The foreign sector or *Il Gattopardo*, a major change that changes little

- **The Bank of Spain has substantially revised the statistical series of the external accounts. With the new series, in Q1 2019, the current account balance has improved from 0.6% to 1.6% of GDP, but the net international investment position has deteriorated from –77.6% to –80.0% of GDP.**
- **Nevertheless, the trends of recent years (reduction in the current account surplus and improvement in the NIIP) have not changed, and the improvement in the NIIP is now slower.**

In September, the Bank of Spain (BoS) conducted an in-depth review of the historical statistics of the foreign sector in coordination with the EU, Eurostat and the ECB, incorporating new sources of information and an alignment with international standards. The resulting revision has had a substantial impact on the data of the balance of payments and the international investment position.

Specifically, in Q1 2019 (the most recent comparable period), the current account balance has gone from 0.6% to 1.6% of GDP, while the net international investment position (NIIP) has deteriorated from –77.6% to –80.0% of GDP. In the case of the current account, this difference of 1.0% of GDP is particularly due to a higher tourism balance (0.50% of GDP),[1] although a better balance of goods (0.16%), of non-tourism services (0.15%) and of income (0.20%) have also contributed to the improvement. As for the NIIP, the deterioration is mostly the result of changes in the direct investment position.

However, a closer analysis of the current account reveals that **these major changes scarcely alter the trends seen in the Spanish economy's foreign sector in recent years** (since 2016). In terms of the deterioration in the current account surplus, in Q1 2019 the current account balance lost 1.02 pps of GDP compared to Q4 2016, almost the same as the decline prior to the review. Similarly, the deterioration of the balance of goods does not change significantly, dropping to 1.06% of GDP from 1.12%, with exports continuing to grow less than imports (in Q1 2019, they grew by 2.5% and 5.6% year-on-year, respectively, compared to 2.4% and 6.2% prior to the review).

Tourism services deserve a special mention. Despite the tourism balance rising from 3.4% to 3.8% of GDP (Q1 2019), this change occurs uniformly throughout the series, so the deterioration since the end of 2016 barely changes with the revision (from 0.02% according to the old series to 0.05% of GDP). What is significant, however, is the greater strength that the revision attributes to the growth of tourism imports (Spaniards travelling abroad), which accelerates more following the review (in Q4 2017 they grew by 4.6% year-on-year, and in Q1 2019, by 9.0%). As a result, the deterioration in the tourism balance between the end of 2017 and Q1 2019 is slightly higher (0.23%, versus 0.20% prior to the review).

As for the NIIP, the revised series continues to show a recovery since the low point of Q2 2014, albeit slower than previously believed. Specifically, while the low point

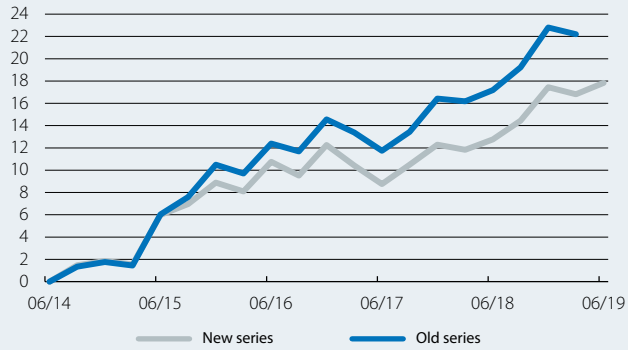
Spain: revision of the components of the current account balance *

(pps of GDP)

Note: ** Difference between the value after and prior to the revision, for each of the balances that comprise the current account balance (the total represents the change in the current account balance due to the revision).*
Source: *CaixaBank Research, based on data from the Bank of Spain.*

Spain: net international investment position

*Cumulative change in pps of GDP (0 = Q2 2014) **



Note: ** Cumulative change since the low point of Q2 2014 (–97.8% of GDP after the revision, –100,3% prior to it).*
Source: *CaixaBank Research, based on data from the Bank of Spain.*

1. The revision of the tourism balance is primarily attributable to changes on the income side due to the incorporation of data from the EGATUR survey (in the most recent years, payments are also modified). Previously, only the rates of change were taken into consideration.

of 2014 has gone from –100.3% to –97.8% of GDP, the cumulative improvement relative to this low point was 17.8 pps of GDP in Q2 2019 (16.8 pps in Q1 2019), whereas before the revision the cumulative improvement in Q1 2019 amounted to 22.2 pps of GDP. The positive side of this is that practically all of the revision is due to changes in the valuation of liabilities (in particular, real estate properties owned by non-residents).

The conclusion is that, although this review by the BoS improves the macroeconomic picture by raising the current account surplus, the trends remain the same: a deterioration in the balance of goods, with weak export growth, and deceleration in the pace of tourism growth, with strong growth in tourism imports. Furthermore, the recovery in the NIIP is slower than expected due to a downward revision of the valuation effects.

Jordi Singla

Spain: direct investment liabilities

Stock (pps of GDP)

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