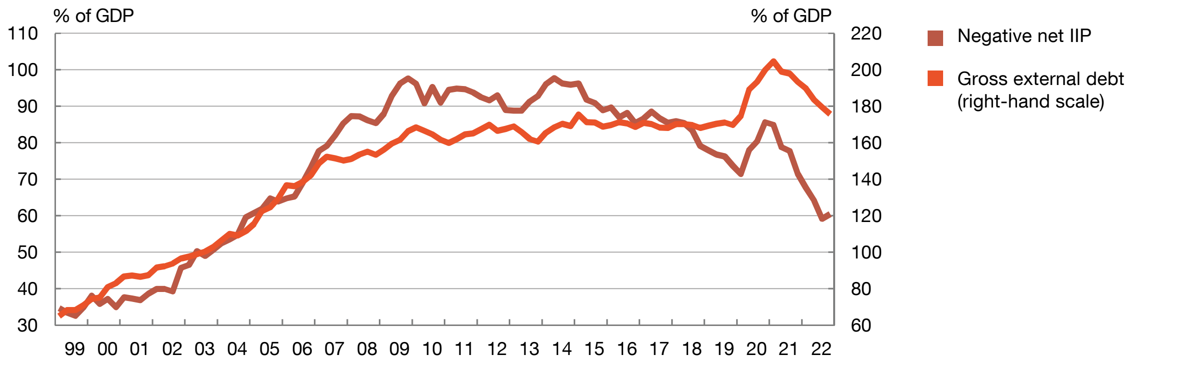
23 The credit of grants from the European Commission to Spain under the NGEU programme is recognised as a reduction in the liabilities of the financial account of the Banco de España, under "Other investment - Deposits". The balancing entry is an increase in the general government's liabilities in the financial account under "Other investment - Other accounts payable". See Banco de España (2022b).

24 For a detailed explanation of the effect of the Eurosystem's asset purchase programmes on the TARGET balance and the financial account of the Banco de España, see Alves, Millaruelo and del Río (2018) and Martínez Pagés (2016). For further details on their methodological treatment, see Banco de España (2015) (only available in Spanish).

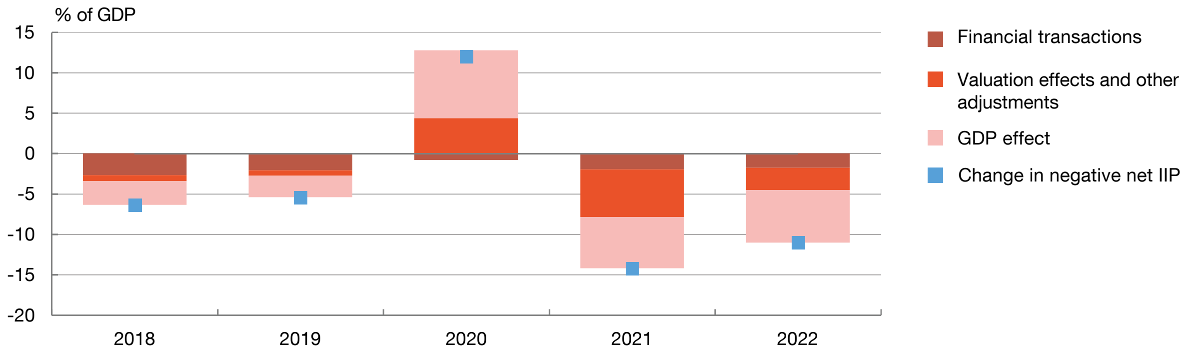
Chart 5

Gross external debt and negative net IIP. Breakdown by determinant and component

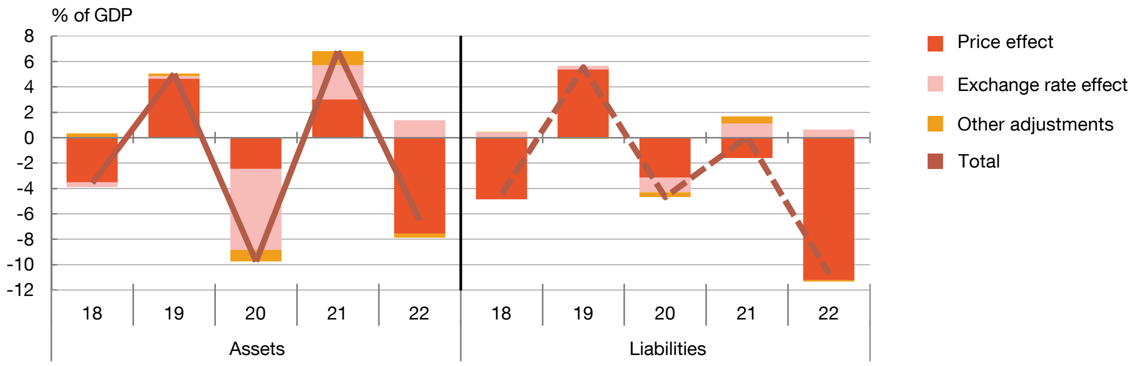
5.a Negative net IIP and gross external debt (a) (b)



5.b Determinants of the change in negative net IIP (a)



5.c Change in IIP components owing to valuation effects and other adjustments (c)



SOURCE: Banco de España.

a The net IIP is the difference between the value of resident sectors' foreign assets and that of the liabilities to the rest of the world.
b External debt is the balance of all liabilities that entail a future payment obligation for principal, interest or both (i.e. all financial instruments except for equities, financial derivatives and gold bullion).
c Excluding the Banco de España and the net derivatives position.

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Table 4
International investment position. Breakdown of financial transactions and other flows

€bn

	2021	2022							
	End-period position	Change in balance	Transac-tions in the period	Other flows in the period (a) (I + II)	Reval-uations (I)	*Due to changes in prices*	*Due to exchange rate fluctuations*	Other changes in volume (II)	End-period position
Total net position (assets – liabilities)	-862.6	60.2	23.7	36.6	39.8	28.1	11.7	-3.2	-802.4
In terms of GDP (%)	-71.5	11.0							-60.5
Excluding the Banco de España	-608.1	52.5	-9.3	61.8	64.4	54.7	9.7	-2.7	-555.7
Direct investment	-219.0	-6.3	5.2	-11.6	-9.4	-11.2	1.9	-2.2	-225.4
Portfolio investment	-406.6	97.9	33.9	64.0	63.2	59.4	3.8	0.8	-308.7
Other investment (b)	25.7	-48.3	-51.5	3.1	4.4	0.3	4.1	-1.3	-22.7
Financial derivatives	-8.2	9.2	3.1	6.2	6.2	6.2	0.0	0.0	1.0
Banco de España	-254.5	7.8	33.0	-25.2	-24.7	-26.6	2.0	-0.5	-246.7
Reserves	81.4	5.8	4.4	1.4	1.4	0.0	1.3	0.0	87.2
Net position vis-à-vis the Eurosystem	-346.9	22.9	22.9	0.0	0.0	0.0	0.0	0.0	-324.0
Other	11.0	-20.9	5.6	-26.6	-26.6	-26.6	0.0	0.0	-9.9
Assets, excl. the Banco de España (c)	2,089.4	58.4	145.0	-86.7	-82.2	-100.3	18.1	-4.5	2,147.8
Direct investment	711.3	44.9	41.2	3.6	7.1	3.0	4.2	-3.5	756.2
Portfolio investment	826.9	-50.6	46.1	-96.8	-96.7	-103.6	7.0	-0.1	776.3
Other investment	551.3	64.1	57.7	6.4	7.3	0.3	6.9	-0.8	615.4
Liabilities, excl. the Banco de España (c)	2,689.4	15.1	157.4	-142.3	-140.5	-148.8	8.4	-1.8	2,704.5
Direct investment	930.3	51.2	36.0	15.2	16.5	14.2	2.3	-1.3	981.5
Portfolio investment	1,233.5	-148.5	12.2	-160.8	-159.9	-163.0	3.2	-0.9	1,084.9
Other investment	525.6	112.4	109.1	3.3	2.9	0.0	2.9	0.4	638.0
Memorandum item:									
Gross external debt	2,334.4	-2.3	124.3	-126.6	-127.4	-135.5	8.1	0.8	2,332.1
In terms of GDP (%)	193.4	-17.7							175.7

SOURCE: Banco de España.

a Other flows include revaluations (due to changes in financial instrument prices or exchange rate fluctuations) and other changes in volume (including, inter alia, unilateral loan write-offs, reclassifications and statistical discrepancies between the IIP and the financial account of the balance of payments).
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 heading, especially its transactions, to assets or liabilities, it is shown only in net terms in the upper part of the table.

The international investment position and gross external debt

In 2022 the Spanish economy’s negative net IIP continued to correct sharply, dropping to 60.5% of GDP, its lowest level since 2004 (see Chart 5.a). However, this level is still high in comparison with other European countries, amply exceeding the European Commission’s macroeconomic imbalance alert threshold.[25] Thus, in 2022 this ratio declined by 11 pp of GDP, of which 6.5 pp were

25 The Macroeconomic Imbalances Procedure set up by the European Commission monitors 14 indicators which signal an alert when certain thresholds are exceeded. In the case of the negative net IIP, this threshold is set at 35% of GDP.

the result of output growth (GDP grew by 10% in nominal terms in 2022), the factor that most contributed to this decrease (see Chart 5.b). In terms of volume, 2022 saw the negative net IIP fall by €60.2 billion, to stand at €802.4 billion, thanks to the positive balance of net financial transactions with the rest of the world (€23.7 billion) and, to a larger extent, to valuation effects and other adjustments in net terms (€36.6 billion) (see Table 4).

The changes in valuation effects and other adjustments, excluding the Banco de España and financial derivatives, were mainly due to a decrease in the value of liabilities (-€142.3 billion), much greater than the fall in the value of assets (-€86.7 billion) (see Chart 5.c). These declines in value were the result of falls in prices, concentrated, in the case of liabilities, in debt instruments (-€135.5 billion) issued mainly by general government, but also by other sectors, whose value declined owing to the rise in interest rates. In the case of assets, the fall in prices essentially materialised in the equity and investment fund shares and units held by all sectors (-€70.8 billion) as a result of the declines recorded in the international stock markets in 2022. The fall in asset prices (securities issued by non-residents and held by resident agents) was slightly offset by the depreciation of the euro against the main currencies in which the securities are denominated (€18.1 billion). The valuation effects and other adjustments increased the Banco de España's net debtor position by €25.2 billion, mainly owing to the fall in the prices of its portfolio investment assets, which appears to be linked to the rise in interest rates.

The breakdown by institutional sector shows that only the monetary and non-monetary financial sectors,[26] excluding the Banco de España, had a net creditor position (equivalent to 1.8% and 23.9% of GDP, respectively), which decreased in both cases in 2022. By contrast, general government, the private non-financial sector and the Banco de España posted a net debtor position, standing at 39.6%, 27.9% and 18.9% of GDP, respectively, at end-2022, falling below the figures posted a year earlier in all cases. Notably, in the case of general government, external net debt is already below its pre-pandemic level.

Spain's gross external debt[27] decreased to 175.7% of GDP in 2022, 17.7 pp less than a year earlier, almost entirely due to nominal output growth (see Chart 5.a). In terms of volume, gross external debt only decreased by €2.3 billion, to €2,332.1 billion, having reached its all-time high in 2022 Q1. This was the result of the net assumption of new liabilities (€124.3 billion), which was fully offset by negative valuation effects (-€126.6 billion) mainly owing to the decline in the value of debt securities (-€135.5 billion) linked to the rise in interest rates. The vulnerability resulting from the Spanish economy's high external debt is mitigated by the composition of liabilities, since 52% and 11% comprise public-sector debt (general government and Banco de España) and debt linked to direct investment, respectively, which have a comparatively low rollover risk. Additionally, the great majority of liabilities to the rest of the world is long-term, fixed-interest and euro-denominated debt. All of these factors reduce rollover risk, interest rate risk and exchange rate risk.

26 The non-monetary financial sector comprises financial institutions that cannot issue deposits or money market fund shares. It includes pension funds, insurance companies, investment funds, other financial intermediaries and financial auxiliaries, and special purpose entities (SPEs).

27 Gross external debt comprises all of a country's liabilities to the rest of the world that entail a future payment obligation. It therefore excludes equities (shares and other equity and investment fund shares or units), financial derivatives and gold bullion. The Banco de España's liabilities to the Eurosystem are included in this category, even though they have no explicit maturity.

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Box 1

FOREIGN DIRECT INVESTMENT: RECENT DEVELOPMENTS

This box includes the main features of recent developments in foreign direct investment (FDI)[1] in accordance with the "directional principle", whereby flows and positions are classified based on the residence of the investment decision-making centre.[2] Thus, where the decision-making centre (the group's parent) is resident in Spain, reference is made to Spanish outward foreign direct investment, which includes intra-group assets, but also intra-group liabilities (i.e. the parent's liabilities to its subsidiaries) that might entail a reduction in such investment. Meanwhile, inward foreign direct investment in Spain comprises transactions where the decision-making centre is non-resident, and includes liabilities net of the related intra-group assets. As per the international guidelines, this approach is recommended where the aim is to provide a more detailed breakdown of FDI, as it reflects the direction of the direct investor's influence. This makes it possible to make international comparisons and analyse who assumes the risks and receives the income from such investments. This classification differs from that shown in the main body of this article, where FDI is classified into assets and liabilities.

Spain's direct investment position in the rest of the world[3] increased in 2022 by €40 billion and stood at 41.7% of GDP, 0.8 pp less than in 2021, as a result of greater GDP growth. The increase in the stock of the outward investment position arose from the significant volume of transactions recorded in 2022 (€37 billion) (see Chart 1.a), while revaluations due to changes in market prices (€2.8 billion) and exchange rate fluctuations (€2.9 billion) were less significant. In the specific case of changes due to exchange rate fluctuations, gains arising from the depreciation of the euro against the US dollar (€7.2 billion) were partly offset by the appreciation of the euro against other currencies (mainly the pound sterling and the Argentine peso).

Non-financial corporations continued to gain weight in the stock of Spain's investment abroad, representing nearly 65% of the total at end-2022. By geographical area, Europe and Latin America were again the main recipients of Spanish investment, accounting for 48% and 31% of the total balance, respectively. By country, the main recipients were the United Kingdom, the United States and Mexico, which accounted for 18%, 15% and 9% of the total balance, respectively.

The volume of outward direct investment transactions in 2022 stood at levels similar to pre-health crisis levels following the divestments carried out in 2021, which mainly materialised in equity.[4] By sector, non-financial corporations (€31.9 billion) led this recovery (see Chart 1.a) and monetary financial institutions were also significant (€5.1 billion). Investments were mainly made in Europe (€17.4 billion in the euro area and €11 billion in the rest of Europe), as shown in Chart 1.b. This was highly conditioned by transactions with the Netherlands, which was the recipient of more than €13 billion and which is generally not the ultimate destination of the funds, but is instead where special purpose entities (SPEs)[5] are established through which investments are channelled towards other countries. By productive sector of resident firms (see Chart 1.c), non-financial activities as a whole had a greater weight than financial activities, with manufacturing industry, utilities and communication standing out with an aggregate amount of close to €20 billion.

The direct investment position of the rest of the world in Spain also increased substantially in absolute terms (€46 billion). At end-2022 it represented 58.7% of GDP, 2 pp less than the level recorded a year earlier, owing to the greater increase in the denominator of this ratio. New net investments (€32 billion) had the greatest impact on the increase in the stock. Revaluations due to the price

1 FDI comprises all financial transactions (except for derivatives) between companies of the same group. It includes both parent-subsidiary transactions (provided that the direct or indirect ownership interest exceeds 10%) and those between two subsidiaries of the same group. With regard to its end-purpose, FDI encompasses the purchase/sale of pre-existing capital (mergers and acquisitions), the creation of new companies (greenfield investments), capital increases and debt financing (essentially loans and inter-company accounts).

2 For further details on methodological aspects, see "Balance of Payments and International Investment Position in Spain. Methodological Note" in the External Sector Statistics section of the Banco de España website.

3 For more detailed information, see: https://www.bde.es/webbe/en/estadisticas/temas/estadisticas-exteriores.html?tabOption=rd&listOption=sb_extbppii#idpd.

4 The main financial instruments comprising FDI are equity and debt between group companies. See paragraph 152 and Box 4.1 of the OECD's Benchmark Definition of Foreign Direct Investment.

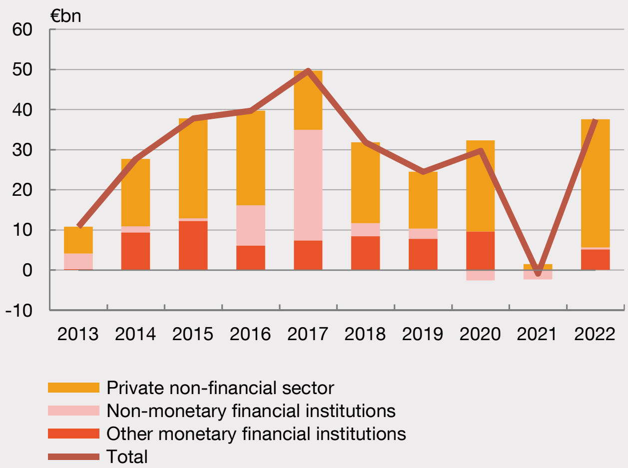
5 For further details about the definition, identification and importance of SPEs, see "Special Purpose Entities: Guidelines for a Data Template" and "Special Purpose Entities Shed Light on the Drivers of Foreign Direct Investment".

effect (€14 billion) had a positive impact, more than offsetting the slight fall in the value of the balance as a result of exchange rate fluctuations.

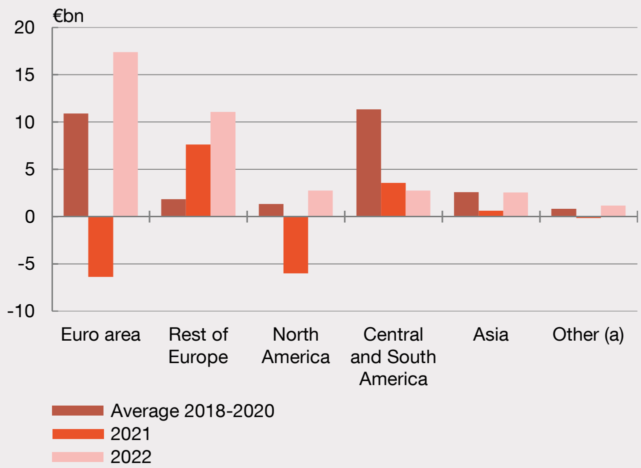
The concentration of this investment in the non-financial corporations sector, with more than 75% of the total stock, is higher than that of Spanish outward investment.

Chart 1
SPANISH OUTWARD FOREIGN DIRECT INVESTMENT

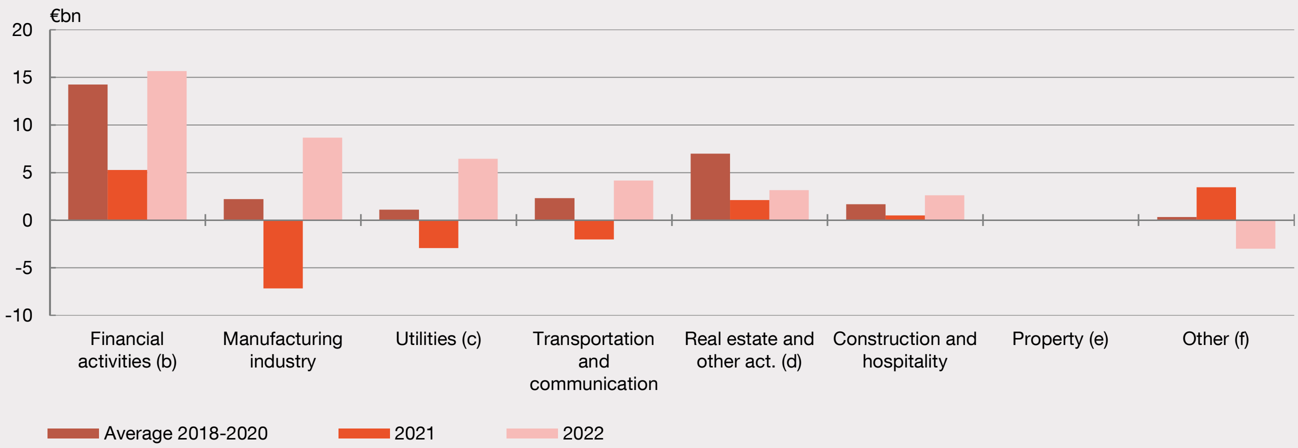
1.a Transactions. Breakdown by institutional sector



1.b Transactions. Breakdown by geographical area



1.c Transactions. Breakdown by sector of economic activity



SOURCE: Banco de España.

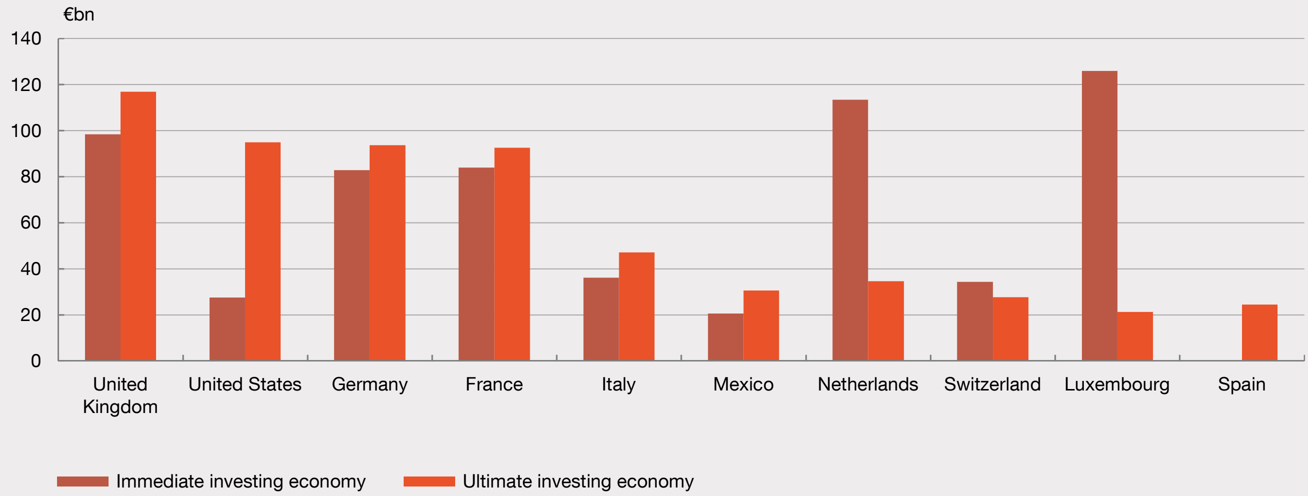
a Includes Africa, Oceania, geographically indeterminate information and amounts of international organisations other than those of the European Union.
b Includes financial intermediation, activities of holding companies, foreign-equity holding companies, collective investment, financial leasing and other financial activities (except insurance and pension funds).
c Includes electricity, gas, steam and air conditioning supply, water supply, and sewerage, waste management and remediation activities.
d Includes real estate activities, professional, scientific and technical services, and administrative activities.
e Includes shares in the notional resident units that own such property, as established in the methodological manuals (see paragraph 4.34 of the International Monetary Fund's *Sixth Edition of the Balance of Payments Manual*).
f Includes other economic activities (insurance and pension funds, mining and quarrying, wholesale and retail trade, agriculture, livestock breeding, forestry and fishing, and other services) and indeterminate amounts.

As for the immediate counterpart in the investment chain,[6] in line with previous years, in 2022 around two-thirds of the stock originated in euro area countries. Within the euro area, more than 30% came from Luxembourg and the Netherlands, countries where SPEs, which are used to channel funds towards other countries, are concentrated. If, instead of considering the immediate counterpart, we consider the location of the ultimate investing economy of the direct investment firms, with the aim of identifying the countries which have an effective or real economic interest in the recipient economy,[7] 70% and 80% of the funds received through the Netherlands and Luxembourg, respectively, ultimately originate in other countries (see Chart 2). The most striking case is that of the United States. Its investment in Spain increases nearly three-fold if investment made through other intermediate countries is added to its direct investment in Spain. Other economies whose figures of direct investment in Spain also increase are the main euro area countries and the United Kingdom. Lastly, also notable is the emergence of Spain as a country from which direct foreign investment originates when the ultimate investing economy is considered,[8] as firms located in other countries are intermediaries within Spanish-owned corporate group chains, with an average stock in recent years of around €20 billion.

The volume of inward investment transactions in Spain, according to the directional principle, amounted to €32.3 billion in 2022, double that recorded a year earlier (€16 billion), and was close to pre-pandemic levels. These transactions essentially materialised in an increase in equity shares or units in resident firms and, unlike in the last three years, in Spanish firms' debt vis-à-vis non-resident group companies. Chart 3.a shows that it was mainly non-financial corporations that received new investments from abroad in net terms (€32 billion). Monetary financial institutions received €3 billion, while, as in 2021, there were divestments in the non-monetary financial sector (-€2 billion). As regards the origin of foreign funds by immediate

Chart 2
Stock of foreign direct investment in Spain for 2022

Balance by immediate investing economy and ultimate investing economy



SOURCE: Banco de España.

6 See paragraph 49 of the OECD Benchmark Definition of Foreign Direct Investment *"…partner country [...] allocation is recorded [...] as that of the immediate counterparty involved in the investment chain…"*

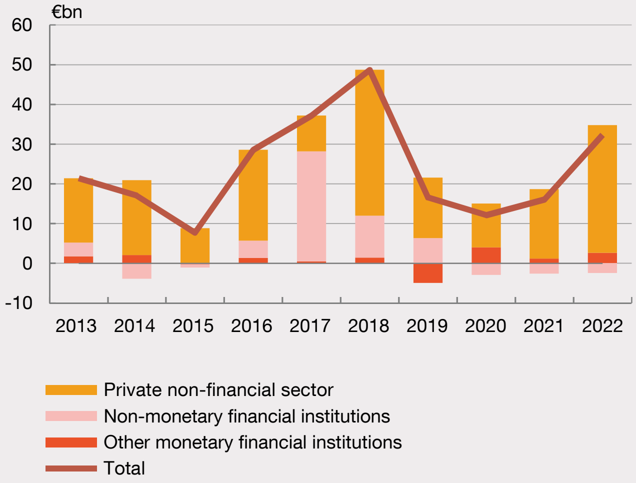
7 For further details and an explanation of the supplementary statistics on foreign direct investment in Spain by ultimate investing economy, see statistical note "Foreign direct investment in Spain: which are the immediate and which are the ultimate investing countries?".

8 This is known as round tripping.

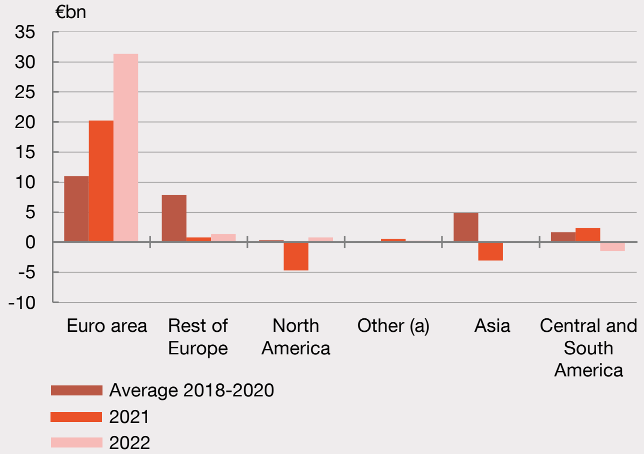
counterpart country,[9] Chart 3.b shows that euro area countries accounted for most investments, for an amount of €31 billion, driven by investments from Luxembourg, Germany and France, and concentrated in real estate, financial activities, utilities and the manufacturing industry (see Chart 3.c).

Chart 3
Foreign investment in Spain

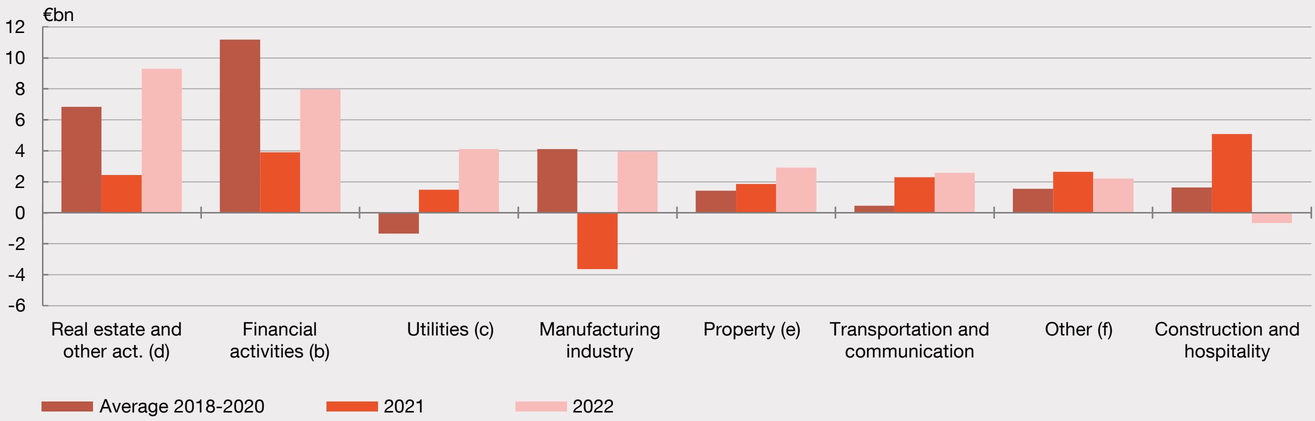
3.a Transactions. Breakdown by institutional sector



3.b Transactions. Breakdown by geographical area



3.c Transactions. Breakdown by sector of economic activity



SOURCE: Banco de España.

a Includes Africa, Oceania, geographically indeterminate information and amounts of international organisations other than those of the European Union.
b Includes financial intermediation, activities of holding companies, foreign-equity holding companies, collective investment, financial leasing and other financial activities (except insurance and pension funds).
c Includes electricity, gas, steam and air conditioning supply, water supply, and sewerage, waste management and remediation activities.
d Includes real estate activities, professional, scientific and technical services, and administrative activities.
e Includes shares in the notional resident units that own such property, as established in the methodological manuals (see paragraph 4.34 of the International Monetary Fund's *Sixth Edition of the Balance of Payments Manual*).
f Includes other economic activities (insurance and pension funds, mining and quarrying, wholesale and retail trade, agriculture, livestock breeding, forestry and fishing, and other services) and indeterminate amounts.

9 The supplementary statistics by ultimate investing economy are only available for stock.

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