

THE BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION OF SPAIN IN 2015

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According to the balance of payments (BoP) statistics, in 2015 the Spanish economy once again became a net lender as a result of both temporary factors (including oil price declines and low interest rates) and others of a long-term nature relating to cumulative gains in competitiveness and an increase in the number of regular exporters. The Spanish economy's net debtor international investment position (IIP) decreased in 2015 for the second consecutive year. The nation's net lending and higher nominal GDP counteracted the negative impact of valuation effects on the net IIP expressed as a percentage of GDP. This article describes in detail the contribution of the various BoP items to net lending and the breakdown by institutional sector and functional category of the 2015 financial and IIP transactions.

Introduction

In 2015 the Spanish economy posted an external surplus for the fourth year running. On BoP data, the nation's net lending in the past year amounted to 2% of GDP, exceeding that in 2014 (1.4% of GDP).¹ The decrease in the energy bill and in net payments of investment income, along with the dynamism of goods and services exports, offset the negative impact on the external balance arising from the vigour of imports. This development reflected the impact of eminently temporary factors, but also of more persistent factors which will continue to contribute positively to the generation of external surpluses in the future.

The financial transactions with the rest of the world excluding the Banco de España had a net credit balance equal to 6.8% of GDP, as a result of the net outward investment by residents (11.2% of GDP) exceeding the inward investment in Spain by non-residents (4.4% of GDP). Given that this amount exceeded the nation's net lending, it resulted in an increase in the Banco de España's net debtor position. The economy's net lending, along with GDP growth, contributed to Spain's net debtor position vis-à-vis the rest of the world decreasing by 5.3 percentage points (pp) in 2015 to stand at 90.5%. However, both in historical terms and comparatively with other developed countries, Spain's net debt continues to be high and reducing it to moderate levels will require a prolonged period of external surpluses.

These developments in transactions with the rest of the world took place against a backdrop of acceleration of the recovery initiated by the Spanish economy in mid-2013, as growth quickened in 2015 to 3.2%, up from 1.4% in 2014 and appreciably higher than that of the euro area as a whole. The breakdown by component shows an increase in the dynamism of domestic demand, which counteracted the higher negative contribution of net external demand to GDP growth. This behaviour of domestic expenditure was favoured by a number of factors, including most notably the improvement in financing conditions, the depreciation of the euro on average in the year and the fall in oil prices, which offset the slowdown in the global economy. Contributing notably to the first two factors was the more accommodative stance of Eurosystem monetary policy with the introduction of new measures such as the extension of the asset purchasing programme to government debt securities, which had affects both on financial asset prices and on domestic and cross-border financial flows. The behaviour of national and international financial markets was

¹ On Quarterly National Accounts data, net lending by the Spanish economy amounted to 2.1% of GDP in 2015.

also influenced by the uncertain outlook for global growth amidst growing doubts about the performance of certain emerging economies, as reflected by heightened price volatility, particularly in the summer.

This article first reviews the behaviour of the current and capital account balances and of their main components in 2015. Second, it describes the financial transactions of Spain with the rest of the world by institutional sector and by functional category and, finally, it analyses the financial position of the economy vis-à-vis the rest of the world.²

Current and capital account balances

On BoP data, in 2015 the Spanish economy recorded net lending equal to 2% of GDP, up 0.6 pp on the previous year. This improvement in the external balance stemmed from highly diverse factors. Some of them, such as the lower oil prices or the cheaper interest rates, are of an eminently temporary nature. In addition to these factors, others of a more permanent nature are playing a highly significant role in correcting the external imbalance accumulated by the Spanish economy in the past expansionary phase. In particular, because of its impact, mention may be made of the improvement in competitiveness in the last few years, which has allowed the losses built up since inception of the euro area to be largely reversed. This improved competitive position of the Spanish economy favoured the process of internationalisation of Spanish firms. All these factors counteracted the negative impact on the external balance exerted by the acceleration of economic growth in Spain – which boosted imports – and by the weakness of world growth in 2015.³

Against this backdrop, the increased net lending in 2015 is explained by the higher surpluses on the current account (up 0.4 pp to 1.4% of GDP) and, to a lesser extent, on the capital account (up 0.2 pp to 0.6% of GDP). In the case of the current account, the higher surplus reflects the decrease in the trade deficit (down 0.1 pp to 2.1% of GDP), particularly in the energy bill (down 1.3 pp of GDP to 2.5% of GDP, according to Customs data) and the decrease in net payments of investment income (down 0.4 pp to -0.5% of GDP, see Chart 1). The balance on secondary income also improved (up 0.2 pp of GDP to -0.9%), while, by contrast, the balance on trade in services and, to a lesser extent, on other primary income worsened slightly in the year as a whole (down 0.2 pp and 0.1 pp, respectively).

As regards the trade balance, the narrowing of the deficit to €22.3 billion in 2015 reflected the fact that goods exports grew slightly faster than goods imports (4.9% and 4.4% annual, respectively, according to BoP data).⁴ This development took place against a

2 The data of the time series of the various components of the balance of payments, international investment position and external debt are available on the external sector statistics page of the Banco de España website. On this page the note entitled “Balance of payments and international investment position of Spain. Methodological note” provides a detailed explanation of the methodology and information sources used in preparing these statistics which is kept up-to-date at all times.

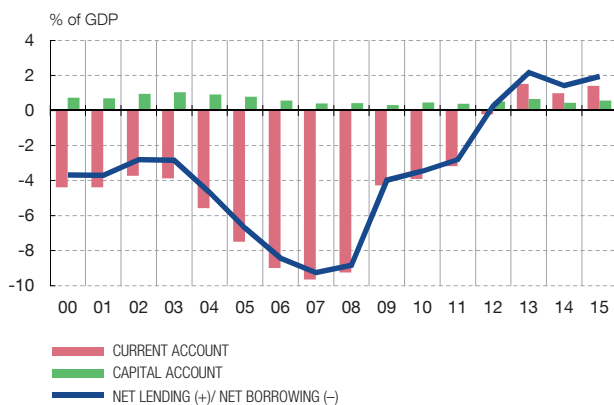
3 A detailed analysis of the gains in competitiveness achieved as the Spanish economy recovered and, in particular, of exports is set out in Chapter 2 “Competitive adjustment and recovery in the Spanish economy” of the Banco de España 2015 Annual Report, to be published shortly.

4 The analysis of the behaviour and structure of foreign trade is based on the statistics compiled by the *Departamento de Aduanas e Impuestos Especiales de la Agencia Estatal de la Administración Tributaria* (Spanish Customs and Excise Department), which are the main data source for the compilation of the goods account of the balance of payments and the National Accounts, although with certain adjustments made in coordination with the INE. Firstly, imports, which in the Customs Department’s statistics are valued CIF (cost, insurance and freight), are adjusted to include them in the balance of payments at their FOB (free on board) value. Secondly, the Customs information is adjusted to include transactions in goods that do not cross a border but undergo a change in economic ownership, and to exclude goods that cross a border but do not undergo a change in economic ownership. Lastly, the information includes the Spanish National Accounts estimates by the INE of illegal activities relating to international trade in goods. For further information, see the note entitled “Balance of payments and international investment position in Spain. Methodological note”, December 2015, Banco de España.

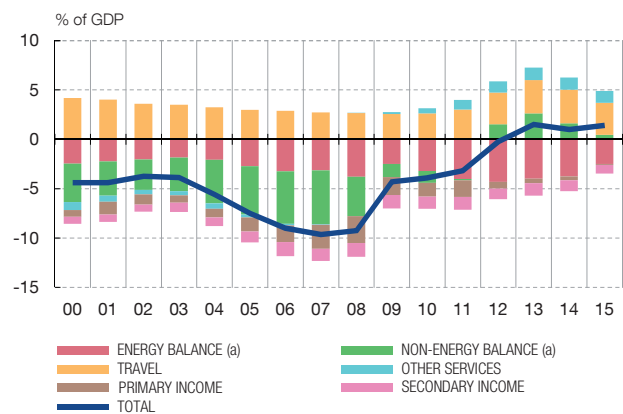
BALANCE ON CURRENT ACCOUNT AND CAPITAL ACCOUNT

CHART 1

1 BALANCES



2 CURRENT ACCOUNT BALANCE



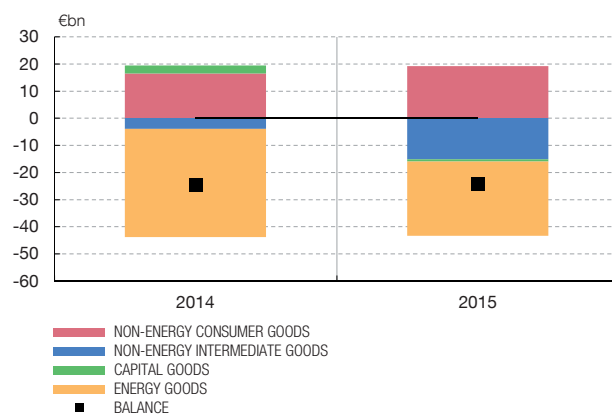
SOURCES: Banco de España, Departamento de Aduanas and Agencia Estatal de la Administración Tributaria.

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

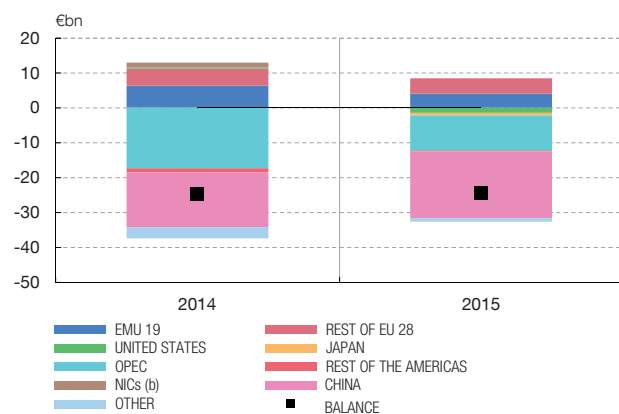
NOMINAL TRADE DEFICIT. BALANCES (a)

CHART 2

1 BY PRODUCT GROUP



2 BY GEOGRAPHICAL AREA



SOURCE: Departamento de Aduanas and excise tax data from the Agencia Estatal de la Administración Tributaria.

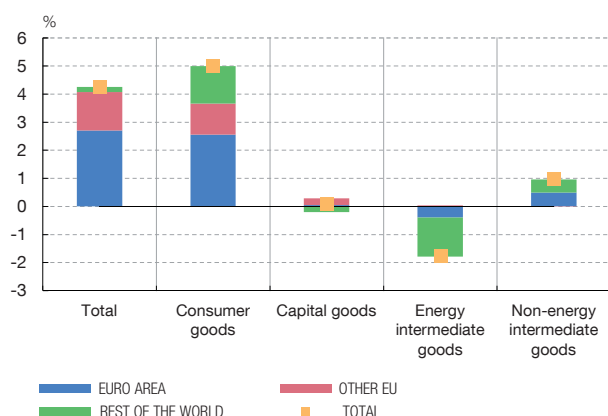
a Provisional data.

b Comprising South Korea, Taiwan, Hong Kong and Singapore.

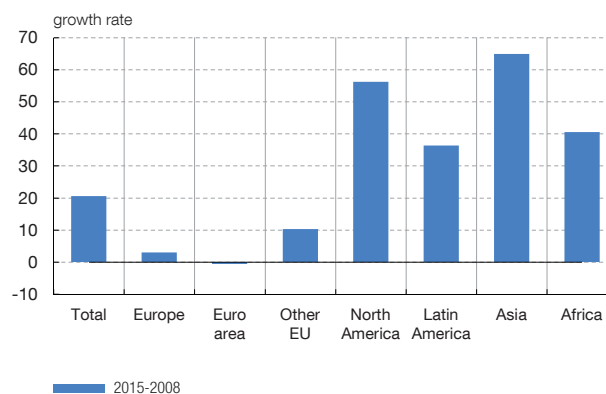
backdrop of improved terms of trade due to lower commodity prices, which made for a lower energy bill and offset the decline in the non-energy surplus. Specifically, on Customs data, the wider non-energy intermediate and capital goods deficits are related to the higher imports of this type of goods linked to the economic expansion in Spain and the export of goods with a high import content (e.g. vehicles). By geographical area, the Spanish economy's dependence on high value-added goods, the demand for which usually increases in expansions, seems to explain the decrease in the trade surplus vis-à-vis the EU and, in particular, vis-à-vis the euro area, despite the strong performance of exports to this destination (see Chart 2). By contrast, Spain's trade balance with the rest of the world benefitted because the improvement in its deficits with oil producing countries outweighed the deterioration in its trade balances with the Asian economies, the United States and Latin America.

On Quarterly National Accounts information, goods exports increased in real terms by 4.9% in 2015 (4.5% in 2014). This behaviour was qualitatively similar to that reflected by

1 CONTRIBUTION TO GROWTH OF NOMINAL EXPORTS
By geographical area and by product. 2015



2 REGULAR EXPORTERS
By geographical area



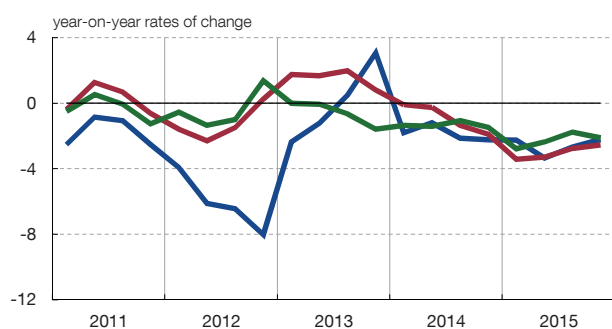
SOURCES: Departamento de Aduanas, excise tax data from the Agencia Estatal de la Administración Tributaria, and ICEX.

Customs data, according to which real goods exports quickened slightly by 3.7% in 2015 (3.4% in 2014). This growth outpaced that of world imports, so Spain continued to increase its share in the international markets. By type of product, the growth of real exports was driven mostly by sales of consumer goods, particularly vehicles, while those of capital goods rose modestly, despite the recovery in the final stretch of the year (see Chart 3). By contrast, intermediate goods exports declined slightly due to the drop in energy goods sales, as exports of non-energy intermediate goods practically stagnated, reflecting the weak growth of emerging and developing economies.

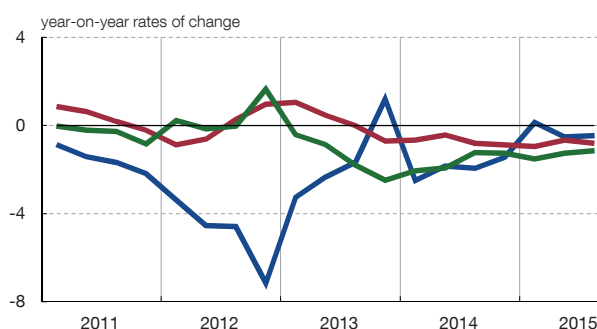
Contributing to the healthy performance of Spanish exports were the gains in competitiveness (derived particularly from the depreciation of the exchange rate in the year) and the buoyancy of demand from the developed countries, especially the euro area economies. Specifically, exports to the euro area increased by 4.8% in 2015 and offset, as the year proceeded, the weakness of extra-EU exports (0.5%), particularly those to emerging and developing economies. The disaggregated country-by-country information, which is available in nominal terms, highlights the dynamism of exports to Germany and Italy (up year-on-year by 8.8% and 8.2%, respectively), and the recovery of sales to France following the stagnation of the previous year, while those to Portugal decreased slightly. Exports to non-EU developed countries notably showed an increase in those to the United States, compared with the decrease in those to Japan. Exports to emerging countries were generally weak, except for those to Latin America and China, which in fact accelerated. The sharpest falls were in sales to the newly industrialised countries (NICs) of Asia following the strong increase of the previous year, and to Russia and associated countries. Furthermore, exports to member countries of the OPEC continued to decrease.

The differing behaviour of the various geographical areas reflects not only the different cyclical positions of economies, but also the uneven performance of the euro exchange rate vis-à-vis these areas. The main price competitiveness indicators vis-à-vis the developed economies generally improved further in 2015 as a result of the behaviour of relative prices and above all, of the depreciation of the nominal effective exchange rate (see Chart 4). As a result of these developments, the euro exchange rate appreciated significantly against the currencies of some emerging and developing countries, particularly against the Brazilian real and the Russian ruble, although it depreciated against the Asian

1 VIS-À-VIS DEVELOPED COUNTRIES



2 VIS-À-VIS EURO AREA 19



— UNIT LABOUR COSTS — CONSUMER PRICES — EXPORT PRICES

SOURCE: Banco de España.

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

currencies, including the Chinese yuan.⁵ Overall, the Spanish economy continued to post gains in price competitiveness and unit labour costs in 2015, in the latter case for the seventh consecutive year.

These developments allowed the regular export base to continue its progressive enlargement. On ICEX information, the number of firms which exported consecutively in the previous four years increased by 4.2% in 2015. This increase was apparent in all geographical areas, although sharpest in the non-EU markets, particularly North America. This diversification reduced the concentration of Spanish exports in the euro area and in regions showing a high correlation with the European cycle.. Also, these factors contributed to enhancing the export potential of the Spanish economy and thus to improving its trade balance in the long term.

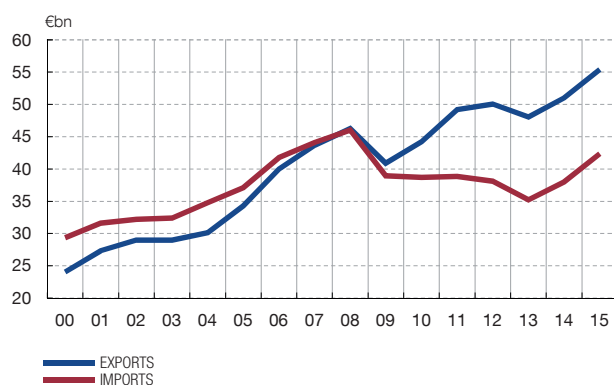
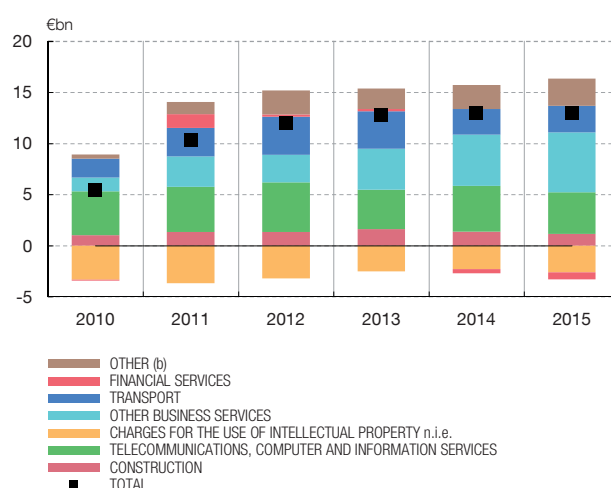
Goods imports were highly dynamic in 2015, with growth of 7.4% in real terms according to the Quarterly National Accounts (6.4% according to Customs), which moderated in the closing stretch of the year. The strength of the final demand components with the highest import content (private consumption, non-residential investment and exports) fuelled goods purchases abroad, despite higher non-energy goods prices. The dynamism of imports was broad-based: imports of capital goods and consumer durables grew at double-digit rates (14.4% and 12.8%, respectively), followed by imports of non-energy intermediate goods (8.6%). By contrast, imports of energy goods slipped in real terms, compared with moderate growth in the previous year. This behaviour confirms the marked dependence of Spanish industry on high value-added imported inputs in expansionary phases.⁶

The surplus on the services balance of €48 billion in 2015 (4.4% of GDP) was lower than in the previous year (4.7% of GDP). This decrease is explained by the smaller travel surplus

⁵ These trends partially reversed in early 2016 as the nominal effective exchange rate of the euro appreciated, reflecting its movement against the dollar, the pound sterling and the currencies of the Asian industrialised economies.

⁶ See the boxes entitled "Import penetration in the Spanish economy: an analysis by final demand component" and "The recent behaviour of imports and their determinants", published in the Quarterly Report on the Spanish Economy of the July-August 2008 and April 2014 Economic Bulletins of the Banco de España, respectively.

1 TRADING VOLUME (a)

2 OTHER SERVICES BALANCE: COMPONENTS (a)
By type of service

SOURCES: Banco de España.

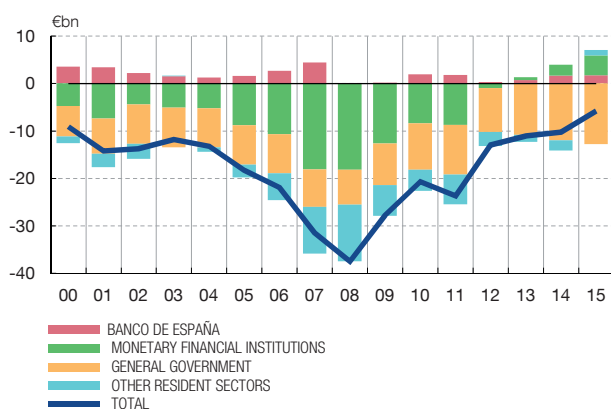
- a A change in the overall structure of other services gave rise to a certain statistical break in 2013 as a result of changes in the Encuesta de Comercio Internacional de Servicios (Survey on International Trade in Services).
 b Processing, repair, government, personal, cultural and leisure services.

(3.2% of GDP, down 0.2 pp from the previous year), since the surplus on non-travel services increased (up 0.1 pp to 1.2% of GDP). The smaller travel balance reflects the acceleration in travel payments (17.9%, compared with 9.8% in 2014), against a backdrop of significant strength in private consumption, since receipts continued to grow briskly (3.9%), particularly at the end of the year. The depreciation of the euro exchange rate in the year, the economic recovery of the main countries that provide tourists for Spain and the impact of conflicts in some competitor countries contributed to the strong performance of foreign tourism in Spain in 2015, when tourist inflows returned to their historical highs, as described in Box 1.

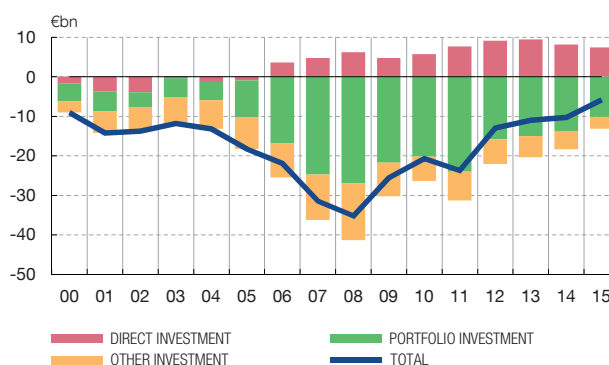
The non-travel services balance improved against a background of notable dynamism of exports and imports (with year-on-year increases of 8.7% and 11.5%, respectively – see Chart 5). On preliminary information from the World Trade Organisation (WTO), Spain's share of non-travel services improved in 2015. Non-travel services receipts rose in an environment of growth in goods and travel exports. This increase was seen in most types of services, except those relating to construction and personal services. The items which most contributed to the increase in non-travel exports were transport and business services.

Also notable was the increase in royalty receipts. By geographical area, as in the case of goods, exports to the EU grew more sharply than extra-EU exports (up 10.5% and 6.7%, respectively). Within the EU, exports to the euro area were more dynamic than those to the rest of the area, where those to Portugal, France and Germany were most noteworthy. The most outstanding extra-EU exports were those to the United States and to the Asian economies. Imports of non-travel services behaved similarly to exports, showing growth in most types of services except for construction and goods processing without change of ownership, maintenance and repairs. The items which most contributed to the growth of non-travel service imports were transport and other business services. Also notable was the growth of royalty payments to the rest of the world. By geographical area, the growth of imports was concentrated in Asia and, above all, in the EU.

1 BALANCE BY SECTOR



2 BALANCE BY FUNCTIONAL CATEGORY



SOURCE: Banco de España.

Meanwhile, the primary income deficit⁷ decreased by 0.3 pp of GDP to 0.1% of GDP (€0.9 billion) as a result of the partial correction of the investment income deficit (by 0.4 pp to 0.5% of GDP). The balance of other primary income (basically transfers to/from the EU) decreased by 0.1 pp of GDP (see Chart 6). The decrease in net payments of investment income to the rest of the world reflected the lower interest payments in a low interest rate environment (which, in addition, contributed to widening the positive yield spread on external assets and liabilities) and the shift of foreign investors' holdings towards government debt, the yield of which is, on average, lower than that on corporate bonds. The higher receipts from abroad of income on equity and investment fund shares also helped to improve the investment income balance, boosted by the increase in residents' equity holdings abroad. In line with these developments, most of the correction to the investment income deficit was due to that relating to portfolio investment (0.4 pp to 0.9%), followed by that relating to other investment (0.1 pp to 0.3%). These changes offset the worsening of the surplus on direct investment income (0.1 pp to 0.7%). By institutional sector, there was a decrease in net payments of private-sector income, mainly of other resident sectors (ORSs), which offset the widening of the income deficit of general government, whose net external liabilities increased in the year in line with the renewed interest of non-residents in Spanish government debt.

The deficit on the secondary income account, which includes the bulk of current transfers, decreased by 0.2 pp of GDP to 0.9%, standing at €9.6 billion, due to higher receipts (12.4%) and, to a lesser extent, to lower payments (1.3%). This correction mainly reflected an improvement in the balance of current transfers of general government to/from the EU, due to an increase in income (see Table 1). Also contributing, although to a lesser extent, was the lower secondary income deficit of the private sector, largely due to higher growth of receipts than of payments.

The capital account surplus, which is determined basically by capital transfers to/from the EU, widened by 34.2% to €6 billion. This sharp increase reflects a return to pre-2014 levels, in which year it decreased appreciably, mainly due to the fall in ERDF-related income.

⁷ Primary income includes compensation of employees, investment income, taxes on production and imports, and subsidies. Secondary income includes personal transfers, current taxes, social contributions and benefits, transfers related to insurance transactions, current international cooperation and other miscellaneous items.

CURRENT AND CAPITAL TRANSFERS VIS-À-VIS THE EUROPEAN UNION (a)

TABLE 1

€m

	2008	2009	2010	2011	2012	2013	2014	2015
Receipts	11,332	11,645	12,308	12,754	13,542	12,486	10,571	11,892
Primary income	5,561	6,596	6,231	5,990	6,049	5,564	5,503	4,520
EAGF	5,561	6,596	6,231	5,990	6,049	5,564	5,503	4,520
Secondary income. Transfers	874	1,125	676	1,747	1,623	994	732	1,426
ESF	720	974	526	1,589	1,422	737	592	1,093
Other	154	150	150	158	202	257	140	332
Capital transfers	4,897	3,924	5,401	5,017	5,869	5,928	4,337	5,946
ERDF	2,697	2,481	2,428	2,939	4,031	3,889	2,517	4,370
EAFRD	977	618	858	981	818	1,039	966	1,169
Cohesion fund	741	762	1,917	853	843	643	626	245
EAGGF-Guidance-FIFG and others	482	62	198	244	178	358	227	162
Payments	10,635	11,430	10,390	11,768	11,331	11,976	11,309	11,236
Primary income	1,586	1,336	1,544	1,560	1,447	1,324	1,514	1,759
Traditional own resources (b)	1,586	1,336	1,544	1,560	1,447	1,324	1,514	1,759
Secondary income. Transfers	9,049	10,095	8,846	10,208	9,884	10,652	9,795	9,477
EDF	188	203	218	242	222	246	254	267
EU own funds derived from VAT and GNI	8,860	9,892	8,628	9,966	9,663	10,406	9,541	9,210
Balance	697	214	1,918	986	2,210	510	-738	656

SOURCES: Ministerio de Economía y Competitividad, Ministerio de Agricultura, Alimentación y Medio Ambiente, Ministerio de Asuntos Exteriores y de Cooperación and Banco de España.

- a As a result of the reform of the Common Agricultural Policy (CAP) in 2004 [Regulation (EC) 1782/2003 and subsequent implementing legislation], and pursuant to Regulation (EC) 1290/2005, two new European agricultural funds were created, namely the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD), replacing to all effects and purposes, as from 16 October 2006, the two sections (Guarantee and Guidance) of the former European Agricultural Guidance and Guarantee Fund (EAGGF).
- b 25% (10% until 2002) of the amount of this item is not actually paid, since it is the amount that the Spanish State receives for administering the collection of these funds. In the balance of payments, the gross payment is included in current transfers and the aforementioned 25% in government services receipts. del importe que corresponde a este concepto realmente no se paga, ya que es la cantidad que el Estado español percibe por su gestión de la recaudación de estos recursos. En Balanza de Pagos se recoge el pago bruto en transferencias corrientes y el mencionado 25% en ingresos de servicios gubernamentales.

Financial transactions with the rest of the world

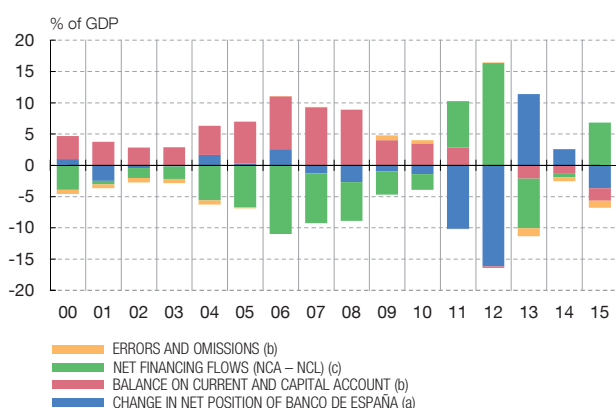
In 2015 the balance of financial transactions with the rest of the world, excluding the Banco de España,⁸ was positive and amounted to €73.6 billion (6.8% of GDP, see panel 1 of Chart 7), as a result of the net investment abroad by resident agents (11.2% of GDP) exceeding that of non-residents in Spain (4.4% of GDP).⁹ From the standpoint of the institutional sectors, the investment abroad in net terms by the Spanish economy was channelled through the private sector, mainly ORSs (9.9% of GDP) and, to a lesser extent, through MFIs other than the Banco de España (2.9% of GDP), while general government raised net funds abroad for an amount equal to 6% of GDP (see panel 2 of Chart 7).

More detailed analysis of the financial transactions with the rest of the world excluding the Banco de España shows that in 2015 the liabilities-side transactions posted a net amount

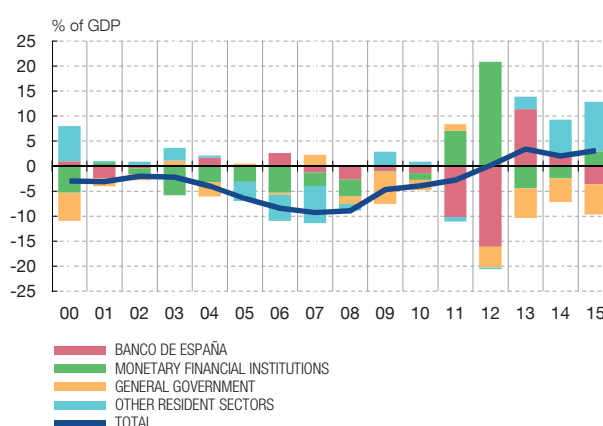
⁸ Since inception of the Monetary Union, along with reserves, the net position of the Banco de España vis-à-vis the Eurosystem must be considered as an accommodative item counterposing the others. Therefore, to facilitate economic analysis, the financial account is presented with an initial separation between that of the Banco de España and that of the other sectors. For a detailed explanation of the reasons for this presentation and how to interpret it, see the statistical note entitled "Banco de España claims on the Eurosystem and the treatment of euro banknotes in the Balance of Payments and the International Investment Position" on the external sector statistics page of the Banco de España website. See also on this topic Martínez Pagés (2016).

⁹ The time series of most of the items discussed in this article can be found in Chapter 17 of the *Boletín Estadístico* of the Banco de España.

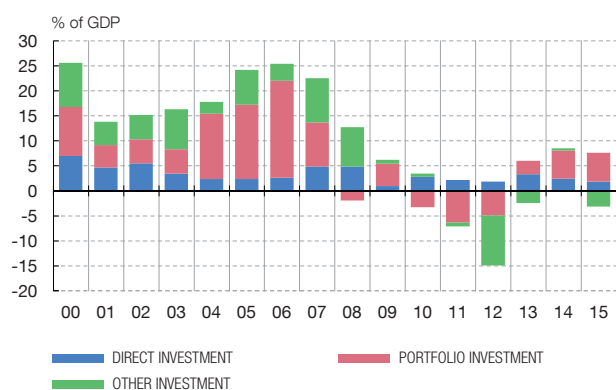
1 BALANCE ON CURRENT AND CAPITAL ACCOUNT AND CROSS-BORDER FINANCIAL TRANSACTIONS



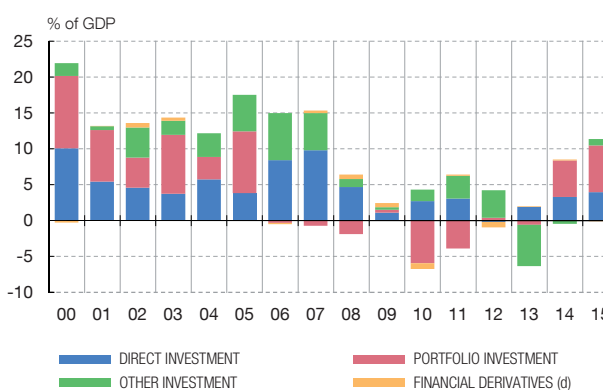
2 NET FINANCIAL TRANSACTIONS (NCA-NCL) SECTORAL BREAKDOWN



3 NET CHANGE IN LIABILITIES (NCL)



4 NET CHANGE IN ASSETS (NCA)



SOURCE: Banco de España.

- a Change in assets less change in liabilities. A positive (negative) sign denotes a decrease (increase) in net external liabilities of the Banco de España.
- b Sign changed.
- c Excluding the Banco de España.
- d Financial derivatives are recorded in net terms (NCA - NCL) and by convention are assigned to the net change in assets.

of 4.1 pp of GDP less than a year earlier (see panel 3 of Chart 7 and Table 2). This decrease was highly influenced by the negative flow in the “other investment” item (of -3.2% of GDP, compared with 0.5% of GDP in 2014), which is largely explained by the decrease in the balance of financing raised by resident MFIs through interbank deposits from non-residents (€22 billion, equal to 2% of GDP). This seems to have been influenced by the availability of abundant liquidity generated by the non-standard quantitative easing measures adopted by the Eurosystem during the year, which provided an opportunity seized by credit institutions to settle liabilities, against a background in which holding high volumes of liquid assets may entail an appreciable cost due to the negative interest rates prevailing in the money markets.¹⁰ By contrast, both the net volume associated with direct investment and that of the portfolio investment of non-residents in Spain again turned positive (1.8% and 5.8% of GDP, respectively). Portfolio investment remained the main fund raising mechanism, increasing for the fourth year running and posting positive amounts in both equity and bonds (1.9% and 3.9% of GDP, respectively). In the case of the latter, the bulk of the funds was again channelled through securities issued by general government (6.5%

¹⁰ For more details, see Martínez Pagés (2016).

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

% of GDP

	2009	2010	2011	2012	2013	2014	2015
Financial account balance (NCA - NCL) (a)	-3.8	-2.5	7.4	16.3	-7.9	-0.5	6.8
Net change in external assets (NCA) (a)	2.4	-2.4	2.5	3.2	-4.4	8.0	11.2
Direct investment	1.1	2.7	3.0	-0.2	1.9	3.3	4.0
Monetary financial institutions	0.6	-0.6	1.6	0.0	0.0	0.9	1.0
Other resident sectors	0.5	3.3	1.4	-0.2	1.9	2.4	2.9
Portfolio investment	0.4	-6.0	-3.9	0.4	-0.6	5.1	6.5
General government	-1.1	-0.6	-0.1	-0.5	-0.1	-0.2	0.0
Monetary financial institutions	0.8	-3.2	-0.7	2.1	-0.9	0.0	-0.2
Other resident sectors	0.7	-2.2	-3.1	-1.3	0.4	5.3	6.7
Other investment (b)	0.4	1.6	3.2	3.8	-5.8	-0.5	0.9
General government	0.1	0.3	0.6	1.9	0.8	0.4	-0.1
Monetary financial institutions	0.3	0.8	1.6	1.5	-6.9	-0.8	0.9
Other resident sectors	-0.1	0.6	0.9	0.5	0.4	-0.1	0.1
Financial derivatives (c)	0.6	-0.8	0.2	-0.8	0.1	0.1	-0.1
Net change in external liabilities (NCL) (a)	6.2	0.1	-4.9	-13.1	3.6	8.5	4.4
Direct investment	0.9	2.8	2.2	1.8	3.3	2.4	1.8
Monetary financial institutions	0.1	0.2	0.2	0.3	0.1	0.2	0.1
Other resident sectors	0.8	2.6	2.0	1.6	3.2	2.2	1.8
Portfolio investment	4.5	-3.3	-6.4	-5.0	2.7	5.7	5.8
General government	5.3	1.3	-1.0	0.3	6.0	4.8	6.5
Monetary financial institutions	1.5	-2.0	-3.1	-3.9	-0.8	1.6	1.1
Other resident sectors	-2.3	-2.7	-2.3	-1.3	-2.5	-0.7	-1.8
Other investment (b)	0.8	0.6	-0.8	-10.0	-2.5	0.5	-3.2
General government	0.2	0.5	0.2	5.3	0.7	0.2	-0.6
Monetary financial institutions	0.7	-0.7	-1.8	-14.5	-3.0	0.7	-2.4
Other resident sectors	-0.1	0.8	0.8	-0.9	-0.1	-0.5	-0.2
Change in net external position of the Banco de España (d)	-1.0	-1.5	-10.2	-16.2	11.4	2.6	-3.7
Reserve assets	0.4	0.1	0.9	0.2	0.1	0.4	0.5
Position vis-à-vis the Eurosystem	-0.6	-0.9	-11.6	-14.8	13.3	4.5	-4.7
Other net assets	-0.8	-0.6	0.4	-1.6	-2.0	-2.3	0.5
Errors and omissions (e)	-0.8	-0.5	0.0	-0.1	1.2	0.6	1.1
Memorandum item							
Balance of the financial account, including the Banco de España	-4.7	-4.0	-2.8	0.2	3.4	2.0	3.1

SOURCE: Banco de España.

a Excluding Banco de España.

b Includes mainly loans, deposits and repos.

c Recorded as net amount of assets and liabilities.

d 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.

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

of GDP, compared with 4.8% in 2014),¹¹ although non-residents also acquired, albeit for a much smaller quantity, bonds issued by non-financial corporations. By contrast, in line with the deleveraging process under way in the banking sector and with the preference for funding through more stable sources such as deposits, the bonds issued by financial institutions that were held by non-residents (and, specifically, asset-backed securities—

¹¹ In 2015 the percentage of total general government debt held by non-residents increased by 3 pp to 45.9%.

issued by securitisation vehicles included in ORSs — and covered bonds) decreased for the eighth year running. Meanwhile, direct investment by non-residents in Spain, which was 0.6 pp less than in 2014, was concentrated in ORSs and was again mostly in the form of equity holdings (the net amount of that in the form of debt instruments was slightly negative, unlike in the two previous years).

On the assets side, net investment by residents in the rest of the world excluding the Banco de España increased in 2015 by 3.2 pp of GDP to 11.2% (see panel 4 of Chart 7 and Table 2). The breakdown by functional category shows that the net amounts associated with external financial transactions were positive and higher than in 2014, not only in direct investment and portfolio investment but also, to a lesser extent, in other investment. Direct investment increased by 25% to nearly €43 billion (4% of GDP), as a result of higher purchases by MFIs other than the Banco de España and, to a greater extent, by ORSs, and were mostly in the form of equity holdings (including investment fund shares or units). In any event, direct investment in the rest of the world still stood far below the average levels between 2000 and 2007 (€55 billion). Similarly, the bulk of net portfolio investment, which grew by more than 30% with respect to the previous year to €70.2 billion (6.5% of GDP), was in the form of equity and investment fund shares/units (€53 billion). Thus, against a background of low interest rates and higher propensity to geographical diversification of portfolios, investment in foreign equity by residents (specifically, by ORSs) grew appreciably for the fourth year running to 4.9% of GDP. Also higher were long-term bond holdings abroad, up nearly €19 billion, while short-term debt decreased, albeit by small amount. The net flow associated with other investment (basically loans, deposits and repos) was positive, unlike in the previous two years, for an amount equal to 0.9% of GDP. Finally, transactions in financial derivatives had a debit balance of €1.4 billion, compared with the credit balance of €1.1 billion in the previous year.

The credit balance of the Spanish economy's net financial transactions with the rest of the world excluding the Banco de España exceeded, after adjustment for errors and omissions, the surplus on the current and capital accounts, as reflected in an increase in the Banco de España's debit position vis-à-vis non-residents (see panel 1 of Chart 7). This upturn interrupted the downward trend shown by this item since 2013. In any event, this scenario should not be interpreted as a sign of the resurgence of the Spanish economy's financing problems of 2012, as illustrated, for example, by the fact that the rest of the world has continued purchasing liabilities issued by residents. In this respect, the behaviour seen is partly a result of some resident agents taking advantage of the higher available liquidity to invest in foreign assets or reduce their external debt.¹²

The international investment position and gross external debt¹³

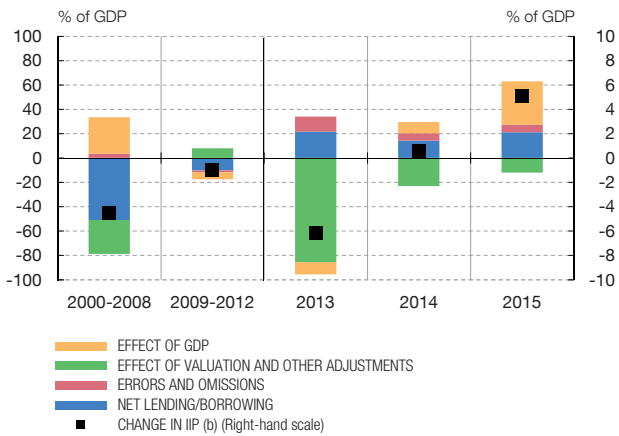
In 2015 the Spanish economy's IIP debit balance vis-à-vis the rest of the world decreased by 5.1 pp of GDP (see panel 1 of Chart 8) to 90.5%. This fall came in the form of an increase in the balance of assets abroad to 152% of GDP, since liabilities remained at 242%. The main factors contributing to this development were the nation's net lending in the past year and the growth of GDP (denominator of this ratio). By contrast, valuation effects and other adjustments had an opposing effect equivalent to 1.2 pp of GDP (see Box 2).

By sector, the net debtor position vis-à-vis the rest of the world of general government increased by 2.8 pp to 46.4% of GDP, while both that of other MFIs and that of ORSs decreased by an amount equal to somewhat less than 6 pp in both cases, to stand at

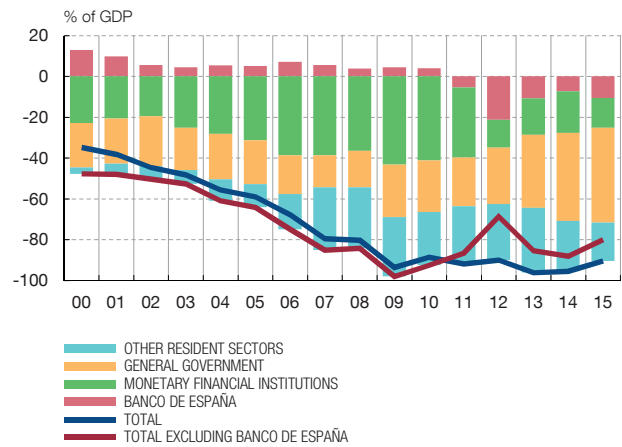
¹² See Martínez Pagés (2016).

¹³ The time series of most of the items discussed in this article can be found in Chapter 17 of the *Boletín Estadístico* of the Banco de España.

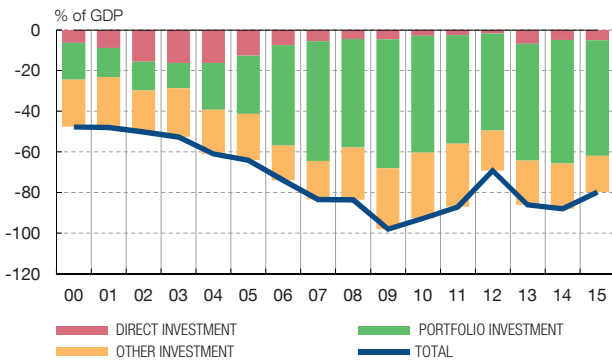
1 DETERMINANTS OF NET CHANGE IN THE IIP (a)



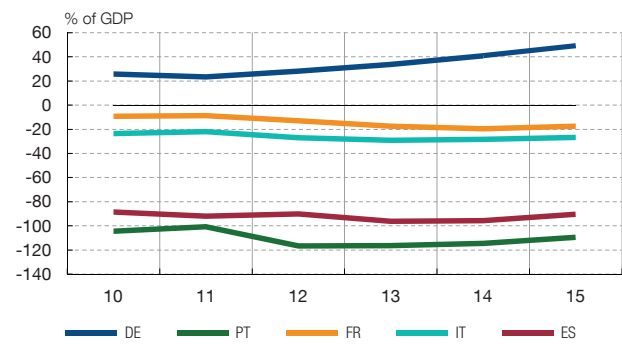
2 NET IIP (a). SECTORAL BREAKDOWN



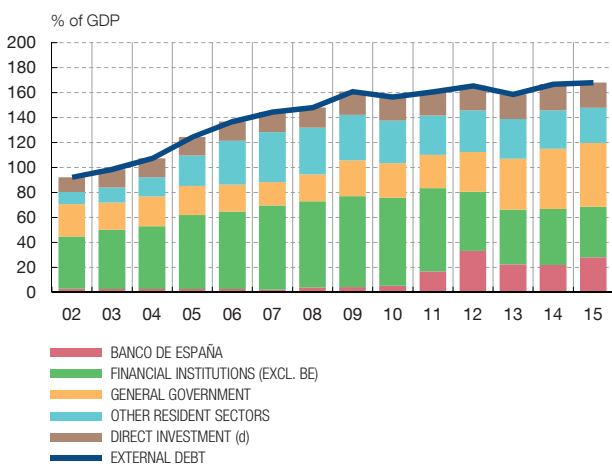
3 NET IIP (a). BREAKDOWN BY FUNCTIONAL CATEGORY



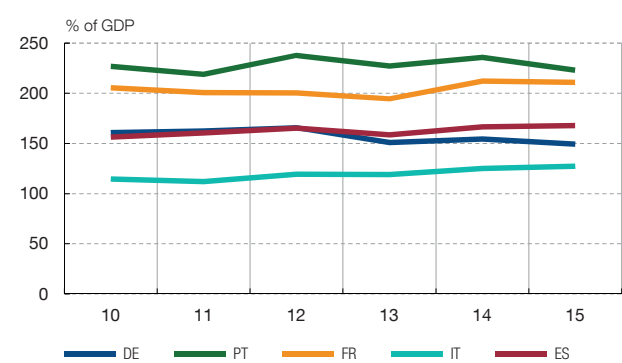
4 NET IIP (a). INTERNATIONAL COMPARISON.



5 GROSS EXTERNAL DEBT (c). SECTORAL BREAKDOWN



6 GROSS EXTERNAL DEBT (c). INTERNATIONAL COMPARISON.



SOURCE: Banco de España.

- a The net IIP is the difference between the value of the external assets of the resident sectors and that of their liabilities to the rest of the world.
- b A positive (negative) sign denotes a decrease (increase) in net liabilities to the rest of the world.
- c Gross external debt comprises the balances of all liabilities entailing future repayment of principal, payment of interest or both (i.e. all financial instruments except equity and financial derivatives).
- d Including only direct investment in the form of debt.

14.6% and 18.9% of GDP, respectively (see panel 2 of Chart 8). Meanwhile, the net external liabilities of the Banco de España increased by 3.2 pp to 10.6% of GDP, basically due to the increase in the net debtor position vis-à-vis the euro system, which more than offset the increase in reserves and other central bank assets. Therefore, excluding the Banco de España, the net debtor IIP decreased by 8.3 pp to 79.9% of GDP.

The breakdown by functional category revealed a decrease in the net debtor position apparent in portfolio investment, which in any event remained the item with the largest debit balance, and also in other investment, while that associated with direct investment increased slightly (see panel 3 of Chart 8).

Despite the decrease in 2015, the Spanish economy's net debtor IIP remains at very high levels both in historical terms and in comparison with other developed countries (see panel 4 of Chart 8), which makes it more vulnerable to adverse shocks. Correcting this position to more moderate levels will therefore require the maintenance of recurring positive current-account balances.

To better assess the degree of vulnerability associated with the balance of Spain's IIP, it is useful to supplement the IIP information with other indicators such as the volume of gross external debt (including only liabilities entailing payment obligations, which in Spain account for around 75% of the total)¹⁴ and its composition. For a given level of the IIP, the external vulnerability will tend to be higher as these liabilities increase. In 2015, the gross external debt increased by 1.3 pp of GDP to 167.9% (see panel 5 of Chart 8), as a result of an increase in the external liabilities of the Banco de España (6.1 pp to 27.8% of GDP) and of general government (2.9 pp to 51% of GDP), outweighing the fall in the debt of the other sectors to the rest of the world (down 7.7 pp).¹⁵ However, excluding the liabilities of the Banco de España, which are not directly subject to refinancing risk,¹⁶ there is a decrease of 4.8 pp of GDP to 140.1%. Comparison with other developed countries shows that Spain's external debt as a proportion of GDP stands at an intermediate level, being somewhat higher than that of Germany but lower than those of France or Portugal (see panel 6 of Chart 8).

Analysis of the composition of external debt by maturity shows a predominance of long-term maturities (around 73% of the total, a proportion which has increased slightly in recent years) and that these in turn are predominantly issued by the public sector (around 50% of the total, a proportion which has also tended to rise recently). Also, nearly 90% is denominated in euro, so the overall exchange rate risk associated with these external liabilities is low.

10.5.2016.

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

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- 14 The external debt of a country comprises the balances of all liabilities to non-residents entailing future repayment of principal, payment of interest or both (all financial instruments except equity and financial derivatives).
15 Although direct investment is not broken down by sector, it should be taken into account that this type of investment is concentrated in the private sector (ORSs and other financial and monetary institutions).
16 Although the Banco de España's intra-Eurosystem liabilities are not subject to refinancing risk, monitoring them in analyses of the vulnerability of the external position might be important in some situations, such as, in particular, where risk arises as a result of the financing difficulties of other sectors, as occurred in 2012. In such situations, the risk might be underestimated if these liabilities are excluded.

Foreign tourist arrivals in Spain in 2015 exceeded the high levels recorded in the preceding year, and the record inflow of 68 million people (up 5% on 2014) brought a significant increase in total tourist spending, which rose by 6.7% to €67.3 billion. This performance of foreign tourism, which last year was accompanied by an appreciable recovery in domestic demand, allowed tourism-related activity to grow more quickly than the GDP of the Spanish economy as a whole¹ (see Chart 1).

A variety of factors contributed to this dynamism of foreign tourism. Notable among the traditional determinants was the recovery of the developed economies (which represent nearly 90% of Spain's tourism-generating markets – see panel 2 of Chart 1), the gains in competitiveness via exchange rate derived from the notable depreciation of the euro against the currencies of the main areas in the greater part of the year (as seen in panel 3, in 2015 the nominal effective exchange rate against the developed countries not belonging to the euro area weakened by 9.3%),² and the collapse of oil prices in the international markets, which lowered transport prices and thus stimulated world travel by tourists. Also, the geopolitical conflicts in some of our main competitor destinations of north Africa (see panel 4) worsened in the past year and heightened Spain's appeal as a safe tourist destination. Finally, the exceptionally mild weather in the closing months of 2015 also contributed to a higher-than-usual tourist inflow in those dates.

However, other factors of a more structural nature have influenced the strength of the tourism sector in recent years, such as the sharp adjustment of labour costs in the Spanish economy in the recent period (particularly notable in the labour-intensive tourism-related segments) or the ready adoption by the sector of the technological change demanded by tourists, which allowed Spain to head in 2015, for the first time ever, the Travel and Tourism Competitiveness Index issued by the World Economic Forum (see panel 5). These gains in competitiveness have brought a sustained rise over these past three years in Spain's share of international tourism, entrenching it as the third-ranked destination in the world by number of tourists received and by tourism receipts, according to still-provisional figures for 2015.

To identify the contribution of the aforementioned factors in the recent behaviour of receipts from non-resident tourism in Spain, a traditional demand equation is estimated in which the dependent variable is real tourism receipts and in which the explanatory factors include, in addition to the traditional determinants (income

and competitiveness), other variables which, based on recent developments, seem to have influenced its behaviour (oil prices and behaviour of tourism in north Africa).³ The results obtained confirm that, in 2015, the oil price fall and the loss of tourists by Spain's direct competitors (Egypt and Tunisia) contributed around 0.6 pp and 1 pp, respectively, to Spanish tourism growth (which stood at 4% in real terms).

In addition to the importance of the aforementioned factors, this estimate indicates that the growth in receipts last year was somewhat less than expected from historical evidence.⁴ This observation may be related to the profile of the tourists arriving during the year, who opted for short stays and cheaper accommodation, which explains why the increase in tourist numbers did not pass through proportionately to total tourist spending.

In this respect, non-hotel accommodation, which entails a lower average daily expenditure per tourist than other alternatives, has gained weight relative to hotel accommodation in recent years. This development may be related to the growing trend of tourists to organise their trips themselves (71% of the total) and rent private dwellings, rather than to make use of tourism packages, which continued losing relative weight in 2015. These developments reflect the different preferences of tourists according to their country of origin, since in that year the French market, which makes a good part of its overnight stays at camping sites, was that which most contributed to the total growth of tourist numbers, while German tourists, more inclined to stay at hotels, fell slightly. The change in the tourist profile was accompanied by a shortening of average stays. As regards purpose of travel, although the predominance of traveller arrivals related to leisure continues (86% of the total), those associated with business showed greater dynamism in 2015 than in 2014, in line with the reactivation of the Spanish and other European economies.

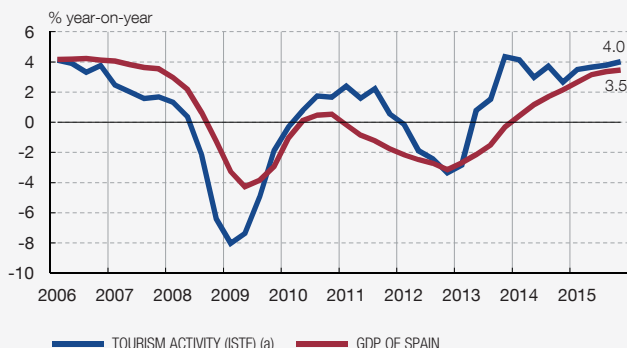
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- 3 Specifically, a single-stage error correction mechanism model is estimated for the logarithm of real non-resident tourism receipts using quarterly data for the period 2000-2014. For a more detailed analysis, see *Álvarez et al. (2007)*, "Un análisis de los determinantes del turismo no residente en España", *Boletín Económico*, June, Banco de España. The dependent variable is constructed by deflating the nominal travel receipts series of the balance of payments, using a price index representative of tourism consumption. As regards the fundamental determinants, tourist income is proxied by a weighted indicator of the real GDP of the main markets of origin of tourists visiting Spain, and the competitiveness variable is calculated as a composite index of competitiveness (using consumer prices) vis-à-vis customers and competitors. In the short term, the model also includes as explanatory variables the price of oil (relative to the price index used in the competitiveness indicator), and the time series beginning in 2011 of the number of tourists who opted not to visit Egypt and Tunisia due to the outbreak of the "Arab Spring". All variables are expressed as logarithms. Finally, artificial variables are included to capture the seasonality of tourism receipts in the balance of payments.
- 4 This is observed from the negative residual amounts of the equation.

1 On Spanish National Accounts data, in 2014 accommodation and food service activities alone represented around 7% of both GVA and employment of the total economy.

2 That said, the exchange rate of the euro appreciated against the currencies of some countries, such as Russia (by around 30% in 2015), a country from which arrivals of tourists visiting Spain has shown great dynamism in recent years.

Chart 1
BEHAVIOUR AND DETERMINANTS OF TOURISM RECEIPTS

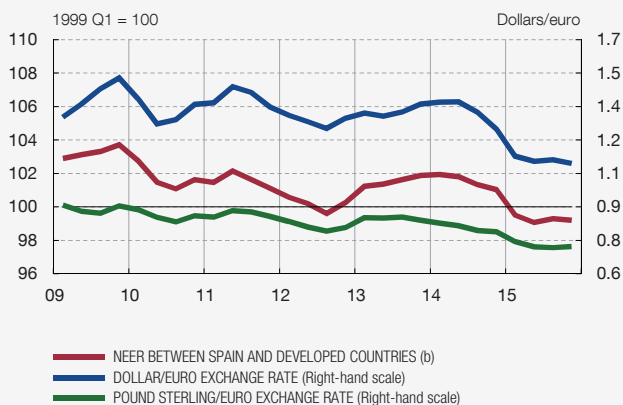
1 ACTIVITY IN THE TOURISM SECTOR



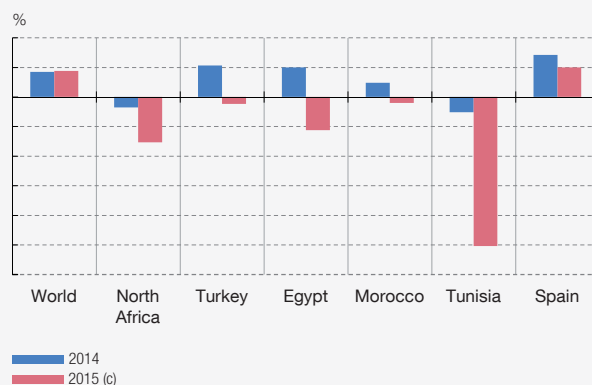
2 OUTBOUND TOURISM GDP



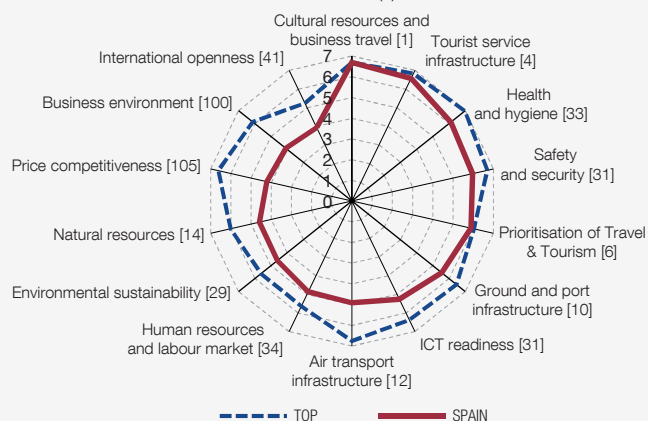
3 EXCHANGE RATES



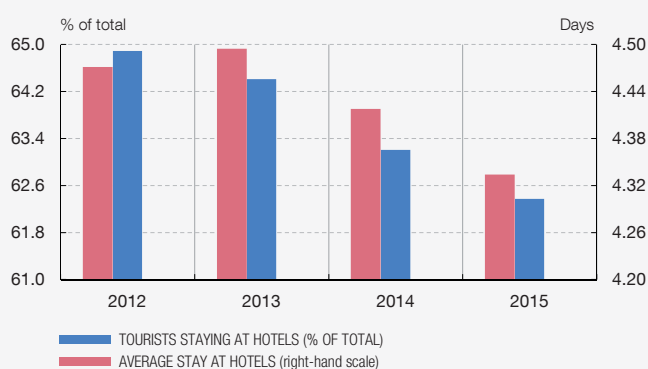
4 INTERNATIONAL TOURIST ARRIVALS, BY REGION
Year-on-year rate of change



5 SPAIN: PERFORMANCE BY CATEGORY (d)



6 TOURISTS STAYING AT HOTELS



SOURCES: INE, Exceltur, Eurostat and WTO.

- a Composite indicator of the Spanish tourism GDP, compiled by Exceltur.
- b An increase in the index denotes a loss of competitiveness and vice versa.
- c Provisional data.
- d Figures in brackets indicate ranking in category.

One of the most novel and outstanding features of the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) is the greater attention paid to the international investment position (IIP) of economies and to the factors which may cause changes in it. Thus, this edition defines an *integrated IIP statement* (changes in IIP, financial account transactions and other flows)¹ which allows improved analysis of the external financial position of an economy. The importance of the IIP² is also apparent from its use, along with the current account balance, as one of the indicators for the systemic monitoring of external imbalances in the European macroeconomic imbalance procedure.³ The Banco de España publishes the IIP time series in Chapter 17 of the *Boletín Estadístico* and, since October 2014, the methodology used is that of the BPM6. Work is under way to provide users with these details in the coming months. This box analyses a first estimate of some of them.

Financial flows, or net changes in the IIP (or in any of its components), between two dates can be expressed as the sum of the transactions on the financial account (FA) of the balance of payments (BoP) in the period, and of the so-called other flows,

- 1 See Table 7.1 of the manual.
- 2 The IIP time series can be found on the external sector statistics page of the Banco de España website.
- 3 See Regulations No 1174/2011 and No 1176/2011, published in the Official Journal of the European Union L306, of 23 November 2011.

which in turn can be broken down into revaluations and other changes in volume (OCV).

Significant changes in the IIP will generally be caused by transactions and/or revaluations, since OCV are of a one-off nature and not usually of a large amount.⁴ Revaluations are due to changes in the price of financial instruments, since the position is valued at market prices, and also, in the case of those denominated in foreign currency, to changes in exchange rates, since the position is always expressed in euro.⁵ This integrated view of the financial account of the BoP and IIP allows a more complete analysis of the financial position of the economy and how it is affected by the nation's net lending or net borrowing and other factors.

The implications for evaluating the sustainability of the external position differ greatly depending on the source of the change in

- 4 OCV may arise, for example, as a result of removals from the accounts due to acknowledgement of the impossibility of recovering funds, or reclassification whereby a financial asset/liability changes its characteristics or status without a transaction taking place (such as a conversion of loans into securities). In practice, this component may also include statistical discrepancies between the IIP and the balance of payments derived from different data sources or different moment of updating.
- 5 For a somewhat more detailed explanation, see Box 2.1 of the publication *Balanza de Pagos y Posición de Inversión Internacional de España, 2014*.

Table 1
BREAKDOWN OF CHANGE IN IIP INTO ITS COMPONENTS IN 2015

% and €bn

	Weight in total (a)		Weight of foreign currency (a)		Change in IIP and its components (€bn)								
					Change in IIP			Of which					
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Net	Transaction FA of the BP			Revaluation		
								Assets	Liabilities	Net	Assets	Liabilities	Net
Total (including BdE)							17			33			-13
Total (excluding BdE) (a)	100	100	45.7	8.3	87	34	53	123	48	75	-33	-15	-18
DI. Equity	34.9	18.4	71.9	0.5	3	18	-15	33	21	13	-31	2	-33
DI. Debt instruments	7.5	10.0	31.7	19.1	12	1	11	9	-1	10	2	3	-1
PI. Equity and investment fund shares	16.7	12.9	28.1	0.0	48	11	37	53	20	33	-4	-12	8
PI. Debt instruments	16.0	34.8	16.8	5.8	11	30	-19	17	42	-25	-7	-12	5
OI	24.9	23.9	43.7	17.9	13	-26	39	10	-35	44	7	5	2
Financial derivatives							1			-1			2
Banco de España							-37			-40			3
Reserves							8			5			3
Net position vis-à-vis the Eurosystem							-51			-51			0
Other							5			6			0

SOURCE: Banco de España.

a Calculations do not include financial derivatives.

the IIP. Thus, for example, an economy which in a certain period is a net lender and thus has a positive total net balance of BP financial transactions (change in assets exceeds change in liabilities) may, at the end of that period, have a higher debit total net balance in its IIP than initially as a result of valuation effects. Conducting the integrated analysis at an increasingly detailed level of breakdown by functional category, instrument and sector helps to better evaluate the relative impact of transactions and of other flows by component. Thus, for example, an increase in IIP liabilities in debt instruments will generate an increase in future payment obligations of resident sectors (interest payments and principal repayments) if it reflects mainly transactions, while, if it is associated with increases in the prices of those instruments, it will not in principle necessarily have any effect on future payment obligations and may even indicate an improvement in the ability to pay of resident issuers. By contrast, a net debtor position caused by a lower value of assets has a less favourable interpretation for the sustainability of the external position.

Integrated analysis of the Spanish IIP in 2015 (see accompanying table)⁶ shows that the net debtor position decreased by €17 billion as a result of the positive balance of financial transactions of €33 billion, which was partially offset by the negative impact (-€13 billion) on net IIP exerted by the revaluations in that year. OCV, which are not shown in the table, had a very small relative weight (-€3 billion).

The decrease in the net debtor position was caused by the decrease in that of resident sectors excluding the Banco de España, particularly due to the positive net flows in portfolio investment in equity and investment fund shares/units (€37 billion) and in other investment (€39 billion).

As regards portfolio investment in equity, the improvement in the debtor position was due to the significant increase in the assets-side

position (€48 billion) exceeding that in the liabilities-side position (€11 billion), which basically reflects the purchase of assets (for €53 billion). However, in 2015 non-residents also purchased instruments of this nature issued by residents for €20 billion, which were offset by decreases in value of €12 billion due to the fall in the stock market prices of the shares of Spanish firms held by non-residents. Also in the area of portfolio investment, there was a negative change in the net position in debt instruments (increase in the debtor position) as a result of higher transactions in liabilities (large purchases of debt by non-residents) than in assets, which were only partially offset by negative valuation effects. These effects reflect the falls in value of the debt instruments on both the liabilities side and assets side.

The net debtor position of other investment also decreased, as a result of the amounts recorded as a result of transactions, particularly due to the decrease in liabilities (redemptions of liabilities by MFIs in view of the abundant liquidity available to them in 2015), which was only slightly offset by the effects of increases in value associated with the appreciation of the dollar and the pound sterling against the euro. Note that generally in other investment there was no price effect because instruments (basically loans and deposits) are recognised at their nominal amount.

The flows in the net position of direct investment in equity were smaller and negative (increase in the net debtor position). In this case, the high transactions (€33 billion in assets and €21 billion in liabilities) had a positive net balance which was more than offset by the decrease in the value of assets, which was influenced both by decreases in prices and by depreciation of some Latin American currencies against the euro.⁷ Other direct investment posted positive flows (decrease in the net debtor position) for an amount of €11 billion, basically as a result of financial transactions.

Finally, the debtor position of the Banco de España increased by €37 billion as a result of high negative net transactions concentrated in the net position vis-à-vis the Eurosystem.

⁶ In the coming months, work will proceed to provide users, in the framework of the *Boletín Estadístico*, with details of the other flows shown in the table.

⁷ It should be kept in mind that here the weight of assets denominated in foreign currency is high (71.9%).

