BENCHMARK REVISION OF THE FINANCIAL ACCOUNTS OF THE SPANISH ECONOMY (2019)

2020

BANCO DE ESPAÑA
Eurosistema

Notas Estadísticas
N.º 12

Statistics Department

CONTENTS

BENCHMARK REVISION OF THE FINANCIAL ACCOUNTS OF THE SPANISH ECONOMY (2019)

BENCHMARK REVISION OF THE FINANCIAL ACCOUNTS OF THE SPANISH ECONOMY (2019)[1]

1 Introduction

In 2014, EU countries adapted the methodology for compiling the financial accounts to the new version of the European System of Accounts, known as ESA 2010, which replaced the previous version ESA 95. A harmonised revision policy for macroeconomic statistics[2] was agreed at European level, recommending that the following benchmark revision of the national accounts, financial accounts and balance of payments and international investment position statistics take place in 2019.[3] This revision of the macroeconomic statistics has been conducted in Spain – in parallel and in unison – by the agencies responsible for these statistics, i.e. the National Statistics Institute (INE, by its Spanish abbreviation) and the Banco de España, and also, as regards general government, the National Audit Office (IGAE, by its Spanish abbreviation).

The objective of the harmonised European revision policy is to promote consistency between the various domains of national macroeconomic statistics, comparability across countries and the compilation of aggregate statistics at European level. Benchmark revisions are revisions of the data sources and/or methods used to prepare macroeconomic statistics that may affect the results of the main variables for relatively long periods of the series, unlike the regular revisions which normally concentrate on the most recent periods and stem from the availability of new data. Sometimes there may also be ad hoc revisions owing to the availability of specific new data sources or the implementation of new procedures, although it is recommended that, if possible, these changes be included in the benchmark revisions. It has been agreed that benchmark revisions should be made every five years, preferably in years ending in 4 or 9.

This statistical note sets out the most significant changes made to the *Financial Accounts of the Spanish Economy* (FASE) in 2019, in the updates of the financial accounts corresponding to 2019 Q1 and Q2 (published in July and October 2019, respectively), with respect to the values released in the annual publication in June

1 This revision was anticipated in section 6 (Forthcoming coordinated revision of macroeconomic statistics) of the *Methodological Summary* in the publication *Financial Accounts of the Spanish Economy, June 2019*.

2 A Harmonised European Revision Policy for Macroeconomic Statistics, Committee on Monetary, Financial and Balance of Payments Statistics, October 2017.

3 The 2019 benchmark revision of the balance of payments and international investment position statistics can be found in Statistical Note 10, *Impact of the 2019 benchmark revision on the net lending/net borrowing and international investment position of the Spanish economy*, Statistics Department, 2019.

2019. In addition to this introduction, the note contains five sections which briefly assess the scale of the revisions made to the financial balance sheets of each institutional sector of the financial accounts system and detail the most significant changes to the main categories of financial assets/liabilities in each case. The seventh section assesses the impact of these revisions on the main indicators of the financial accounts.

2 Financial institutions

The financial assets and liabilities of the financial institutions sector have been revised down slightly

Charts 1.1 and 1.2 detail the main components of the revisions[4] of the financial institutions sector's financial assets and liabilities. The €78 billion reduction in total financial assets in 2018, equivalent to 2% of the sector's total financial assets, is the result of a decline in holdings of debt securities and loans, while there is a similar increase in the financial derivatives and unlisted shares categories. The €51 billion reduction in liabilities in 2018, equivalent to 1% of total sector liabilities, is predominantly in the debt securities category, while the listed shares and financial derivatives categories show an increase, mainly the latter. Overall, the positive and negative revisions to the financial assets/liabilities categories had a small net impact.

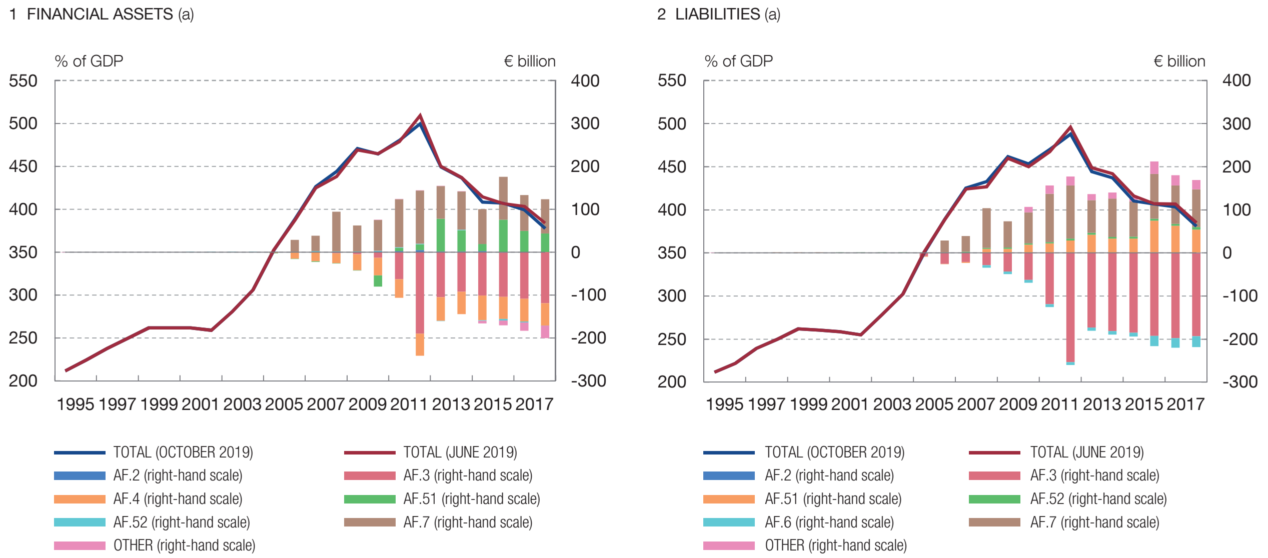
The following is additional information concerning the key changes made in this FASE benchmark revision, explaining the aforementioned revisions to positions in the financial institutions sector.

— *Net recording of securities issued by monetary financial institutions (MFI) in the MFI portfolio.* As a general rule, ESA 2010 recommends the gross recording of financial positions and transactions, although it recommends that the net value be recorded when the transactions are within a single institutional unit. The decision was taken to apply this criterion to debt securities held in treasury stock by MFIs and used to guarantee their Eurosystem refinancing transactions, as per the recommendations of the international expert working groups. This aligns the treatment in macroeconomic statistics with that typically applied in banking statistics. Conversely, the gross calculation approach is maintained for the primary statistics of securities, since the registering of these is subject to the formal requirements associated with the issuance of such securities. Consequently, the MFI balance sheet declined by €129 billion, representing 3.8% of the total financial assets/liabilities of these institutions.

4 The revisions are expressed as the differences between the latest values from the quarterly update, FASE 2019 Q2 (October 2019), and the previous data from the annual publication, FASE 2018 (June 2019).

Chart 1
FINANCIAL INSTITUTIONS

Main components of the revisions (1995-2018).



SOURCE: Banco de España.

a AF.2: Currency and deposits; AF.3: Debt securities; AF.4: Loans; AF.51: Equity; AF.52: Investment fund shares; AF.6: Insurance, pensions and standardised guarantees; AF.7: Financial derivatives.

— *Reclassification of special purpose entities issuing securities.* Following the entry into force of ESA 2010 and the sixth edition of the *Balance of Payments and International Investment Position Manual,* special purpose entities created by groups to raise financing through the issuance of securities[5] were sectorised, subject to certain requirements, in the captive financial institutions and money lenders (S.127) sub-sector, part of the financial institutions sector. However, this classification must be subject to a prior consideration set out by the system of national accounts to determine the institutional categorisation of agents: the existence or not of decision-making autonomy. Based on this criterion, in 2019 those special purpose entities that are subsidiaries of non-financial corporations and lack decision-making autonomy, i.e. entities that are purely special purpose vehicles created by non-financial groups to issue securities, were reclassified in national accounts from the financial institutions sector to the non-financial corporations sector. This reclassification was applied in 2019 as part of the benchmark revision for the 2005-2018 time series. The revision of the stocks and financial transactions series was performed starting from 2005 (reaching a maximum of €60 billion as of 2012), albeit having a nil effect in

5 Typically, these funds return to the parent entity via deposits (when the parent is a credit institution) or loans (when the parent is a non-financial corporation).

net terms (assets minus liabilities). Logically, this reclassification had an impact on counterpart sectors, particularly against the rest of the world sector. The main instrument categories affected in the financial institutions sector were debt securities (liabilities) and loans (assets).

— *Revision of the holdings and specific purpose entities series.* These entities are included in the captive financial institutions and money lenders sub-sector. Their accounts are estimated on the basis of the data available in the Central Balance Sheet Data Office database and other additional sources, mainly transactions with the rest of the world. In line with the recently agreed criteria for balance of payments statistics (including direct investment and the international investment position),[6] the population of such institutions has grown owing to the inclusion of institutions with fewer than five employees, rather than three employees as had been the case. This expanded the population of such institutions in Spain by an average of 40 over the time series to 633, with liabilities in the sub-sector increasing by around 35%. The equity categories (assets/liabilities) were the most affected.

— *Inclusion of a new data source to prepare accounts for the insurance sub-sector.* The data previously used to prepare the accounts for this sub-sector were designed for supervisory purposes and were not available in a timely fashion, meaning estimates were used for some categories. Regulation 1374/2014 of the European Central Bank on statistical reporting requirements for insurance corporations provides for the direct and timely provision of information for such entities as of March 2016, on the basis of the requirements of supervisory authorities under the framework of Solvency II, thereby taking an integrated approach. The inclusion of these data as a source for preparing financial accounts mainly affected the insurance, pension and standardised guarantee schemes category. Alongside the change of data source, amendments were also made to the accounting treatment of so-called “equalisation reserves”, which on the basis of their nature are now classified as other equity, and the “accounting imbalances” reserves, which are now part of net worth. The distinction between life and non-life was also revised, as was the allocation of the counterparties for this instrument between the resident and non-resident sectors. The other assets and other liabilities categories also underwent considerable change, as a result of the greater detail available in the new base data.

— *Financial derivatives (AF.7) positions against the rest of the world recorded on a gross basis rather than net,* in line with the criteria for international investment position statistics. As has been noted, as a general rule ESA 2010 recommends the gross recording of financial positions and

6 IMF (2014), *“Final Report of the Task Force on Special Purpose Entities”.*

transactions, although it also indicates the possibility of net recording where the base information lacks sufficient detail to identify asset and liability transactions, or where there is significant variability when recording transactions on the asset or liability side of the balance sheet owing to the change in sign of the debit/credit positions, as is the case with interest rate swaps. However, the reference manuals for balance of payments statistics are more specific regarding the gross recording of such positions. To eliminate any discrepancies between these two macroeconomic statistics when measuring financial positions for resident sectors against the rest of the world, the international expert working groups have recommended gross recording. This was applied to the FASE in this benchmark revision.

3 General government

The financial assets of the general government sector have been revised upwards slightly, while the changes to the sector's liabilities are of scant significance

Charts 2.1 and 2.2 detail the main components of the revisions of the general government sector's financial assets and liabilities. The sector's total financial assets increased by €29 billion in 2018, representing 4% of the overall financial assets. This was mainly driven by the increase in equity holdings and, to a lesser degree, other accounts receivable (under other assets). The small €10 billion increase in total liabilities in 2018, representing 1% of total liabilities in the sector, was mainly due to the increase in other accounts payable (under other liabilities).

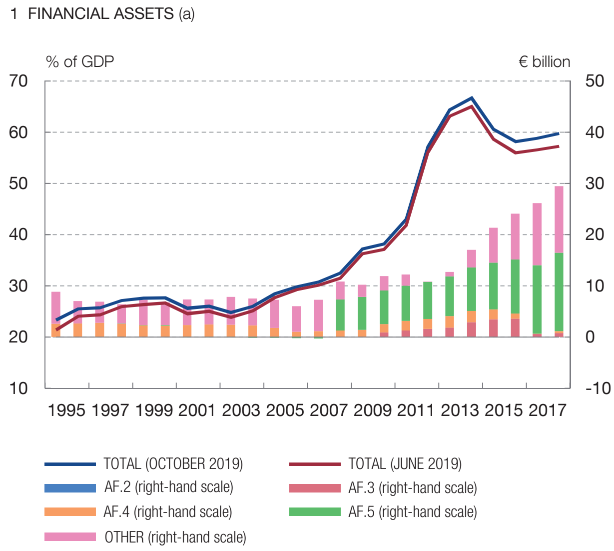
The following is further information on the main changes made to general government accounts in this FASE benchmark revision.

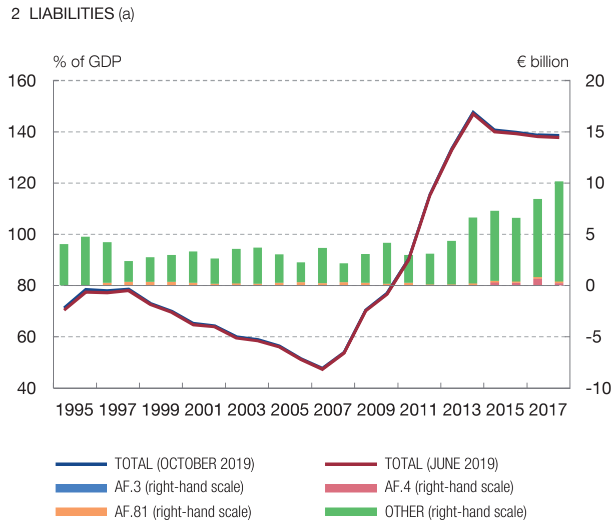
— *Change to the system for recording taxes and social contributions.* EU legislation[7] states that taxes and social contributions are recorded based on the accrual principle, but those unlikely to be collected shall have no impact on the calculation of general government net lending(+)/borrowing(-). Consequently, since the application of ESA 2010 to national accounts, tax accrual has been calculated based on the claims recognised for each tax in budget outturns, including an adjustment for amounts unlikely to be collected, which is recorded as a capital transfer paid by general government to the sectors and sub-sectors that generate the tax liability. In addition, tax refunds are attributed to the period in which the claim to

7 Regulation (EC) No 2516/2000 of the European Parliament and of the Council of 7 November 2000 modifying the common principles of the European system of national and regional accounts in the Community (ESA) 95 as concerns taxes and social contributions and amending Council Regulation (EC) No 2223/96. The statistical source for this information formulated by the National Audit Office (IGAE) is the State Tax Revenue Service (AEAT).

Chart 2
GENERAL GOVERNMENT

Main components of the revisions (1995-2018).





SOURCE: Banco de España.

a AF.2: Currency and deposits; AF.3: Debt securities; AF.4: Loans; AF.5: Equity and investment fund shares; AF.81: Trade credits.

these is recognised, on the basis of the liquid payments for each tax, even if these payments are made in later periods. This recording approach is known as the “uncertain revenue” approach.

The aforementioned EU legislation also allows the accrual of taxes and social contributions to be calculated on the basis of each tax directly from liquid revenues or cash. The accrual principle means that taxes must be attributed to the period in which the activity giving rise to the tax liability took place. Accordingly, the liquid revenue for each period must be time-adjusted to the period when the taxable event took place. This is known as the “cash adjusted” method and has been applied to general government accounts as from the 2019 benchmark revision. The recording of tax refunds is unaffected by the method change.

— *Recording of certain transactions and reclassification of public enterprises.* The most significant of these are the transactions related to the State-controlled Spanish radioactive waste management agency Empresa Nacional de Residuos Radiactivos (Enresa) and CESCE (Spain’s official export credit company).

Enresa is a state-owned enterprise that was set up in 1984 to manage radioactive waste, dismantle nuclear and radioactive facilities, and oversee the environmental restoration of uranium mines in Spain. It is financed through payments made by nuclear operators, mainly electric utilities, and other entities that produce radioactive waste. The annual payments made by nuclear operators cover all of Enresa's current operating costs and also allow a fund to be set aside to cover the future costs of facility dismantling. The enterprise was reclassified for the years prior to 2017 under this benchmark revision of national accounts, as was announced in February 2018 when it was determined that Enresa lacks decision-making autonomy and is not financed under market conditions. It was consequently reclassified to the general government sector.

CESCE is a state-owned enterprise specialising in export credit insurance and guarantee operations, which to date were allocated to general government accounts as guarantee operations. Following this benchmark revision of national accounts, these operations have been reclassified as general government insurance operations.

In addition, debt incurred during the 2015-2017 period by the Sociedad Estatal de Participaciones Industriales (SEPI) to finance its subsidiaries attached to the general government sector was reallocated to the State. Finally, this benchmark revision reclassified certain public-sector units of scant quantitative significance that report to regional and local governments.

— *Reconciliation between general government net lending/net borrowing (capital account balance) and net financial transactions (financial account balance).* As of this benchmark revision of national accounts, and as per the recommendations of the Excessive Deficit Procedure, the financial and non-financial account balances are not identical, instead showing the statistical discrepancy between the two sets of data. This approach was already partially applied (starting with 2017 data) as of the FASE publication of April 2019.

4 Non-financial corporations

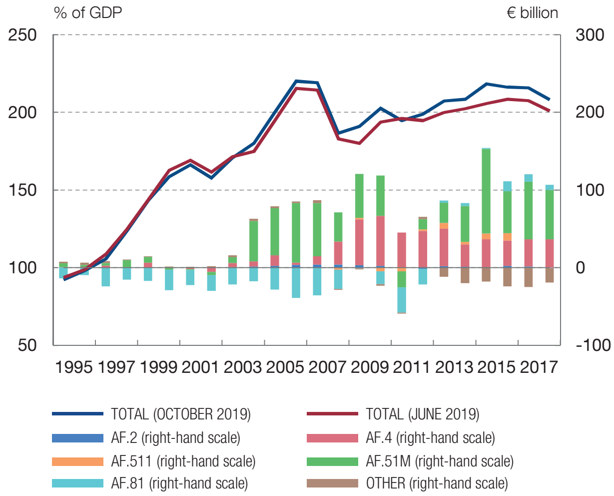
The financial assets and liabilities of the non-financial corporations sector have been revised upwards

Charts 3.1 and 3.2 detail the main components of the revisions of the non-financial corporations sector's financial assets and liabilities. The €87 billion increase in this sector's total financial assets in 2018, equal to 4% of total financial assets, is explained mainly by the increase in intercompany loans (within the loans category) and unlisted shares and other equity, partially offset by the decrease in trade receivables (until 2012). The €192 billion increase in liabilities in 2018, equal to 5% of

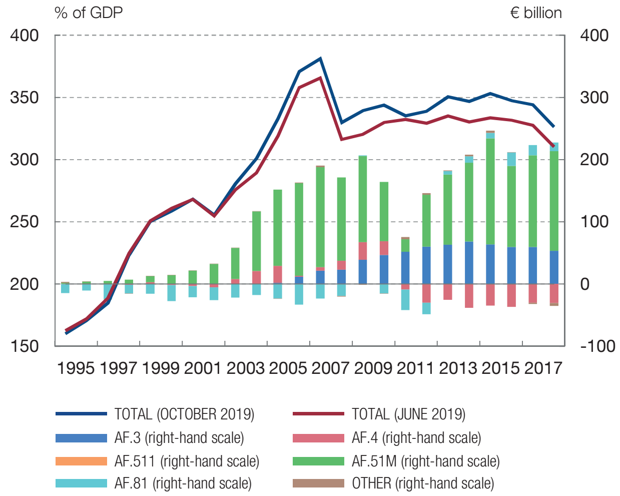
Chart 3
NON-FINANCIAL CORPORATIONS

Main components of the revisions (1995-2018).

1 FINANCIAL ASSETS (a)



2 LIABILITIES (a)



SOURCE: Banco de España.

a AF.2: Currency and deposits; AF.3: Debt securities; AF.4: Loans; AF.511: Listed shares; AF.51M: Unlisted shares and other equity; AF.81: Trade credits.

the sector's total liabilities, arose mainly in the unlisted shares and other equity, and debt securities categories, which were offset partially by a decrease in loans and trade credit received.

Further information on the main changes in the accounts of non-financial corporations is provided below. Most of these changes stem from the review of the information from the Central Balance Sheet Data Office.

— *New procedure to extrapolate the Central Balance Sheet Data Office data to all companies in the domestic economy.* In the context of this benchmark revision of the macroeconomic statistics, the entire series of the non-financial corporations sector's total for 2008 to 2017, which is obtained from the Central Balance Sheet Data Office data, has been revised. Moreover, data have been retropolated to 1995, in order to have a uniform time series including all the methodological improvements made to the representativeness of the sample and to the grossing-up procedures over the years.

The main methodological change is the use of the number of firms, rather than the number of employees, as a grossing-up factor. The inclusion of corporations without activity but with – in some cases significant – amounts of financial assets and liabilities has improved the estimation of the balance sheets for the sector as a whole.

— *The aforementioned reclassification of special purpose vehicles of non-financial groups* from the captive financial institutions and money lenders sub-sector to the non-financial corporations sector (where they are consolidated with their parent companies since they are considered to have no decision-making autonomy). The new treatment led to a decrease in the loans payable to financial institutions and an increase in debt securities – also on the liability side – amounting to (in the stocks) approximately €60 billion since 2012.

Broadly speaking, these changes led to an across-the-board increase in the majority of the categories obtained. However, this increase was uneven over the time series, and depended on the scope of the methodological changes affecting the various years. In 2014, the year with the largest increase in the financial balance sheet, equity on the liability side increased by €122 billion (a 7% increase on prior balances).

5 Households and NPISHs[8]

The financial assets of the households and NPISHs sector were revised upwards slightly, while liabilities fell

Charts 4.1 and 4.2 detail the main components of the revisions of the households and NPISHs sector's financial assets and liabilities. This sector's total financial assets increased by €62 billion in 2018, equal to 3% of total financial assets, owing mainly to the increase in the equity (primarily other equity) and, to a lesser extent, since 2002, the currency and deposits categories. The revisions to liabilities have only been significant to any degree in recent years, with a decrease of €17 billion in 2018, equal to 2% of the sector's total liabilities, mainly in the other accounts payable category.

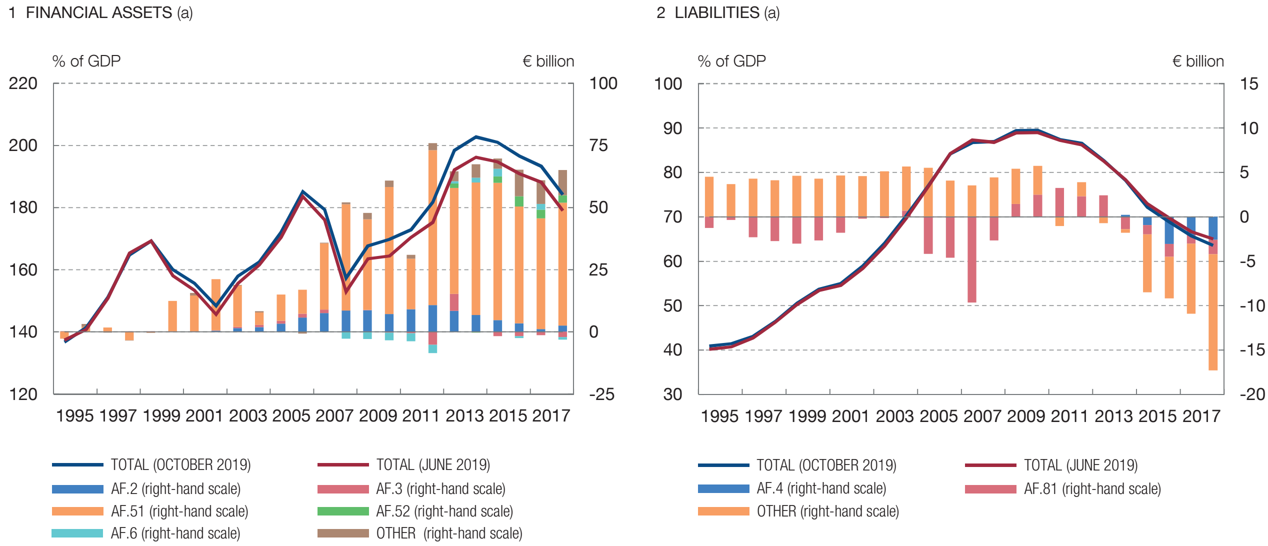
Further information is provided below on the main changes, detailed above, made in this extraordinary revision of the FASE in the households and NPISHs sector's accounts.

— *Increase in the portfolio of unlisted shares and other equity.* The Central Balance Sheet Data Office's revision of the corporate data grossing-up procedure to obtain national aggregates, described in Section 4, led to an increase in the amounts of equity issued by non-financial corporations and, consequently, a further distribution of such equity among resident holder sectors (in particular, the households and NPISHs sector). Specifically,

8 Non-profit institutions serving households.

Chart 4
HOUSEHOLDS AND NPISHs

Main components of the revisions (1995-2018).



SOURCE: Banco de España.

a AF.2: Currency and deposits; AF.3: Debt securities; AF.4: Loans; AF.51: Equity; AF.52: Investment fund shares; AF.6: Insurance, pensions and standardised guarantees; AF.81: Trade credits.

between 2013 and 2016, equity issued by corporations increased by 6% on average with respect to the previous procedure. Consequently, the portfolio of equity issued by corporations held by households and NPISHs increased in the period from 2013 to 2018 by 11% on average with respect to June's yearly publication. This represents 4% of GDP. Overall, in 2018 the portfolio of listed shares increased by €11 billion and the unlisted shares and other equity portfolio increased by €39 billion, accounting for 0.5% and 2%, respectively, of the total financial assets in this period.

— *Upward revision of the currency and deposits category,* owing to the increase in the estimate of euro banknotes issued by central banks other than the Banco de España held by Spanish households, known as "cash inflows", which arise mainly as a result of tourism. Since the euro's launch, there has been a systematic decrease in Spain's weight in the total currency placed in circulation in the euro area in some specific periods, particularly at the end of the summer months. This is due to the withdrawal from circulation of surplus banknotes resulting from inflows of tourists' banknotes. On current estimates, the aggregate amount of euro banknote inflows in the period from 2002 to 2018 stands at €57 billion, up 6% on prior estimates; furthermore, the currency held by resident sectors is up 5% in 2018 and amounts to €69 billion.

6 Rest of the world

The financial assets and liabilities of the rest of the world have been revised upwards

Charts 5.1 and 5.2 detail the main components of the revisions of the financial assets and liabilities of the rest of the world sector. These reflect, respectively, the liabilities and financial assets of the resident sectors against the rest of the world. The €112 billion increase in financial assets in 2018, amounting to 4% of the sector's total financial assets, is the result of the increase in both equity (mainly other equity) and financial derivatives. Liabilities increased by €78 billion, equal to 4% of the sector's total liabilities, in 2018. The financial derivatives category is mainly behind this increase.

In this benchmark revision of the macroeconomic statistics, the methodological treatment of certain categories and the use of the same data sources have significantly increased consistency across the financial accounts statistics and the balance of payments/international investment position (BoP/IIP) statistics.

Among the methodological inconsistencies eliminated, mention should be made of the treatment of interest rate swaps in the stocks of financial derivatives, detailed in Section 2. Until now they were recognised at their net amount in the financial accounts and their gross amount in the IIP statistics. Henceforth they will be recognised at their gross amount in the financial accounts, following the recommendations of groups of experts to align both sets of statistics. Also, for numerous categories the use of the same statistical sources was adopted: deposits abroad, trade receivables, etc. A logical result of this increased consistency across, and integration between, the financial accounts statistics and those of the BoP/IIP is that the financial accounts statistics are affected by ordinary and extraordinary revisions of the BoP/IIP statistics, where the latter is a source of information.

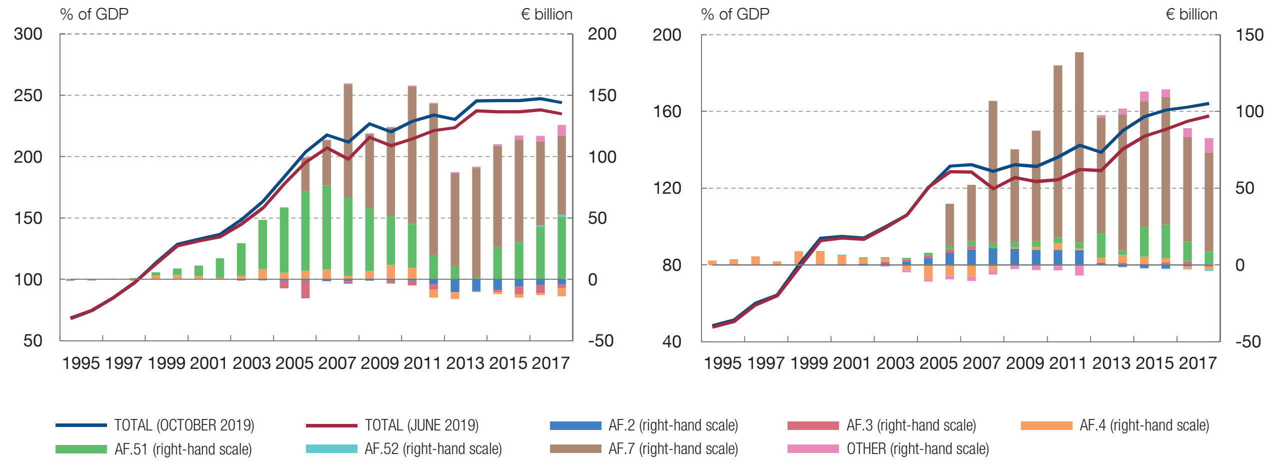
In this context, mention should be made of the revision of the procedure for estimating real estate investments in foreign statistics. Until now these were estimated by means of the accumulation of flows (up to 2012, using residents' returns on external transactions; and, thereafter, based on transactions recorded in notaries' statistics). To prepare these new series, a study was conducted to estimate the dwellings held by non-residents (2017 baseline) based on a tourism survey (reported overnight stays at own dwellings), valued at market prices based on average provincial house prices according to the National Statistics Institute's house price index (IPV by its Spanish acronym). Since then, the stocks have been constructed by accumulating the transaction flows (notaries' statistics), revaluations (according to the IPV) and other changes in volume (migrations). The series were retropolated using a similar procedure based on information available in each period on the transactions with the rest of the world, revaluations and migrations.

Chart 5
REST OF THE WORLD

Main components of the revisions (1995-2018).

1 FINANCIAL ASSETS (a)

2 LIABILITIES (a)



SOURCE: Banco de España.

a AF.2: Currency and deposits; AF.3: Debt securities; AF.4: Loans; AF.51: Equity; AF.52: Investment fund shares; AF.7: Financial derivatives.

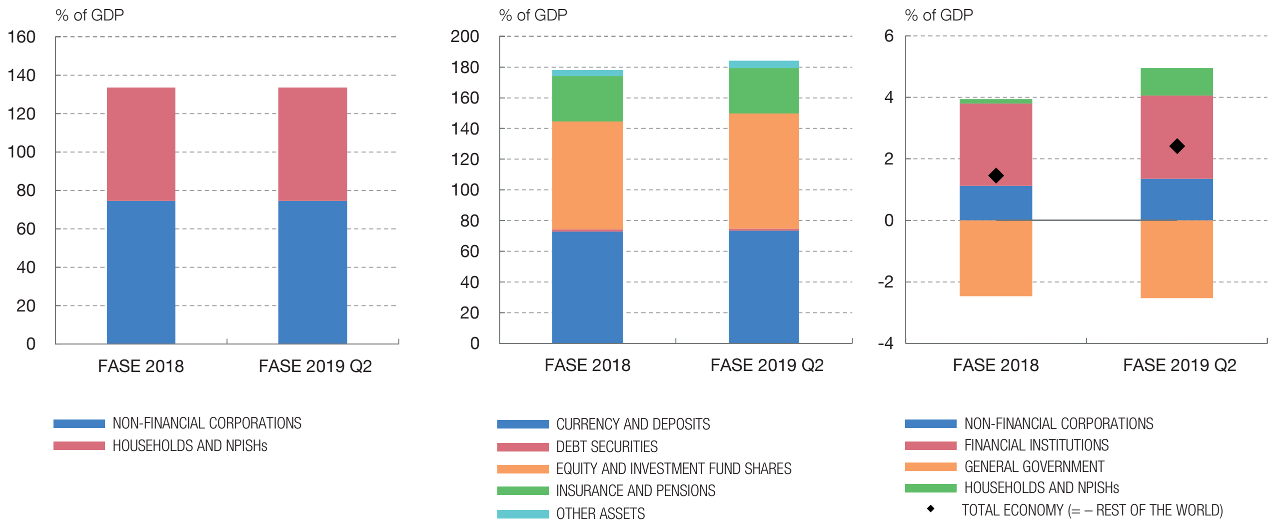
Chart 6
MAIN INDICATORS OF THE FINANCIAL ACCOUNTS

Comparison of FASE 2018 (June 2019) with FASE 2019 Q2 (October 2019).

1 NET DEBT OF RESIDENT NON-FINANCIAL SECTORS

2 FINANCIAL WEALTH OF HOUSEHOLDS AND NPISHs (2018)

3 NET FINANCIAL TRANSACTIONS OF THE RESIDENT SECTORS (2018)



SOURCE: Banco de España.

7 Main indicators of the financial accounts

In sum, although the changes made in the financial accounts in this benchmark revision resulting from, as appropriate, the new preparation procedures, new sources of statistics for some categories or the implementation of methodological recommendations give rise to significant revisions of some categories, the impact on the main indicators of the financial accounts is limited, as Chart 6 shows. Specifically, when compared with the values disseminated in June 2019, corresponding to the annual publication (FASE 2018), the new data disseminated in October 2019, corresponding to the FASE 2019 Q2, show:

— A level of net indebtedness of the private non-financial sectors (non-financial corporations and households) that is similar in terms of both its aggregate amount and its sectoral composition: 133.5% of GDP at end-2018, compared with 133.4% based on the prior data.

— An increase in the financial wealth of the households and NPISHs sector, which at end-2018 represented 184.1% of GDP, compared with 178.1% based on prior data. This difference was mainly the result of increased equity holdings (unlisted shares).

— An increase in recent years in the net financial transactions of resident sectors of around 1% of GDP in 2018, particularly of households and NPISHs.

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. ESA-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.
10 STATISTICS DEPARTMENT: Impact of the 2019 benchmark revision on the net lending/net borrowing and international investment position of the Spanish economy.
11 STATISTICS DEPARTMENT: The estimation of travel credits in the balance of payments.
12 STATISTICS DEPARTMENT: Benchmark revision of the Financial Accounts of the Spanish Economy (2019).

ISSN 2530-7495 (online edition)