

# Statistics from the Bank for International Settlements: formation of the foreign debt of Spain

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## Abstract

According to the Bank for International Settlements (*BIS*), the only Foreign Debt registered that has yet to be repaid by Spain amounts to one million of millions USD and its creditors are Anglo-Saxon countries or middleman countries from their area of influence. The creation of this debt only started in 2004. Since then and in relative terms, the 'NIIP' (*Net International Investment Position*) of Spain has become its main geopolitical problem, in addition to accelerating its retreat to convulsive markets. The article describes the countries, agents and double-entry movements involved in said debt, using the swap method in the spatio-temporal matrix provided by the *BIS Quarterly Review* between 1999 and 2014.

*Keywords:* Bankig, Foreign Debt, Statistics, Registry

*Classification AMS (MSC 2000):* 62P20

## Estadística del Banco de Pagos Internacionales: formación de la deuda exterior de España

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### Resumen

Según el Banco de Pagos Internacionales (*BIS*), la única deuda exterior registrada todavía por devolver por España, asciende a un billón de USD y sus acreedores son países anglosajones o de su área de influencia. La formación de esta deuda se inicia tan sólo en 2004. Desde entonces y en términos relativos, la 'NIIP' (*Posición neta de la inversión internacional*) de España se ha convertido en su principal problema geopolítico, además de acelerar su retroceso hacia los mercados convulsos. El artículo describe los países, agentes y movimientos a doble entrada implicados en dicha deuda, utilizando para ello el método de permutas en la matriz espacio-temporal proporcionada por el propio *BIS Quarterly Review* entre 1999 y 2014.

*Palabras clave:* Banca, Deuda exterior, Estadísticas, Registro

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## Introduction

Everyone agrees that Spain has a foreign debt because, apparently, there are no countries that do not have one. But if the country has a foreign debt, there should be some information available in regard to it. Therefore, the first objective of this article is to present all the data concerning the foreign debt that is accessible to the Bank of Spain, even though in general and, unlike the commercial balance of payments, it will not be possible to know to which countries has the debt been contracted.

In fact, there is an international body that permanently registers the financial statements of foreign debts. This body now is subject to the United Nations, an entity eager to have some control over the globalization of banking. This international body is the 'BIS' or Bank for International Settlements. Therefore, the second objective of this article is to disclose the active reciprocal balances of foreign debt that affect Spain in relation to other countries.

To carry out these tasks, this article will use a simple language composed of the most common terms used in banking, among which the concept of '*position*' or '*NIIP*' (*Net International Investment Position*) will stand out. This concept includes the outstanding balance of what we owe, minus the outstanding balance of what is owed to us since 1999—a time when the balance of the contribution payments abroad begins to be a cause of concern, and not only for Spain. Therefore, the third and final objective of this article is to determine the status of the *NIIP* and its situation from 1999 up to date.

## 1 The Bank of Spain

### 1.1 The *NIIP* according to the Bank of Spain

The Statistical Bulletin of the Bank of Spain provides the level of the national *NIIP* in the following tables, BE\_17\_27\_5 since 1992 and BE\_17\_30\_5 since 2002. At first, the balance of foreign investment was practically nil due to the surplus that supposes the 'importation' of tourist demand. Moreover, after being implemented in Europe, the Structural Funds and other grants completed the resources that Spain had to carry out its development.

The start of the foreign debt took place in 1987 when the socialist government undertook the works for the Fifth Centenary, which were beyond the plans that Europe had for the development of Spain. These plans had been enunciated in interventionist terms by the newly appointed president of the European Commission, Jacques Delors (1986, 1989). From here, the financial bubble that fuelled the actual real estate and civil works bubbles respectively was generated.

It is possible to observe that the growth of the *NIIP* maintained a strong rhythm during the double presidential term of José M<sup>a</sup> Aznar. In those crucial years, economic and monetary authorities envisioned the possibility that the European agents, encouraged by the 'Delors doctrine,' were not going to be able to recover their investments. Meanwhile, the pace of foreign debt formation began to accelerate in 2003 and 2004.

The president had to resort to refinancing in non-European markets. But these investments, treated as privileged information, began to drip too late and were not able to prevent the subsequent bursting of the financial bubble.

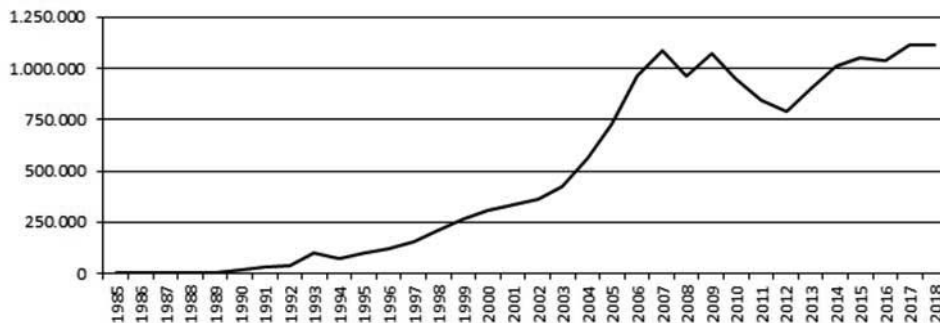
Something unexpected happened then: the successor appointed by Aznar lost the 2004 elections at the hands of José Luís Rodríguez Zapatero. An important fact that needs to be highlighted here is that during the campaign. Together with the former president of the '*Banco Hipotecario*', Julio Rodríguez, the author of this paper persuaded the socialist candidate from the Superior Council of Spanish Architects Orders (CSCAE), if he won, he should propose a "soft landing" of the bubble, which was to his liking.

But once in power, Rgz. Zapatero was convinced by the directors of the Bank of Spain that the bubble was just not real; instead, they saw it as a unique opportunity to enter the '*Champion's League of the World Economy*' (*sic*). From there, the formation of the foreign debt accelerated its rate of growth and the *NIIP* reached over one billion euros when, in 2007, the crisis broke out.

Figure 1

### Net International Investment Position. Bank of Spain

Table PII.BE\_17\_27.5 & PII.BE\_17\_30.6 in million euros



Furthermore, the State's self-bailout was financed, while the investors who could, disappeared after selling their assets. Everything was paralyzed, and the budgets were incompatible with the Treaty of the European Union. Lastly, in 2011, Spain received the '*Trichet letter*', which obliged the government to modify the Constitution and to hold the entire Spanish population responsible for the payment of the foreign debt. But the effect was short-lived: the *NIIP* regained its current level, as it can be seen in Figure 1.

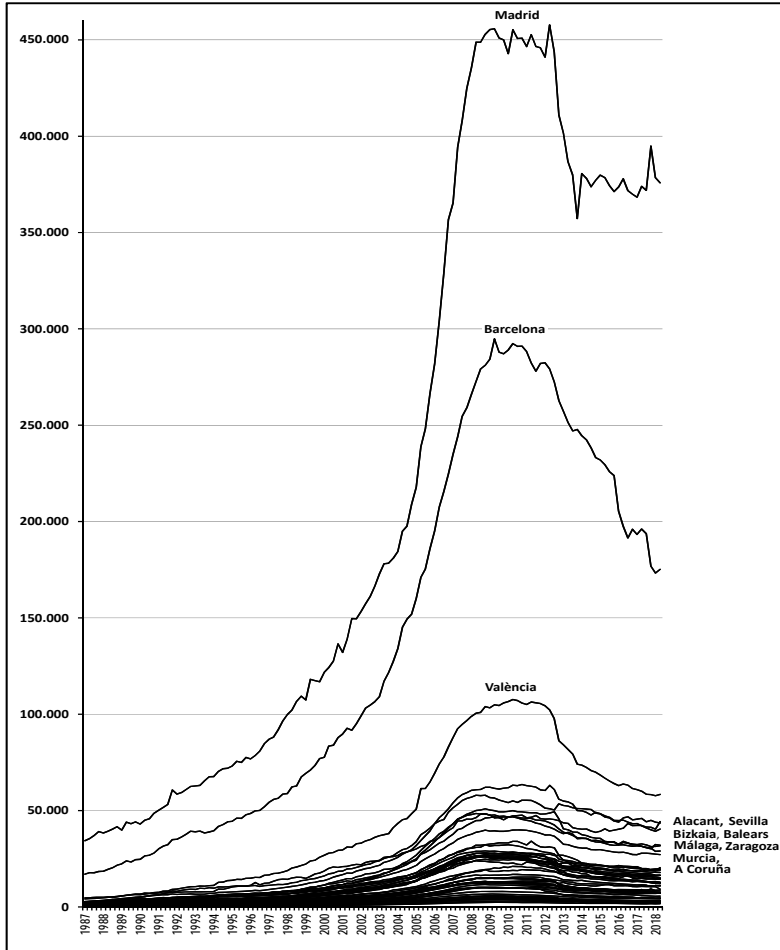
## 1.2 Outstanding loans by province

The foreign debt is the main burden of the Spanish economy, but it is not distributed equally in all provinces. This inequality can be measured thanks to the information provided by the Bank of Spain. This information can be found in the series on bank outstanding balances that appear in its *Statistical Bulletin*.

Figure 2

**Outstanding loan's account in provincial offices**

In million euros. Bank of Spain. Tables 4.28 y 4.49.2



The tables BE 4.28 are monthly, provincial, and sectorial, and they are updated permanently thanks to the dispatches sent each month by the regional offices of each entity to the Bank of Spain since 1987. The sectors are the 'AA.PP' (*Public Administrations*) and the 'OSR' (*Other Resident Sectors*) The total (outstanding loans) of both sectors is as follows:

The nature of the assets is not specified in these outstanding balances. Nevertheless, taking into consideration the preponderance of the construction activity in the 'GFCF,' or Gross Fixed Capital Formation, by both public and private sectors, its provincial location can be

known. Indeed, both sectors are mostly financed with foreign debt securities whose volume is comparable to that of the GDP itself but without knowing its origin.

It is possible to see that the Community of Madrid managed to hold up to 45% of the debt and that, since 2011, it started to pay it back, like almost all the other provinces. But this amortization was soon blocked. This blockade was connected to the ‘*Luxembourg leaks*’ of 2014, which involved more than 350 companies, thirty of which were Spanish (a good part of the Ibex 35), who transferred capital to Luxembourg and other ‘*off-shores*’, which is akin to evading taxes.

More than two thirds of these companies’ social headquarters are in the Community of Madrid (the capital, but also Majadahonda and Fuenlabrada), although their production plants are in other provinces. The other contributing companies, with or without their social headquarters in Madrid, are in the Mediterranean Coast, Euskadi, Seville, Zaragoza, Girona, La Coruña and some other provinces.

## 2 The Bank for International Settlements

### 2.1 What is the BIS?

After having exhausted the national sources of information on foreign debt, the second objective of the article is to compare these results with the records of the Bank for International Settlements. Obviously, such records cannot be broken down by provinces, and they do not cover a period as broad as that of the Bank of Spain. Nevertheless, they provide a broad perspective on the reciprocal movements between Spain and other countries. Now, the institution itself is complex and unique. It is therefore necessary to first summarize the history of the BIS, second its composition, and third its mission.

According to its own definition, “The Bank for International Settlements (BIS) is an international financial organization based in Basel, Switzerland, owned by numerous central banks. Being the ‘Central Bank of Central Banks’, the BIS encourages international financial and monetary cooperation and is not accountable to any government. The BIS carries out its work through its Monetary, Economic, and Banking Departments, its General Secretariat and its Committees under the guidelines issued by its General Assembly, in which the member Central Banks have the right to have representation and to vote. It also provides banking services to central banks and other monetary institutions.”

After the First World War and the Great Depression of 1929, the industrialized countries promoted and renewed multilateral institutions that would keep them safe from this type of great disaster. Founded by the 1930 Hague Accords, the Bank for International Settlements was one of these institutions. Its peculiarity lies in not receiving or lending money, but in registering the international movements declared by the Central Banks of the member countries, including the loans that these may grant or receive from central banks of other non-member nations. Spain is one of the founding members.

The number of member countries of the BIS is composed practically of those of Western Europe, the United States, and other Anglo-Saxon countries besides Canada. Of these, only a small group of Central Banks have provided enough information to be able to become part of the executive 'panel', even though this panel has been expanded over the years, as we will see later.

The main function of the BIS was therefore not specifically statistical, since its main task was to organize the strategic funding approved at any time by other groups such as the 'G7', the United Nations Security Council or what is left of the 'Trilateral Commission' of the Cold War, later NATO, etc., though, without issuing its own currency.

The events that have taken place since the 1990s, such as the Bosnian War, the agreements on human and environmental rights, or the possession of weapons of mass destruction, have changed the way in which things are considered. In particular, transfers of money from one country to another have left in their wake bubbles and debts of a size hitherto unknown. All this has led the BIS to develop more extensive statistical dissemination work than that which prevailed at the arrival of the single European currency, specifically since 1999. All these changes can be seen in the *BIS Quarterly Review*, available for consultation in the Library of the Bank of Spain among other places.

## 2.2 The BIS and Statistics

It was also in 1999 when the United Nations entrusted the BIS with the control of the registration of international financing in the framework of 'globalization'. This assignment seems to have been received with enthusiasm by the Basel team, taking advantage of it to extend the benefits of its *Bulletin* thanks to double entry accounting. The tables (9B) make up the balance of the debt that each country of the panel owes to other countries without distinction (*claims*), minus what the other countries of the panel owe to them (*liabilities*), i.e. the *NIIP*. Naturally, these exist in countries outside of the panel, but their volume can be estimated by the difference with the total number of banks involved, which is also provided by 9B.

However, the financial and banking crisis that has shaken Europe and part of North America has increased the foreign debt beyond what is reasonable. This has required that the statistics provided by the BIS, in addition to updating the outstanding debt balances, specified the nature of the operator (administrations, banks, companies, and others) as well as the type of securities (derivatives, collateral, and clauses or commitments) always as double entry. This is how, starting in the last quarter of 2010, a new table (9E) appeared with the breakdowns in each crossing, which was maintained until the first quarter of 2015.

It does not seem like the Member States have equally appreciated this detailed exposure before the international community. The truth is that coinciding with the inauguration of the former governor of the Bank of Spain, Jaime Caruana, as the new director of the BIS, the specialized statistics of tables 9B and 9E were no longer available in open access through the Internet.

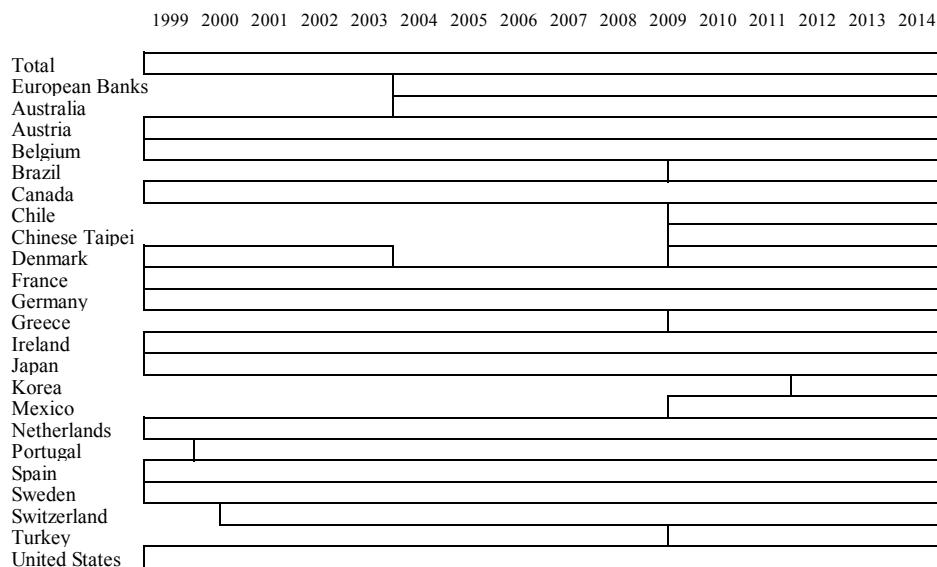
Therefore, the chronological framework of this study had to be limited to the period from the second quarter of 1999 to the fourth quarter of 2014, since the last one, that is, the first quarter of 2015, is still incomplete. Currently, banking statistics have been unified (BIS, IMF, WB...) and these analyses are no longer possible.

### 2.3 Participating States

The table in Figure 3 indicates the entry and permanence of the member states in the ‘Executive Panel’ between 1999 and 2014:

Figure 3

#### Panel of members. Bank of International Settlements. 1999-2014



### 2.4 Data Extraction

The information gathered by the BIS has only been provided on paper (the Excel format was not sufficiently consolidated during the period), so it has been necessary to proceed by using optical character recognition (‘OCR’) before being able to reach some sort of manageable data.

The ordering of the series according to criteria is carried out by means of permutations of columns and rows on the spatio-temporal matrix provided by the BIS itself, without carrying out any type of econometric intervention of a stochastic nature.

**Columns:** Outstanding balances of the loans granted by the creditor country of reference to each debtor country (‘claims’).

**Rows:** Outstanding balances of loans received from each one of the other countries by the reference country (‘liabilities’).

**Crossings:** Outstanding balances found on columns (*active*), minus outstanding balances found on rows (*passive*). The result is the ‘NIIP’.

Finally, the tables are transposed into figures with the same titles as the original tables.

### 3 The foreign debt of Spain according to the BIS

An a priori comparison can summarize the singularity of the Spanish case. If the variation of the 'NIIP' of four of the panel countries is compared at the end of 2014 with respect to the beginning of 1999, this variation is negative in the United Kingdom with -106% and in Germany with -108%. On the other hand, it appears positive in the US with 403% and in Spain with a surprising 1402%. In comparative terms, Spain has thus passed, in only fifteen years, from having a balance of quotable payments in equilibrium to be the great State with the biggest relative foreign debt of the panel.

#### 3.1 Formation of the debt

The following three figures translate into graphics the 'claims' of the columns, the 'liabilities' of the rows and the 'NIIP' of the crossings. In these appear the states with which Spain has maintained financial relations of this nature throughout the period documented, i.e. from 2009 to 2014. Therefore, any cross-information search of these characteristics outside of this period is doomed to failure and not only for Spain, but also for the other countries of the panel.

The order in which the different countries involved are represented during these fifteen years comes from the peculiar classification given during the Cold War, which placed them in the figure of highest to lowest incidence:

- 'Developed' countries with Anglo-Saxon roots and Western Europe, including Poland and Turkey.
- Other 'developing' European countries (in process of development).
- Large countries of Latin America except those governed by natives.

In contrast, within the period, two relevant events can be seen in fig. 4. First, Spain received claims from Europe that can be classified as normal. Second, it also received other truly extraordinary loans from the Anglo-Saxon countries or their Latin American intermediaries, since they reach 1 million of millions USD.

On the other hand, and according to fig. 5, Spain acquired values liabilities from European countries and to a lesser extent from Latin American countries, which have also exceeded one million of millions of USD. But the 'crash' of 2008, Spain forced to resell the loans, at least half of them.

#### 3.2 Maintenance of debt

From all the above, the following can be inferred:

First: Preponderant participation of the 'developed' Anglo-Saxon countries as of 2005.

Second: Participation of the 'developed' countries of Western Europe, discreetly in an increasing way until 2008, and in a compulsory way until 2014.

Third: Participation of a group of 'developing' Latin American countries including Portugal: Mexico, Brazil, Chile, Colombia... According to the follow-up analysis, these



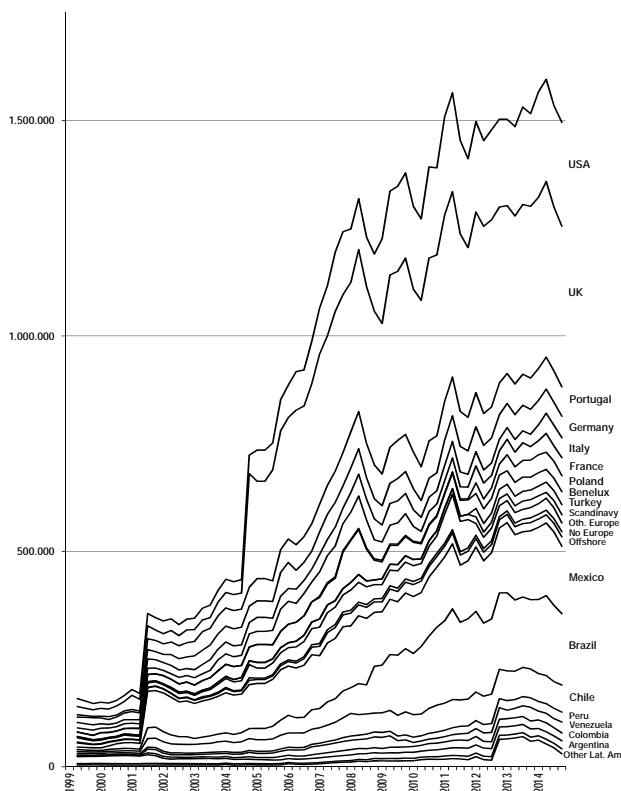
countries have been the intermediaries of loans granted by the first group because they are in their area of influence and, in addition, for not being too demanding when it comes to taking assets out of balance.

It is noteworthy to point out that at no time do the curves decrease, which means that none of the external debt is amortized and, therefore, does not give rise to accounting entries in the statistics of the National Treasury of Spain. Only the interests are implicitly contained in said statistics, but without a breakdown of the country of destination.

Figure 4

**Foreing claims of reporting banks on Spain by country Bank for International Settlements (BIS). Claims in millions of US dollar**

**Foreing claims of reporting banks on Spain by country Bank for International**



**Settlements (BIS). Claims in millions of US dollars**

Figure 5 shows the outstanding balances of debt securities from different countries that were acquired by Spain during the four periods described above. It can be observed that the confidence in Spanish stock, which already existed since before 1999, grows regularly until 2008. But the crisis starting in 2010, provoked a race to get rid of this stock. The

intervention of the European Central Bank (the 2011 ‘Trichet letter’) slowed down this trend, but the truth is that there was no reasonable market to place them.

Figure 5

**Foreing liabilities of reporting banks on Spain by country Bank for International Settlements (BIS). Liabilities in millions of US dollars**

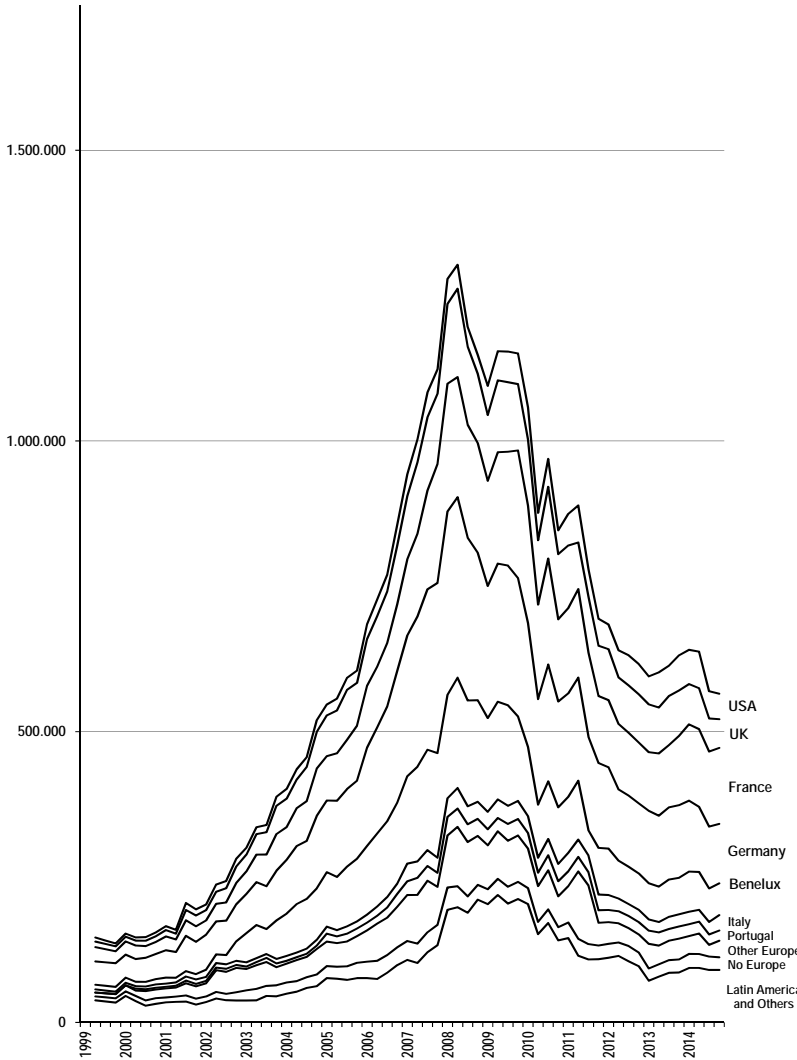
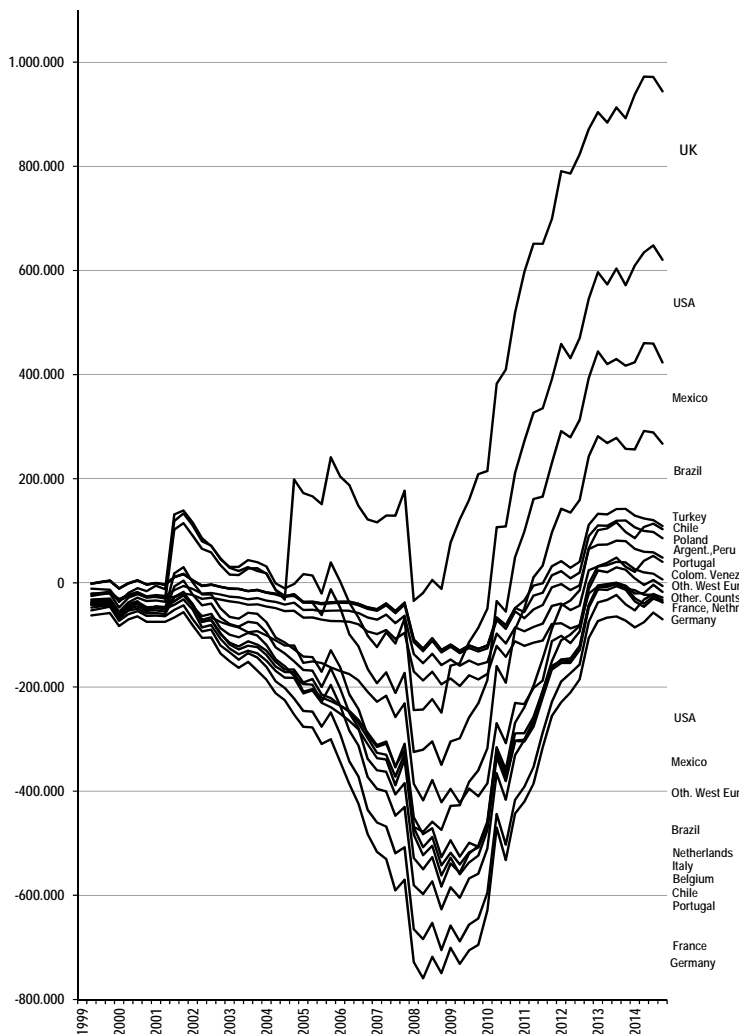


Figure 6 shows the Spanish NIIP, that is, the difference between *claims* Spain owes to other states or countries, minus *liabilities* what they owe to Spain. The balance was 150,290 million in September 2001. Then it dropped to 15,770 at the end of June 2008,

and finally it rose again to reach 958,042 million of USD in December 2014. This figure is of similar magnitude to that of the 'Anglo-Saxon group' represented in Figure 4 and, of course, in Figure 1 of the *NIIP* according to the Bank of Spain.

Figure 6

**Net International Investment Position of Spain vis-a-vis all countries Bank for International Settlements. NIIP in millions of US dollars**



## Conclusion

It is obvious that Spain's net foreign debt equals one million of million euros, both for the Bank of Spain and for the Bank for International Settlements. But it is not certain that the debtors are the same for either bank. In regards to the statistics of the National Treasury, this entity accounts for foreign investments according to the sectors of activity and, in the group of non-resident investors, it also reaches close to one European billion.

In addition, there was the transfer of private debt to public debt with the *modification of art. 135* of the Spanish Constitution, in order to give the Treasury the execution of the external accounts. But once again, the accounts were not clear because the agents declared to have returned their part. And if you asked to whom they have liquidated the accounts, they claimed that it was given to the European banks, that is, the investors in the liabilities of Figure 5, which have almost no Anglo-Saxon member.

The final question of this paper is, then, where is that Anglo-Saxon 'billion'? Until this question is answered, the country will continue to retreat to the so-called convulsed market, which is where the misconceived market economy leads Vergés (2019).

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