BANCO DE ESPAÑA
Eurosistema

ECONOMIC BULLETIN
2024/Q3

The Balance of Payments and International Investment Position of Spain in 2023

https://doi.org/10.53479/36773

Article 02
26/06/2024

Rationale

The balance of payments and international investment position provide insight into Spain's economic relations with the rest of the world, which have important implications for the domestic economy. Analysis of these statistics takes on added significance against a backdrop of global uncertainty.

Takeaways

- In 2023 the Spanish economy's net lending as a percentage of GDP reached its highest level since 1995, driven by the improvement in the trade balance and positive developments in services, with record high credits in both travel services and other services.
- The negative net international investment position declined further in 2023 to stand at 52.8% of GDP (its lowest level in 19 years), as a result of GDP growth and the positive balance of financial transactions with the rest of the world.
- Spain's outward and inward foreign direct investment positions increased in 2023 due to the positive amount of financial transactions, although these were down slightly on the previous year, and the likewise positive amount of revaluations.

Keywords

Net lending, current account, capital account, international tourism, energy deficit, financial transactions, foreign direct investment, ultimate investing economy, international investment position, external debt.

JEL classification

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

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This article was prepared based on data published on 22 March 2024. The data published on 21 June do not change the analysis conducted.

Introduction

In 2023 the Spanish economy posted net lending of 3.7% of GDP, well above the 2022 figure (1.5%) and marking the highest level in the published series (the data in GDP terms date back to 1995). The main drivers of this improvement were the reduction in the trade deficit and, in particular, the correction in the energy deficit (following 2022's surge in energy import prices prompted by the war in Ukraine). Services made a very positive contribution, with travel credits reaching an all-time high. Non-travel services likewise posted record credit (and balance) levels. Conversely, the primary income balance worsened considerably owing to investment income debits growing more quickly than credits, particularly in the case of monetary financial institutions (MFI), associated with higher interest rates. The secondary income and capital account balances improved, influenced by funds received from the European Union (EU), mainly via the NextGenerationEU (NGEU) programme.[1]

Spain's negative net international investment position (IIP) corrected further, declining to 52.8% of GDP in 2023, its lowest level since 2004, thanks to the net lending position holding at increasingly high levels. Growth in nominal GDP and the financial account surplus[2] contributed to these developments, offsetting the negative net effect of revaluations and other changes in volume. Meanwhile, Spain's gross external debt increased in nominal terms, but decreased as a percentage of GDP to 165.5% (from 172.8% in 2022) on the back of output growth.

This article begins by analysing developments in the current and capital account balances and their main components. It goes on to examine Spain's external financial position, financial transactions with the rest of the world and gross external debt. Lastly, there is a box analysing recent developments in foreign direct investment.[3]

The current and capital account balances

In 2023 the Spanish economy posted net lending of 3.7% of GDP, the second highest figure of the four major euro area economies after Germany. This was the indicator's highest level in the published series, demonstrating once again the strength of the foreign sector in Spain, which has been a net lender since 2012. This contrasts with the peak net borrowing of 9% of GDP recorded in 2007 (see Chart 1.a).

The net lending growth in 2023 was mainly driven by the current account improvement (specifically the reduction in the trade deficit, above all thanks to the energy deficit correction) and the larger

1 Banco de España (2022).

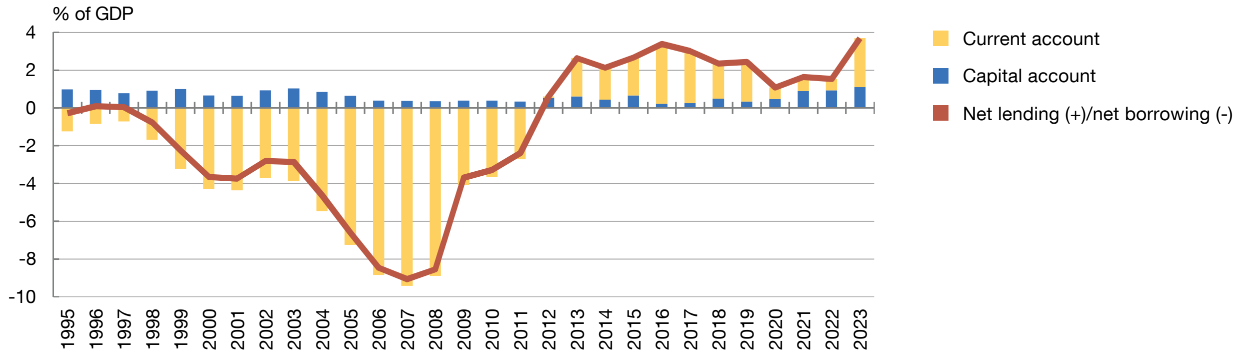
2 Including the Banco de España.

3 The balance of payments, IIP and external debt data are available on the external statistics page of the Banco de España website and in the BExplora interactive table of external statistics. For details of the methodology, see Banco de España (2023).

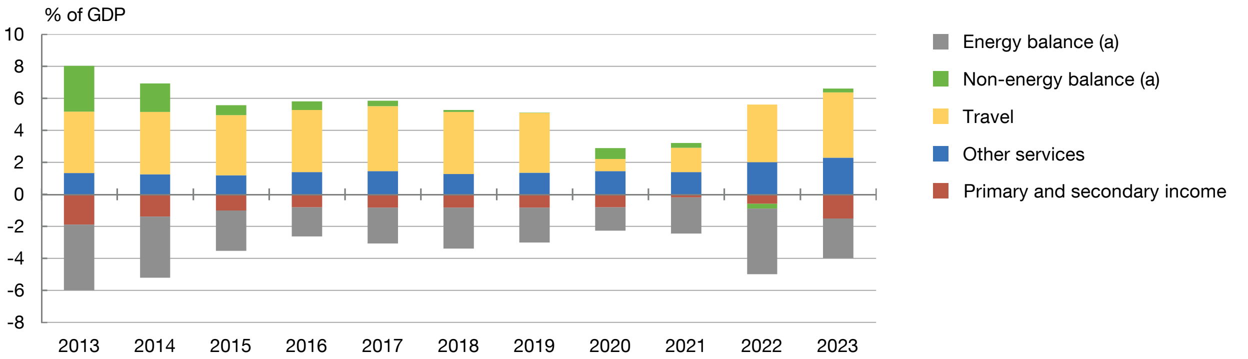
Chart 1

Services and the lower goods deficit drove an improvement in net lending

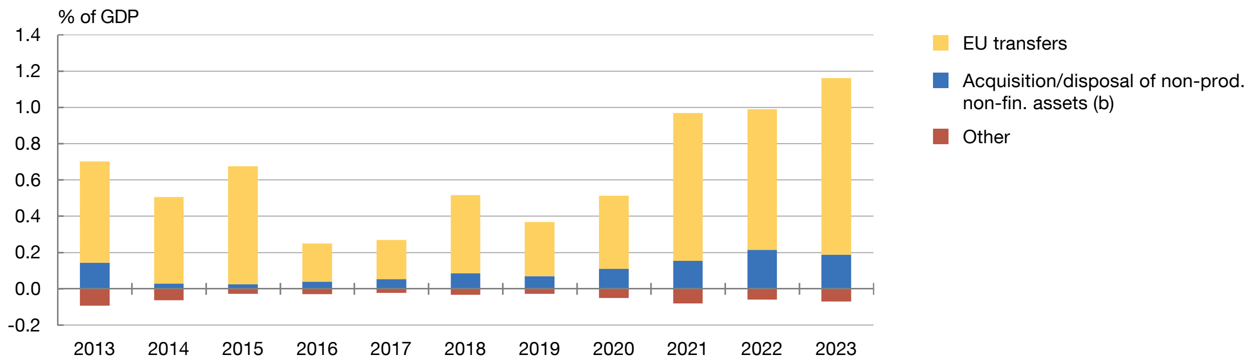
1.a Balances



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	2019	2020	2021	2022	2023
Net lending (+)/net borrowing (-)	2.4	1.1	1.6	1.5	3.7
Current account	2.1	0.6	0.8	0.6	2.6
Goods	-2.1	-0.8	-1.9	-4.4	-2.2
Services	5.1	2.2	2.9	5.6	6.4
Travel	3.7	0.8	1.5	3.6	4.1
Other services	1.4	1.4	1.4	2.0	2.3
Primary income	0.2	0.3	0.8	0.5	-0.6
Investment income	-0.3	-0.3	0.3	0.1	-1.0
Secondary income	-1.0	-1.1	-1.0	-1.1	-0.9
Capital account	0.3	0.5	0.9	0.9	1.1
Memorandum items					
Transfers with the EU (a)	-0.2	0.0	0.4	0.4	0.7

SOURCE: Banco de España.

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

services surplus (in both travel services and other services), which outweighed the deterioration in primary income. The capital account surplus also increased, driven by transfers from the EU.

In 2023 the goods trade deficit stood at 2.2% of GDP, half that of the previous year, mainly due to the reduction in the energy deficit, which in 2022 stood at 4.1% of GDP and by 2023 had eased to 2.5%, converging with the levels recorded in previous years (see Table 1 and Charts 1.b and 2).

In nominal terms, energy imports and exports were down by 30% and 22%, respectively, on 2022, but were around 40% up on 2021 levels (prior to the conflict in Ukraine). The sharper drop in imports than in exports, both in terms of volume (-23% and -16%)[4] and energy prices (-10% and -4%),[5] contributed to this reduction. Compared with the rest of the euro area, Spain's economy was less affected by the energy crisis and recovered more strongly thanks to the country's lesser exposure to the risk of Russia cutting off gas supplies (due to its more diversified supply sources) and higher renewable electricity production.[6]

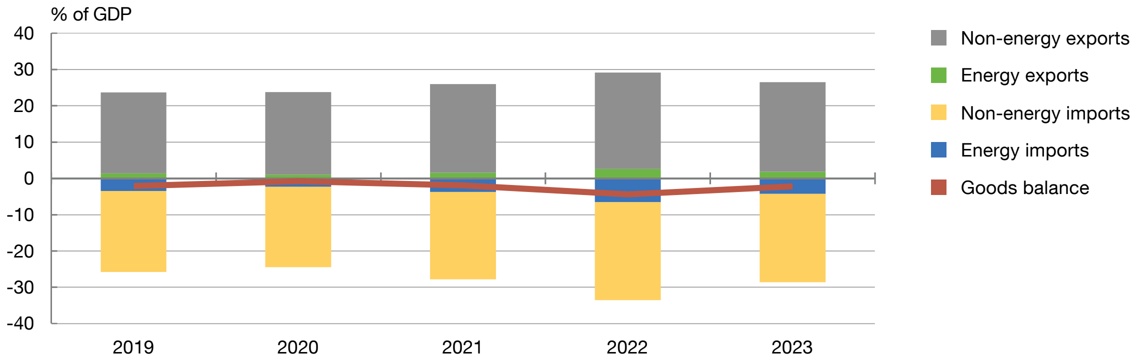
The trade balance of non-energy goods also improved in 2023, albeit to a lesser extent, going from a deficit of 0.3% of GDP in 2022 to a surplus of 0.2%. In nominal terms, imports were down (-1.6% year-on-year) due to a drop in import volumes that was not offset by higher prices.[7] Exports grew slightly (+0.5%), owing to the drop in volumes being outweighed by the rise in export prices.[8, 9] In terms of GDP, the flows declined in both directions.

4 Ministerio de Industria, Comercio y Turismo (2024).
5 See unit value indices.
6 Banco de España (2024b).
7 See footnote 4.
8 The real terms of trade improved due to export prices rising more rapidly than import prices.
9 See footnote 4.

Chart 2

The trade in goods deficit was contained in 2023, with exports and imports moderating after the record figures of 2022

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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Even so, Spain outperformed the euro area in external trade in goods and experienced a more modest decline in both imports and exports. By geographical area, the reduction in the trade deficit in 2023 essentially owed to the lower deficit vis-à-vis non-European countries: notably, goods imports from members of the Organization of the Petroleum Exporting Countries (OPEC) were down by 27%, while those from the United States fell by 17% (linked to the stabilisation of the energy sector). The increase in the trade surplus with European countries, specifically non-euro area countries,[10] also contributed to the improvement in the trade balance, while the surplus vis-à-vis the euro area (the main destination for Spanish exports) declined, with exports falling by 3%, affected by the slowdown in euro area activity. However, exports to countries such as Germany and Italy grew markedly, possibly supported by developments in the Spanish economy's competitiveness indices against the euro area.[11] By product type, there was notable growth in exports and imports of vehicles, capital goods and food products, while commodities, non-chemical semi-manufactured goods and chemicals posted the largest falls.[12]

The services surplus reached the highest level on record, climbing to 6.4% of GDP and improving by 0.8 percentage points (pp) on the previous year, due to larger surpluses in both travel services and other services (see Table 1 and Chart 1.b).

The tourism balance remained on a growth path and reached 4.1% of GDP in 2023, buoyed by a positive performance from credits, which set new records. This was driven both by an increase in the number of international tourists (more than 85 million in 2023, outstripping pre-pandemic levels)[13]

10 Exports to countries such as the United Kingdom, Poland and Turkey reached record levels. See Ministerio de Industria, Comercio y Turismo (2024).

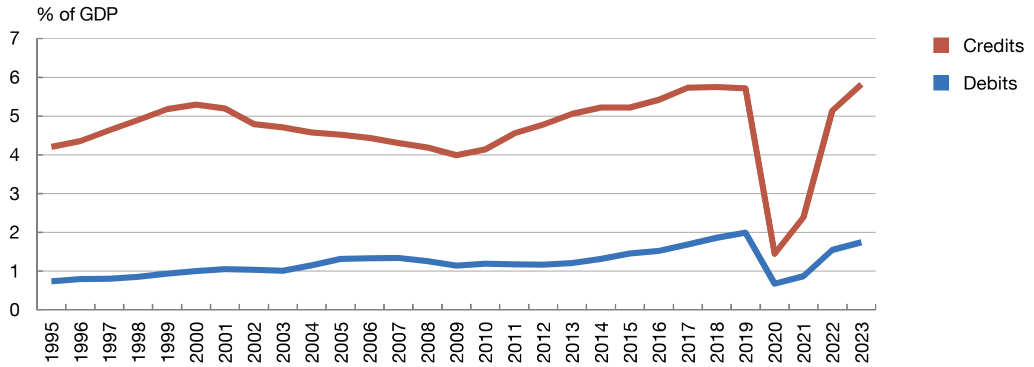
11 See footnote 6.

12 See footnote 4.

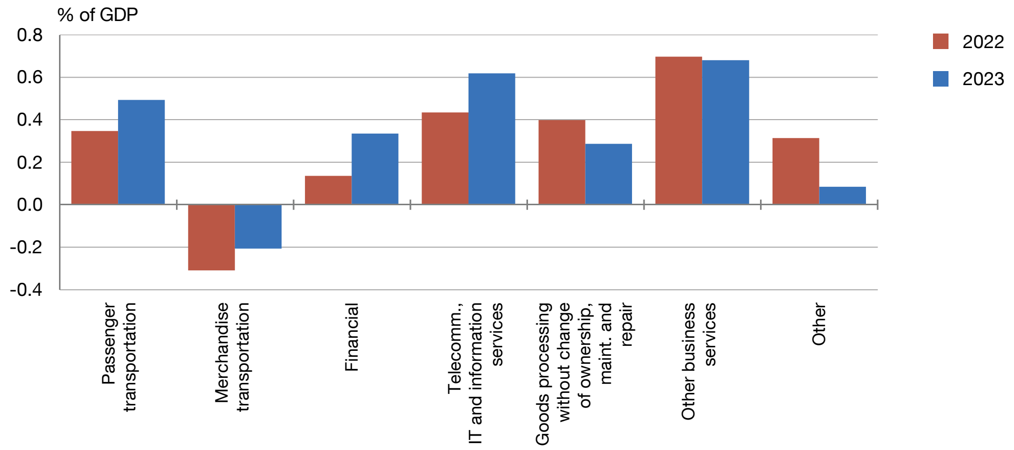
13 Instituto Nacional de Estadística (INE) (2024a).

Chart 3
Travel credits and the other services balance reached all-time highs in 2023

3.a Travel credits and debits



3.b Non-travel services: balance



SOURCE: Banco de España.

and by higher spending per tourist,[14, 15] in turn boosted by the geopolitical conflicts in the Middle East (which had a positive bearing on international tourist arrivals), tourism growth in traditionally less popular destinations (indicating broader diversification) and higher foreign tourist inflows in the autumn-winter period.[16] Travel debits also increased markedly and exceeded 2019 levels in nominal terms, albeit not as a percentage of GDP (see Chart 3.a).

The balance of non-travel services (exports less imports) marked a record high of 2.3% of GDP in 2023, shoring up the growth recorded in recent decades[17] (which intensified considerably in

14 INE (2024b).

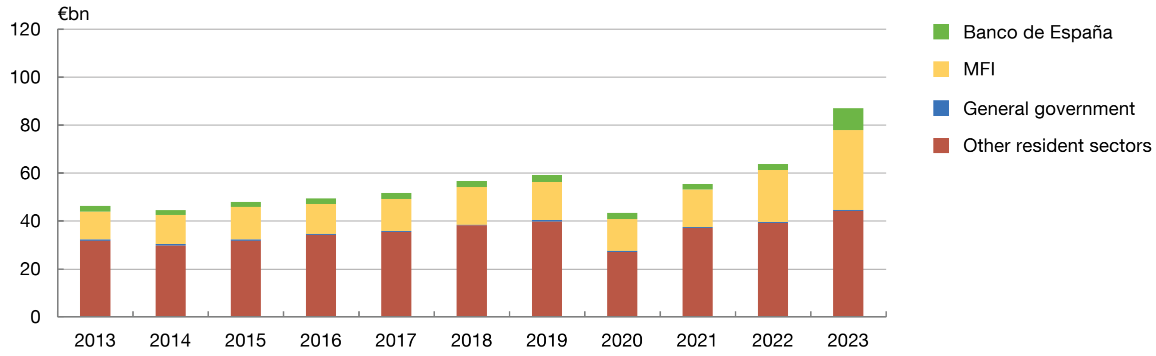
15 Jiménez-García and García Esteban (2024).

16 See footnote 6.

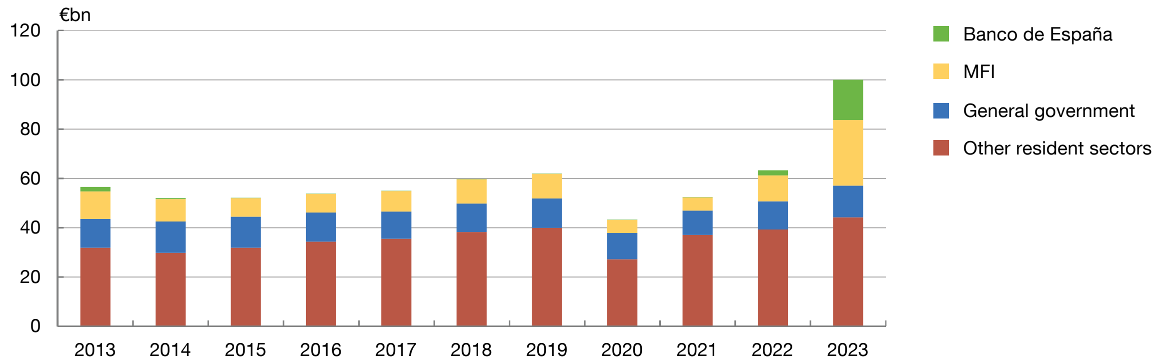
17 Exports of non-travel services have grown faster than those of travel goods or services in recent decades, both in Spain and internationally. This trend has been shaped by factors such as the development of information and communication technologies (which reduced the technical barriers to marketing non-travel services), the deregulation of services, the tertiarisation of advanced economies, firms' need to boost their competitiveness and drive digitalisation, the growing inclusion of foreign digital services in goods exports, financial deregulation and the growth of tourism and international trade flows (Martín Machuca and García Esteban, 2023).

Chart 4
Investment income increased in 2023, in step with interest rates, particularly in the MFI sector

4.a Investment income credits



4.b Investment income debits



SOURCE: Banco de España

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the wake of the pandemic: in nominal terms, exports were up by 40% on 2019 and imports by around 25%). Balances improved in the majority of service categories (see Chart 3.b). The existing surpluses expanded further in financial services, telecommunications and IT services, and passenger transportation (driven by the surge in tourism), while the merchandise transportation deficit shrank (linked to the decrease in trade in goods).

The primary income balance[18] shifted from a surplus of 0.5% of GDP in 2022 to a deficit of 0.6% in 2023 owing to developments in investment income, whose balance declined by 1.1 pp to -1% of GDP (see Table 1). Investment income credits grew by just over 35% in nominal terms, while debits were up by more than 60% (see Chart 4), driven essentially by the sharp increase in interest rates.[19] The Banco de España's income credits and debits both increased markedly, associated,

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

19 The European Central Bank (ECB) began raising its key interest rates in 2022 Q3. The main refinancing operations rate was initially raised to 0.5% in July 2022, which was followed by successive hikes aimed at curbing inflation. By the end of 2022 this rate stood at 2.5%, while by end-2023 it had reached 4.5% following the rate increase in September.

respectively, with credits from the position vis-à-vis the Eurosystem[20] and interest debits in respect of the TARGET debit balance. Other monetary financial institutions also made a significant contribution to the growth in investment income, with the sector's credits and debits up by 54% and 154%, respectively, year-on-year, mainly in the "other investment" functional category (which includes deposits, repos and loans).

The secondary income deficit[21] shrank to 0.9% of GDP in 2023 (see Table 1), with stronger growth in credits than in debits. As was the case in 2021 and 2022, credits were up on previous years' levels, again driven by transfers from the EU due to the inflow of NGEU funds. Meanwhile, workers' remittances from Spain again stood at around 0.7% of GDP, up by 7% in nominal terms. Remittances to Latin American countries (especially Peru, Colombia, Paraguay and Honduras) and Morocco grew markedly.

The capital account surplus increased by 0.2 pp to 1.1% of GDP in 2023 (see Table 1 and Chart 1.c), driven by the contribution of investment grants from the EU: in the previous two years this contribution was double the average for the period 2013-2020, while in 2023 it grew even further to nearly 1% of GDP. These EU investment grants include those linked to the NGEU programme. Acquisitions and disposals of non-produced non-financial assets have also made significant contributions in recent years (in 2023 the balance held close to 2022 levels at around 0.2% of GDP), with credits from the sale of CO_2 emission allowances again standing out.[22]

The IIP, financial flows with the rest of the world and gross external debt

In 2023 the Spanish economy's negative net IIP corrected by a further 7.2 pp to 52.8% of GDP, its lowest level since 2004 (see Chart 5.a). However, this remains high compared with the euro area and exceeds the European Commission's Macroeconomic Imbalance Procedure alert threshold.[23] Output developments contributed 4.7 pp towards this change (GDP grew by 9% in nominal terms in 2023) and financial transactions 4.2 pp, while revaluations and other changes in volume made a negative contribution of -1.6 pp (see Chart 5.b). In nominal terms, the negative net IIP decreased by €36 billion, mainly owing to net financial transactions (€60 billion) outweighing the negative impact of exchange rate and price revaluations (-€25.5 billion) (see Table 2).

As the breakdown by institutional sector shows, only the non-monetary financial sector[24] had a net creditor position (23.4% of GDP, representing an increase of 1.2 pp on 2022) (see Chart 5.c).

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20 This increase is related to the allocation of euro banknotes. The difference between the value of the euro banknotes allocated to each national central bank, in accordance with the banknote allocation key, and the value of the euro banknotes that each central bank actually puts into circulation gives rise to remunerated intra-Eurosystem balances, generating assets and liabilities that accrue interest (Banco de España, 2024a).

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

22 In 2023, the average price of CO_2 allowances remained relatively stable compared with 2022, when they rose very sharply.

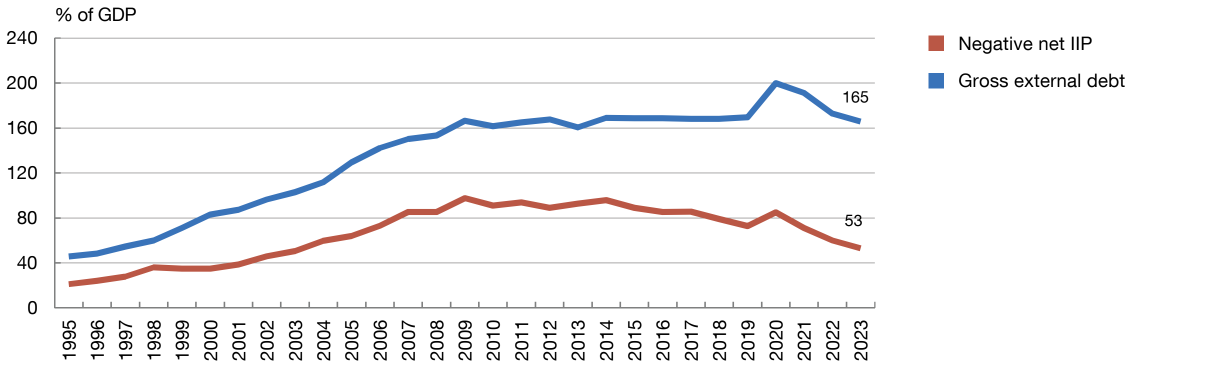
23 This procedure is based on a scoreboard of 14 indicators with alerts triggered when certain thresholds are exceeded. In the case of the negative net IIP, this threshold is set at 35% of GDP.

24 The non-monetary financial sector comprises financial institutions that cannot issue deposits or money market fund shares. This sub-sector includes pension funds, insurance companies, collective investment undertakings (excluding money market funds), other financial intermediaries and financial auxiliaries and captive financial institutions and money lenders.

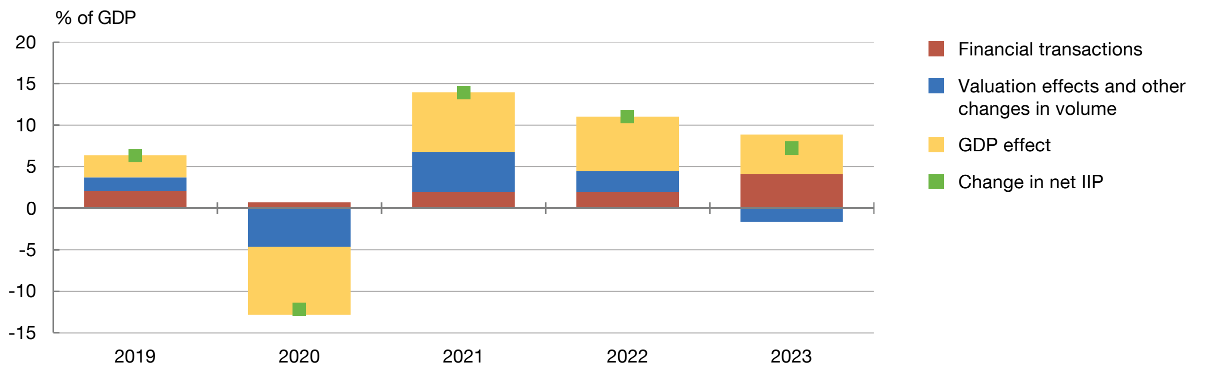
Chart 5

Gross external debt and the negative net IIP declined further. Positive developments in transactions and GDP helped to improve the IIP in 2023

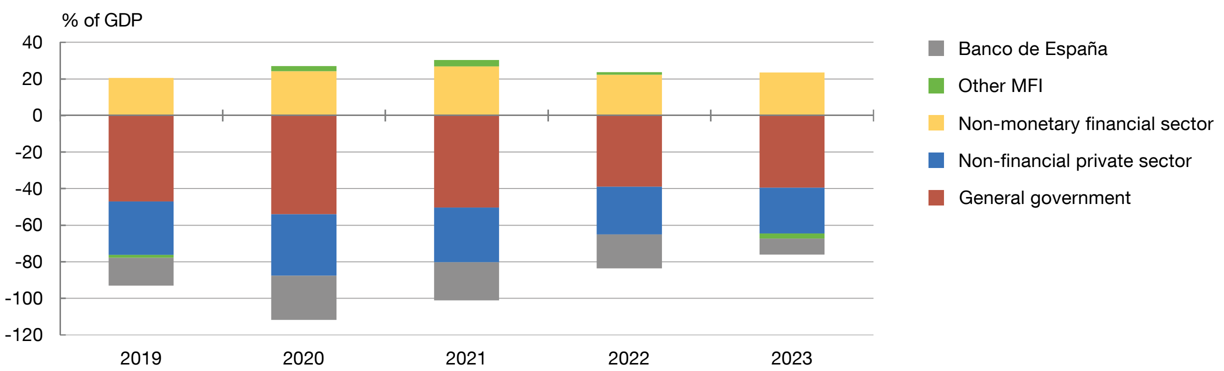
5.a Gross external debt and negative net IIP (a) (b)



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



5.c Net IIP by institutional sector



SOURCE: Banco de España.

a 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).

b 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.

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Table 2
Integrated IIP. Breakdown of the change in balance beween transactions and other flows (a)

€bn	2022	2023				
	End-period position	Transactions in the period	Change in prices	Exchange rate fluctuations	Other changes in volume	End-period position
Total net position (assets - liabilities)	-807.6	60.3	-3.7	-21.8	1.5	-771.4
In terms of GDP (%)	*-60.0*					*-52.8*
Excluding the Banco de España	-558.4	-55.3	-11.7	-20.2	1.5	-644.1
Direct investment	-234.0	-3.9	4.5	-15.2	2.6	-246.0
Portfolio investment	-315.0	-17.9	-21.2	-3.2	0.4	-356.9
Other investment (b)	-9.2	-30.4	0.5	-1.9	-1.1	-42.1
Financial derivatives	-0.2	-3.2	4.5	0.0	-0.4	0.8
Banco de España	-249.3	115.6	7.9	-1.5	0.0	-127.3
of which, net position vis-à-vis the Eurosystem	-324.0	119.3	0.0	0.0	0.0	-204.8
Assets excluding the Banco de España (c)	2,172.0	134.4	77.3	-26.7	2.2	2,359.2
Direct investment	783.7	29.1	20.7	-16.2	2.2	819.5
Portfolio investment	770.8	43.3	56.1	-5.3	0.2	865.2
Other investment	617.4	61.9	0.5	-5.3	-0.1	674.5
Liabilities excluding the Banco de España (c)	2,730.2	186.5	93.5	-6.5	0.4	3,004.1
Direct investment	1,017.8	33.0	16.1	-1.0	-0.3	1,065.5
Portfolio investment	1,085.8	61.2	77.4	-2.1	-0.2	1,222.1
Other investment	626.6	92.4	0.0	-3.4	1.0	716.6
Memorandum item:						
Gross external debt	2,326.6	73.0	23.7	-6.9	2.7	2,419.1
In terms of GDP (%)	*172.8*					*165.5*

SOURCE: Banco de España.

a Other flows include revaluations (due to changes in financial instrument prices or exchange rates) and other changes in volume (including 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.

Conversely, the general government debtor position increased slightly in 2023 (to 39.5% of GDP, up by 0.5 pp on 2022), as a result of higher purchases of government debt by non-residents, but was below the average for the last decade. The non-financial private sector's debtor position declined slightly (to 25.1% of GDP, down by 1 pp on 2022) and MFIs (excluding the Banco de España) went from a creditor position in 2022 (1.4% of GDP) to a debtor position (2.9% of GDP), mainly due to the increase in deposit liabilities. Lastly, in 2023 the Banco de España significantly reduced its debtor position to 8.7% of GDP, compared with 18.5% in 2022, chiefly as a result of its TARGET balance.[25]

25 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.

The correction in the negative net IIP was driven by financial transactions recorded in the balance of payments, which in 2023 reached an all-time high in net terms (4.1% of GDP), in turn reflecting a significant increase in the Spanish economy's net lending.

Excluding the Banco de España,[26] the financial account had a deficit in 2023 of -3.8% of GDP, compared with -0.5% in 2022 (see Table 2). This change was caused by net acquisitions by non-residents of liabilities issued by residents (12.8% of GDP, 0.7 pp above 2022) exceeding residents' acquisitions of foreign assets (9.2% of GDP, 2 pp below 2022). The balance of net transactions linked to financial derivatives[27] was negative (-0.2% of GDP).

Turning to assets, in keeping with the pattern of recent years, net outward investment by resident agents was positive under all headings (see Chart 6.a). Most of the outward investment was channelled through other investment (4.2% of GDP), mainly via deposits of other monetary financial institutions. Net asset transactions in portfolio investment were positive, but below 2022 levels (3% of GDP, 0.5 pp lower) and concentrated in purchases of, particularly long-term, debt instruments by the financial sector, both by other monetary financial institutions and non-monetary financial institutions (mainly collective investment undertakings and insurance companies). In direct investment, the net change in assets was smaller than in 2022 (2% of GDP, down from 3.6%), mainly in loans granted by the non-financial private sector followed by equity investments by other monetary financial institutions.[28]

On the liabilities side, net capital inflows in 2023 were also positive and above net outflows in all functional categories (see Chart 6.b). There were notable inflows under other investment (6.3% of GDP, down from 7.3% in 2022), mainly in the form of deposits and repos[29] from other monetary financial institutions (6.8% of GDP) as a consequence of such institutions seeking alternative financing owing to monetary policy tightening and to make repayments of the targeted longer-term refinancing operations (TLTROs),[30, 31] a trend that has been apparent since 2022. Net portfolio investment purchases by non-residents were significantly higher than in 2022 (4.2% of GDP, up by 3.2 pp). Net inflows of direct investment liabilities were below 2022 levels (2.3% of GDP, 1.4 pp lower than in 2022), materialising, as usual, in the form of shares and other equity purchases in the non-financial private sector.

The breakdown by institutional sector shows that both other monetary financial institutions and general government posted larger net inflows of funds from abroad than in 2022, while the remaining resident sectors recorded net outflows. General government increased net capital inflows by 1.9 pp of GDP to 2.6%, while other monetary financial institutions did so by 0.8 pp to

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26 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).

27 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.

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

29 77% of these are short-term deposits.

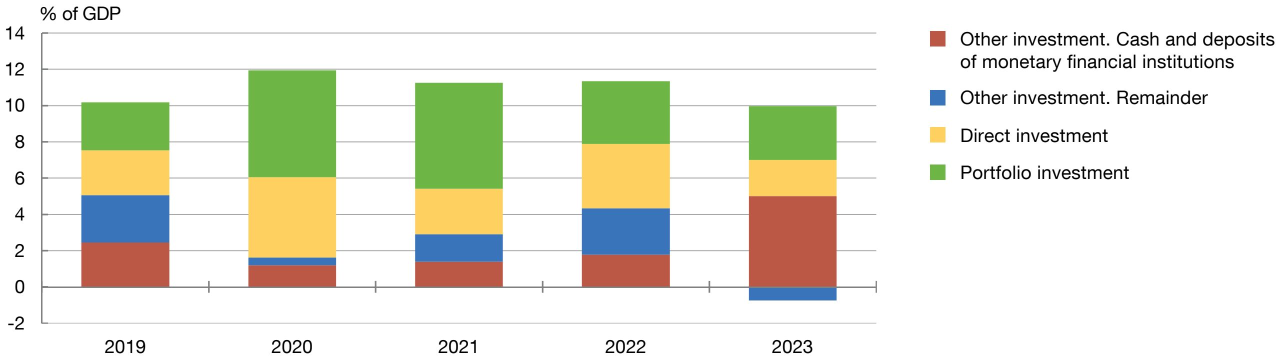
30 TheTLTROs are part of the package of monetary policy measures.

31 See Castillo, García-Escudero and Pérez (2024).

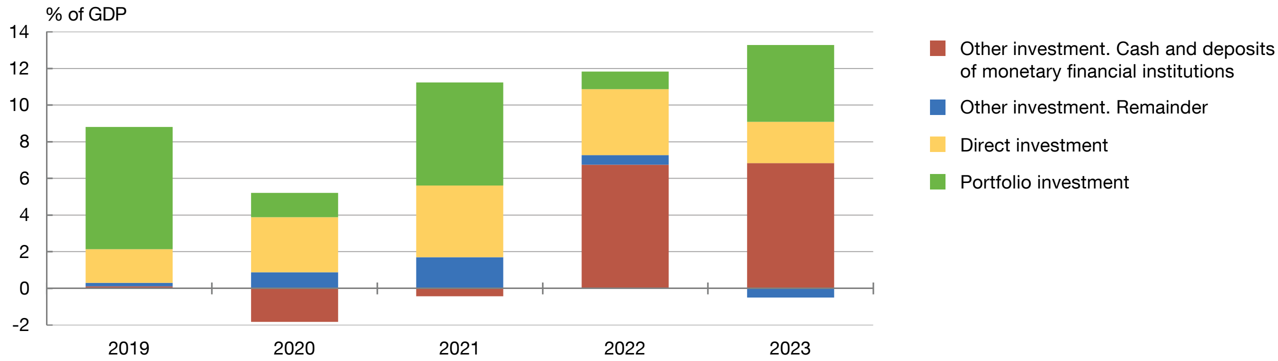
Chart 6

Net capital inflows exceeded outflows in 2023, with a notable impact of other monetary financial institutions deposits

6.a Net change in assets in the financial account, excluding the Banco de España and financial derivatives



6.b Net change in liabilities in the financial account, excluding the Banco de España and financial derivatives



SOURCE: Banco de España.

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3.3%. Other resident sectors presented net outflows of capital that were 0.7 pp lower than in 2022, standing at 2.1% of GDP.

In 2023 the financial account of the Banco de España recorded a surplus of 7.9% of GDP, much higher than the 2.2% in 2022. The Banco de España's negative TARGET balance changed notably, falling by €108 billion (7.4% of GDP, compared with a fall of 0.8% of GDP in 2022). This decrease was conditioned by the reduction in the European Central Bank's (ECB)[32, 33] asset purchase programme and repayment of the TLTROs by monetary financial institutions, which partly used funds raised from abroad.

32 From March 2023 the ECB only partially reinvested principal payments and discontinued such reinvestments as of July 2023. See Banco de España (2024b).

33 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).

With regard to the other components of the change in the IIP, excluding the Banco de España and financial derivatives, the impact of valuation effects and other changes in volume (other flows) was greater on liabilities (€87.4 billion) than on assets (€52.8 billion) (see Table 2). This was mainly owing to the effect of rising prices (€93.5 billion in liabilities and €77.3 billion in assets). In the case of instruments issued by residents, the increase was concentrated in shares issued by the non-financial private sector, in line with the gains recorded by the IBEX 35 in 2023. This was also driven by the increase in prices in long-term debt instruments issued by general government, linked to the reduction in yields in the last two months of 2023, which caused end-2023 yields to be lower than those at the start of the year.[34] In the case of assets (securities issued by non-residents held by resident agents), the rise in prices essentially materialised in the equity and investment fund shares and units held by all sectors, above all in securities from Luxembourg and the United States, in line with the performance of international stock markets in 2023. This was compounded by the effect of exchange rate revaluations, which were more negative for assets (-€26.7 billion) than for liabilities (-€6.5 billion) and reflected the depreciation of the US dollar and certain Latin American currencies. The positive impact of other changes in volume[35] (€1.9 billion) was far outweighed by the revaluation effect. Net effects of other flows reduced the Banco de España's net debtor position with a net positive impact of €6.4 billion owing to price revaluation (€7.9 billion) that was partly offset by the negative exchange rate (-€1.5 billion), again mainly reflecting the depreciation of the US dollar. The positive price effect mainly reflected the rise in the value of debt instruments issued by European institutions, while international reserve assets generally increased owing to the rise in the price of gold.

In 2023 Spain's gross external debt[36] as a percentage of GDP fell to 165.5%, 7.3 pp down on the previous year, exclusively as a result of nominal output growth (see Chart 5.a). In nominal terms it reached its all-time high, rising by €93 billion to €2,419 billion. This development reflects an increase in liabilities (by €73 billion) together with an increase in prices as a result of interest rates developments[37] (€23.7 billion), which was slightly offset by the exchange rate effect (-€6.9 billion). Despite the Spanish economy's high level of external debt, it should be noted that most liabilities are issued by general government (27%) and the Banco de España (22%), followed by those linked to direct investment (11%). In addition, most debt instruments are issued on a long-term basis at a fixed rate in euro, which reduces refinancing, interest rate and exchange rate risk.

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34 Bolsas y Mercados Españoles (2024).

35 Other flows are all changes in the value of an asset or liability that are not the result of transactions or revaluations. This variation is due to exceptional and unforeseen events that are not economic in nature or to changes in classification or structure. For example, debt forgiveness, unilateral loan write-offs and changes in financial assets owing to changes in agents' economy of residence.

36 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.

37 See footnote 33.

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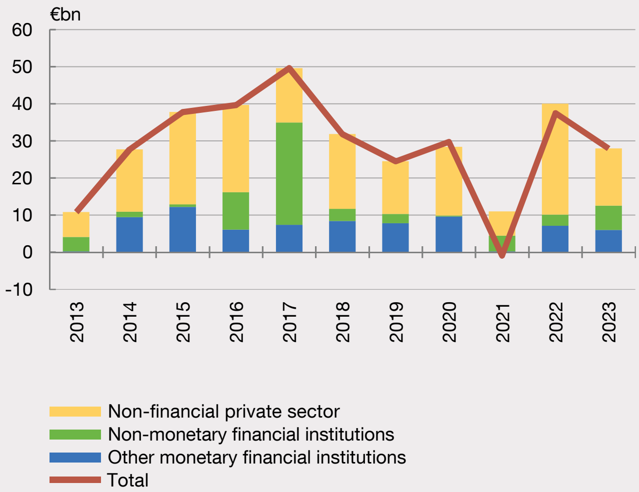
Box 1

FOREIGN DIRECT INVESTMENT: RECENT DEVELOPMENTS

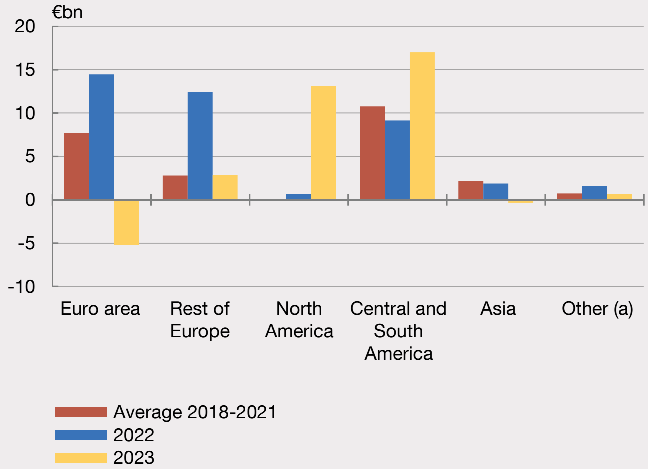
This box outlines the key recent developments in foreign direct investment (FDI).[1] The data are presented in accordance with the “directional principle”, whereby flows and positions are classified based on the residence

Chart 1
Spanish outward foreign direct investment

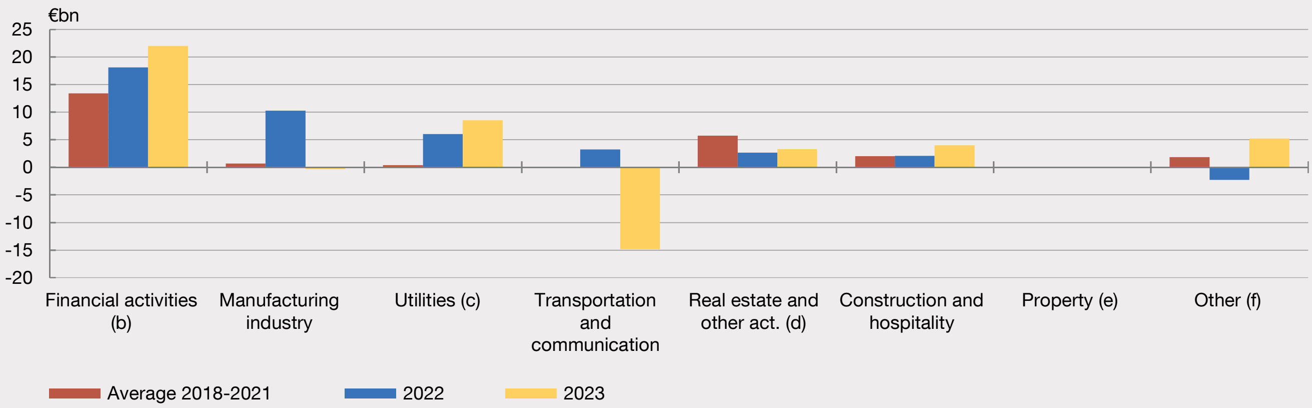
1.a Transactions. Breakdown by institutional sector



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 non-EU international organisations.
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.

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. By transaction type, FDI encompasses the purchase/sale of existing shares (mergers and acquisitions), the creation of new companies (greenfield investments), capital extension and debt financing (essentially loans and inter-company accounts). It also includes the purchase/sale of real estate between residents and non-residents.

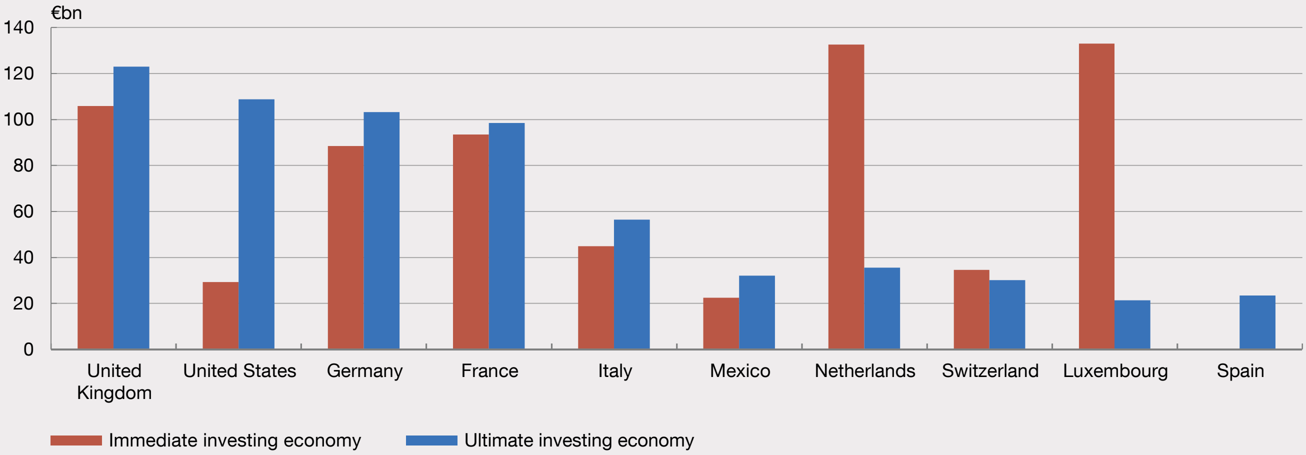
of the investment decision-making centre.[2] Thus, where the decision-making centre (the group's parent) is resident in Spain, reference is made to Spanish outward foreign direct investment, which includes intra-group assets, but also intra-group liabilities (i.e. the parent's liabilities to its subsidiaries) 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 presentation differs from that in the balance of payments and international investment position, where FDI is classified by assets and liabilities.

Spain's outward FDI position[3] increased by €37 billion in 2023 in absolute terms, to stand at 41.8% of GDP at end-2023, 0.8 pp down on the level recorded a year earlier, owing to the greater increase in the denominator of the ratio. The increase in the outward investment position was mainly due to transactions in 2023 (€28 billion, see Chart 1.a) and the net positive effect of price changes (€20.7 billion), which were partly offset by exchange rate changes.

By institutional sector, non-financial corporations held the largest outward position (63% of the total). Regarding the destination of the funds, Europe continued to receive most Spanish investment (47% of the total) followed by Latin America (33%), with the United Kingdom, the United States and Mexico being the next highest countries.

The volume of direct investment transactions in the rest of the world was €28 billion in 2023, down by 30% compared with the previous year, albeit still in line with the average for the period 2018-2022 (€27 billion). By sector, non-financial corporations continued to account for the majority (€15 billion) of these investments (see Chart 1.a). As for the breakdown by financial instrument,[4] funds materialising in equity holdings fell compared with 2022 (from €40 billion to €16 billion), although they remained positive. Net investments in debt instruments abroad rose significantly above their 2022 level (from €0 billion to €12 billion). The

Chart 2
Stock of foreign direct investment in Spain for 2023



SOURCE: Banco de España.

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

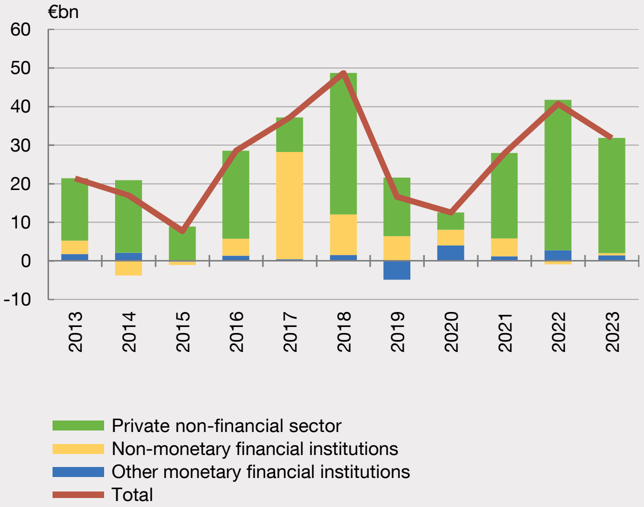
3 For a more detailed discussion, see: External statistics

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.

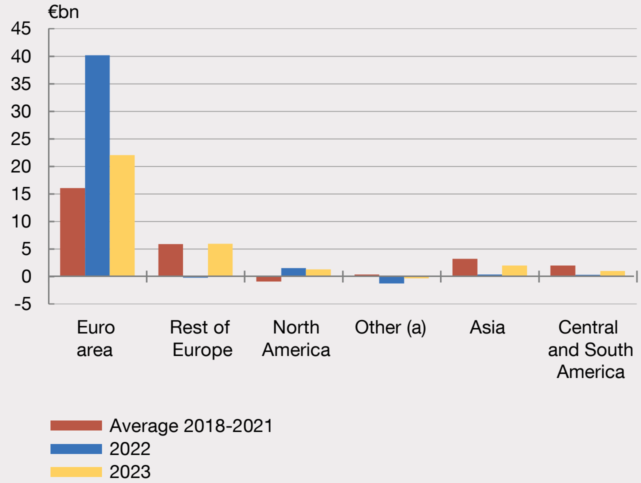
investment was mainly destined for Central and South America (€17 billion) and North America (€13 billion), mostly going to Mexico, Brazil and the United States (see Chart 1.b). That investment was offset by lower net investment in euro area countries compared with the previous year (-€5 billion, compared with €14 billion in 2022) and a reduction in investment in the United Kingdom (-€0.7 billion, compared with €5.9 billion in 2022). The decline in net investment in the euro area was mainly influenced by divestment in the Netherlands (-€17 billion), essentially in

Chart 3
Foreign investment in Spain

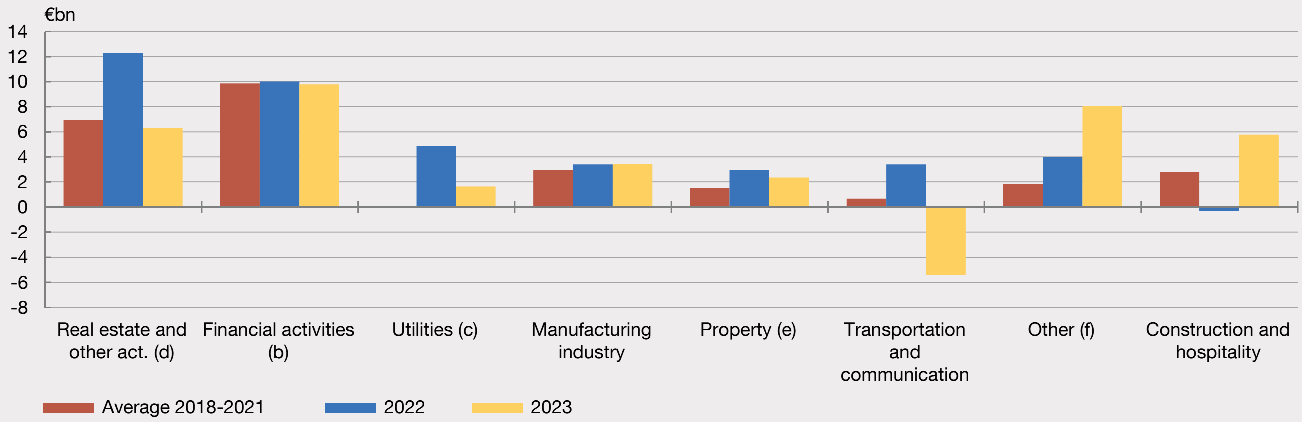
3.a Transactions. Breakdown by institutional sector



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 non-EU international organisations.
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.

the transportation and communication sector. Investment in the rest of Europe also fell compared with the previous year, but was in line with the average transactions recorded between 2018 and 2021. By economic activity (see Chart 1.c), in 2023 non-financial activities as a whole (amounting to around €36 billion in absolute terms) outweighed financial activities, with transportation and communication and electricity supply standing out.

The direct investment position of the rest of the world in Spain also increased substantially in absolute terms (€49 billion), representing 58.6% of GDP at end-2023, 1.4 pp less than the level recorded a year earlier, owing to greater GDP growth. Both net transactions (€32 billion) and valuation effects (€16 billion) had a positive impact.

Most of this investment (75%) went to non-financial corporations. On an immediate-country basis,[5] and in line with previous years, the bulk of these funds (65% of the total) originated from euro area countries. Within the euro area, more than 30% came from Luxembourg and the Netherlands, which are home to a good number of special purpose entities[6] that are used to channel funds from other countries. On an ultimate investing country basis (taking the location of the ultimate owners of direct investment firms rather than that of the immediate counterpart), the share of funds received from the Netherlands and Luxembourg drops significantly, jointly accounting for approximately 7% of the total outstanding balance (see Chart 2). Conversely, this approach shows which countries have larger investment positions as ultimate investing country than as direct investing country. The most striking case is that of the United States, whose investment in Spain through intermediate countries is nearly triple its direct investment. The same is true, although to a lesser extent, of the largest euro area countries and the United Kingdom. Lastly, the statistics on ultimate investing economies notably show Spain itself as the origin of foreign direct investment in the country, with an average balance of around €20 billion since 2018. This owes to firms located in other countries acting as intermediaries in the investment chains of Spanish-owned corporate groups.

Foreign investment transactions in Spain amounted to €32 billion in 2023, below that seen one year earlier (€41 billion), although above the average between 2018 and 2022. These transactions mainly materialised in equity holdings in resident firms (93% of the total). As Chart 3.a shows, non-financial corporations were the main recipients, in net terms, of new investment from abroad (€30 billion). As regards the origin of foreign funds by immediate counterpart country,[7] euro area countries accounted for most investments (€22 billion), driven mainly by investments from the Netherlands, followed by France and Germany (see Chart 3.b). By industry, the non-financial sector as a whole accounts for the largest share of the total (€33 billion in absolute terms), with notable investment in real estate activities, construction and hospitality, and transportation and communication (see Chart 3.c).

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

6 For more information on the definition, identification and importance of special purpose entities, see "Special Purpose Entities: Guidelines for a Data Template" and "Special Purpose Entities Shed Light on the Drivers of Foreign Direct Investment"

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

How to cite this document

García del Riego, María, Patricia Jiménez Martínez and Gregorio del Portillo Miguel. (2024). "The Balance of Payments and International Investment Position of Spain in 2023". *Economic Bulletin - Banco de España*, 2024/Q3, 02. https://doi.org/10.53479/36773

ISSN 1695-9086 (online edition)