FOCUS · The Spanish economy's dependence on external financing

Spain's economy has made considerable progress in the past few years in correcting the major macroeconomic imbalances resulting from its previous expansionary period. But one task still pending is its overdependence on external financing. Although the economy as a whole has started to reduce its level of debt, gross external debt has hardly changed. In particular, it stood at 167.5% of GDP in Q4 2016, a very similar level to 2012 (see the first chart).[1] However, as we will see below, what have significantly changed during this period is the sectoral composition of external debt.

The main reason for the whole economy's external debt not falling over the past few years is the evolution in public debt. Between 2007 and 2016, public debt increased by 63.8 pp of GDP and approximately half of this increase (32.2 pp) is held by foreign creditors. Nevertheless, the rise in external public debt has not been constant over this period. In fact, it decreased sharply in 2012 as Europe's sovereign debt crisis spoiled the appetite of international investors for government bonds from the periphery. But since then, the share of public debt in foreign hands has grown considerably, up to its present figure of approximately 50% (see the second chart).

In clear contrast, private sector deleveraging has progressed markedly.[2] Between Q2 2010, when it was at its peak, and Q4 2016, the debt of non-financial companies fell by 31.4 pp of GDP. Most of this deleveraging has been domestic since external debt only decreased by 9.9 pp over the same period in the private sector. Consequently, the share of corporate debt held by foreigners is at an all-time high (around 39%).[3] This is due both to the evolution of firm's credit and also of corporate bonds. Regarding credit, which makes up most corporate debt, the share of external financing is increasing. In 2016, 26% of loans to companies had foreign counterparties compared with 21% in 2012. Although corporate bonds only account for 2.7% of all non-financial frim's debt, these are gaining weight, both due to the larger volume of issuances and also the increase in purchases by non-residents. The share of corporate bonds held by foreigners rose from 9.1% in 2012 to 35.7% in 2016.

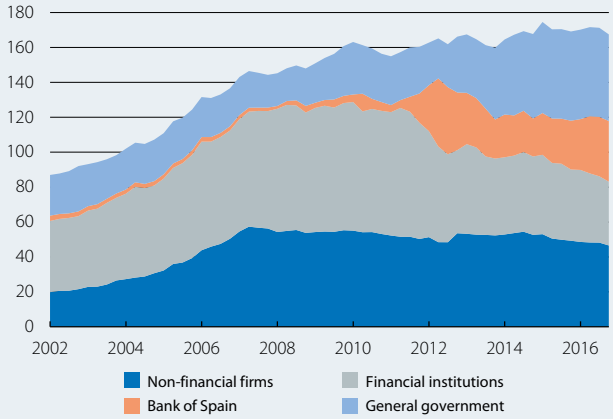
1. This article looks at external debt in gross terms. An economy's external situation is also often evaluated via its net international investment position (NIIP). See the Focus «The economy's external position: how can it be corrected?» published in MR09/2016.
2. Private external debt corresponds almost entirely to non-financial firms' debt. Household external debt is very limited (only 0.2% of its debt takes the form of loans from the rest of the world).
3. In addition to corporate bonds and credit, non-financial firms' external debt also includes foreign direct investment in the form of intragroup loans.

Lastly, Europe's sovereign debt crisis also led to financial institutions reducing their external debt considerably between Q2 2011 and Q4 2012 (–26.2 pp of GDP). This process has continued more gradually up to Q4 2016, reducing debt by a further 11.1 pp. The total debt of financial institutions has also fallen over this period and at a similar rate. Consequently, the share of external debt for the financial sector has remained stable at around 45%. It should, however, be remembered that a significant part of the financial sector's funding comes from the ECB thanks to the policies implemented over the past few years, channelled via the Bank of Spain.

Although total debt started decreasing in 2012, it is still very high for the economy as a whole and external debt has hardly changed at all. However, Spain is expected to continue reducing its dependence on external financing in the future, helping it to become less vulnerable to any changes in investor sentiment.

External debt

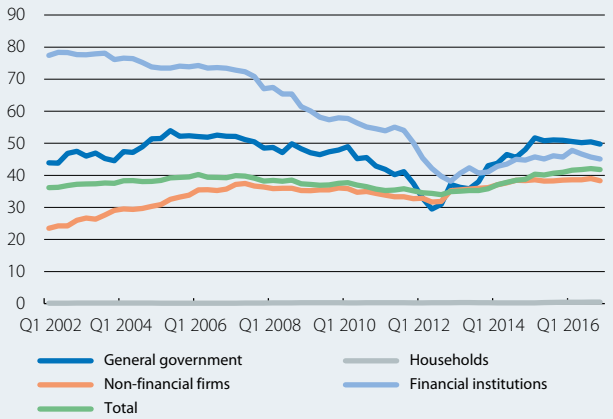
(% of GDP)



Source: *CaixaBank Research, based on data from the Bank of Spain.*

External debt by institutional sector

(% of the total debt of each sector)



Source: *CaixaBank Research, based on data from the Bank of Spain.*