FOREIGN DIRECT INVESTMENT IN SPAIN: DEVELOPMENTS, COMPOSITION AND INTERNATIONAL COMPARISON

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ABSTRACT

This statistical note analyses developments in Spain's foreign direct investment over the last decade (2016-25), based on data compiled within the balance of payments and international investment position framework. Following the asset/liability presentation, it examines changes in investment positions, comparing their relative weight vis-à-vis the main economies of the European Union and analysing their distribution by institutional sector. It also reviews foreign direct investment financial transactions since 2016. The analysis is complemented with a box covering the geographical breakdown of investments, distinguishing between the immediate investing economy and the ultimate investing economy in the case of inward investment in Spain.

Keywords: foreign direct investment, balance of payments, international investment position, transactions, ultimate investing economy.

JEL classification: F21, F23, F30, C82.

RESUMEN

Esta nota estadística analiza la evolución de la inversión extranjera directa (IED) de España durante la última década (2016-2025), según los datos compilados en el marco de la Balanza de Pagos y la Posición de Inversión Internacional. Siguiendo una presentación basada en el principio de activo y pasivo, se examina la evolución de las posiciones de inversión, analizando tanto su peso relativo en comparación con las principales economías de la Unión Europea como su distribución por sectores institucionales. Asimismo, se estudian las transacciones financieras de la IED desde 2016. El análisis se completa con un recuadro dedicado a la desagregación geográfica de la inversión, que distingue, en el caso de la inversión del exterior en España, entre la economía inversora inmediata y la última economía inversora.

Palabras clave: inversión extranjera directa, Balanza de Pagos, Posición de Inversión Internacional, transacciones, última economía inversora.

Códigos JEL: F21, F23, F30, C82.

1 Introduction to foreign direct investment

Foreign direct investment (FDI) is a form of cross-border investment in which a resident in one economy (the direct investor) makes an investment with the aim of controlling or exercising a significant degree of influence over an enterprise located in another economy (the direct investment enterprise). As Figure 1 shows, significant influence is deemed to exist when an investor owns, directly or indirectly, at least 10% of the voting power of an enterprise, and control exists when an investor has more than 50% of the voting power. Reverse investment by affiliates in their parents and investments between fellow enterprises are excluded from this general 10% rule[1] and are considered direct investment relationships, as explained in Figure 2. Thus, FDI is understood as a more stable form of investment than others found in cross-border relationships, as it is characterised by the existence of links based on significant influence or control.

FDI forms part of external statistics, which record a country's financial relationships with the rest of the world. Specifically, it is included in the financial account of the balance of payments (BoP) and in the international investment position (IIP).[2] The BoP records the economic transactions (such as investments or divestments) carried out by a country's residents with the rest of the world over a period of time. For its part, the IIP shows a "snapshot" of the financial assets and liabilities of an economy's residents vis-à-vis non-residents at a specific point in time.

FDI in Spain occurs, for example, when a foreign enterprise (French enterprise A) invests in a Spanish one (enterprise B) and acquires the ability to influence its strategic decisions or exercise control over it. In turn, the Spanish enterprise (enterprise B) may hold an equity stake in other non-resident enterprises (such as Argentine enterprise C), generating new influence or control relationships within the corporate group. Figure 2 ("Types of FDI relationship") provides a more comprehensive illustration of the different intragroup relationships that can arise within FDI, namely:

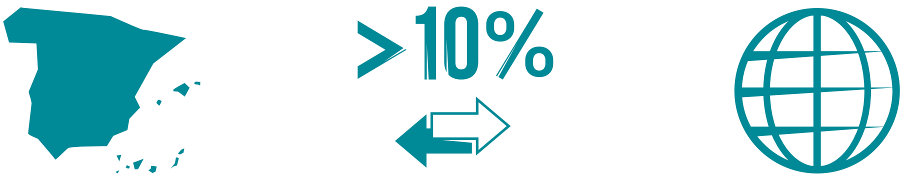
- Indirect investments, which are those made through other group enterprises, as in the case of A's investment in C.

- Reverse direct investments, which would be the case of Argentine enterprise C, a direct investment enterprise of B, in turn holding an equity stake in B.

1 Explained in detail in the *OECD Benchmark Definition of Foreign Direct Investment (Fifth Edition)*.

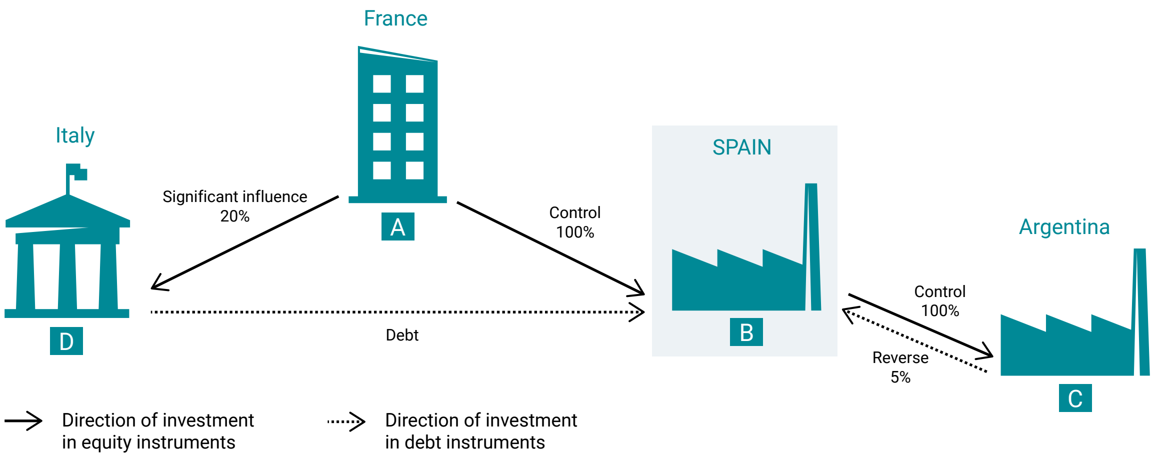
2 These statistics follow the methodology in the International Monetary Fund's *Balance of Payments and International Investment Position Manual*, sixth edition (BPM6), which is fully consistent with that of the national accounts set out in the System of National Accounts (SNA 2008) and its European version, the European System of Accounts (ESA 2010).

Figure 1
Basic cross-border direct investment relationship between Spain and the rest of the world



SOURCE: Banco de España.

Figure 2
Types of FDI relationship



SOURCE: Banco de España.

- Direct investment relationships between fellow enterprises, reflecting, for instance, when debt exists between Spanish enterprise B and Italian enterprise D, even though they have no direct equity stake in each other.

2 Two alternative presentations of FDI

FDI can be presented by organising the data according to two alternative principles: the asset/liability principle and the directional principle.

Under the *asset/liability principle*, the data reflect whether the resident enterprise holds financial claims on non-residents or has financial obligations (liabilities) to the rest of the world. The asset/liability principle is used when direct investment is shown together with other functional categories in the BoP/IIP. In addition, it is used in the financial accounts of the national accounts, which also include these data for the different financial instruments and resident sectors involved.

The *directional principle* is used when the data on FDI are presented separately to provide greater detail on its nature (counterpart country, sector of economic activity, etc.) and focuses on who actually exercises control or influence over the investment. Under this approach, investment is divided into two broad categories:

- *Outward investment* (or Spanish investment abroad), which includes investments where the origin of the influence or control is the resident economy:

  — Investment by Spanish enterprises in their subsidiaries abroad.

  — Certain netting adjustments are taken into account, such as those resulting from reverse investment (when a foreign affiliate invests in its Spanish parent) and investments between fellow enterprises belonging to the same group, provided that their ultimate parent is resident.

- *Inward investment* (or foreign investment in Spain), which includes investments where the origin of the influence or control is the non-resident economy:

  — Investment by foreign enterprises in their subsidiaries in Spain.

  — As with outward investment, netting adjustments are performed to take account of reverse investment or investment between fellow enterprises within the same group, provided that their ultimate parent is not resident.

Thus, the positions calculated under the directional principle are systematically lower than those obtained under the asset/liability presentation, as they incorporate offsetting of reverse investment and investment between fellow enterprises. Nevertheless, the total net stock of FDI is identical under both presentation methods.

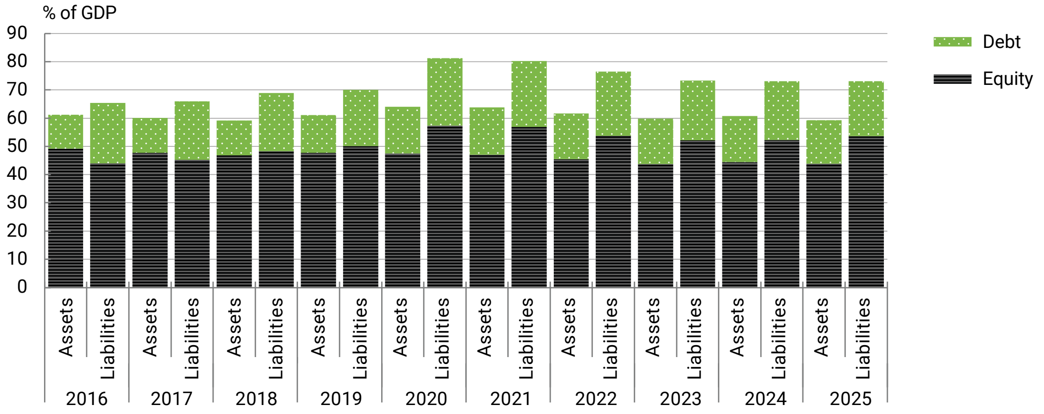
3 Developments in the FDI position over the last decade

3.1 FDI position under the asset/liability principle (2016-25)

Chart 1 shows changes in the FDI position under the asset/liability principle as a percentage of GDP over the last ten years. Liabilities clearly predominated over assets during the period, indicating that Spain's inward investment exceeds its outward investment. For the most part, assets and liabilities alike increased between 2016 and 2020,[3] with FDI as a share of GDP rising

3 The values in 2020 and 2021 were influenced by a denominator effect stemming from the fall in GDP during the COVID-19 health crisis.

Chart 1
FDI position according to the asset/liability principle (2016-25)



SOURCE: Banco de España.

sharply, especially in the case of liabilities, which peaked around 2020. Thereafter, a slight decline is observed, followed by a period of stabilisation, with the net FDI liability position standing at -13.5% of GDP in 2025. Given the greater weight of liabilities in the FDI position of the Spanish economy, analysing the ultimate origin of that investment is especially important. In this regard, Box 1 examines the effect that identifying the ultimate investing economy has on Spain's FDI position in 2025.

Changes in the foreign investment position between two points in time are attributable to three distinct components:

- Transactions, which reflect flows arising from effective investment and financing operations between residents and non-residents, as well as the reinvestment of earnings in direct investment enterprises. These earnings are generated by the direct investment enterprise and, rather than being distributed as dividends, they are retained and recorded as an increase in the direct investor's contribution, reflecting its commitment to the long-term relationship and the capacity of recipient enterprises to generate returns.

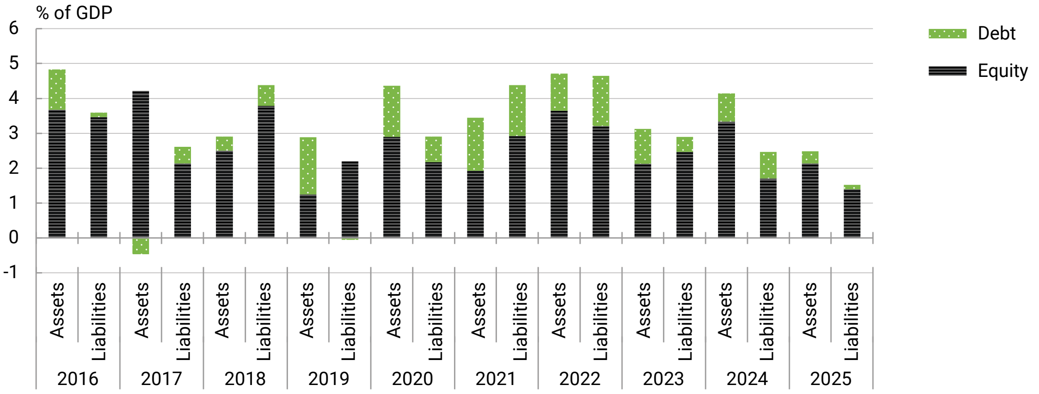
- Revaluations, which comprise changes in the value of assets and liabilities caused by changes in market prices or exchange rates.

- Other changes in volume, which capture changes that affect positions but that are not due to transactions or revaluations.[4]

4 Including, inter alia, cancellations and write-offs of debt, uncompensated seizures, reclassifications, changes arising from institutional units changing their economy of residence and the economic appearance or disappearance of financial assets and liabilities, such as assets declared under a tax amnesty or the disappearance of assets due to catastrophic losses.

Chart 2
Volume of Spain's financial transactions with the rest of the world between 2016 and 2025: assets and liabilities

2.a Breakdown of transactions between equity instruments and intragroup financing



SOURCE: Banco de España.

Chart 1 also shows that equity accounts for a larger share of positions than debt instruments (such as loans or trade credits). This predominance is also seen in transactions (Chart 2).[5] In more recent years, there has been a significant decline in net investment and divestment flows, reflecting a widespread phenomenon also observed in other European countries.[6] For its part, financing through debt instruments stood at modest figures over the ten years analysed. Debt flows associated with direct investment accounted on average for around 0.9% of GDP in assets and 0.6% of GDP in liabilities between 2016 and 2025.

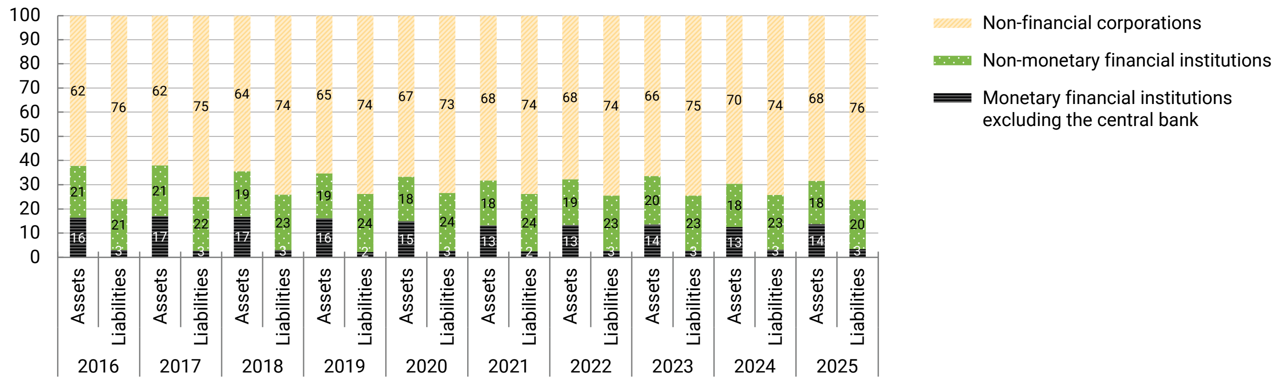
3.2 Distribution of the FDI position by institutional sector (2016-25)

Chart 3 shows that the distribution of the FDI position by institutional sector, according to the asset/liability principle, held relatively stable between 2016 and 2025. Non-financial corporations are the main sector for both FDI assets and liabilities, representing on average 66% of assets and 75% of liabilities over the period 2016-25. In addition, they systematically account for a greater share of liabilities, indicating that inward investment into Spain is largely channelled towards non-financial corporations. Non-monetary financial institutions are the second most important sector, with an average share of close to 20% of assets and 23% of liabilities during the period analysed. Meanwhile, monetary financial institutions excluding the central bank account for a comparatively small share, representing on average around 15% of assets and only 3% of liabilities. This difference reflects the greater presence of monetary financial institutions in Spain's outward FDI than in its inward FDI.

5 As with Chart 1, the values in 2020 and 2021 were influenced by a denominator effect stemming from the fall in GDP during the COVID-19 health crisis.

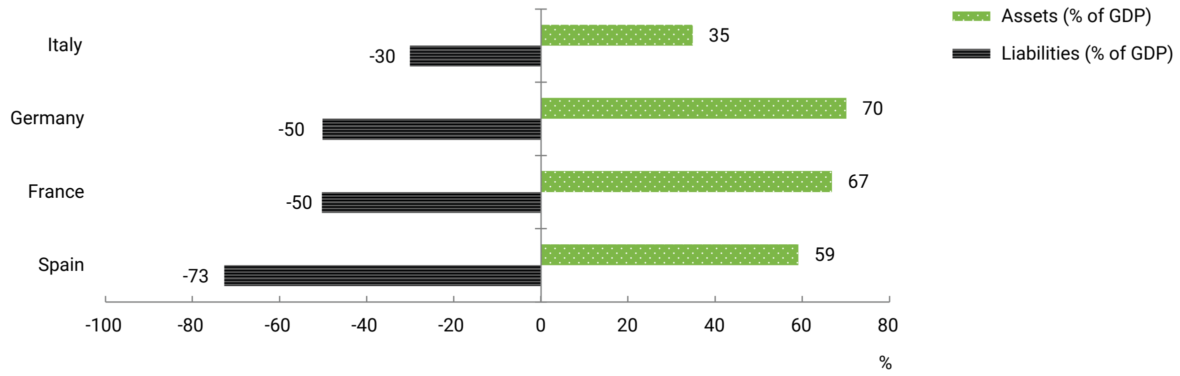
6 As noted by UNCTAD in "Global foreign direct investment falls for the second consecutive year, posing acute challenges to developing countries" (July 2025).

Chart 3
FDI position by institutional sector: assets and liabilities



SOURCE: Banco de España.

Chart 4
FDI assets and liabilities as a percentage of GDP. Spain vs the other three main European Union economies (2025)



SOURCE: Banco de España.

4 Comparison of Spain's position with those of other large European Union economies

Chart 4 compares Spain's FDI positions (according to the asset/liability principle) relative to GDP in 2025 with those of the main European Union economies (Germany, France and Italy). In 2025, inward FDI in Spain reached 73% of GDP, the highest share among these economies. For its part, Spanish outward investment stood at 59% of GDP, placing it third behind France (67%) and Germany (70%), while Italy had the lowest value (35%).

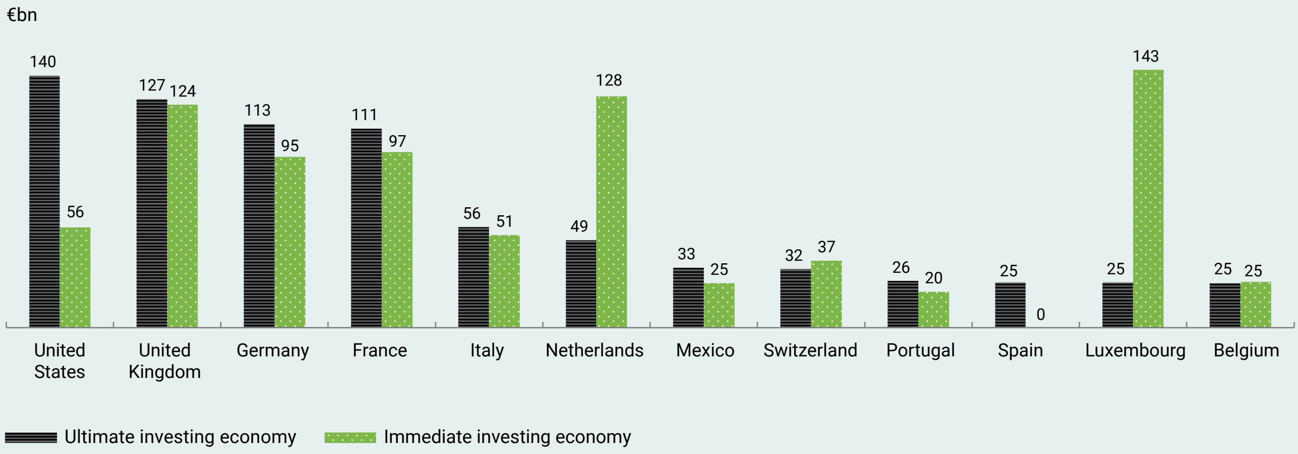
Box 1
FOREIGN DIRECT INVESTMENT BY ULTIMATE INVESTING ECONOMY IN 2025

When analysing the geographical breakdown of foreign direct investment (FDI), the directional presentation (compiled as explained in Section 2 of the main text) is a particularly suitable approach, as it focuses on an economy's position as either a direct investor or a direct investment recipient.

The geographical breakdown of the counterpart of Spain's inward FDI can be presented from two different perspectives:

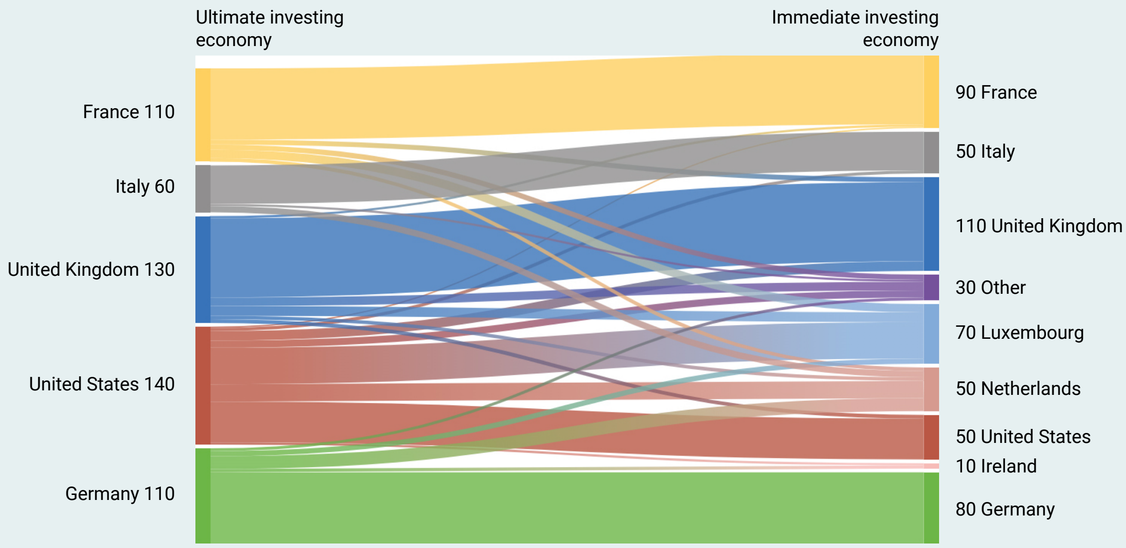
- taking the immediate investor in resident companies in Spain as the counterpart; or

Chart 1
FDI in Spain, by immediate investing economy and ultimate investing economy in 2025



SOURCE: Banco de España.

Chart 2
Top five ultimate investing economies in Spain in 2025 (€bn)
Breakdown between investments channelled through intermediary economies and those made directly from origin



SOURCE: Banco de España.

Box 1
FOREIGN DIRECT INVESTMENT BY ULTIMATE INVESTING ECONOMY IN 2025 (cont'd)

- taking as the counterpart the ultimate investing economy,[1] that is to say the economy of residence of the entity that ultimately controls the direct investment enterprise, following the ownership chain upwards to the highest level.

As Chart 1 shows, the geographical breakdown of positions *by immediate investing economy* for 2025 shows Luxembourg (€143 billion) and the Netherlands (€128 billion) as the main counterparts. This is chiefly because of the large number of holding companies and special-purpose entities (SPEs)[2] established in these two jurisdictions to channel investment from other countries. The next immediate investing economies are the United Kingdom (€124 billion), France (€97 billion) and Germany (€95 billion).

However, when analysing investments *by ultimate investing economy*, the United States (€140 billion) is the main investor in Spain, followed by the United Kingdom (€127 billion), Germany (€113 billion) and France (€111 billion).

Chart 2 presents the five main ultimate investing economies and the method used for making the investment. The results show that the United States (the top investor, with a position of €140 billion) channels a significant share of its investment through Luxembourg and the Netherlands, although it also maintains a sizeable amount of investment not channelled through intermediary economies. Meanwhile, the other four main ultimate investing economies exhibit a more homogeneous pattern, characterised by a predominance of investment in Spain not channelled through intermediary economies and only limited recourse to them. Nevertheless, where they do invest through indirect channels, Luxembourg and the Netherlands again consistently rank among the main jurisdictions used.

1 For further information, see the Statistical Note "Foreign direct investment in Spain: which are the immediate and which are the ultimate investing countries?", which also explains the methodology applied to compile supplementary statistics on FDI in Spain by ultimate investing economy.

2 According to the International Monetary Fund's Guidelines (paragraph 10), SPEs are entities that are directly or indirectly controlled by non-residents, with no or little employment, no or little physical presence and no or little physical production in the host economy.

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