

**CHANGES IN THE BALANCE OF
PAYMENTS AND IN THE
INTERNATIONAL INVESTMENT
POSITION IN 2014**

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CHANGES IN THE BALANCE OF PAYMENTS AND IN THE INTERNATIONAL INVESTMENT POSITION IN 2014

1 Introduction

Starting from the dissemination of data on 15 October 2014, two significant changes have been made in the compilation of the Spanish balance of payments (BOP) and the international investment position (IIP) and other related statistics: the new methodological manuals have been implemented and new data sources have been included.¹

In 2009 the IMF published the sixth edition of its BOP and IIP manual (BPM6). The year agreed within the European Union (EU) for its implementation was 2014, in order to have sufficient time to adapt current reporting systems and to ensure the methodological consistency of the statistics compiled in the EU countries.² Indeed, following decisions by the European committees entrusted with these statistics, over the course of 2014 the EU countries set in place the new manual in coordination with the changes to adapt National Accounts to the new European System of Accounts (ESA) 2010 which was also set in place in 2014.³ The specific month for making the change varied across the different European countries but many, like Spain, set end-September or October 2014 as the changeover date.

The choice of date responded, first, to the fact that it coincided with when the new time series were to be sent to the European Central Bank (ECB) and to Eurostat, which would produce and subsequently disseminate the new euro area and EU BOP and IIP. The second reason was that it was coordinated with the adaptation of the National Accounts to the new ESA 2010, with revision of the time series.

In October 2014 a significant change was also made in the information sources used to compile the BOP and certain IIP headings. This change was required as a result of the change in the cross-border payment regulations, which meant that the traditional system of reporting foreign transactions to the Banco de España could not be maintained. A fundamental pillar of that system was the reporting by banks of foreign transactions, both on their own account and on their customers' account, identifying the BOP item. In the context of the setting-up of the Single Euro Payments Area (SEPA), it was considered that the obligation to report the BOP statistical item would hinder integration. Thus, as in other European countries, in Spain the Banco de España has had to revise its general BOP reporting system, moving towards direct reporting systems, surveys and the use of administrative or other types of sources that are already available. The changes in data sources also affected the IIP and External debt in the headings that were still being calculated by accumulation of flows.

Although the data for the opening months of 2014 already partly included results from the new reporting system, its full implementation, which in some cases required the revision of time series, was made following the data release on 15 October 2014, coinciding with the implementation of the new manuals.⁴

¹ See press release of 15 October 2014 on the Banco de España's website (press room section).

² Many countries outside Europe were also making the changeover in 2014. At end-2013, of the 184 countries worldwide reporting Balance of Payments data, only 36 had already made the change to BPM6.

³ See Spanish National Statistics Institute (INE) press releases of 12.06.2014, 25.09.2014 and 03.10.2014 on its website (published press releases section).

⁴ It was indicated in the annual 2014 Programme of the 2013-2014 National Statistical Plan that these changes would be made in 2014. See Royal Decree 1017/2013 of 20 December 2013.

The starting point with data calculated from the new sources in BPM6 was the December 2012 IIP and the 2013 BOP. For previous periods, the requirements established by the ECB and Eurostat accepted data converted to BPM6 from statistics already calculated in BPM5. In headings in which a break in level was observed owing to the incorporation of the new sources, the time series were revised: the most recent periods were released in October, leaving the release of the complete time series for a second stage (later in 2014). In the case of financial assets and liabilities, the breaks in level would be more perceptible in the IIP, with the stocks of the items most affected more likely to undergo backward revisions.

Although the change in the reporting system was obligatory, once the new system has stabilised it will offer greater quality assurance than the previous one. This is because it is based to a greater extent on direct reporting by the units operating with the external sector, in some cases, and because it is more integrated, in other cases, into the various data sources used. However, it should be borne in mind that any system set in place for the compilation of such complex statistics, covering all sectors and all items or financial instruments, has its limitations, and this is also true of the new system. In this respect it should be emphasised that since the new system incorporates many more data sources and estimation methods, the possibilities of future changes and improvements to methods being made are much greater and this system should be considered more “alive” in this respect than the previous one.

The changes in the various BOP and IIP headings are described in greater detail below. Section 2 addresses the methodological changes arising from the implementation of BPM6 and Section 3 the changes relating to the inclusion of new data sources.⁵

2 Methodological change: implementation of BPM6

BPM6 does not entail structural changes compared with its predecessor, but is rather an adaptation. First, it takes into account the advances made worldwide in technological developments and globalisation, and their effects on cross-border economic relations. Second, it seeks to further unify the terminology and classification of items, financial instruments and sectors with other closely related macroeconomic statistics, especially with the National Accounts. And last, in the financial sphere, it accords greater significance to the economy’s balance sheet, i.e. the IIP. In the first respect, it notably improves the treatment of productive processes completed in different countries. Thus, under the new manual, imports and exports transacted without a change of ownership and exclusively for the processing or repair of goods are excluded from the goods balance, with only the amount of the processing or repair service being reflected in the services balance. This is one of the most significant changes overall, given its worldwide importance, although it is less significant in the case of Spain.

Regarding the greater concordance with the National Accounts, the following may be highlighted: the change in nomenclature of some of the main accounts that make up the current account, with income and current transfers being re-named primary and secondary income; the inclusion of FISIM (financial intermediation services indirectly measured) in the services account, with the corresponding adjustments in the income account; and the classification of direct investment on an assets and liabilities basis instead of according to the directional principle, although the latter will continue to be used for certain supplementary data presentations.

⁵ This document is largely based on that drafted for submission of this project to the Standing Committee of the Consejo Superior de Estadística (Spanish Higher Statistical Board), which ruled favourably and unanimously on the project in May.

There are numerous changes. Appendix 8 of BPM6 lists all the changes and refers to the paragraphs in the manuals where detailed explanations of the previous and the new treatment are given for each. In some cases they are not actually changes but rather clarifications of points where past experience showed that certain principles were interpreted differently in different countries, thus hampering international data comparison. To avoid this, the treatment of certain operations has been clarified in greater detail. In these instances, the new manual naturally involves a change in practice for some but not all countries.⁶

Among all the points mentioned in Appendix 8 – Changes from BPM5 – in BPM6, those that have had an impact on the Spanish BOP and/or IIP are explained below. First, a summary table divides these changes into three groups, according to whether they are reclassifications between headings, or changes in presentation (including those that entail greater detail), or whether they involve a quantitative impact that passes through to the major aggregates (net current account or even net lending/net borrowing of the economy or net IIP). As Table 1 shows, few changes impact the major aggregates.

2.1 METHODOLOGICAL
CHANGES IN THE CURRENT
AND THE CAPITAL
ACCOUNT

2.1.1 Goods and services
account

- Reclassification of the processing and repair of goods. One of the features of globalisation is that different stages of a company's productive process may be located in various countries to better harness the comparative advantages of each. This gives rise to inflows and outflows of goods with no change in ownership, previously recorded under BPM5 in the merchandise account. Under BPM6, they are excluded from this account and only the cost of manufacturing services is recorded under a new heading: Manufacturing services on physical inputs owned by others. Thus, the change of ownership principle is strictly applied, so no merchandise transaction is recorded between the processor and the owner. In the same way, inflows and outflows of goods for (or after) repair are excluded from merchandise imports and exports, with the amounts relating to repair costs being recorded in a new services category. This change is also included in the new ESA 2010.
- Reclassification of merchanting. These transactions have been moved from the services account to the goods account, where they are shown as a component other than general merchandise, specifying net and gross values. Also in this case, as in that of processing and repair services, the change responds to the strict application of the change of ownership principle. This change is also included in the new ESA 2010.
- Estimates relating to illegal activities are incorporated in goods and in services. The estimates have been made by the Spanish National Statistics Institute (INE), in the broader context of estimation of illegal activities with or without an impact on the external sector, to be included in National Accounts re-based to 2010, disseminated for the first time in September 2014. This is not really a change in the manuals, since ESA 95 already established that illegal activities should be included in the production of National Accounts. However, the logical difficulties in measuring such activities in countries generally delayed their inclusion. Recently, the insistence of international agencies and the preparation by Eurostat of guidelines on methodological recommendations led this point to be included in the changes to be introduced in 2014.

⁶ Various European countries have begun to include sections on their websites explaining the changes to the BOP and the IIP in 2014. In the case of the ECB, the information can be found in a special section under statistics/ BOP and IIP, including links to the websites of these countries.

Reclassification	Presentation or breakdown	Impact on major aggregates
Processing and repairs are reclassified from goods to services	Income and current transfers are grouped under Primary income and Secondary income	Primary income includes reinvested earnings on investment funds
Merchandising is reclassified from services to goods	A new classification of Current transfers is introduced	SDR allocations are recognised as liabilities
Communication services disappears as a heading and is split among different services items	A new item – Personal transfers – is introduced	Income accrued on portfolio investment in debt instruments is calculated according to the debtor approach
Financial intermediation services indirectly measured (FISIM) are included in services, with the corresponding adjustments in investment income	Direct investment and related income are classified on an assets and liabilities basis rather than according to the directional principle	Estimates of illegal activities are incorporated in goods and services
Reinsurance is treated as direct insurance	Income on reserves is not included under other investment but as a separate category	Flows relating to migrants' assets arising from changes in the residence of their owners are no longer recorded as transfers in the Capital account but as Other changes in volume
Intellectual property arising from R&D is reclassified from the capital account (nonproduced assets) to services	The sign convention used in the Financial account changes for net amounts, so that it is now expressed, like the IIP, as assets minus liabilities	
Taxes and subsidies on products and production are not included under current transfers, but under the new Primary income heading	Other investment is broken down in more detail	
The classification of debt securities between Bonds and notes and Money market instruments changes to short-term (less than one year) and long-term (one year or more)		
Intercompany lending between related companies is only excluded from direct investment when both entities, resident and non-resident, belong to certain financial sectors		

SOURCES: IMF and Banco de España.

- Rental expenses imputed to owners of real estate located in a country other than that of their residence when they are on temporary stays there are included in travel. Thus, imputed income from temporary stays in real estate in Spain by non-resident owners are counted as tourism receipts and, in the opposite case, as tourism payments. This has no impact on the nation's net lending/net borrowing since the increase in tourism receipts/payments is offset by an equivalent increase in investment income, as the amount imputed to the owner of the real estate as investment income is the same as that assigned to the owner as imputed rental payment.
- Communication Services are split and reclassified, disappearing as a separate item: postal and courier services are included under transport services, while telecommunications services are grouped together with computer and information services.
- A new category is introduced: Financial Intermediation Services Indirectly Measured (FISIM). Resident or non-resident agents producing FISIM charge their services implicitly in the income they collect or pay. Under BPM5, income was not being adjusted for these amounts in the BOP and this treatment was one of the few methodological differences remaining between the BOP and the Rest of the World account in National

Accounts. BPM6 equates the treatment to that accorded in ESA 95, which is unchanged in ESA 2010. Accordingly, intermediation services charged implicitly in income should be estimated, to adjust the latter and present the amounts paid or collected implicitly for intermediation services separately in the services account.

- The treatment of reinsurance is equated to that of direct insurance. Under BPM5, direct insurance services were valued on the basis of the services charges included in the total premiums. The rest of the amount of the premiums and the total claims were recorded in the current transfers account, except in the case of life insurance where they were recorded in the financial account as other investment. Conversely, in the case of reinsurance, all flows were recorded in the services account, according to whether the reinsurer was resident (at net amount in exports) or non-resident (at net amount in imports). Under BPM6, reinsurance should be counted in a manner consistent with direct insurance. This change has also been incorporated into the new ESA 2010.

2.1.2 Primary income account

- This nomenclature, which was already used in the System of National Accounts (SNA), was introduced in BPM6 for the BOP to ensure consistency between the two sets of statistics. Thus, Income and Current transfers in BPM5 are now split between Primary income and Secondary income. Primary income includes the following items:
 - Compensation of employees.
 - Investment income.
 - Other primary income (taxes on production and imports and subsidies⁷).
- Reinvested earnings on investment funds are included in primary income, within portfolio investment income, as they are considered to belong to their shareholders. The income of investment fund shareholders is defined as the income generated by the investment fund portfolio less operating expenses. When only part of this income is distributed to shareholders in the form of dividends, the retained earnings have to be classified as if they had been distributed to shareholders and the shareholders had reinvested them in the fund. Therefore, income is recorded and, as the balancing item, an addition to the investment is recorded in the financial account. This change also removes a previous inconsistency between the BOP manual and the SNA methodology.
- Income earned on portfolio investment in debt instruments is estimated using the debtor approach. BPM5 required the accrual principle to be applied, but did not specify the method in as much detail as BPM6. Under BPM6, interest is equal to the amounts debtors will have to pay to their creditors over and above the repayment of the amounts advanced by the creditors. Interest accrual is determined at origination of an instrument and lasts until it is extinguished. This contrasts with the use of market rates that reflect current market conditions and expectations (the creditor approach) or rates at the time of purchase (acquisition approach).
- Income on reserves, previously included in other investment income, is now presented as a separate item.

⁷ This implies reclassification of payments to the EU relating to traditional own resources (customs duties, agricultural duties and sugar and isoglucose levies) and of income from the EU through the European Agricultural Guarantee Fund (EAGF).

- 2.1.3 Secondary income account
- As indicated above, as in the SNA the primary income account is followed by the secondary income account which includes current transfers. Note that current transfers were defined more broadly in BPM5, where they included some items which under BPM6 are now assigned to the primary income account. Also, the presentation of Current transfers in the new manual is more detailed.
 - Personal transfers – an item that is broader than Workers’ remittances – is introduced. Personal transfers include all transfers between households, irrespective of the source of income of the sender and of the relationship between the households.
 - As noted in goods and services, reinsurance is now accorded the same treatment as direct non-life insurance. Accordingly, the amount of premiums in excess of the amount of insurance services and claims will be counted as current transfers.
- 2.1.4 Capital account
- Intellectual property arising from R&D, such as patents or trademarks, is reclassified as produced assets and their purchase/sale is no longer included in the capital account but in the services account.
 - Flows relating to migrants’ assets/liabilities arising from changes in the residence of their owners are no longer recorded as transfers in the capital account but as other changes in volume.
- 2.2 METHODOLOGICAL CHANGES IN THE FINANCIAL ACCOUNT OF THE BOP AND THE IIP
- The changes in this heading generally have corresponding effects on the primary income account, in the related instruments and functional categories.
- Before describing the changes affecting each functional category, it should be noted that the sign convention used in the financial account changes for net amounts, so that it is now expressed, like the IIP, as assets minus liabilities. Hence a positive sign in the net financial account now corresponds to net capital outflows.
- 2.2.1 Direct investment
- In the main presentation of the BOP and the IIP, direct investment is now classified on an assets and liabilities basis instead of according to the directional principle. Under BPM5, investments of opposite direction were netted, i.e. direct investments were classified as follows:
 - Spanish investment abroad = A (asset claims of Spanish parent company on foreign subsidiary) – B (liabilities of Spanish parent company to foreign subsidiary) + C (asset claims of subsidiaries on other subsidiaries of the same group)
 - Investment in Spain from abroad = D (liabilities of Spanish subsidiaries to foreign parent companies) – E (asset claims of Spanish subsidiaries on foreign parent companies) + F (liabilities of subsidiaries to other subsidiaries of the same group)
- Under BPM6, in the main presentation these investments are classified simply as assets (A, C, E) and liabilities (D, F, B). However, it is recommended that the directional principle be kept for use as needed in supplementary presentations.
- It is specified more clearly that the debt of financial corporations is only excluded from direct investment if the two corporations – resident and non-resident – are deposit-

taking corporations, investment funds or other financial intermediaries, except insurance corporations and pension funds.

2.2.2 Portfolio investment

- As noted above, reinvested earnings on investment funds are counted as income attributable to the shareholders and the balancing entry is an addition to investment in the financial account.
- The distinction between bonds and notes, on the one hand, and money market instruments, on the other, becomes strictly a distinction between short and long-term instruments (less or more than one year), and the nomenclature is changed accordingly.

2.2.3 Other investment

- Special drawing right (SDR) allocations by the IMF to member countries are recorded as a liabilities-side transaction in Other investment.
- A more detailed breakdown of Other investment is introduced, with other equity (when not direct investment or reserve assets, such as, for example, certain equity participations in international organisations) and assets/liabilities relating to insurance, pensions and standardised guarantee schemes appearing as separate items. However, in practice this additional breakdown has not been used because of the small proportion of some components compared with the more important ones in this category, namely loans and deposits.

3 Change in data sources

3.1 BACKGROUND

Since the Banco de España took responsibility for compiling the BOP in 1991, it had its own information system that made reporting of residents' cross-border transactions compulsory. This type of BOP reporting system, known internationally as an International Transaction Reporting System (ITRS), was common in other countries and comprised:

- a) Reporting by banks of the opening and closing balances of any account through which cross-border transactions were carried out, and of all account activity, for their own or their customers' account, explaining the changes in the balances, identifying the BOP item relating to all such activity, according to the Banco de España's own classification.
- b) Reporting by holders of accounts abroad (other than credit institutions) of the opening and closing balances of those accounts and of all account activity, also classified by item, explaining the changes in the balances.

This system was supplemented by reporting of offsetting transactions and of external loans.⁸

Thus the Banco de España fulfilled its responsibilities largely thanks to its own data sources regulated by its circulars. However, in recent years, the increasing complexity of the requirements of international bodies in the area of external sector statistics entailed information demands that were difficult to satisfy via indirect and receipts/payments reporting. In addition, the euro cash changeover, the integration of payment systems, globalisation (with an increase in multinationals' intragroup flows) and the increasingly high

⁸ If, under any of the above mechanisms, i.e. a or b (or offsetting), a BOP item code relating to a loan was reported and the resident holder was not an entity registered with the Banco de España, the corresponding Circular required that the Financial Transaction Number holder assigned to the loan by the Banco de España be identified. This number allowed the data from the above-mentioned sources a) and b) to be cross-checked against the loan registration database which provided numerous loan characteristics (including the relationship between firms, which identifies the functional category to which the transactions are assigned or the stock where they are accumulated). This register was fed by the compulsory reporting of loans upon origination.

reporting thresholds introduced to enhance the efficacy of payment systems meant that such systems became less suitable for measuring the economic phenomena addressed by external sector statistics. In consequence, most European countries that used systems of this kind have gradually abandoned them.

Lastly, in the context of the establishment of the SEPA, it was considered that the obligation to report BOP statistical items hindered integration. Note that with the implementation of the SEPA the aim was precisely to make all payments (national or cross-border between all SEPA countries) equal in terms of simplicity, security and efficacy. Consequently, in 2012 the regulation on cross-border payments⁹ was amended and a deadline date was set on reporting of this information by banks. That date would, in any event, have required a change of system and forced countries (such as Spain) that were still using the ITRS to replace it.

For this reason, as in other European countries, in Spain the Banco de España had to refocus the general BOP information system towards direct reporting systems, surveys and the use of administrative or other types of sources that were already available. Thus, the data provided by the Banco de España's own information system (the ITRS, which covered all BOP headings) were gradually replaced. The process was completed in 2014, when the previous system was discontinued.

The Customs Department's external trade statistics, which have been used ever since the BOP was first compiled, are one example of the use of information in addition to the ITRS. Another example is the use of the EGATUR tourism expenditure survey to estimate tourism receipts, along with other indicators, after the euro cash changeover.

In the case of financial assets and liabilities, data sources other than the ITRS were also already being used in some areas. From the outset, stocks reported directly by credit institutions in their financial statements were used for preparation of the IIP. Notable subsequent incorporations included data reported under the specific system for marketable securities pursuant to Circular 2/2001, and subsequently Circular 3/2013, and data on stocks of direct investment equity from the Foreign Investment Register (RIE by its Spanish acronym) of the Ministry for Economic Affairs and Competitiveness.

3.2 OVERVIEW OF CHANGE OF SOURCES

The headings most affected by the change are the BOP headings in which the information obtained from the ITRS was still fundamental and the IIP headings which, due to the lack of a data source for stocks, also had to be calculated using the ITRS.¹⁰

The approach to the new data sources for the current and the capital account (except investment income) has differed considerably from that for the financial account, the IIP and investment income. It should be emphasised that this entire process was carried out in close cooperation with the INE, both because of the data sources that had to be used, particularly for the current and the capital account, and because of the need to ensure coherence between the Rest of the World account in the National Accounts and the BOP.

Of the new data sources, three stand out. First, the INE's CIS survey on international trade in services and other international transactions, which covers most other services and the

⁹ Regulation (EU) No 260/2012 of the European Parliament and of the Council amending Regulation (EC) No 924/2009 on cross-border payments in the Community.

¹⁰ Note that the difference between the IIP figure in a given period and in the preceding one must be equal to the transactions made in that period plus any revaluations (price or exchange rate) plus other changes in volume (e.g. unilateral cancellation of debt).

other current and capital account headings able to be covered by a survey of these characteristics. Second, direct reporting of external transactions and positions by agents other than payment service providers (PSPs) to the Banco de España.¹¹ And third, credit institutions' financial statements, which were already being used for the IIP and have been adapted to also cover the information needed to calculate the BOP, to enable the criteria of the new manual to be applied and to satisfy the new international requirements. The headings not covered by these three sources are generally estimated by indirect methods usually combining various statistical or administrative sources that are already available.

As noted in the introduction, the new system offers greater quality assurance than the previous one. This is because it is based to a greater extent on direct reporting by the units operating with the external sector, in some cases, and because, in other cases, it is more integrated into the various data sources used to measure related phenomena.

Despite its limitations, the major advantage of the previous system was that it provided a very rapid and complete monthly figure, capturing most of the transactions as and when they were settled. Conversely, in the new system a significant portion of the data sources are quarterly (even annual in a few cases), and even the monthly ones may have a somewhat longer time period for completion given that they are direct reporting sources. The monthly data in the new system must be regarded with greater caution, particularly preliminary estimates up to the quarterly revision.¹²

3.3 CHANGE OF SOURCES, BY HEADING

3.3.1 Current and capital account

In the current and the capital account, the goods heading, which has the greatest weight in quantitative terms, continues to be calculated using the Customs Department's external trade data as the main data source. Another major heading not affected by the change in data sources is travel. Nor is there any change in the source for current and capital transfers relating to flows to/from the European Union. In other items, the traditional sources are generally replaced by new ones and in some cases it was necessary to revise the time series.

The main data source added in this part of the BOP is the INE's survey on international trade in services (CIS by its Spanish acronym). The CIS survey was initially designed to cover only the Other services headings. However, given the plans to discontinue the ITRS and change the methodological manuals in 2014, the INE and the Banco de España cooperated throughout 2012 to adapt the survey to the new methodological manuals. The 2013 data were the first to be obtained from the survey, adapted to:

- a) Include new items, such that all those in the current and the capital account able to be covered by a survey of this type were indeed covered.
- b) Adapt the sample design to cover the population as far as possible, making use of external transaction reporting by PSPs. As mentioned above, from 2014 this reporting does not contain the item codes relating to the BOP headings,¹³ but it does identify resident account holders and quantifies the amounts of external transactions.

¹¹ These disclosures are regulated by Banco de España Circular 4/2012.

¹² An interesting comparative table of the characteristics of ITRS and direct reporting systems was presented in Session 4 (*Surveys for the compilation of external sector statistics*) of the Irving Fisher Committee seminar "The use of surveys by central banks". See IFC Bulletin No 30, July 2009, on the BIS website.

¹³ PSPs report receipts/payments received/ordered by their customers flowing from/to accounts open at non-resident PSPs. Under the new European legislation, the fields reported are limited to those that are fully automated in their operating procedures, which do not include the statistical item of the transaction or any

More details on the use of the CIS survey and of other data sources are given below.

3.3.1.1 Non-tourism services

As indicated above, the main data source in the new system is the CIS survey. The use of specific surveys on international trade in services to compile this heading, after systems such as the ITRS were discontinued, is quite common in various European countries.¹⁴

Some adjustments have to be made to calculate the services data drawing on the CIS survey results. The first is to include an estimate of the transactions of units which, as they are always below the €50,000 threshold of the PSP reporting system, are outside the survey population. Second, the habitual procedure is still used to estimate goods transport, since it is impossible for companies' declarations to be adapted to the applicable methodological principles or to have the coverage required. Insurance services also require a certain degree of estimation, drawing on premiums and claims reported in the CIS survey. Lastly, certain operations not covered by the CIS survey but for which information is available are added, such as the implicit service charged to the EU by general government for collecting the funds relating to traditional own resources.

Given that the CIS survey is quarterly, to estimate aggregate monthly data and provide a forward projection of the data of the corresponding three months before the figure for each quarter becomes available, exports and imports of services firms according to the tax authorities (AEAT) are used as a supplementary indicator.

3.3.1.2 Labour income

To estimate labour income in the new system it is necessary to resort to indirect estimates that combine population data with average remuneration data. In the case of receipts, the population data used are from the Spanish Labour Force Survey (EPA). In the case of payments, the data used are from authorisations and contracts of employment (for non-EU non-EFTA countries) and from the Inbound Tourism Survey (FRONTUR) and the Tourism Expenditure Survey (EGATUR) on business travellers (EU or EFTA countries).¹⁵ The average remuneration data are taken from National Accounts data (of Spain for payments and of counterparty countries for receipts), taking into account the branch of activity. Information by branch of activity is available in the population data for receipts and partially for payments. The basic estimate will be quarterly. Lastly, note that the payments estimate is supplemented with the estimate of payments reported by general government on local employees hired in territorial enclaves in the rest of the world.

The inclusion of the new sources made it necessary to revise the BOP labour income series.

3.3.1.3 Personal transfers and social benefits

As discussed in Section 2, in BPM6 the heading Workers' remittances is now included in a more general heading – Personal transfers – that aims to cover all transfers made between households, irrespective of the source of the income transferred, the relationship between the households or the purpose of the transfer.

information relating to the issuer/final recipient of the receipts/payments. Information is available on the tax identification number of the resident originator/recipient of the transaction, the country of the payment institution acting as counterparty of the transfer (not of its customer) and the amount of the transaction. The reporting threshold is €50,000.

¹⁴ For example, recently in the case of France. See Appendix II-D of the "2011 Annual report. The French Balance of Payments and International Investment Position". Banque de France.

¹⁵ The first from the Permanent Observatory on Immigration and the Subdirector General of Immigration of the Ministry of Employment and Social Security and the second from the Tourism Studies Institute of the Ministry for Industry, Energy and Tourism.

In practice, the fact that the ITRS was completely discontinued in 2014 did not entail a change in the way payments were calculated,¹⁶ which was already based on other data sources. By contrast, the receipts from migrants' remittances were still based on ITRS data and, consequently, in this case it was necessary to create a new estimation method.

The new system for receipts uses the following data sources. First, the data reported by payment institutions (remittance senders) to the Banco de España under Circular 3/2009 (which amends Circular 6/2001). This is one of the most commonly used sources in the different countries and is the basis of the estimation of workers' remittances in the case of payments.¹⁷ It provides detailed information on the number and amount of their money transfers, with a geographical breakdown. In the case of receipts, the countries from which these transfers are sent are essentially of two types: the countries of origin of recent immigrants to Spain (to which they may have returned); and countries with higher employment rates than Spain to which this population may have re-migrated. This suggests that the receipts channelled through these intermediaries basically relate to the foreign population that has resided previously in Spain and maintains links with the country.

Taking into account the foregoing, an estimate of the remittances from Spaniards resident abroad is added to the receipts data. A more indirect approximation is used for this purpose, taking as an estimate of an average remittance that obtained from remittance senders, and as the population of remittance senders that obtained from the Census of Spanish Residents Abroad (PERE), with certain restrictions on age and country of birth.

In the case of social benefits, the basic data source for payments is the National Institute of Social Security (INSS) which provides the Banco de España with data on pension payments to non-residents. On the receipts side, information supplied by the INSS is also used, although the compilation method is more indirect.

3.3.1.4 Other current transfers and the capital account

The new data sources for these items are the CIS survey, for all sectors, and the data on public transfers channelled through the Banco de España and the direct reporting of certain Ministries for the general government sector. For the latter, the data will be cross-checked, additionally, with data provided by the Spanish National Audit Office (IGAE), although that source will not be available for producing the monthly data or for the initial quarterly estimates.

3.3.2 Financial account IIP and investment income

In the case of financial assets and liabilities, it should be noted that the analyses performed to assess the extent to which the change of data sources would mean a break in the series were based on stocks; a backward revision of the IIP was only considered where the stocks calculated using the old and the new systems were significantly different. In the BOP, only investment income series where a break was observed have been revised. At the international level examples can be found of significant revisions of stocks when a change is made from an accumulation of flows method to a source that provides data on stocks.¹⁸

16 See J. Álvarez de Pedro, M. T. García Cid and P. Tello Casas: "Workers' Remittances in the Spanish Balance of Payments", Economic Bulletin, Banco de España, July-August 2006.

17 The data of remittance senders are increased by 25% to cover other possible channels of these flows. See article quoted in footnote 16.

18 See, for example, "Supplements to the Statistical Bulletin. Monetary and Financial Indicators. Balance of Payments and International Investment Position", Volume 20, 26 May 2010, Banca d'Italia. Replacing the accumulation of flows system with reporting of stocks in the area of portfolio investment is discussed in the Methodological Appendix.

The main new data source incorporated into the BOP, the IIP and External Debt is the data reported to the Banco de España under Circular 4/2012 (rules for reporting by residents in Spain of cross-border economic transactions and stocks of external financial assets and liabilities). Taking the initial stocks as those at December 2012, firms that are not payment service providers report transactions and stock of external financial assets and liabilities directly to the Banco de España.¹⁹ Note that the information received from reporting of credit institutions' financial statements to the Banco de España was revised, in order to request any changes required to satisfy the BOP requirements.²⁰ Most of the information lost under the ITRS will be covered by these two changes, although for some headings alternative sources had to be sought to complete this information.

3.3.2.1 Direct investment in unlisted equity

For the BOP, the ITRS was being used for all sectors. Currently, the data from the new direct reporting system of Banco de España Circular 4/2012 for Other Resident Sectors (ORS) are used. Furthermore, as mentioned above, the reporting of credit institutions' financial statements, which to date only covered stocks, has been amended to also include financial transactions and income, with the breakdown and frequency required to compile the BOP.

For the IIP, credit institutions' financial statements continue to be used and the Foreign Investment Register (RIE) of the Ministry for Economic Affairs and Competitiveness for ORS. The only change is the conversion to a quarterly basis of the RIE data and their forward projection, for which the new system's transactions will be used.

3.3.2.2 Loans

For the BOP, the ITRS was being used for all sectors. In the new BOP the data from the new direct reporting system of Banco de España Circular 4/2012 are used for ORS and general government, and the reporting of credit institutions' financial statements has been amended to cover the breakdown and frequency required to calculate the BOP. For the latter, the transactions will be obtained as differences in stocks adjusted for changes in the exchange rate and taking into account other changes in volume reported separately by the institutions.

The stock of assets-side and liabilities-side loans, of direct investment and other investment, for ORS and general government was previously calculated for the IIP drawing on the cumulative transactions reported in the ITRS, adjusted for changes in the exchange rate. As from the December 2012 data (opening balance of the first 2013 reporting), data are available on the stock, transactions and other flows (changes due to the exchange rate, prices and other changes in volume) reported under Circular 4/2012.

Thus, the previous system (accumulation of flows mostly reported indirectly by banks) was radically different from the new system (based on direct reporting of stocks and flows).

3.3.2.3 Intercompany accounts

Intercompany accounts are accounts between subsidiaries and parent companies, or between group companies, in which mutual transactions are settled. In the previous system, holders of accounts abroad reported bank accounts and intercompany accounts.

¹⁹ As detailed above, reporting by PSPs covers cross-border collections and payments, as well as transfers to/from abroad made on behalf of their customers where these operations have as their source or recipient a PSP in another EU Member State or other country. The data supplied only contain the information available to the PSPs and they can report automatically at no additional cost (basically the tax identification number of the resident account holder and the amount). This information cannot be incorporated directly into the External Sector Statistics, but it will be used in future to detect possible reporting failures under Circular 4/2012.

²⁰ For the headings least affected by price changes and for which it is feasible to obtain transactions as differences in stocks, the availability of data on stocks with the required frequency and breakdowns was simply ensured, including a breakdown by currency that shows the details of changes in stocks owing to changes in exchange rates and transactions. In other headings it was necessary to include additional transaction reporting.

The balances of intercompany accounts, in the IIP, and changes in those balances, in the BOP, were assigned to direct investment as intercompany lending between related companies. These accounts were assigned to assets, in keeping with their credit sign in the aggregate. Accounts relating to centralised cash management were exempt from the monthly reporting of accounts detailing opening and closing balances and all account activity, with the only method for approximating stocks being accumulation of flows.

In the new system the balances of these accounts and changes in them are reported monthly and assets-side and liabilities-side accounts are processed separately. Consequently, due to this direct reporting, reported information on stocks, including cash-pooling accounts, is available and the accumulation of flows procedure used previously has thus been discontinued.

3.3.2.4 Trade credit

This heading can be covered suitably thanks to the new reporting system with data as from December 2012. In this case, a break will be observed as there was no information in the previous system.

3.3.2.5 Deposits

For the BOP, the ITRS was being used for all sectors, so it had to be replaced by other alternatives. Thus, the reporting of credit institutions' financial statements, which to date only covered stocks, was amended to provide the information needed to cover the BOP requirements on income and the financial account, with the latter flows obtained as differences in stocks.

The IIP of ORS and general government was calculated by accumulation of flows adjusted for changes in exchange rates. The new direct reporting system data on transactions, other flows, balances and income will be used for general government. For ORS, particularly due to the significance of individuals in this heading and the reporting thresholds, the new system achieves sufficient coverage.

The coverage problems in this heading are not an issue for Spain alone and have been much debated at the international level.²¹ The recommendation given in international fora is to take as reference the stocks of the "Locational banking statistics by residence" database of the BIS, and if they are higher, which they are in our case, they should be included in the IIP. The national central banks of countries that collaborate with the BIS to compile these statistics provide, inter alia, the data of liabilities-side deposits reported by deposit-taking institutions in their country, broken down by sector and country of deposit holders resident in other countries. Thus, they can be taken as mirror data for testing purposes and as a benchmark for our assets level.

3.3.2.6 Derivatives

Financial derivatives transactions in the BOP were calculated for all sectors through the ITRS. In the present system the transactions data are obtained by direct reporting for the Banco de España, ORS and general government, and for credit institutions from their financial statements which have also been amended in this respect to provide all the data necessary to satisfy the BOP requirements. In the case of stocks, central government and Banco de España stocks are covered by direct reporting and credit institutions' stocks by their financial statements. The stocks of ORS and of regional and local government will be released subsequently. It should be noted that, due to the nature of this heading, in this case it is not possible to remedy the lack of information on stocks using an accumulation of flows method.

²¹ See, for example, *Methodological changes in the compilation of the Euro Area Balance of Payments and International Investment Position*, ECB November 2009, in the Statistics section of the ECB's website (Balance of Payments, methodological information).

STATISTICAL NOTES PUBLISHED

- 1 STATISTICS AND CENTRAL BALANCE SHEET DEPARTMENT: Registering financial intermediation services on the national accounts as of 2005. (The Spanish original of this publication has the same number.)
- 2 STATISTICS AND CENTRAL BALANCE SHEET DEPARTMENT: Valuation of shares and other equity in the Financial Accounts of the Spanish Economy. (The Spanish original of this publication has the same number.)
- 3 STATISTICS AND CENTRAL BALANCE SHEET DEPARTMENT: Registering Financial Intermediation Services on the National Accounts as of 2005. Addendum. (The Spanish original of this publication has the same number.)
- 4 LUIS GORDO MORA AND JOÃO NOGUEIRA MARTINS: How reliable are the statistics for the Stability and Growth Pact?
- 5 STATISTICS DEPARTMENT: Methodological notes on the Financial Accounts of the Spanish Economy.
- 6 STATISTICS DEPARTMENT: Methodological notes on the Financial Accounts of the Spanish Economy. SEC-2010.
- 7 STATISTICS DEPARTMENT: Holding companies and head offices within the framework of the SNA 2008 / ESA 2010.
- 8 STATISTICS DEPARTMENT: Presentation of the results of the Banco de España statistics user satisfaction survey.
- 9 STATISTICS DEPARTMENT: Changes in the Balance of Payments and in the International Investment Position in 2014.

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