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# COMPARATIVE ANALYSIS OF THE RETURN ON FOREIGN INVESTMENTS OF SPAIN AND PORTUGAL IN THE CONDITIONS OF FULL-SCALE AGGRESSION OF RUSSIA AGAINST UKRAINE

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The recent COVID-19 pandemic has led to a prolonged global financial crisis that has affected the national economies of all EU member states. For countries such as Spain and Portugal, which have not fully recovered from the European debt crisis, new challenges have jeopardized their investment attractiveness. As a result, in 2022, these countries showed the lowest return on foreign direct investment after Luxembourg - Spain (3.7%) and Portugal (4.5%) [1].

Nevertheless, Jonathan Jones, Ilona Servitskaya and Colin Wren in their study [2, p. 1682] point out that investors pay more attention to the EU15 countries than to the CEE countries due to the large national market and more educated workforce. As an additional incentive for FDI inflows to the EU, Justin Lindeboom and Sophie Meunier considered investment migration programmes. Annually they generate 976 million euros in Spain, and in Portugal - 670 million euros [3, p. 26].

As can be seen from Figure 1, both countries are characterized by a predominance of liabilities over assets, which indicates the attractiveness of these countries to investors. Comparing Spain and Portugal, the assets and liabilities of the former exceed those of the latter by an average of 5 times, which may be due to Spain's positioning as the 2nd most attractive European country in the real estate sector [4].

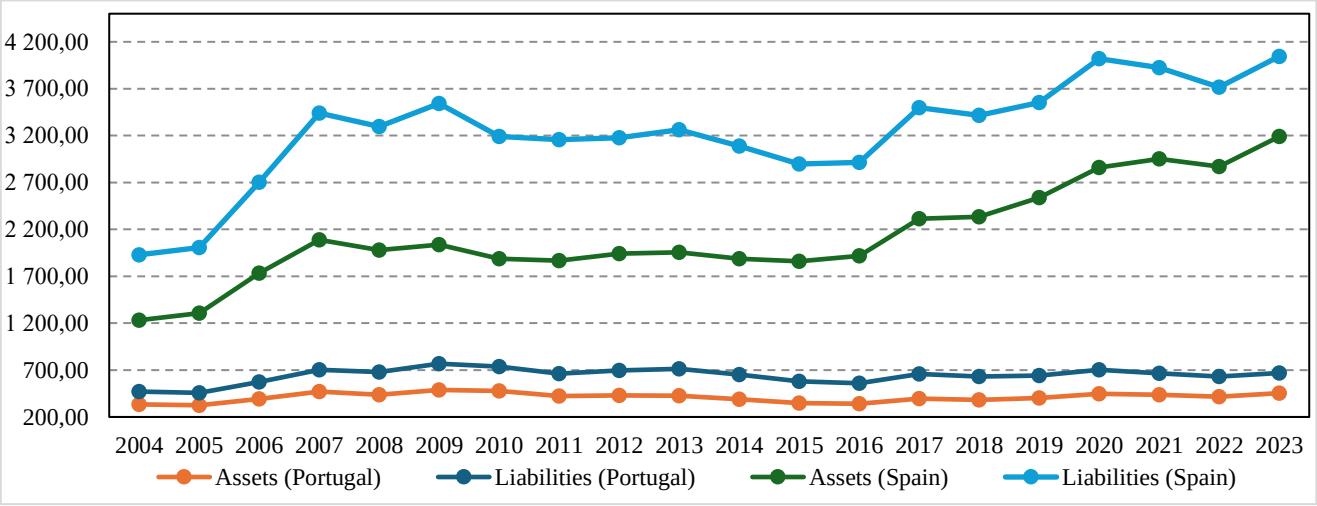


Fig. 1. Dynamics of Assets and Liabilities in 2004-2023, bln USD.
Source: compiled by the author based on IMF [5].

For Portugal, portfolio investments make up the bulk of asset accumulation (49.85%), while for Spain, FDI (41.39%). The situation with liabilities is the opposite, as 49.23% of the structure of Portugal is FDI, while for Spain, Portfolio and Other investments are distributed almost evenly - 36.87% and 35.63%, respectively. Table 1 shows the return on these investments for both countries.

Table 1

**The average return on investment in Spain and Portugal from 2004 to 2023**

| | FDI | Portfolio | Other |
|---|---|---|---|
| The return on inward investment | | | |
| Portugal | 4,71% | 2,84% | 1,48% |
| Spain | 5,78% | 2,64% | 1,32% |
| The return on outflow investment | | | |
| Portugal | 4,96% | 3,46% | 1,53% |
| Spain | 3,84% | 2,97% | 1,55% |

Source: compiled by the author based on IMF [5].

The calculation results confirmed that Spain is more attractive to foreign investors, as it has the highest return on inward FDI at 5.78% compared to 4.71% for Portugal. At the same time, the returns on Portfolio and Other investments are equally significant for both countries. However, domestic investors in Portugal are more inclined to invest abroad than Spanish investors. Regarding FDI and portfolio returns, Portuguese investors have higher returns than foreign investors. Spain's investment attractiveness could be explained by its 10-year government bond yields. Although Portugal had higher yields in the pre-crisis period, since 2015, Spanish bond yields have been slightly higher than Portuguese ones. Over the past 2 years, the yield on Portuguese government bonds has not exceeded 3.6%, while this figure reached 4.02% for Spain [6].

To summarize, considering the investment position and return on investment, Spain is a more attractive country for foreign investors than Portugal. This can be explained primarily by the growing real estate sector, as well as higher bond yields.

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