

5 THE BALANCE OF PAYMENTS AND THE INTERNATIONAL INVESTMENT POSITION:  
METHODOLOGICAL NOTE

## 5 The Balance of Payments and the International Investment Position: Methodological note

### 5.1 Introduction

As in previous editions of this report, this chapter sets out the main changes introduced in the compilation system of the balance of payments and the international investment position in 2008, as well as the principal characteristics of this system and of the data presented in the tables in Chapters 6 and 7.

The changes introduced in the information system are detailed in the description below of the Balance of Payments and International Investment Position headings and in the section on changes introduced in this chapter, whereas the up-to-date description of the methodology is included in Chapters 5.2 and 5.3.

Noteworthy among the changes introduced in 2008 are the modification of the calendar for the dissemination and revision of the balance of payments data, the raising of the threshold for reporting transactions between residents and non-residents and the inclusion of data from the Investment Register of the Ministry of Industry, Tourism and Trade to calculate the shares and other equity heading of other resident sectors' direct investment in the international investment position, which has given rise to an extraordinary revision of data. This change is explained in detail below in the section on changes introduced and in Box 5.1. As a result of using the Ministry's information it was possible, furthermore, to improve the estimate of reinvested earnings of direct investment.

The changes introduced in 2008 made it possible to meet the new reporting requirements of international agencies and to introduce improvements in the estimates made to date. Furthermore, in general, the new sources of information were used more intensively in quality controls of data.

As mentioned above, in 2008 a new calendar of revisions was introduced for the balance of payments. According to this calendar, at the same time as the quarterly data are published, revisions are included in the previous quarter's data and in the corresponding monthly data. Likewise, the publication of the data for the fourth quarter includes revisions of the monthly and quarterly data of the two previous years. Therefore, the data included in Chapter 6 of this report coincide with those disseminated in the *Boletín Estadístico* of March 2009, since it was the first time that the data for 2008 Q4 were published and that the data for 2008 and 2007 were revised, in addition to the exceptional revisions mentioned below. The new calendar of revisions minimises those revisions introduced at the cut-off date for the annual report, given that errors are corrected and information on transactions, which is received late, is included on a quarterly basis. However, some revisions, which can only be made annually, are maintained and include most notably those arising from the incorporation of the revised goods trade figures published by the Customs and Excise Department (Departamento de Aduanas de la Agencia Estatal de la Administración Tributaria) and from the updating of information that is preliminary and, therefore, subject to major revision, which is used to estimate the reinvested earnings of direct investment. The latter revision affects both the current and financial accounts and this year, apart from the revision of data, it also reflects a change in the estimate procedure explained below. Consequently, data from 2006 onwards are subject to an exceptional revision.

The calendar for the dissemination and revision of the international investment position data has not been changed and, therefore, these data will continue to be revised periodically coin-

cluding with each quarterly close, generally affecting the current and the two previous years. These revisions are mainly attributable to the incorporation of updated information in the information sources used and to the same factors as those mentioned for the financial account of the balance of payments.

The balance of payments data in Chapter 6 of this report are strictly consistent with Chapter 17 of the April 2009 edition of the Banco de España's *Boletín Estadístico*. The related time series are available since 1990 in the case of the balance of payments. Since the publication and revision calendar was updated, two data groups are disseminated: the major headings of both the current and capital accounts are disseminated monthly along with a certain level of detail for the financial account; the quarterly data have a higher level of detail, with additional breakdowns. The international investment position data have been published quarterly since 1992. The above-mentioned time series can be found in the statistics section of the Banco de España website (<http://www.bde.es>).

The international investment position is compiled, in general, using the same information and it represents the same general economic phenomenon as the account of stocks of financial assets and liabilities vis-à-vis the rest of the world of the *Financial Accounts of the Spanish Economy*. The Banco de España publishes, in an annual monograph with this title, this other statistic, which is compiled following the methodology established by the 1995 version of the European System of Accounts (ESA 95). Even though the reference methodology is not the same, it should be noted that the conceptual scope of both statistics is very similar, so that their aggregate results are similar. In fact, the International Monetary Fund (IMF), when compiling the 5th edition of its Balance of Payments Manual, made further headway towards homogeneity, to the point that the balance of payments and international investment position statistics compiled under the 5th edition, unlike those compiled under previous editions, are consistent with Revision 4 of the System of National Accounts (SNA 1993). However, the different data compilation and cut-off dates explain the discrepancies that may exist at any given moment between these two sets of statistics. In this connection, it should be remembered that during 2008, the IMF finished the revision of the Balance of Payments Manual, which is the methodological reference for the preparation of the data disseminated in this report. The main changes introduced have been described in previous editions of this publication and are consistent with the revisions made in SNA 1993, which is also in the final stages of being revised.

With regard to the presentation of the data in this report on the balance of payments and international investment position, as mentioned above, the main change made as a result of Spain's joining the euro area – the separate presentation of the Banco de España's transactions and stocks – has been maintained. It is important to note that this change merely involves a reallocation of information, which continues to be compiled strictly in accordance with the methodological guidelines of the 5th edition of the IMF Balance of Payments Manual. For purposes of international comparison, the IMF has to present the data in its publications in a similar way for all countries. In response to a singular phenomenon like monetary union, it has thus had to opt for a uniform accounting solution. This solution, which involves including the change in the net assets of the euro area national central banks vis-à-vis the Eurosystem, and their other assets and liabilities that are not reserves, in the totals of the relevant headings, leaves only the reserves as the final counterpart of the rest of the euro area's balance of payments. The IMF's solution is not only consistent with the presentation for most countries, but also with that of the overall euro area aggregate balance of payments vis-à-vis the rest of the world. However it gives rise to serious problems for the analysis of the balance of payments of each country considered on its own.

For all the foregoing reasons, the dual presentation of the financial account of the balance of payments and of the international investment position is retained in this publication:

- In the tables summarising the main headings of the balance of payments and of the international investment position, the financial account has been broken down into that of the Banco de España and that of other sectors. The financial account of the Banco de España provides separate information on its reserves and on the change in the balance of its net assets vis-à-vis the Eurosystem, given the different analytical significance of these items, in the context of Spain's membership of a monetary union with a single currency. Moreover, for the sake of clarity of presentation, the net amount of other assets and liabilities of the Banco de España has also been included, which basically reflects the portfolio investment assets, financial derivatives and the liabilities associated with the reserves. Section 5.2.5 describes the content of each of the headings of the balance of payments, so that readers may find there a brief explanation of each of those making up the financial account of the Banco de España.
- In the breakdown tables, it was decided to maintain the presentation of the standard components of the 5th edition of the IMF Balance of Payments Manual, thereby ensuring international comparison. As a result, the transactions of the Banco de España, other than reserves, appear under the other investments heading, in portfolio investment and, from 2008, under the financial derivatives heading, albeit separated from those of other monetary financial institutions. All the tables specify clearly the content of each heading in terms of its coverage of the various institutional sectors, so that there can be no confusion in this respect.

Note that the footnotes to all tables in Chapter 6 state the sign convention used in recording balance of payments transactions. It should be pointed out that, in the specific case of reserves, it was decided to use the same convention in all the tables. Specifically, increases in reserves (which involve a net payment abroad as the country's assets increase) have been recorded with a negative sign and reductions therein with a positive sign.

With respect to the tables relating to the distribution of the transactions by geographical area, it is worth reaffirming that, in the case of the financial account, this distribution is, on many occasions, based on the allocation to the country of the first known counterpart. This fact should be taken into account by analysts, especially in relation to the liabilities of portfolio investment, in which the country of the first counterpart may often not coincide with that of the ultimate party to the transaction. On the assets side, as explained below, in transactions with negotiable securities, it is possible to classify operations according to the debtor's country, thanks to the use of the ISIN (International Securities Identification Number) in each operation and to the databases identifying the main characteristics of each security, among them the issuer's country of residence. It should also be borne in mind that as financial derivatives are recorded as net assets and liabilities in the balance of payments they cannot be distributed geographically.

This chapter is organised as follows. Following this introduction, Section 5.2 is devoted to the balance of payments, describing the information sources, the conceptual framework determined by the general criteria of residence, valuation and others; the classification of the transactions by headings and sectors; the structure and content of the tables of Chapter 6; and, lastly, certain specific aspects of each heading. Section 5.3 contains the following points relating to the international investment position: information sources and valuation criteria; proce-

dures for obtaining positions; structure and content of the tables of Chapter 7; specific notes for each heading and main differences between the change in the stocks of the international investment position and the transactions of the balance of payments. Lastly, Section 5.4 explains the most important changes in the information sources and calculation procedures, in the dissemination of statistics, and also the completion of the revision of the IMF Balance of Payment Manual.

## **5.2 Balance of Payments. Methodology**

### **5.2.1 INFORMATION SOURCES**

#### **5.2.1.1 Trade balance**

For the trade balance, the Spanish balance of payments uses as its basic source the foreign trade statistics compiled by the Customs and Excise Department, albeit with the relevant adjustments. Section I.4.1 of the 1993 report described the data-collection methods applied by the Customs and Excise Department, with particular attention to the Intrastat system used for compiling intra-Community trade figures since the lifting of customs borders. The broad outlines of the description given there remain valid. Interested readers will find abundant information on this subject published by the Departamento de Aduanas (Customs Department), and they may learn of the practical workings of the system from the resolutions issued annually which detail the applicable regulations. Moreover, the Banco de España's *Boletín Estadístico* of April 1995 provided methodological notes on foreign trade statistics, with a summary of the data collection system in general and of Intrastat in particular.

The differences that data users will find between the foreign trade figures published by the Customs Department and those of the trade balance of the Spanish balance of payments mostly arise from the accounting guidelines set out in the 5th edition of the IMF Manual. First, imports, which in the statistics published by the Customs Department are valued CIF, are adjusted to their FOB value for inclusion in the balance of payments. This requires estimating the freight and insurance specifically associated with the imports recorded by Customs and Excise, which are services that may have been provided by residents or non-residents. The freight and insurance that has to be deducted from the Customs and Excise CIF figures for imports has been estimated on the basis of information provided by the INE and in co-ordination therewith, in order to ensure consistency between the rest of the world account in the National Accounts and in the balance of payments. For the same reason, the estimate made for the National Accounts of intra-Community goods trade that is not reported, as the transactions involved come below the Intrastat reporting threshold, has been added to the Customs and Excise figures for imports and exports. Also the amounts corresponding to arrivals and dispatches of goods leased out under operational leases have been deducted.

There are also other differences in the content and valuation of goods trade according to Customs and Excise and the Spanish balance of payments. Notable, due to their relative importance, is the inclusion in the balance of payments of imports and exports of merchandise which do not cross borders and, therefore, are not included in the Customs and Excise trade statistics.

It should be borne in mind that the use of customs data to estimate the trade balance means that all goods trade is included, even that involving direct short-term financing between suppliers and their customers. Moreover, transactions are generally recorded in the period when the merchandise is physically moved (see, however, the exceptions to this general rule that follow from Section 5.2.2 of this chapter). Since, as later noted, the financial account does not reflect data for short-term trade credit, the counterpart of these transactions, not charged or paid for when recorded, appears under the errors and omissions heading. As a result, a portion of this heading is attributable to leads and lags in foreign trade, reflecting the time elapsing between the physical movement of goods at borders and the relevant receipt or payment of their amount.

In compiling the other transactions of the Spanish balance of payments, the Banco de España collects data directly from the following groups of declarants:

a) Deposit institutions

These institutions, made up of banks, savings banks and credit co-operatives, are required to report transactions with non-residents both on their own account and on behalf of customers, in accordance with the Banco de España Circular 15/1992. For reporting purposes, transactions with customers are the responsibility of the resident party to the transaction, which has to provide the data to the deposit institution for their presentation to the Banco de España. When the amount settled by an institution is the net amount of several transactions (on its own or its customers' behalf), the institution has to include the details of the gross amounts in its declarations. As mentioned in previous editions of this report, 2008 saw the entry into force of the change in the threshold for the compulsory reporting of the content of transactions, which was increased from EUR 12,500 to EUR 50,000.<sup>1</sup> More details about this change are provided in section 5.4 on changes introduced.

In addition, under the new reporting system on negotiable securities, whose rules are contained in Banco de España Circular 2/2001, resident deposit institutions shall furnish monthly information, security by security, on stocks of negotiable securities and on transactions relating to negotiable securities carried out with non-residents, on their own account or on their customer's behalf.

b) Other financial institutions registered with the Banco de España or the CNMV Spanish National Securities Market Commission.

Institutions of this type (specialised credit institutions, money market funds and non-monetary financial institutions) that carry out transactions with non-residents on their customers' behalf declare directly to the Banco de España all operations on behalf of their resident customers as well as any transaction on their own account. Thus, for the purposes of compulsory reporting, they operate under the same regulations set out in Circular 15/1992 that apply to the institutions listed in a) above.

Institutions that operate with non-residents solely on their own account can choose between directly reporting all transactions to the Banco de España, in accordance with the regulations in Circular 15/1992, or using the services of deposit institutions to declare transactions with non-residents settled through these institutions. In the latter case, they are subject to the same regulations applicable to non-financial legal entities and individuals.

Like deposit institutions, these institutions are also obliged to comply with the information requirements established by Circular 2/2001.

---

1. It should be pointed out that although no content is available for unreported transactions, there is information on the total amount of these transactions. Various estimates are used to distribute these transactions by heading, basically in accordance with the distribution of the transactions for amounts immediately higher than them.

c) Holders of demand or savings accounts with non-resident credit institutions

All residents in this category must inform the Banco de España of the opening and closing of accounts of this nature and of the gross amounts of all transactions settled through them, in accordance with the regulations in Banco de España Circular 3/2006. This Circular replaced the previous Circular 24/1992, and includes electronic data transmission as a form of submitting information, making it easier for declarants to group together the transactions that they have to report and raising the ceiling for aggregating movements.

d) Holders of inter-company accounts with non-resident enterprises

All resident companies that have accounts with non-resident non-bank enterprises (usually, but not necessarily, with companies in the same economic group) must report to the Banco de España the opening and closing of these accounts, and the gross amounts of all transactions credited or debited through them, in accordance with the regulations in Circular 3/2006. Thus, the reporting requirements of this group are regulated by the same circular that applies to the group in the preceding paragraph. However, the separation of the two accounts is important from the standpoint of the balance of payments and economic analysis, because the changes in their balances are assigned to different headings in the balance of payments, as is explained below.

e) Parties to offsetting transactions with non-residents

Offsetting is understood to encompass any operation not giving rise to a settlement via credits or debits in a bank or inter-company account, due to the fact it involves a receipt and a payment of the same amount with opposite signs. Residents engaging in transactions of this nature with non-residents must report them directly to the Banco de España, in accordance with the regulations in Circular 6/2000.

One special case of this type of transaction is merchandise trade financed through direct credit between sellers and their customers. Circular 6/2000 regulates the reporting requirements for transactions in this category, which are applicable only when the maturity of the credit exceeds one year. Short-term trade credit will, therefore, appear under the errors and omissions heading, with this omission (strictly speaking, it is not an error) being a very significant part of this heading. Moreover, precisely because it is not an error, its behaviour is linked to that of other macroeconomic variables (e.g. interest rates and exchange rate expectations) and, consequently, it cannot be treated as a random variable, and its sign and behaviour may follow systematic patterns over a given period.

f) Residents performing transactions with negotiable securities directly through non-resident intermediaries

Resident investors carrying out transactions with negotiable securities directly through a non-resident financial intermediary must provide information, security by security, on their stocks of negotiable securities and transactions involving negotiable securities, directly to the Banco de España, in accordance with the rules of Circular 2/2001.

In principle, the information collected from the aforementioned groups covers the full range of transactions with non-residents: those implemented through resident financial institutions; those implemented directly by resident financial institutions on their own behalf; transactions settled through bank or inter-company accounts abroad; and those which do not give rise to any settlement, i.e. offsetting transactions.

The increasing use of information provided by other institutions and by other departments of the Banco de España is also notable. This information sometimes supplements that supplied by the main sources and at other times replaces it. In this respect, the estimates of travel credits and insurance services may be highlighted in the services account. In the income account, the information supplied by Iberclear (the Securities Registration, Clearing and Settlement Systems Management Company) and by the CNMV is used to calculate the income from portfolio investment and other indicators of the prices of the instruments which make up the assets and liabilities of the international investment position. For their part, transfers include data supplied by the Treasury and the FEGA (Spain's State Agricultural Guarantee Fund) to estimate transfers to and from the EU (current transfers) and direct information from the CESCE (Spain's official export credit company) (capital transfers). Data from the Investment Register of the Ministry of Industry, Tourism and Trade and from the Banco de España's Central Balance Sheet Data Office have been taken into account to calculate direct investment, financial transactions and their associated income. The use of these external sources in the Spanish balance of payments shall be commented upon in greater detail in the sections dedicated to each heading.

Finally, other sources of information, used to obtain the institutional sector and the economic sector and to assign the data geographically, should be noted. The institutional sector is obtained from a database using the NIF (taxpayer I.D. number) of the resident declared in the balance of payments information. This database includes data from numerous sources, such as the official registers of the Banco de España, the Directorate General of Insurance, the CNMV, etc. The economic sector is also obtained from the NIF, using a database that relates it to the sector and which includes data from the Banco de España's Central Balance Sheet Data Office and the INE's Central Directory of Corporations (DIRCE) and information available on firms that report directly their transactions with the rest of the world. For its part, the country of non-resident issuers of negotiable securities included in portfolio assets is obtained from the first two digits of the ISIN. As these digits, in the case of issues on international markets, may give the wrong country or may not be sufficient to identify the country, a database supplied by the Bank for International Settlements is used, which gives the country for each ISIN. The geographical assignment of the heading other investments of monetary financial institutions is made by supplementing the information reported directly by credit institutions with the accounting statements that such institutions submit in accordance with the applicable circulars.

## 5.2.2 CONCEPTUAL FRAMEWORK

The Spanish balance of payments is compiled under the guidelines of the 5th edition of the IMF Balance of Payments Manual.<sup>2</sup> This section does not go into a detailed description of the 5th edition's many chapters which give form to what it calls the conceptual framework of the balance of payments, because the Manual is sufficiently detailed, as far as concepts such as economic territory and residence, the valuation criteria for transactions, the time of recording, etc. are concerned, to act as a direct reference. Accordingly, areas posing no special problems

---

2. In December 2008, the IMF published the final version of the sixth edition of the Balance of Payments and International Investment Position Manual. This revision is part of a widespread process to adapt macroeconomic statistics on the foreign sector to the growing globalisation and internationalisation of real and financial markets. For a more detailed explanation of this process and of the changes envisaged, see Box 5.1, "The Spanish Balance of Payments and International Investment Position 2006" and the section on changes introduced in this report. The first statistics according to the new Balance of Payments Manual will be published in 2014 with annual data referring to 2013.

are only briefly summarised in this report. Other areas, however, call for somewhat more detailed treatment, because of their importance in correctly interpreting the data.

#### 5.2.2.1 Residence

The balance of payments records the transactions between the residents of a country and the rest of the world, irrespective of their nationality. The IMF considers an institutional unit to be a resident unit when it has a centre of economic interest in the territory of a country.

Although the 5th edition of the Manual devotes a chapter to explaining the concept of residence, the application of this concept inevitably leaves certain decisions to the discretion of the data compiler. According to the IMF, “an enterprise is said to have a center of economic interest and to be a resident unit of a country (economic territory) when the enterprise is engaged in a significant amount of production of goods and/or services there or when the enterprise owns land or buildings located there”. Thus, in practice, the concept is imprecise, to the extent that the IMF itself recommends considering the permanence of an enterprise in the country for one year or more as a guideline for residence.

The above definition of the concept of residence is important because the scope and contents of the headings in the balance of payments pivot essentially on this definition. Indeed, entry into foreign markets – services markets in particular – through the creation of establishments, subsidiaries or branches is a widespread practice. Cross-border services entailing the physical movement of the supplier of the service have given way to the creation of commercial establishments which, in many cases, are resident units of the country where the services are provided. In such cases, the only transactions which figure in the balance of payments are those related to direct investment and income generated in the form of profits, with the resulting loss of information on the nature of the services bought or sold. The provision of services through a resident commercial establishment is such a widespread phenomenon that international organisations in charge of negotiating the liberalisation of international markets, and specifically the World Trade Organisation, have begun to compile statistics on resident commercial establishments that are subsidiaries or branches of parent companies located in other territories to make up for the loss of information in the balance of payments data relating to services trade.

#### 5.2.2.2 Timing of recording of transactions: the accrual principle

Transactions should be recorded in the balance of payments at their accrued value. According to IMF terminology, this means that “transactions are recorded when economic value is created, transformed, exchanged, transferred, or extinguished”. Thus, the transactions recorded do not necessarily coincide with the liquid proceeds and payments generated. In fact, very often the transactions in the balance of payments do not give rise to liquid proceeds and payments, and in other cases they are recorded at a different time. But, in practice, the application of this principle to all transactions with non-residents proves complicated and costly, and many transactions are therefore recorded at the time when the proceeds or payments are generated.

In order to comply with the accrual principle required, certain adjustments are made in the Spanish balance of payments to data obtained from the general information system. These adjustments basically affect data on merchandise trade, portfolio investment income, reinvested earnings of direct investment firms, FEGA transfers from the EU and, sometimes, payments of other current transfers with a counterparty other than the EU. In the rest of the balance of payments, transactions are recorded, in principle, when effective receipt or payment occurs,<sup>3</sup> although, as explained above, numerous transactions are also included that do not

---

3. It should be taken into account that, in many cases, the difference between applying one criterion rather than the other is minimal, and that generally the headings which include the aforementioned adjustments are the most affected ones.

generate payments (offsets, transactions credited or debited in inter-company accounts, etc.) or that do so only for amounts far below their book value.

Merchandise trade is generally recorded on an accrual basis, when the actual transaction occurs, because customs statistics are used as the basic source of information. Nonetheless, in intra-Community trade, due to the lifting of customs borders, time lags can arise between the physical movement of goods and their statistical declaration and recording. This is especially so in the provisional monthly data, which are those used for closing the latest annual balance of payments report, in this case the 2008 report. The Customs Department revises its monthly data on an accrual basis by assigning the transactions to the periods in which they actually occurred when it publishes the revised figures of the previous year.

In the income account, investment-income payments to non-residents arising from interest on peseta- and euro-denominated bonds issued by the Spanish general government sector have, since 1993, been recorded on the basis of the interest accrued rather than that paid, and likewise since 2005 in the case of other income from portfolio investment. If the interest accrued in the period is greater than that paid, this change also entails recording the counterpart entry of the difference, i.e. the accrued interest pending payment, as an increase in the value of investment. If the interest accrued in the period is less than that paid, the change entails carrying the difference as a decrease in the aforementioned investment.

The 5th edition of the IMF Manual expressly recommends the application of the accrual accounting convention in recording interest income. Paragraph 282 of the Manual edited by the IMF in 1993 establishes the following: "Dividends are recorded as of the date they are payable. Interest income is recorded on an accrual basis. If the interest is not actually paid, an income entry is recorded under the appropriate instrument and a counterpart entry is made in the financial account to reflect an increase in the claim associated with non-payment". This recording of income on an accrual basis thus signifies that interest accrued during the related period will in turn be recorded in the financial account as an increase in investment.

From 2005 all the portfolio investment income data will follow the methodological criteria of the 5th edition of the IMF Balance of Payments Manual in regard to the application of the accrual principle. Nevertheless, the detailed security-by-security income information that will be contained in the Centralised Securities Database currently being set up by the European Central Bank will enable the accrual principle to be applied more accurately in future in the calculation of the income on all the securities included under this heading.

Meanwhile, paragraph 383 of the 5th edition of the IMF Manual states as follows: "Reinvested earnings of direct investment enterprises are recorded in the balance of payments in the periods in which the income is earned". Further, direct investors' shares of reinvested earnings are deemed to provide additional capital to the enterprises and to increase the value of an economy's stock of foreign assets and liabilities. Consequently, when they are recorded in the balance of payments, direct investment income and direct investment capital entries shall be made. The full incorporation of data from the Foreign Investment Register of the Ministry of Industry, Tourism and Trade to the information system has permitted the use of such data in the procedure for estimating the reinvested earnings of direct investment. Until last year, the procedure applied to Spanish direct investments abroad and foreign direct investment in Spain differed because of the varying availability of information sources. Last year, thanks to the above-mentioned change of information source, it has been possible to harmonise the procedure which is based, for Spanish investments abroad

and foreign investments in Spain, on the calculation of average rates of return applied to IIP direct investment data. The latest data available from the Foreign Investment Register are those for 2006. The rates for that year have been obtained from the net profit (net of dividends distributed) and from the own funds of the whole non-financial corporations sector. For 2007, these rates of return have been adjusted by using the trend in net profit of non-financial companies from direct investment, data which is available at the Banco de España's Central Balance Sheet Data Office. For 2008, this trend has been adjusted by nominal GDP growth.

### 5.2.2.3 Valuation. Transactions and stocks

The Spanish balance of payments has been compiled in euro since 1999. The time series, compiled in pesetas up to December 1998, have been converted to euro at the irrevocable exchange rate of ESP 166.386 /euro. The domestic currency is commonly used as the valuation unit in most developed countries and in nearly all of Europe. In fact, the IMF only expressly recommends the use of alternative units of account in countries with volatile currencies.

Transactions are declared in their original currency, using for their translation into euro the average exchange rate of the ten-day period when they take place in the case of transactions declared by financial institutions, and the month's average exchange rate in all other cases (obviously, transactions carried out before 1999 in the currencies of the euro area countries have been translated into euro by simply multiplying their irrevocable exchange rates). Thus, the Spanish balance of payments adheres closely to the theoretical principle of valuation in the 5th edition of the IMF Manual, which recommends that all transactions be valued at the market rate in effect on the date of the transaction. In this respect, the IMF leaves no room for doubt. The estimates of the different entries in the balance of payments should not reflect changes induced by fluctuations in exchange rates or in the market prices of the financial assets and liabilities in question. Nor should the balance of payments record the discrepancies which may arise in using a single currency to value the receipts and payments of operations related to offsetting or to the buying or selling of currencies, since these are, by definition, identical in the original transaction agreed between the parties.

The importance of this valuation principle should be stressed, because it is essential for understanding the relationship between stocks and transactions or, in other words, the relationship between the balance of payments and the international investment position. The 5th edition of the Manual defines the international investment position as the value of the stock of each financial asset and liability defined in the standard components of the balance of payments. For each standard component in the financial account, the international investment position should reflect the value of the stock of this type of asset or liability at the beginning of a period and its value at the end of the same period. The difference between the two must be equal to: the flow recorded in the balance of payments, which reflects the transactions in these assets or liabilities that actually took place; plus the change in the value of the stock induced by swings in the exchange rate; plus the change caused by movements in the price of the related assets or liabilities (in addition to several other adjustments; see paragraph 466 of the 5th edition of the IMF Manual).

The 5th edition of the Manual thus establishes explicit links between an economy's holdings of financial assets and liabilities and the changes, or flows, in the related financial instruments. It does this by establishing, for each of the headings that together form the financial account, the corresponding stock or international investment position.

Section 5.3 on the international investment position explains in greater detail the valuation criteria used in compiling this statistic and its relationship to the corresponding transactions.

5.2.2.4 Classification of financial transactions by change in assets and change in liabilities. Signs used.

In the tables in Chapter 6, the transactions of the financial account are recorded as the net change in the assets or net change in the liabilities of resident units vis-à-vis non-resident units. The data reflect only the net asset-side transactions (residents' purchases of assets vis-à-vis non-residents, less their sales and redemptions) and the net liabilities-side transactions (purchases by non-residents of assets issued by residents, less their sales and redemptions). This is due to the fact that the recording of gross transactions is no longer of significance given the extraordinary mobility of capital, which has increased the purchase and sale transactions of financial assets exponentially. This is not only true of assets involving negotiable securities in the traditional sense, but also applies to virtually the entire range of assets and liabilities, now characterised by high mobility produced by financial and technological innovation.

Indeed, the participation of resident and non-resident securities-dealer companies and securities agencies, clearing services, settlement agencies and financial intermediaries in the placement of negotiable securities among customers, whether residents or non-residents, generates figures for gross capital transactions that may have no economic significance other than the greater complexity of the intermediation between the final agents handling the transaction. Even in the case of credit and loan transactions, where the significance of gross transactions involving the provision or repayment of funds is apparently clearer, frequently complex mechanisms (revolving credit, syndicated loans with the entry and departure of resident and non-resident financial institutions into and from the syndicate) can give rise to gross transactions between the borrower and diverse lenders of different nationalities that do not have the same significance as traditional loans with a specific borrower, lender and repayment terms.

The signs with which items are posted in the balance of payments require an accounting convention. Even in the case of current-account transactions, the sign could differ depending on whether it was sought to highlight the standpoint of the resident or that of the non-resident involved in the transaction. Hence a merchandise export is a receipt for the exporting resident but a payment for the non-resident purchaser. The Spanish balance of payments adopts the angle of the resident. However, in the financial account this accounting convention would not alone suffice to define unequivocally the phenomenon it is sought to reflect. For example, an increase in a resident's assets vis-à-vis a non-resident involves a payment abroad, i.e. an out-flow. If what it is sought to show in a table is the fact that a country's assets increase or decrease, they would have to be recorded with a positive sign in the former case and a negative sign in the latter. But if the criterion adopted is to record financial transactions taking into account the fact that they give rise to a receipt, or a payment, the increase in assets would have to be recorded with a negative sign and the decrease with a positive sign. Since all standpoints are valid, whether that of the resident or non-resident, and whether combined with different criteria to represent the increase or decrease in the related assets or liabilities, or the receipts or payments generated by them, each table in Chapter 6 of this publication details (as earlier indicated) the accounting convention used.

The errors and omissions heading is merely an adjustment for the difference between total credits and total debits. Consequently, it does not feature as a heading in the current, capital or financial account. In the tables in Chapter 6, it is recorded separately as a balancing item. If its sign is positive (negative), this indicates there is an understatement (overstatement), through errors or omissions, in the net balance of the sum of the current and capital accounts, i.e. of the nation's net lending/borrowing in relation to the net financial-account balance.

Notably, in the case of direct investment transactions, the accounting recommendation for assets and liabilities calls for several additional details, because the IMF establishes the "direction" criterion for the classification of these transactions, as explained in Section 5.2.5.a. under the heading "Direct investment".

5.2.3 CLASSIFICATION OF  
TRANSACTIONS BY HEADING  
AND INSTITUTIONAL SECTOR

5.2.3.1 Classification by heading

The transactions of the Spanish balance of payments are structured around three basic accounts: the current, capital and financial accounts.

The current account is divided into four basic sub-accounts: goods, services (including travel), income and transfers. Notably, labour income and investment income thus have their own accounts, separate from that of services.

The capital account includes capital transfers and the disposal and acquisition of non-produced, non-financial assets. In the Spanish case, capital transfers are by far the most sizeable heading in this account. The specific notes on these two headings (see Section 5.2.5) give the details of their contents.

The financial account is structured so that the transactions of the Banco de España are treated separately. There is thus one account with the transactions of the various sectors, excluding the Banco de España, and another with the central bank's transactions. There are four sub-accounts under the first account, differentiated by the type of assets and liabilities whose form the corresponding transactions take: direct investment, portfolio investment, other investment and financial derivatives. The first three offer itemised information of asset- and liabilities-side transactions, while financial derivatives are recorded as change in liabilities minus change in assets. Transactions are allocated to the various institutional sectors according to the sector to which the resident party to the transaction belongs. Institutional sectorisation is also used in the investment-income balance. The definition of the institutional sectors is explained under heading 2 of this section.

As regards the basic contents of the various sub-accounts of the financial account, direct investment includes investments that reflect the investor's objective of obtaining a lasting return from the investee enterprise, achieving a significant degree of influence in its management. For practical purposes, the 5th edition of the Manual defines the owner of 10% or more of the capital of a direct investment enterprise as a direct investor. This rule is not conclusive as the guideline acknowledges that a smaller percentage may entail a controlling interest in the company (and, conversely, that a share of more than 10% may not signify control). But the IMF recommends using this percentage as the basic dividing line between direct investment and portfolio investment in the form of shareholdings. Naturally, direct investment also encompasses other forms of participation in capital which, by their very nature, meet the definition of permanent investment (funds allocated to branches, for example), and reinvested earnings. Investment in real estate is also recorded under this heading. Moreover, the direct investment heading should include both the original transaction, which determined the party's status as a direct investor, and all subsequent financing transactions of any nature, not only in the form of new purchases of shares and bonds but also in that of trade-related and financial loans, irrespective of whether they are short or long term. This broad definition allows for the possibility that there may be elements that introduce some volatility into the behaviour of this heading. In this respect, inter-company loans – especially short-term loans – are likely to be more sensitive to interest rates, in their different terms, and to exchange rate expectations than equity holdings, where expected profitability is the basic explanatory variable, and one that is generally less volatile in the short-term. The foreseeable volatility of the transactions thus recorded is increased if the financing transactions between companies indirectly related via their links to the same multinational group are also included.

Portfolio investment records transactions in negotiable securities, with the exception of shareholdings that fall within the definition of direct investment. Financial derivatives are not includ-

ed, even if they are negotiable. This account is divided into three main components: shares, bonds and notes, and money market instruments. The specific contents of each of these headings in the Spanish balance of payments are described in detail in Section 5.2.5.

The other investment account essentially records loan transactions, covering both trade-related and financial loans, with separate short- and long-term categories, and deposits, including foreign-currency holdings. It is worth mentioning that, for accounting purposes, the 5th edition of the Manual considers transactions involving securities with repurchase agreements as similar to secured loans or deposits. Specifically, repo sales to non-residents by residents should be recorded, under change in liabilities, as loans received if the seller is not a credit institution, and as foreign deposits in Spain if the seller is a credit institution. Residents' repo purchases of securities held by non-residents should be recorded, under change in assets, as deposits abroad if the non-resident is a credit institution, and as loans abroad if the non-resident is not a credit institution. As a result, repos and sell/buy-back transactions are included in the other investment account. Admittedly, in the data in Chapter 6, all repos and sell/buy-back transactions by resident credit institutions are recorded under a single heading. But it is important to highlight their theoretical status as loans or deposits (the accounting experts of international organisations agree here), because this is not a mere accounting convention but rather reflects a decision based on their greater resemblance to, and substitutability for, this type of asset. In other words, the determinants of the demand for this type of asset in investors' portfolios are more similar to those of loans and deposits than to the determinants of portfolio investment in listed securities. The way they are recorded is therefore based on analytical and theoretical reasons and not just more or less arbitrary accounting conventions.

Financial derivatives cover all instruments of this nature that can be valued because there is a market price for the underlying asset, irrespective of whether it is traded or not on organised markets, and irrespective of what the underlying asset is. Section 5.2.5 describes the specific content of this heading in the Spanish balance of payments.

Lastly, the financial account of the Banco de España's foreign transactions includes the change in reserves, the change in the Banco de España's account with the Eurosystem, and the other foreign assets and liabilities of this institution. Section 5.2.5, which explains the content of each heading in the balance of payments, describes these transactions. Moreover, in each table of Chapter 6 where they appear, a footnote to the table gives the accounting convention used for the sign of the change therein. Suffice it to say here that, in the summary tables of the main balance of payments headings, the other external assets and liabilities of the Banco de España (excluding reserves and the account with the Eurosystem) have been included in a single line as the net balance of liabilities minus assets. Meanwhile, in the subsequent detailed tables, they are broken down into change in assets, on one hand, and change in liabilities, on the other.

#### 5.2.3.2 Classification by institutional sector

The investment income account and the various headings of the financial account are broken down into the following three institutional sectors:

- 1 *Monetary financial institutions sector*
  - 1 Banco de España
  - 2 Other monetary financial institutions
    - 1 Credit institutions
      - 1 Banks
      - 2 Savings banks
      - 3 Credit co-operative banks
      - 4 Specialised credit institutions

- 5 Instituto de Crédito Oficial
- 2 Money market funds (MMFs = FIAMM)
- 2 *General government sector*
  - 1 Central government
    - 1 State
    - 2 Central government agencies – including autonomous administrative agencies (except social security units), universities and corporations considered to be government
  - 2 Regional (autonomous) governments
  - 3 Local government
  - 4 Social security funds<sup>1</sup>
    - 1 Social Security System
    - 2 Other social security funds
- 3 *Other resident sectors*
  - 1 Non-monetary financial corporations (excluding insurance corporations and pension funds)
    - 1 Other financial intermediaries (excluding insurance corporations and pension funds)
      - 1 Collective investment institutions (except money market funds)
        - a) Investment companies
        - b) Capital-market mutual funds
      - 2 Real estate investment institutions
        - a) Real estate investment companies
        - b) Real estate mutual funds
      - 3 Securities dealer companies
      - 4 Financial vehicle corporations
      - 5 Venture capital funds and companies
      - 6 *Financial holding corporations*
      - 7 Issuers of preference shares and other negotiable securities
    - 2 Financial auxiliaries
      - 1 Deposit guarantee funds
      - 2 Portfolio management companies and the management companies of other financial institutions and insurance corporations
      - 3 Official market governing bodies
      - 4 Securities agencies
      - 5 Rating agencies
      - 6 Appraisal companies
      - 7 Mortgage market regulation funds
      - 8 Guarantee companies
      - 9 Comisión Liquidadora de Entidades Aseguradoras (until absorbed by Consorcio de Compensación de Seguros)
      - 10 Currency-exchange bureaux
      - 11 Securities clearing and settlement companies
      - 12 *Holding corporations performing activities of financial auxiliaries*
  - 2 Insurance corporations and pension funds
    - 1 Private insurance corporations
    - 2 Non-profit insurance entities
    - 3 Consorcio de Compensación de Seguros
    - 4 Pension funds
  - 3 Public and private non-financial corporations
  - 4 Households and non-profit institutions (NPIs serving households)

Transactions are allocated to the various institutional sectors according to the sector to which the resident party to the transaction belongs. Thus, if a resident bank purchases US Treasury bills, the transaction is recorded as a portfolio investment abroad (changes in assets) by the monetary financial institutions (MFIs) sector. By contrast, if a foreign bank purchases Spanish Treasury bills, the transaction is recorded as a foreign portfolio investment (changes in liabilities) in the general government sector. It should be borne in mind that, for foreign investment in Spain, the institutional sector is allocated in accordance with the final recipient of the investment, who is not necessarily the recipient of the corresponding payment, nor the party reporting the operation to the Banco de España. Indeed, for foreign investments in negotiable securities issued by residents on the secondary market, the resident seller can be any holder of the securities, the broker appearing as the agent settling the transaction. However, using the issuer's fiscal identification number ensures appropriate allocation of the transaction to the institutional sector to which it belongs.

#### 5.2.4 STRUCTURE AND CONTENT OF THE TABLES IN CHAPTER 6

The tables in Chapter 6, namely those showing the balance of payments data, have been structured in accordance with the 5th edition of the IMF Manual's framework of accounts, sub-accounts and headings for standard components described above. The specific content of each heading, which is the same as in the 2004 edition of this report, is explained in the next section.

The table of contents at the beginning of this report gives a detailed list of the tables. The data for 2008 are presented in the tables whose headings begin with 6.1, and the revised 2007 figures in those with 6.2. The data from 1992 onwards can be consulted in the CSV files that accompany the tables of Chapter 6 in the electronic version of this publication, available at the Banco de España website. Both sets of data (for 2008 and 2007) contain the same number of tables, with the same content and numbering; except for Table 6.1.12, which gives a geographical breakdown of direct investment for the period 2000-2008. The first table reflects the annual data of the main headings of the current, capital and financial accounts, while the others give, for each heading, the annual data and the estimated quarterly data for each of the two years. The first two tables are a summary of the main headings, and the rest contain more detailed, disaggregated data. These first two tables include the change made in 2000 so as to show the transactions of the Banco de España on their own; the bulk of the financial transactions of the other sectors are under the heading financial account excluding Banco de España.

As regards the tables presenting the details of the current account (specifically for 2008 and 2007), Tables 6.1.3 and 6.2.3 give the estimates of the different services headings. Tables 6.1.4 and 6.2.4 contain the disaggregation of investment income by institutional sector. The breakdown by instrument appears in Tables 6.1.5 and 6.2.5. Tables 6.1.6 and 6.2.6 provide a breakdown of current transfers by institutional sector, including the disaggregated data for those whose counterpart is the EU.

The data of the capital account are presented in Tables 6.1.7 and 6.2.7. Here, too, capital transfers are disaggregated by institutional sector, and the data for transfers from the EU are also shown.

The headings for which a breakdown was made of the transactions of the financial account are given in two tables with similar information but with alternative presentations. In the first, Tables 6.1.8 and 6.2.8, a disaggregation of the transactions of the institutional sectors is given for the main types of financial instrument. In the second, Tables 6.1.9 and 6.2.9, the disaggregated data of the transactions of each institutional sector are presented by instrument. For the reasons given in Section 5.1, a table with a presentation similar to that used by the IMF in

its publications has been retained to provide for readier international comparison. Thus, in Tables 6.1.8 and 6.2.8, the heading other investment includes the Banco de España, albeit as an institutional sector different from other MFIs, with reserves as an independent heading. Conversely, in Tables 6.1.9 and 6.2.9, all the financial transactions of the Banco de España, and not only reserves, are presented separately, as in the first two summary tables.

Tables 6.1.10 and 6.2.10 show, for 2008 and 2007 respectively, the total foreign direct investment transactions, with details of the amount made through foreign-equity holding companies (ETVEs) resident in Spain. As a consequence of the institution of a special tax regime<sup>4</sup> offering significant advantages to Spanish foreign-equity holding companies (ETVEs), such firms have frequently been used in recent years by non-resident multinational groups to centralise the holding of their foreign direct investments in third countries. This has led to the recording in the balance of payments of increases in liabilities arising from the holding of the non-resident parent company in the resident ETVE, and increases in assets arising from the foreign holdings of the Spanish ETVE, of a similar magnitude. Thus, although the impact of these transactions on net assets and liabilities is smaller, it is very important to identify the transactions corresponding to these companies separately, in order to be able to correctly analyse developments in Spanish foreign direct investment. Note that, in these cases, the Spanish resident firm simply records the transactions in its balance sheet without any capital contribution being made and, therefore, their transactions should not be included with those determining Spanish direct investment abroad or with those determining foreign direct investment in Spain.

For this reason, in order to facilitate economic analysis, Tables 6.1.10, for 2008 and 6.2.10, for 2007, give an estimate of the direct investment transactions of and in ETVEs resident in Spain. The estimate is based on the breakdown of direct investment according to the economic activity (NACE) of the resident enterprise. As a result, the data given may include, along with ETVEs, other holding companies that, while not themselves ETVEs, have performed similar transactions, so that, in practice, they are a good estimate of the transactions that, for the reasons mentioned, distort the analysis of the direct investment data.

For their part, Tables 6.1.11 and 6.2.11 contain estimates of the main headings of the balance of payments for a set of economic and geographical areas, selected from among those regularly used by international organisations, and some individual countries.

It is worth mentioning that, the recording of financial derivatives on a net basis (changes in liabilities less changes in assets) precludes their geographical breakdown. In addition, certain factors that particularly limit the information content of several items should be borne in mind. In this respect, it is worth recalling that information on transactions involving less than EUR 50,000 is not available, and their distribution by country was estimated by using as an indicator the breakdown of the rest of the transactions of the different headings to which they were assigned. Further, in most foreign portfolio investment in Spain, declarants designate as the country of the transaction that of the residence of the institution which manages and has custody of the related securities. This explains the large volume of operations of this type in countries such as the United Kingdom.

## 5.2.5 SPECIFIC NOTES FOR EACH HEADING

### 5.2.5.1 Current account

#### a) Trade balance

This heading covers goods that cross the country's borders and those involving no physical crossing of borders, in addition to goods procured by carriers (fuel or any other type of supply).

---

4. See Corporate Income Tax Law 43/1995 and Law 6/2000.

As earlier noted, the data for merchandise that crosses borders are those furnished by the Customs and Excise Department, to which some adjustments are made. In the case of imports the most significant adjustment is that made to record imports in the balance of payments at their FOB value, rather than CIF, which is how they are valued in the trade statistics of the Customs Department. The data incorporate an estimate, obtained from information supplied by the Customs Department, of that part of foreign trade exempt from declaration under the Intrastat system for measuring intra-Community trade. This estimate is incorporated into the data for 1995 onwards. Also from that year, an adjustment to the Customs and Excise figures has been made to deduct the net amount of the arrivals and dispatches of goods leased out under operational leases. Merchandise that crosses borders temporarily for this purpose is included in the Customs and Excise statistics at its gross value, so that with this adjustment the net amounts are approximated, not the gross, to the requirements of the Balance of Payments Manual, which excludes operational leases from merchandise imports and exports, including them in services (see the “changes introduced” chapter in the 2004 report for further details of the adjustments introduced). Also, until 2005, due to the lack of more precise information, the total value of merchandise crossing borders is recorded, either as exports or imports, even if it is moved solely for the purpose of repairs, despite the IMF’s recommendation that only the net value of such operations be recorded. The Customs Department intra-EU trade data for 2005, and its total data for 2006, no longer include transactions relating to repairs. Consequently, a new adjustment to the figures provided by the aforementioned Department has been made which involved totalling the net amounts of the repairs obtained from the balance of payments general information system. The 2007 data are the revised figures of the Customs Department. The 2008 data are provisional.

The increasing importance of certain inter-company transactions related to the internationalisation of production is worth mentioning with regard to the recording of goods that do not cross borders.

b) Travel

This heading covers the goods and services purchased in an economy by non-resident travellers who, for business or personal reasons (including health and education), stay in the country for less than a year. As explained in detail in the changes-introduced section in the 2006 edition of this report, the 2005 travel receipts were calculated using a factorial econometric model which includes information from EGATUR and supply and demand indicators (including passengers on international flights, prices and overnight stays) and other supplementary information (including that from the general information system for receipts and payments). In this edition, the distribution by country of the receipts under this heading has been calculated from the EGATUR information.

The estimates for travel payments are based on the information available regarding payments made by means other than euro banknotes (essentially bank transfers, credit cards and foreign notes) although supplementary sources are also used such as counterparty country data and, in the short term, the results of univariate analysis of the series.

c) Transportation

The transportation headings cover freight and passenger transport as well as ancillary transport services. The latter cover a broad range of services provided in ports, airports and other terminal facilities, such as loading and unloading, storage and warehousing, and, in general, expenses related to the stop-over of the different means of transportation. Fuel and other merchandise, recorded in the trade balance, are excluded. Time chartering with crew is included.

d) Communication services

This heading records postal and courier services, services related to the transmission of sound, images and information by telex, facsimile, telegram, cable, broadcasting, satellite, electronic mail, etc.

e) Construction services

The receipts for construction services reflect those rendered by resident companies, while payments reflect those rendered by non-residents, when there is no branch or subsidiary in the country where the construction works take place. In this way, the aim is to distinguish between transactions that can be recorded as construction services in the strict sense and those which should figure as transactions between companies related by direct investment links.

Data users should be aware that, in headings such as this, the dividing line between the sub-account of services and that of direct investment is somewhat blurred. Moreover, even though only the value of the service should be reflected, this heading possibly includes items of a different nature, owing to the difficulties of identifying the various components of transactions that are often billed together.

f) Insurance services

Insurance services include the National Accounts estimates on the value of the service in the strict sense. In the case of reinsurance, receipts reflect the net amount of the reinsurance policy purchased, and payments reflect that of the reinsurance policy provided.

In addition to freight insurance, this heading encompasses life assurance, contributions to pension funds, personal accident, health, traffic accidents, general liability, fire, property damage insurance, etc., and reinsurance. Not included are Social Security benefits and payments, which are posted in the balance of transfers. Also excluded is export credit insurance, which is recorded under the financial services heading.

g) Financial services

This covers the broad range of financial intermediary services. Though not an exhaustive list, this heading encompasses commissions and expenses relating to: foreign investment, such as the issue, placement and redemption of securities and, in general, brokerage fees for direct and portfolio investment and the sale/ purchase of real estate; commissions and expenses relating to the acquisition and placement of funds in deposits; bank drafts; cheques paid and certified; money changing; travellers' cheques; loans received and extended; financial leases; credit cards; swaps; options; futures operations; administrative services and asset management; treasury management; financial consultancy; factoring; letters of credit, underwriting and credit insurance, etc. Naturally, not included are the receipts and payments linked to the principal and to the returns generated by the above-mentioned transactions, which are recorded in the financial account and in the income account, respectively.

h) Computer and information services

This heading records receipts and payments relating to: hardware services, taken to mean the assessment and configuration of computer equipment, including maintenance and repairs; software services, such as the development and start-up of software, including the analysis, design, installation, documentation and maintenance of the system; news agency services, including the provision of news, feature articles, photographs, etc.; computerised data processing, including their recording, transfer to other equipment, etc.; and, in general, services relating to databases. This heading does not cover the purchase of non-customised software supplies or training services, which are posted under the heading other business services.

i) Other business services

In addition to merchanting and operational leases, this heading includes, under the generic classification other business services, professional and technical services, a broad range of transactions of this type which do not fit into other categories. Like any heading defined by exclusion, it reflects a large number of diverse transactions whose quantitative significance is gauged in relation to other more precisely defined headings. Merely by way of example, it cov-

ers advertising and market research; research and development; legal, accounting, consulting, architectural, engineering, translation and interpretation, security and training services, etc. It also includes services rendered by parent companies to their subsidiaries, branches and associates that are billed as part of the overheads of the parent company.

The business services in this heading include commissions and fees relating to merchandise imports and exports, as well as merchanting (triangular transactions whereby residents purchase goods abroad from non-residents for their subsequent sale to other non-residents, without importing them to and exporting them from national territory). The net receipts from these triangular transactions (the difference between the amount of the sale and of the purchase of the merchandise) are recorded as an export of services.

Operational leases include leases with purchase options for transport equipment and means of transportation, as well as leases of means of transportation without crew. Not included are the principal and interest of financial leases, which are recorded in the financial account and in the income account, respectively.

j) Personal, cultural and recreational services

This heading covers audiovisual services and other personal, cultural and recreational services.

Audiovisual services include the production of films and radio and television programmes, as well as their distribution rights sold to the media. Fees paid to actors, producers, etc. are also included. However, they do not cover the royalties received for films, musical recordings, books, etc., which are entered under the heading royalties and licence fees.

The item for other cultural and recreational services reflects the receipts and payments derived from services of this nature not included under the previous heading, such as circuses, theatres, orchestras, museums, libraries, sports events, etc. Also included are subscriptions to newspapers and periodicals.

k) Government services

Included here are the receipts and payments linked to the expenses of embassies, consulates, military units, etc. and expenditure relating to the provision by the Spanish government of services associated with health, education, administrative costs, tourism offices, educational institutions, etc.

l) Royalties and licence fees

This heading records the receipts and payments for the rights to use patents, trademarks, designs and inventions, and copyright fees. Excluded are the rights derived from the distribution of films and audiovisual productions, which are recorded under audiovisual services.

m) Labour income

The compensation of short-term, border and seasonal employees is included here. This heading includes, from 1995 onwards, social contributions and direct taxes on compensation received (paid) by (to) resident (non-resident) workers. That is to say, from 1995 the figures are recorded gross, as recommended by the 5th IMF Balance of Payments Manual, rather than net, as was done previously.<sup>5</sup>

n) Investment income

Investment income is presented in the same breakdown by instrument as in the corresponding headings in the financial account, reflecting the income generated by the assets and liabilities in each heading. In view of this, only a few points need be clarified, and these are addressed below.

---

5. For a more detailed explanation, see the chapter on changes introduced in the 2005 report.

As from 2005, all portfolio investment income is calculated on an accrual basis, as recommended by the 5th edition of the IMF Balance of Payments Manual. Until 2005, the accrual principle was applied only to payments of income on general government<sup>6</sup> bonds denominated in euro.

The general information collection system does not adequately cover undistributed earnings and transfers from direct investors to subsidiaries and branches to offset losses. These transactions therefore have to be calculated using different information sources, as described in section 5.2.2.2 and previous editions of this report.

The interest on subsidiary/parent company loans is recorded under the same criterion used for principal transactions (described under the heading "Direct investment" in Section 5.2.5: interest paid by non-resident parent companies to their resident subsidiaries is computed as a decrease in payments from direct investment income, and interest payments of resident parent companies to their non-resident subsidiaries are computed as a decrease in proceeds from direct investment income.

Transfers related to income from rentals or any other form of real estate operation are also included as returns on investment. The valuation differences between the acquisition cost and selling price of real estate investments are generally recorded in the same way as any sale/purchase of assets, i.e. in the financial account and not as income.

According to the guidelines in the 5th edition of the Manual, all financial derivatives should be included as such in the financial account, even if the underlying instruments are interest rates or other types of income. Although the guidelines for reporting these transactions establish that derivatives in the strict sense should be reported separately from other financial transactions with which they are associated, this might not always be the case. As a result, interest rate swaps and forward rate agreements (FRAs), when associated with another transaction (a loan, for instance), are treated as the income of said transaction, and are thus implicitly included, in net terms, in the investment income of the category corresponding to the underlying instrument. When these instruments are traded separately, they are treated, correctly, as financial derivatives, and are therefore not included in income. Several additional observations on the recording problems posed by derivatives transactions can be found under the heading "Financial derivatives" in Section 5.2.5.c.

As to the returns on transactions in negotiable securities, it is difficult to arrive at separate estimates for these returns and their principal. Specifically, the profit generated by holdings in mutual funds is not included as income. Interest on the repurchase agreements of MFIs is correctly treated, but there are greater doubts regarding the interest on these transactions when they are carried out by non-credit sectors, although they are quantitatively less significant.

o) Current transfers

The distinction between current and capital transfers is difficult to draw, not only in practice but also conceptually. The 5th edition of the Manual prefers to define capital transfers and to record, by exclusion, all others as current transfers. The broad characteristics of the two, as defined in the Manual, are given below.

According to the 5th edition of the IMF Manual, "first, a transfer in kind is a capital transfer when it consists of: (i) the transfer of ownership of a fixed asset or (ii) the waiving of a claim by

---

6. For a more detailed explanation, see the chapter on changes introduced in the 2005 report.

a creditor when no counterpart is received in return. Second, a transfer of cash is a capital transfer when it is linked to, or conditional on, the acquisition or disposal of a fixed asset (for example, an investment grant) by one or both parties to the transaction. A capital transfer should result in a commensurate change in the stocks of assets of one or both parties to the transaction. Capital transfers also may be distinguished by being large and infrequent, but capital transfers cannot be defined in terms of size or frequency. Current transfers consist of all transfers that are not transfers of capital. Current transfers directly affect the level of disposable income and should influence the consumption of goods or services. That is, current transfers reduce the income and consumption possibilities of the donor and increase the income and consumption possibilities of the recipient.”

In practice, the difference is not readily distinguished. In the tables in Chapter 6, current transfers of the private sector record: workers’ remittances;<sup>7</sup> taxes; Social Security contributions and benefits; donations for the acquisition of consumer goods; salaries to personnel providing services abroad in aid programmes; alimony; inheritances; literary, artistic and scientific awards, among others; prizes from lotteries; dues paid to charitable, recreational, cultural, scientific and sports organisations, etc. Also included is that part of the current transactions of insurance companies, which is not recorded as service charges, in the case of insurance other than life assurance i.e. claims plus premiums less service charges. Likewise, the receipts from the EU via the EAGF are included as transfers to the private sector.

In quantitative terms, the most significant current transfers of the general government sector are those whose counterpart is the EU. Among the most important receipts are those relating to job creation and training (ESF). The most notable items on the payments side are the funds known as the “VAT resource” and “additional resource (GNI)”. The receipts generated by the proceeds from collection services provided to Community institutions are recorded as receipts from services rendered.

#### 5.2.5.2 Capital account

##### a) Capital transfers

The capital transfers of the private sector mainly show the flow of funds generated by the settlement of migrants’ net worth, including changes in ownership from non-resident to resident, and their assets and liabilities, upon moving to Spain and vice-versa. Owing to the data-collection system used for the Spanish balance of payments, the coverage of these transactions is incomplete.

In quantitative terms, the most important item under the capital transfers heading is the part reflecting the receipts of the general government sector in the form of EU funds. Particularly notable are the funds for regional development (ERDF) and the “cohesion funds” which, in the Spanish case, are assigned entirely for structural improvements in industrial and environmental projects. Also included here are EAFRD and EAGGF-Guidance funds.

In addition, in accordance with Eurostat guidelines, capital transfers of general government now include as payments the indemnities paid by the CESCE for risks it assumes on behalf of the Spanish Treasury. When these indemnities are paid to a resident creditor (the exporter or bank which financed the transaction), the debit in the capital account has a counterpart credit entry in the financial account as the cancellation of this asset. The possible repayments received by the CESCE from non-residents as a result of the risk assumed are recorded as credits in the form of capital transfers from the general government sector.

---

7. See the changes-introduced section of the 2005 report for a description of the estimate procedure included that year for data from 2001.

b) Acquisition of non-produced,  
intangible assets

The capital account should record, together with capital transfers, the acquisition/disposal of intangible assets non-produced, non-financial assets. Citing the 5th edition of the IMF Balance of Payments Manual, this heading comprises “transactions associated with tangible assets that may be used or needed for production of goods and services but have not themselves been produced (e.g. land and subsoil assets) and transactions associated with non-produced, intangible assets (e.g. patents, copyrights, trademarks, franchises, etc. and leases or other transferable contracts). However, in the case of resident/non-resident transactions in land and natural resources, all acquisition/disposal is deemed to occur between resident units, and the non-resident acquires a financial claim on a notional resident unit. The only exception concerns land purchased or sold by a foreign embassy when the purchase or sale involves a shift of the land from one economic territory to another. In such instances, a transaction in land between residents and non-residents is recorded under acquisition/disposal of non-produced, non-financial assets”. Note that, in practice, since that part of the purchase/sale of land and subsoil assets reflected here is of only minimal significance (and, moreover, the related data are not available), the heading only records the purchase/ sale of the aforementioned non-produced, intangible assets, and this is therefore the designation used in the tables.

5.2.5.3 Financial account

The headings in the financial account reflect the net change in the corresponding assets and liabilities, and this is expressly indicated in the related tables of Sections 6.1 and 6.2. Nonetheless, in the following sections, for the sake of clarity, this facet (the recording of transactions) is not indicated in each case, and the word “net change” is often omitted, even though, strictly speaking, it should be used in all cases.

5.2.5.3.1 Direct investment

Before describing the components of this heading, it should be noted that the classification structure of direct investment transactions shows certain particularities regarding the change in assets and the change in liabilities of the economy. Classification under this heading is based first on the “direction” of investment; second, on the investment instrument involved (shares, loans, etc); and third, on whether these instruments are assets or liabilities, i.e. whether the resident transacting the operation is a creditor or debtor.

Briefly, this means that transactions between a parent company resident in Spain and its subsidiaries or branches abroad would be recorded as follows: financing of any type extended by the resident parent company to its non-resident subsidiaries or branches would be included in Spanish investment abroad, as occurs in the case of the other transactions in the financial account. By contrast, financing of any type extended by non-resident subsidiaries or branches to their Spanish parent company are classified as a decrease in Spanish investment abroad, rather than as a foreign investment in Spain, as would be the case in the absence of a direct investment relationship.

Likewise, the financing extended by non-resident parent companies to their resident subsidiaries or branches would be recorded under foreign investment in Spain, and the financing extended by resident subsidiaries or branches to the non-resident parent company would be classified as a decrease in foreign investment in Spain.

The application of this principle, which is clear in cases such as the above, is more difficult when it comes to corporate groups with complex structures. For instance, when two companies, one a resident of Spain and the other a non-resident, have cross-holdings in each other's share capital of more than 10%, the financing extended by the resident company to the non-resident should be classified as a Spanish investment abroad, and the financing extended by the non-resident company to the resident as foreign investment in Spain. In other words, in this case, the treatment would be the same as that applied to the rest of the financial account.

In the most complex cases involving major multinational groups, the correct classification of transactions would require determining the direct investment relationship of the two intervening companies. On many occasions, that proves extremely complicated.

Direct investment is divided into shares, other equity, reinvested earnings, inter-company debt transactions, and real estate.

*a) Shares*

Included here are subscriptions and sale/purchase transactions in shares if the investor's holding amounts to 10% or more of the issuing company's share capital. This heading also covers purchases of subscription rights by direct investors. Transactions are recorded at the effective amount received or paid, excluding commissions and expenses.

*b) Other equity*

Other equity includes the purchase and sale of securities representing capital other than shares, funding to branches or establishments, and, in general, any other form of participation in firms that does not materialise in shares. Also included in this heading are capital contributions to companies in the process of incorporation or for capital increases and funding for the operating expenses of branches or establishments lacking own funds, if such funding is not a loan or does not require repayment.

*c) Reinvested earnings*

Reinvested earnings are included as direct-investment capital transactions, as a balancing entry to the amounts included in the income account. That is to say, in the case of Spanish foreign direct investment, undistributed earnings (losses) give rise to an increase (decline) in such investment and to a receipt (negative receipt) of direct investment income. Likewise, such transactions are recorded in foreign direct investment in Spain and in the related income.

The share of the direct investor (in proportion to its direct share in the share capital) in the earnings or losses that subsidiaries or associates have not distributed as dividends and the earnings of branches that have not been remitted to the direct investor are included.

*d) Inter-company debt transactions*

This heading includes, in general, the loan transactions between parent companies and their subsidiaries or investee companies and between subsidiaries of the same group, unless the latter are credit institutions. As recommended in the 5th edition of the IMF Manual, the lending or deposit transactions between credit institutions are included under the heading other investment, even though they are transactions between parent companies and their subsidiaries.

Specifically, this heading covers the loans extended by parent companies to their subsidiaries and investee companies, as well as the repayable advances extended to branches or establishments, minus loans in the reverse direction, i.e. those extended by branches and subsidiaries to their own direct investors which, as explained above, are subtracted from the former. Also included are loans extended between companies of the same group, even though they are not direct loans from the parent companies to their subsidiaries or vice versa. In accordance with the guidelines of the 5th edition of the IMF Manual, the loans extended by resident subsidiaries of a non-resident company to other non-resident companies in the group, other than the parent company, are included in Spanish direct investment abroad, while the amounts received by resident subsidiaries of a non-resident company in the form of loans extended by other non-resident subsidiaries are included under foreign direct investment in Spain.

In addition to financing in the form of loans between direct investors and their subsidiaries or branches, this heading encompasses the changes in the balances of inter-company accounts. Inter-company accounts are understood to mean accounts between subsidiaries and parents,

or between companies in the same group, where mutual transactions – or transactions of the corporate group with third parties – are settled.

These transactions give rise to changes in the balances of inter-company accounts, which constitute a credit extended to or received from the parent company, or from the group company in charge of treasury management. This credit should be included under foreign investment in Spain in the item for inter-company debt transactions if the resident enterprise is a resident subsidiary or branch of the non-resident parent company, and under Spanish investment abroad if the resident company is a direct investor.

Lastly, excluded from this heading are the loans extended by investment companies established in countries considered to be tax havens to their resident direct investors. Such loans are included in the change in liabilities under other investment.

e) *Real estate*

This heading comprises purchases of property, or other real rights related to real estate, including purchases of property under time-share schemes and the acquisition of real estate through financial leases.

5.2.5.3.2 Portfolio investment,  
excluding Banco de España

Portfolio investment is divided into shares and mutual funds, bonds and notes, and money market instruments.

a) *Shares and mutual funds*

This includes the subscription, sale and purchase of shares and subscription rights that do not constitute direct investment, as well as the sale and purchase of holdings in mutual funds. These transactions are recorded at the effective amount paid or received, excluding commissions and expenses.

b) *Bonds and notes and money  
market instruments*

Transactions in debt securities are presented distinguishing between bonds and notes on the one hand (in general, securities issued with an initial maturity of more than one year) and money market instruments on the other (mostly securities issued with an initial maturity of one year or less, although 18-month Treasury bills are included). Transactions in securities issued with a maturity of more than one year are always classified as bonds and notes, even though their residual maturity at the time of the investment is less than one year. Transactions in securities issued with a term of one year or less are recorded under money market instruments.

Transactions involving any type of debt security are included, solely on the condition that they can be traded on Spanish or foreign markets, irrespective of whether they are issues denominated in euro or foreign currency. Conversely, investment in debt securities that are not negotiable is recorded under other investment. However, it should be pointed out that some issues, such as euronotes and commercial paper, are included in the portfolio investment heading because of their negotiability, even though they are not traded on organised markets and are placed in circulation through private offerings.

The institutional sector corresponding to these transactions is assigned according to the sector to which the resident issuer belongs, in the case of liabilities, and the sector of the resident subscriber or buyer of the securities, in the case of assets. Thus, the securities issued by non-residents, initially subscribed by credit institutions and subsequently sold to other residents, figure under the MFIs heading.

Excluded from this heading are non-residents' repo operations involving debt securities issued by residents. These are included in other investment, in the resident sector that carries out the operation, as change in assets (purchases by residents) or change in liabilities (sales by residents).

This heading reflects, by exclusion, the changes in financial assets and liabilities with non-residents that are not recorded as direct or portfolio investment or as reserves. It essentially consists of loan and deposit transactions. Included are repo transactions (including sell/buy-back transactions) between residents and non-residents, involving securities issued by either party, which the Spanish balance of payments treats as secured loans or deposits. For a description of the system used to classify repos as loans or deposits, see the related paragraph on other investment in Section 5.2.3.1.

The classification of a number of financial instruments under this heading or under the portfolio investment heading does not always rest on unequivocal criteria, and inevitably leaves certain decisions to the discretion of the compiler. In principle, this heading covers any asset or liability instrumented through a private contract or through the issue of non-negotiable debt securities. Recall, however, that some of these issues, such as private issues of notes, commercial paper, euronotes, etc., are recorded as portfolio investment owing to their negotiability, even if they are not traded on organised markets.

Specifically, other investment includes loans between residents and non-residents (excluding, as already noted, those extended by enterprises belonging to the same economic group, except when they are transactions between credit institutions, which are recorded entirely under this heading, even though they are carried out between institutions of the same group); trade credits with payment deferrals of more than one year extended directly by the supplier to the buyer; credits of third-party financial firms; financial leases for purchases of goods; sight and time deposits at credit institutions; assets derived from executions of guarantees; purchases of non-negotiable financial instruments; and repo transactions.<sup>8</sup>

In addition, the long-term assets in the general government sector encompass membership quotas for international organisations. Lastly, the deposits heading includes, within the assets of other resident sectors, the change in the outstanding balance of foreign banknotes held by residents.

In practice, the separate measurement of the deposits of MFIs by liabilities and assets poses numerous difficulties. In the data in this report, a distinction is drawn between sight deposits by assets and by liabilities only for the years 1998 onwards, using information from the balance sheets of credit institutions. For earlier years, this separation could not be made, and, consequently, for those years only the net flow of liabilities minus assets is available. These have been conventionally allocated by assigning to assets, those denominated in foreign currencies, and to liabilities, those denominated in pesetas. Section I.5.5.3 of the Spanish Balance of Payments, 1994 explains in detail why the reliability of the information on the total net flow (liabilities minus assets) in this heading is much greater. In the same section, readers interested in this matter will also find several observations – which are, on the whole, still valid – concerning the relationship between these transactions as well as information on the deposits and accounts of the credit system contained in the balance sheets of credit institutions.

Since 2002 this heading includes, on the asset side, an estimate of the net amount of euro banknotes purchased by residents from non-residents, basically as a result of travellers' payments for tourism services.

---

<sup>8</sup> The recording of repos under the heading other investment, rather than under portfolio investment, makes it difficult to compare the data in the Spanish balance of payments with those of Iberclear relating to non-resident transactions in Spanish public debt. A detailed analysis of the differences is given in previous years' reports, in particular The Spanish Balance of Payments, 1993, Section I.7.2.2. This analysis remains broadly valid.

As discussed in previous editions of these methodological notes, in 1997 the IMF revised the guidelines of the 5th edition of the Balance of Payments Manual on the treatment of financial derivatives in its publication *The Statistical measurement of financial derivatives* (IMF Statistics Department, November 1997). The most significant change with respect to its initial recommendations was the clarification that any financial derivative which can be valued because a market price exists for its underlying asset should be recorded in the financial account, regardless of whether it is traded on organised markets and irrespective of the type of underlying asset. The revised text of the Manual recommended including as investment income in the current account those derivatives whose underlying assets are interest rates; in addition, it excludes from the financial account certain derivatives that are not traded on organised markets.

The IMF also decided to classify financial derivatives in a separate account, instead of including them under portfolio investment as another component.

Nonetheless, the IMF acknowledges the practical difficulties of its recommendations. Specifically, in reporting systems such as Spain's, the separation of the price of the derivative and of its underlying asset continues to pose problems when the contract is executed upon delivery of the underlying asset. Likewise, the classification of derivatives transactions by asset or liability is difficult not only from a practical standpoint, but also conceptually, since certain instruments go from one category to another depending on the price of the underlying asset. In fact, because of this problem, the European Central Bank decided to record financial derivatives in the euro area balance of payments as the net amount of change in liabilities less change in assets, and the same procedure is applied in this report.

The data in this report include options issued over the counter or on organised markets, financial futures issued over the counter or on organised markets, warrants on shares and debt securities, forward sales/purchases of currencies, FRAs, currency and interest rate swaps and swaps on indices or any other type of asset.

In accordance with the methodology recommended by the IMF, over-the-counter options transactions are recorded at the amount of the premium, excluding commissions and expenses, although at times it is difficult to distinguish between these two items. In such cases, commissions are possibly included in the price of the options. At maturity, if the option expires without being exercised, no entry is made under this heading. If the option is exercised and settled in cash, the amount paid or received is recorded; if it is exercised with the purchase or sale of the underlying instrument, the difference between the strike price and the market price of the underlying asset is included in financial derivatives, and the purchase or sale of the underlying instrument is recorded at its market price under the heading in which the transactions with this instrument are included (for example, bonds and notes, money market instruments, etc.). In the latter case, given its complexity, the treatment may not always be correct.

Investment in organised financial futures and options markets is recorded at the amount of the premium plus or minus the successive payments that reflect profit or loss, excluding the margin deposit, which is included in other investment.

Transactions in warrants are recorded at the amount paid or received, and the settlement is treated in the same manner as in the case of over-the-counter options.

Forward sales/purchases or currency (FRAs), currency and interest rate swaps, and other swaps are recorded at the difference between the amounts paid and received. Nonetheless,

when these instruments are associated with another transaction, they may be incorrectly recorded under the corresponding heading of the transaction, given the practical difficulties in distinguishing between them.

#### 5.2.5.3.5 Financial account of the Banco de España

The financial account of the Banco de España records the changes in its foreign assets and liabilities, broken down into the change in reserves, the change in Banco de España claims on the Eurosystem and the change in its other foreign assets and liabilities.

Since EMU has been in place, Member States' reserves are defined as the liquid assets in foreign currency that their national central banks hold vis-à-vis residents of non-EMU countries. Therefore, they do not include any type of euro-denominated asset or claims in foreign currency on euro area residents. Since January 2000, entries under this heading have followed the guidelines laid down by the IMF in the document Data Template on International Reserves and Foreign Currency Liquidity, Operational Guidelines, October 1999 (<http://dsbb.imf.org/guide.htm>). This is the key reference for readers interested in the detailed breakdown of this heading. The Banco de España publishes all the information required by the IMF in this document, both on reserves in the strict sense of the term and the general liquidity in foreign currency of the Banco de España and the Treasury, and on the liabilities constituting a specific or contingent short-term drain on such liquidity. The full data can be found on the Banco de España website in the Statistics section (Balance of payments, Statistical data).

The heading Banco de España net claims on the Eurosystem includes the balance of claims of the Spanish central bank on the other euro area central banks and on the European Central Bank. The main changes here are those arising from the settlement of cross-border transactions between residents and non-residents via TARGET. As explained below, in these transactions the Banco de España and the rest of the Eurosystem are an interface to the residents and non-residents that are the final parties to the transaction. In addition, since January 1999, it includes the changes in the Banco de España's claims on the ECB as a result of the transfer of reserves and the relevant updates. It would be beyond the scope of these methodological notes to offer a detailed and rigorous analysis of the working of TARGET. Nonetheless, for readers not familiar with this settlement system, a brief outline of its workings might be useful. If a Spanish resident importer has to make a payment to a French resident, the Banco de España debits the account that the importer's Spanish bank holds with it (and this bank will evidently have debited in turn its client's account) and credits its account with the French central bank. The latter will credit the account of the French bank with which, in turn, the exporter who is the final recipient of the funds has its account. As a result of the transaction, there is a change in the balance of a Spanish bank's account with the Banco de España (in addition to the bank's transaction with its client), and a transaction by the Banco de España with a central bank of the Eurosystem (besides the transactions between French residents).

The Spanish balance of payments does not show the transaction between the Banco de España and the Spanish bank, nor that between the latter and its client, as what are involved are transactions between residents. Double-entry accounting would show an import payment and a receipt relating to the reduction in the balance of the Banco de España's account with the Bank of France, i.e. with the Eurosystem. Although in practice the arrangements are more complex, the final result is the same as far as the accounting entry in the balance of payments is concerned. Given the quantitative significance of cross-border transactions between residents and non-residents settled through TARGET, there is no need to underscore its importance in the balance of payments. From an analytical standpoint, however, it should be stressed that Target's relevance transcends the mere quantitative significance of the heading.

Note that, despite its generic name “net claims on the Eurosystem”, this account, which is actually a mutual account, can have a positive (credit) or negative (debit) balance at different moments in time. Since the balance of payments shows transactions, i.e. the change in the balances of this account, the sign these transactions receive in the balance of payments depends on the accounting convention used, but this is irrespective of whether, at a given time, its balance is positive or negative. In the footnotes to the tables in Chapter 6, the accounting convention used is specified: an increase in the net asset balance of this account (an increase in the absolute value of its balance, if it is a credit balance; a reduction in the absolute value of its balance, if it is a debit balance; change from a debit to a credit position) is recorded in the tables of Chapter 6 with a negative sign. A reduction in the net asset balance (a reduction in the absolute value of its balance, if it is a credit balance; an increase in the absolute value of its balance, if it is a debit balance; change from a credit to a debit position) is recorded in the tables of Chapter 6 with a positive sign. In Tables 6.1.9 and 6.2.9, in which the standard IMF presentation has been chosen, the change in the balance of this account appears under the heading other Spanish investment abroad or other foreign investment in Spain, depending on whether the end-quarter balance is a credit or debit balance, respectively. Other Spanish investment abroad also includes other assets of the Banco de España (except reserves).

Other net assets include the net change in the other Banco de España liabilities and assets not included in the two foregoing headings. As earlier indicated in the summary tables in Chapter 6, and in Tables 6.1.8 and 6.2.8, they have been measured as the change in liabilities minus that in assets. In Tables 6.1.9 and 6.2.9, the assets appear either in other Spanish investment abroad along with the Banco de España account or (since 2002) in portfolio investment, and the liabilities in other foreign investment in Spain. The assets include those Banco de España investments (other than those of the account with the Eurosystem) which, by their nature, can not be considered as reserves. It should be noted that included here is the Banco de España's contribution to the ECB's capital in 1998, and the successive updates. The liabilities also include certain foreign liabilities of the Banco de España, likewise of limited significance, and liabilities referred to by the IMF as “liabilities linked to reserves”, where those transactions involving borrowing by the monetary authorities that generate, in turn, changes in reserves are reflected. Notable here are gold swaps and financing obtained by repo transactions.

In December 2007, the Governing Council of the European Central Bank along with the Bank of Canada, the Bank of England, the Federal Reserve and the Swiss National Bank announced the adoption of certain measures to address the pressure in the short-term funding markets.<sup>9</sup> These measures have taken the shape of liquidity-providing operations through temporary reciprocal currency arrangements (swap lines) and have given rise to operations being recorded under the financial derivatives heading relating to the Banco de España. These operations are not recorded as a part of the reserves since, although they are foreign-currency operations, the counterparties are resident financial institutions.

### **5.3 International Investment Position. Methodology**

The International Investment Position (IIP) statistic presents the external financial assets and liabilities balances of an economy following the same structure and from the same perspective as the corresponding balance of payments financial account transactions. It is compiled under the same framework of methodological rules laid down in the 5th edition of the IMF Balance of Payments Manual. Accordingly, as far as the classification of assets and liabilities is concerned, everything stated in Section 5.2.3 is still valid. As far as the breakdown by institutional sector is concerned, its scope is also identical to that of the balance of payments (see Section 5.2.3).

---

9. See the press release of the European Central Bank of 12 December 2007.

The 5th edition of the IMF Manual requires that all external assets and liabilities be valued at the prevailing market price. In certain specific cases (direct investment), however, book value may be used, although it is pointed out that such valuation must be revised regularly in line with market value. As for the exchange rate applicable to translate foreign currency balances into the currency of presentation of the position, the 5th edition of the Manual suggests using the average market exchange rate (the average of the buying and selling rates) of the date to which the position refers.

Under these criteria, the final position of a period will be equal to the position at the start of the period plus the transactions conducted during that period (normally reflected in the balance of payments), plus the valuation changes that have arisen during the period considered (due both to changes in exchange rates and in the prices of the financial assets and liabilities), plus other changes in the volume of financial assets and liabilities, such as the unilateral cancellation of a loan by the creditor.

The IIP time series are presented in Chapter 7 of this report and published in the Banco de España's *Boletín Estadístico*. Exceptionally this year, due to the inclusion of data from the Foreign Investment Register, the series on Spanish direct investment abroad has been revised from 1992 (see section on changes introduced and Box 5.1). Readers should also note that the Banco de España began to disseminate Spain's external debt statistics in 2003. These quarterly statistics are distinguished from the liabilities of the IIP insofar as they do not include liabilities in the form of equity holdings or financial derivatives. However, liabilities are classified in the external debt statistics differently from in the IIP, so that these are complementary statistics. The quarterly external debt series, which commences in December 2002, is available in the Banco de España's Economic Bulletin and at its website.

### 5.3.1 DATA SOURCES AND VALUATION PRINCIPLES

The stocks of the financial instruments making up the asset and liability positions at a given date are basically estimated from the information sources providing data on stocks. Only if such information sources are not available, the accumulation of transactions method has been used. In these cases the stocks have been obtained by adding to the initial stock the transactions of the items of the financial account of the balance of payments, with an exchange rate valuation adjustment where necessary. Also, these accumulated transactions have been adjusted for the changes in the prices of financial instruments in those cases in which this effect has been significant and for which information is available. This procedure is used, for example, to calculate the deposits of other sectors resident abroad.

The main statistical sources providing information for the compilation of the Spanish IIP are:

- 1 Banco de España

The Banco de España has the information on reserve assets, along with that on the rest of its foreign assets and liabilities included in the IIP.

- 2 Financial institutions

Banco de España Circular 4/2004 of 22 December 2004 establishes the accounting rules to be applied by credit institutions and the formats for the financial statements they must periodically submit to the Banco de España. This Circular came into force on 30 June 2005. Previously, these rules were contained in Circular 4/1991. These circulars apply and adapt to the credit institutions sector the accounting rules of the Spanish Commercial Code, the Law on public limited companies (Ley de Sociedades

Anónimas) and other legal provisions specifically applicable to them. For the direct investment, other investment and financial derivatives headings of the IIP, credit institutions' stocks of financial assets and liabilities vis-à-vis the rest of the world have been obtained directly from their balance sheets. The valuation principles used by this source, which are to be found in rule twelve of Circular 4/2004, are set out below:

#### *Separation of loans and deposits*

The distinction between loans and deposits is difficult to draw and varies according to the criterion used. The convention adopted for external assets and liabilities is the following:

Assets vis-à-vis the external sector: included as deposits are the assets of resident credit institutions vis-à-vis non-resident credit institutions. Capital endowments of branches abroad are not included, being recorded as shares and other equity. The assets of resident credit institutions vis-à-vis non-residents other than credit institutions are included as loans.

Liabilities vis-à-vis the external sector: included as deposits are all the liabilities of resident credit institutions vis-à-vis non-residents (credit institutions and other).

### 3 Negotiable Securities Register

This statistic is compiled by the Banco de España from information provided by resident investors carrying out negotiable securities transactions directly via a non-resident financial intermediary and by Iberclear, which provides security-by-security breakdowns of its securities accounts whose holders are non-resident, including those held with other central securities depositories. As required by Circular 2/2001, the amounts are given in nominal terms and at market prices.

### 4 Register of external loans received and extended by resident sectors other than the credit system

This statistic is compiled by the Banco de España from the accounting-administrative documents created for the monitoring of external loans extended and received and of non-negotiable securities issued by residents, other than the credit system, in favour of non-residents. A detailed description can be found in the notes of the October 1995 *Boletín Estadístico* and in the Economic Bulletin of September of the same year. The figures obtained from this source include the loans between related companies (parent companies and subsidiaries), although the data have been correctly distributed between direct investment (parent/subsidiary and subsidiary/parent loans and loans between indirectly related companies) and other investment (all other loans). The register of loans contains information on balances which is supplemented by information on the transactions relating to each loan. This information is obtained from the general reporting system for receipts and payments in order to obtain the time series of stocks to be included in the IIP.

### 5 Foreign Investment Register of the Ministry of Industry, Tourism and Trade

The Foreign Investment Register of the Ministry of Industry, Tourism and Trade includes the data reported by investors and companies with foreign participating

In 2008 a substantial improvement was introduced in the procedure for estimating direct investment in the International Investment Position (IIP). Since September, coinciding with the publication of the IIP for Q2 in the *Boletín Estadístico*, the stock of holdings in the equity of non-financial corporations is calculated using information from the Foreign Investment Register (RIE) of the Ministry of Industry, Tourism and Trade.<sup>1</sup> The information reported to this Ministry by investors and firms with foreign participating interests, presented in the annual report on developments in Spanish investment abroad and in foreign investment in Spain, have begun to be used,<sup>2</sup> specifically for December 2004 and subsequent data. The reports provide accounting information on investees which makes it possible to estimate the stock of direct shares and other equity, following the recommendations of the methodological reference manuals.<sup>3</sup> Until September 2008, the stock of these holdings was estimated by accumulating the related balance of payments transactions and including, only partially, due to the limitations of the information system used, the variations in the value of this stock arising from the appreciation or depreciation of assets in firms' balance sheets or changes in exchange rates. Using the information from the records to estimate the direct investment stock helps meet more closely international organisations' requirements for the valuation of the IIP.

Market price is the basic criterion for valuing the various balance of payments and IIP headings. For financial assets traded on organised markets, it is possible to meet this criterion by directly applying quoted prices. For unlisted assets, it is necessary to estimate fair values that approximate their market price. Fair value is defined as the amount for which an asset could be acquired, or a liability settled, between knowledgeable, interested parties in an arm's-length transaction.<sup>4</sup> In the case of direct investment stock, the methodological manuals recommend the use of the accumulation of transactions method to value stock only in those cases in which the use of an alternative method is not possible. The appropriateness of using information sources offering pure stock data is emphasised and the value of the own funds of investees is considered to provide a sound measurement of the fair value of holdings in those cases in which there is no observable market price. The manuals acknowl-

edge that there might be differences between fair value calculated on the basis of own funds and market value (which as mentioned above is the general valuation criterion) and that the differences will depend on how often companies' accounts are revalued and the criteria used.<sup>5</sup> These differences are closely linked to accounting items such as intellectual property, research and development expenses and goodwill and tend to be higher in the initial and final periods of a company's life. Although the valuation on the basis of the value of own funds does not strictly coincide with the valuation at market prices, the use of this method is recommended internationally. Firstly, because it is considered as a good approximation in most cases and secondly, because the use of an objective method makes it possible to guarantee the international comparison of bilateral data.<sup>6</sup>

A brief description follows of how the stocks of shares and other equity in non-financial corporations used to be estimated<sup>7</sup> before the data from the RIE were included and how they are calculated based on the new information.

Using the accumulation of transactions method, the value of the holdings in the equity of non-financial corporations was calculated by adding together, firstly transactions of the same type which were recorded in the balance of payments. These transactions include: the acquisition and sale of holdings which are recorded at the market price prevailing at the time of the transaction and increases or decreases in the value of investments due to the reinvestment of earnings, contributions for covering losses or the distribution of extraordinary income.<sup>8</sup> Secondly, adjustments were included to reflect the changes in the value of investees due to the appreciation or devaluation of their assets. This type of variations are not recorded in the balance of payments because they are not transactions in the sense of the interaction between two parties by mutual agreement but valuation adjustments. These adjustments were made on the basis of information published by the corporations, for example, through notifications sent to the CNMV or in annual reports and income statements and, consequently, it was only possible to undertake them in the most important cases. Lastly, the transactions accumulated in the currency in which they had been performed were translated into euro, taking into account, only on some occasions, the exchange rate prevailing at the end of each reference period of the IIP. Frequently, the transactions were accumulated when they had already been translated into euro at the exchange rate prevailing on the date they were recorded and there was no information about the currency of the transaction. The correct estimation of each of these components from an information system based on the reporting of transactions between residents and non-residents presented serious difficulties, even for some of

1. The change in the information system used does not affect investment in real estate which is also recorded under the direct shares and other equity heading in the IIP. In this case, the accumulation of transactions method continues to be used to estimate the value of the stock. For more details, see section 5.3.1 of the Methodological Note of this report. 2. Royal Decree 664/1999 and the Ministerial Order of 28 May 2001 lay down the provisions applicable to the processing and reporting of these investments. The Resolution of 21 February 2002 of the Directorate General for Trade and Investment (DGCI) approves the printed forms for reporting purposes. The forms were recently modified by the Resolution of the DGCI of 3 April 2008. 3. The fifth edition of the IMF Balance of Payments Manual (BPM5) and the third edition of the OECD Benchmark Definition of Foreign Direct Investment (BMD3). Both manuals have been revised recently and the new editions have already been published on the website of each organisation. The standards they establish are consistent; henceforth, for this reason and for the purposes of simplicity, reference will solely be made to the sixth edition of the IMF Balance of Payments and International Investment Position Manual (BPM6). 4. As an alternative to assets' fair value, the BPM6 mentions the possibility of using the present value of future flows, but only in those cases in which it is not possible to use an appropriate discount rate. See BPM6 paragraphs 3.67, 3.84, 3.85 and 3.88.

5. See BPM6, paragraphs 7.14-7.19. 6. The value of own funds will be the valuation criterion required for holdings in unlisted corporations in the IMF's future Coordinated Direct Investment Survey. 7. The direct investments of (and in) monetary financial institutions were previously estimated from accounting data reported by these institutions to the Banco de España for supervisory reasons. 8. Reinvested earnings of direct investment firms are a standard component of the balance of payments and, in accordance with the accrual principle, are recorded in both the income and financial account.

them which are recorded as transactions in the balance of payments. It should be noted, for example, that the estimate of reinvested income was based fundamentally on aggregate macroeconomic indicators of profitability and not on the specific performance of direct investment firms.<sup>9</sup> As mentioned above, it was only possible to perceive changes in the value of the stock due to valuation adjustments of investees or changes in exchange rates in specific cases.

According to IIP methodology, holdings of 10% or more are recorded under the direct investment heading whereas holdings of less than 10% are recorded under the portfolio investment heading. As a result of this, adjustments had to be introduced in the value of the stocks to reflect the changes in investors' percentage of ownership which represented increases or decreases above or below 10% of the investees' capital stock. These reclassifications in the absence of precise information about investors' percentage of ownership at the reference date of the IIP, also had to be estimated and, consequently, it was only possible for the most important cases, especially when this reclassification was due to a transaction between two non-residents.

Faced with all the difficulties mentioned in the preceding paragraphs, from the information in the RIE, it is possible to calculate the stock of direct shares and other equity in (listed and unlisted) non-financial corporations taking into account the investor's percentage of ownership and the figures of capital stock, reserves and results recorded by firms in their accounting statements as at the corresponding year end. For holdings in listed corporations the market capitalisation or market price of the holding at year end is also obtained. Also, the RIE provides detailed information about the currency denomination of all the holdings. This information is crucial for translating into euro the balances estimated by using the exchange rate prevailing at the end of each IIP reference period, as recommended by the manuals. In the IIP data published after the inclusion of information from the RIE, holdings in unlisted corporations are valued on the basis of the value of their own funds, and holdings in listed corporations are valued in accordance with their market price. Consequently, international standards are strictly complied with and the principal methodological deficiency of Spain's IIP is eliminated.

It should be pointed out that, although the use of accounting information to estimate direct investment stocks does have obvious advantages in terms of the quality of the results obtained, its main limitation lies in the time lag until it is available. The regulations applicable to the RIE establish a period of nine months, from the date of corresponding year end, for submitting the annual report. A certain amount of time must be added to this period for data editing and processing, thus finally, the RIE data can only be included in the IIP with a time lag of more than one year with respect to the reference period. For this reason, in order to comply with the established IIP dissemination calendars, it is necessary to continue adding transactions to the latest

<sup>9</sup> Since information from the RIE was incorporated, the estimate of reinvested earnings in the balance of payments includes income obtained from this register. See section 5.2.2.2 of the Methodological Note of this report.

stock available in order to estimate the data for the current and previous years.<sup>10</sup>

The change in the method used to estimate the data of the stock of direct shares and other equity has had a significant impact on the IIP figures. Taking the data of December 2004 as a reference (the first data to be calculated on the basis of RIE information) this change has represented a decrease of more than 20% in Spain's direct investment abroad and an increase of approximately 3% in the value of foreign direct investment in Spain. The impact on total assets and liabilities has been -7% and 1%, respectively. Taking into account the magnitude of the differences, the decision was taken to revise the time series for Spanish investment abroad from 1992. The revised data can be consulted in the CSV files that accompany the tables of Chapter 7 in the electronic format of this publication which is available on the Banco de España website.

Both for the incorporation of the new source in September 2008 and the estimate of the revised assets series, the RIE data<sup>11</sup> were cross-checked exhaustively against the data corresponding to balance of payments transactions and those reported by resident non-financial corporations to the Central Balance Sheet Data Office.<sup>12</sup> The analyses ensure that the coverage of corporations in the RIE is consistent with that which used to be considered to estimate the IIP and that the differences between the data estimated on the basis of the accumulation of transactions method and the new results are due to the different valuation criterion employed. Three factors explain why these differences were higher for Spanish investment abroad than for foreign investment in Spain. Firstly, there is the scale and development of Spanish investments in recent years. As mentioned at the beginning of the box, the differences between the prices at which company acquisition transactions were made and own funds were recorded in their balance sheets tend to be higher at the initial and final stage of the investments and reflect, in short, expectations about investees' future results. If we analyse direct investments over time, we can see that from 1993 to 2004 (the first data to be published on the basis of the new information) the cumulative balance of Spanish investment abroad has increased more than one hundred and forty-fold, with an average annual growth rate of approximately 65%. The accumulated balance of foreign investment in Spain has increased more than twenty-five-fold with an average growth rate of approximately 35%. That is to say, Spanish investments abroad are more recent than foreign investment in Spain and, therefore, the effect of differences between the cost price of holdings in unlisted firms and their fair value according to own funds has been higher. The second factor consists of the fact that the adjustment due to fluctuations in the exchange rates of the denomination currencies of the investments essentially affects Spanish invest-

<sup>10</sup> This is common practice and is accepted internationally since corporations can only send their accounting data after the accounting close. The data on transactions are also used for the interpolation of the quarterly data since the RIE only includes annual data on stocks. <sup>11</sup> Although data from December 2004 were initially only available in a systematic and automated form, for assets and liabilities, in the case of assets, it was subsequently possible to collect information from the RIE for data from December 2001. <sup>12</sup> They have also been cross-checked against the information published by the CNMV, the Mercantile Registry and by certain companies on their websites.

ments abroad. Foreign holdings in Spanish companies are usually denominated in euro and, for this reason, adjusting the exchange rate does not affect the estimate of foreign investment in Spain. Unlike the previous information system, RIE information provides for the accurate estimate of this type of adjustment which has led to a lower valuation of asset positions. The weight in these differences of the revision of the data on Spanish investments in Latin America<sup>13</sup> should be pointed out. Finally, there is a third factor which explains why the methodological change has had a greater impact on Spanish investment abroad than on foreign investment in Spain. This is because prior to the incorporation of the RIE data certain information was available which made it possible to perform more adequate valuation adjustments for foreign investment in Spain (holdings in companies resident in Spain) than in the case of Spanish investment abroad. Consequently, variations in the value of stock which were estimated on the basis of the accumulation of transactions method were more accurate.<sup>14</sup>

13. In 2001, the weight of investments denominated in Argentine peso, Brazilian real or Chilean peso in total asset positions amounted to approximately 27%. The depreciation of these currencies in 2002 represented a decrease of approximately 15% in the stock of Spain's equity abroad. 14. This especially affects the estimate of reinvested earnings and adjustments as a result of a change in market price arising from the revaluation of assets on investees' balance sheets.

Lastly, it should be underlined that the usefulness of the new source of information exceeds the advantages which, from a methodological point of view, it has for complying with the basic valuation criteria of direct investment stock. In the near future, international rules, taking into account the scale and complexity acquired by multinational groups in recent years, will require certain breakdowns which it would not have been possible to provide on the basis of the accumulation of transactions method and which, conversely, it is possible to estimate on the basis of the RIE data. These breakdowns mean that the following can be identified: a) the type of relationship between the investor and investee (parent-subsidiary, subsidiary-parent, any other type of relationship); b) the country of residence of the final investor (investment company not controlled in turn by another company), and c) the special purpose entities (companies tailored to the group's financial or fiscal strategy and have scant impact on the production of the country where they are located). Furthermore, it should be mentioned that the RIE data give a vision of multinational groups which, on occasions, is crucial for the correct classification of certain financial account and current account balance of payments transactions. Increasing the efficient use of RIE information in this way is an objective of the Statistics Department for the immediate future.

interests in annual reports on Spanish investment abroad and foreign investment in Spain.<sup>10</sup> The reports include information about equity, results, a breakdown of the shareholders and market price, if any, of the (resident or non-resident) investees and of the country where the companies engaging in or subject to direct investment operations are located along with their sector of activity. The data, available since 2004, have been included in September 2008. The data are used to value at market price the holdings in listed companies, whereas holdings in unlisted companies are valued taking into account the equity recorded on the liabilities side of their balance sheets. The inclusion of these data in the estimate of the stock of direct investment in the form of equity holdings in non-financial corporations in the IIP is the main methodological change in the data presented in this edition and is explained in detail in Box 5.1 of the section on changes introduced in this report.

## 6 The Spanish balance of payments

This Banco de España statistic has been used to construct the stocks, by accumulation of flows, when there are no reliable census statistics for a specific financial instrument, such as general government deposits, other resident sectors in non-resident credit institutions or real estate investments.

10. Royal Decree 664/1999, the Ministerial Order of 28 May 2001 and the Resolution of 21 February 2002 of the Directorate General for Trade and Investment establish the procedures which must be used in the declaration of annual reports on foreign investment.

## 7 Bank for International Settlements (BIS)

The data released by this institution were used to estimate the initial stocks of assets, as at December 1992, held by non-financial resident sectors with non-resident credit institutions.

As in the case of the balance of payments, the database of negotiable securities of the Bank for International Settlements is also used to obtain, from the ISIN, the country of the non-resident issuers of portfolio assets.

### 5.3.2 STRUCTURE AND CONTENT OF THE TABLES IN CHAPTER 7

Chapter 7 contains the data on Spain's IIP, estimated using the methodology and data sources described in the previous section. A summary table with annual data since 1998, two more detailed tables with quarterly data for 2007 and 2008 and a table for each year, with a breakdown by country and by economic and geographical area, are published. As pointed out above, the estimates for successive quarters and the revisions of the provisional data for previous quarters will be published in Chapter 17 of the Banco de España's *Boletín Estadístico* available in electronic format on the Banco de España website, as and when they become available.

The summary table, similar in form to the corresponding balance of payments summary tables, separates the Banco de España position from that of the other institutional sectors. The analytical reasons for this design are the same as in the case of the balance of payments, and they are explained in detail in the introductory section. To provide for readier international comparison, the presentation of the breakdown tables is similar to that in the IMF publications, with the assets- and liabilities-side position of the Banco de España separated from that of the other MFIs. The presentation is thus similar to that of Tables 6.1.8 and 6.2.8 of the balance of payments.

Both Spanish investment abroad and foreign investment in Spain are broken down into their four main categories (direct, portfolio, derivatives and other investment), with disaggregated information for each one (except in the case of derivatives for which it is not available), in accordance with the financial instrument in which the investment is embodied. In addition, in portfolio investment and other investment a breakdown is given, for each instrument, of the position by institutional sector. Spanish investment abroad also includes, separately, reserves.

Readers are reminded that the table of contents at the beginning of the report gives a detailed list of the IIP tables as they appear in Chapter 7.

### 5.3.3 SPECIFIC NOTES ON EACH HEADING

#### 5.3.3.1 Direct investment

The headings of the IIP tables coincide with those of the Balance of Payments Manual.

The content of this heading practically coincides with the guidelines of the 5th edition of the IMF Manual. The heading shares and other equity comprises equity securities and any other form of equity interest in a company which meets the requirements set out in the 5th edition of the Manual. The content of the section shares and other equity includes shares that are not listed or in the process of being listed on the stock market and direct investment in listed shares. The other forms of equity interest consist of residents' ownership interests in non-resident companies and entities other than shares, such as capital endowments to branches and establishments, investment in the form of joint accounts, jointly-held property, foundations, consortia, co-operatives and joint ventures. It also includes the contributions of parent companies to their non-resident branches and establishments for current maintenance expenses and offsetting of losses, as well as for the acquisition of property for the start-up of the establishment. It also comprises real property including that held on a timeshare basis.

Financing to related enterprises includes all types of financing, whatever the instrument or term, extended between companies other than credit institutions. According to the directional principle established in methodological manuals, loans extended by resident parent companies to non-resident subsidiaries and those extended by resident subsidiaries to other non-resident group companies, but not the parent company, are included on the asset side and financing received by the resident parent company from non-resident subsidiaries is deducted from this amount. Similarly, loans extended by non-resident parent companies to resident subsidiaries and those extended by non-resident subsidiaries to other resident group companies, but not the parent company, are included on the liabilities side and financing extended by resident subsidiaries to their non-resident parent companies is deducted from this amount. This heading also includes the balance of inter-company accounts under assets if the resident company is the parent and otherwise under liabilities.

The stocks of MFIs are taken from their financial statements. The equity investments of the other resident sectors have been estimated from the data in the Foreign Investment Register of the Ministry of Industry, Tourism and Trade, which has made it possible to value at market prices holdings in listed companies and, according to their own funds, holdings in unlisted companies (see Box 5.1 in the section on changes in this report). The information on loans has been obtained from the above-mentioned register of loans.

5.3.3.2 Portfolio investment,  
excluding Banco de España

The various instruments of this heading coincide with those in the 5th edition of the IMF Manual. The data have been obtained from the new reporting system for negotiable securities regulated by Circular 2/2001, which provides direct information on stocks, security by security, at market prices.

This information is supplemented with data on issues abroad obtained from the following sources: the Official Gazette of the Mercantile Registry and the annual accounts of companies filed there; information obtained directly from the Treasury and the regional governments; official gazettes of the regional governments, in the case of local government and, finally, financial statements reported to Banco de España under Circular 4/2004 in the case of securities issued by MFIs.

5.3.3.3 Other investment,  
excluding Banco de España

The items under this heading encompass the various investments indicated in the 5th edition of the Manual. As for the separation of loans and deposits, on the liabilities side this depends on the resident institution's sector: deposits are included in the case of MFIs and loans for the other sectors. On the assets side, stocks of resident MFIs held vis-à-vis non-residents, other than credit institutions, are classified as loans, and stocks of resident credit institutions held vis-à-vis non-resident credit institutions and all the stocks relating to other resident sectors (mostly vis-à-vis credit institutions) are classified as deposits. In addition, credits to aid development (FAD credits) granted by the Government to other countries to finance the acquisition of goods and services from residents are included as loans.

Loans (including repos) of MFIs were obtained directly from credit institutions' balance sheets, whereas those relating to other resident sectors were obtained from the loans register, to which the balance of the account between general government and the European Union was added. The data on deposits between credit institutions are also taken from the balance sheets of the credit institutions themselves. Those of other resident sectors are obtained, until 1993 inclusive, from the Bank for International Settlements, and, thereafter, by adding balance of payments transactions to the initial 1993 stock, adjusting those deposits denominated in foreign currency for the exchange rate valuation effect.

The data on loans refer strictly to loans and credits. In other words, they do not include private placements of negotiable securities (which are recorded as portfolio investment) or debt transactions between companies of the same group, other than credit institutions, which is recorded as direct investment applying the directional principle described in Section 5.3.4.1 above.

Since 2002 this heading has included in assets-side deposits an estimate of the net amount of euro banknotes purchased by residents from non-residents, basically as a result of non-resident travellers' payments for tourism services.

Finally, the heading other assets includes the insurance technical reserves set aside by non-resident institutions and Spain's interests in international agencies. The heading other liabilities includes reinsurance deposits with non-residents.

#### 5.3.3.4 Financial derivatives, excluding Banco de España.

In the 2006 edition of this report the financial derivatives heading was included for the first time in these statistics. The items of this heading include the various derivatives as indicated in the 5th edition of the IMF Manual. However, information is currently only available from December 2006 for the MFI sector (the most important sector) and general government. MFIs' stocks are taken from a new financial statement established in Banco de España Circular 4/2004 which includes financial derivatives and credit derivatives at market prices. The general government's stocks were obtained from information provided by the Treasury.

As discussed in Section 5.2.5.3.4 on financial derivatives in the balance of payments, the classification of derivatives transactions by asset or liability is difficult not only from a practical standpoint, but also conceptually, since certain instruments turn from assets into liabilities depending on the price of the underlying asset. For this reason, financial derivatives are recorded in the balance of payments as the net amount of the change in liabilities less the change in assets and the same procedure is applied in this publication. Nevertheless, in the IIP it was possible to obtain from the above-mentioned sources of information, data on stocks of financial derivatives by assets and by liabilities, which are presented with this breakdown in the related tables. However, due to the characteristics of certain derivatives, in particular, derivatives not traded on organised markets and the difficulty of measuring them in gross terms, the net data are more reliable.

#### 5.3.3.5 International investment position of the Banco de España

The foreign assets of the Banco de España include reserves, the Banco de España account with the Eurosystem and other foreign assets. Their content was explained in Section 5.2.5.3.5 under the heading "Financial account of the Banco de España", in the detailed description of the equivalent balance of payments headings, and is thus not repeated here. It need only be recalled that all assets making up the reserves (whose main components are monetary gold, the position in the IMF, SDRs and convertible currencies) have been valued since December 1998 at market prices. Since January 1999 the convertible currency component has included solely assets denominated in currencies other than the euro vis-à-vis countries not forming part of the euro area. As earlier indicated, the Banco de España *Boletín Estadístico* and website (in the balance of payments section under the statistics heading) publish detailed information on the reserves and other components of liquidity in foreign currency of the Banco de España and the Spanish Treasury. These data are compiled following IMF guidelines (see the reference in Section 5.2.5.3.5 under the heading "Financial account of the Banco de España").

The external liabilities of the Banco de España were also described under the above-mentioned heading. Here, too, the IMF and Banco de España website references are valid. Along

with the breakdown of reserve assets, the website publishes information on the central bank's predetermined and contingent liabilities, and those of the Treasury.

#### 5.3.4 MAIN DIFFERENCES BETWEEN THE CHANGE IN THE STOCKS OF THE IIP AND THE BALANCE OF PAYMENTS TRANSACTIONS

The changes in the IIP between two points in time and the related transactions of the balance of payments should differ, primarily because of the changes arising in exchange rates and asset prices during the period. Nonetheless, there are differences between the two statistics attributable to other causes, arising basically from the different sources of the data. The most important differences of this type are:

##### a) Sectorisation

The balance of payments shows investment transactions abroad by Spain's different sectors, assigning them to those which acquire the asset from the non-residents. However, given the current data-collection system, the redistribution of assets which takes place subsequently among the resident sectors is not taken into account. This redistribution is recorded, at least in part, in the stocks of the IIP.

##### b) Assets and liabilities relating to insurance

Insurance technical reserves are included in the IIP but are recorded only partially in the balance of payments.

### 5.4 Changes introduced

This section briefly describes the main changes introduced, during 2008 or for the first time in this edition of the report, in relation to the balance of payments, international investment position and related statistics (external debt and international reserves). This year the section on changes introduced is divided into three sections describing the introduction of changes into the information system and calculation procedures of certain balance of payments and international investment position headings, the dissemination and revision of statistics, and, finally, the revision of the fifth edition of the IMF Balance of Payments Manual.

Table 5.1 provides a brief summary of the main methodological and presentational changes in the balance of payments and in the international investment position, detailing in which edition of the report they were introduced and the headings and periods they affect.

#### 5.4.1 CHANGES IN THE INFORMATION SOURCES AND CALCULATION PROCEDURES

##### a) Increase in the threshold for reporting transactions

As mentioned in previous editions of this report, on 1 January 2008 the raising of the compulsory reporting threshold for the content of transactions between residents and non-residents through deposit institutions, which are referred to in section 5.2.1.2., came into force. Under the Resolution of 20 December 2007 of the Directorate General of the Treasury and Financial Policy, the reporting of foreign transactions amounting to EUR 50,000 or less (EUR 12,500 until that date)<sup>11</sup> is not obligatory. This change was the result of EU regulations on cross-border payments, the development of the Single Euro Payments Area<sup>12</sup> and, finally, the general rise in the amounts of transfers in the market. In recent years, the information system has introduced significant changes to prepare for the entry into force of this measure, by complementing and replacing the information sources that were going to be affected by it. Thus, alternative information sources are available for the headings accounting for a larger number of transactions of an amount lower than the reporting threshold, which are either included directly in the data published (as is the case of travel and certain freight services) or which will be included in the future. These sources are being used until that time as an additional tool to monitor the quality of the estimates made (this is the case, for example, of the results obtained from the new survey on International Trade in Services).

<sup>11</sup> It should be remembered that the threshold is for simplification purposes. This means that, although information is available for the amount of total transactions, institutions are not obliged to declare the content for transactions of an amount lower than the threshold established. <sup>12</sup> Specifically, the guidelines of the fifth report on the Single European Payments Area, published on 20 July 2007 by the European Central Bank and Regulation 2560/2001 of the European Parliament and of the Council of 19 December 2001 are currently being revised.

**MAIN METHODOLOGICAL AND PRESENTATIONAL MODIFICATIONS INTRODUCED IN THE BALANCE OF PAYMENTS AND THE INTERNATIONAL INVESTMENT POSITION SINCE 2000**

TABLE 5.1

Edition	Change	Remarks
2000	Grouping of financial transactions of the Banco de España in a specific heading in the summary tables.	Affects the presentation of the balance of payments and international investment position data.
	Inclusion in a separate heading, of the "net lending/net borrowing of the Spanish economy" (sum of the current and capital accounts).	Previously details were only given of the current and capital account.
	Separation of financial derivatives into a specific heading, recording the net amount of the change in liabilities less the change in assets.	They were previously included in the change in assets.
2002	Estimation of the financial counterpart, i.e. the net financial asset, of external transactions settled using euro banknotes.	The net financial asset is included under the heading other investment of other resident sectors.
	Separate inclusion, in the instrument and sector-breakdown tables, of the Banco de España's portfolio investment transactions.	Affects the presentation of the balance of payments and international investment position data.
2003	Incorporation, from the 2002 data, of a new reporting system for calculating IIP portfolio investment.	The time series of investment in shares and mutual funds in the case of the sector other resident sectors in the international investment position has been revised to eliminate the methodological break. In the rest of the headings the break is considered minor.
	Incorporation of information from the Investment Register of the Directorate General for Trade and Investment of the Ministry of Industry, Tourism and Trade, to include transactions difficult to detect using the balance of payments system.	Gives rise to greater revisions of previously disseminated figures.
2004	Use of new INE estimates for 2000-2004 for the CIF/FOB adjustment to the Customs and Excise figures for imports and to measure freight services.	The new estimates have been made using the new National Accounts data with base year 2000 and revising the previous assumptions. Revision of the time series affects the data from 1995 for the merchandise (imports) and freight (credits and debits) headings.
	Deduction of the Customs and Excise figures from an estimate of the temporary exports and imports of goods obtained from the information on operational lease services in the foreign receipts and payments register.	Involves a revision of the merchandise heading from 1995, to avoid double counting of operational leases in the balance of payments. These transactions continue to be recorded in services.
	Inclusion in the Customs and Excise figures of an estimate of intra-Community goods trade transactions below the Intrastat reporting threshold.	The new estimates are consistent with those incorporated in the new National Accounts data with base year 2000. Involves a revision to the merchandise series from 1995.
	Revision of the estimate of the figures for merchandise that does not cross borders, from the information supplied by the foreign receipts and payments register.	Involves a revision of the merchandise series from 1999, the year from which the previous method of estimation introduces bias into the data.
	Revision of the level of the travel series, incorporating in the credits from 2001 the results obtained using the new method of estimation that combines EGATUR and real indicators for the tourism sector, and incorporating in the credits prior to 2001, and in debits for the whole period, the results obtained with the usual procedure following the revision of the implicit assumptions.	The results of the new method are incorporated directly into the credits of the heading from 2000 and the time series (credits and debits) are revised from 1995.
	Reassignment of EU transfers corresponding to the European Development Fund to the heading current transfers, in line with the treatment applied by both the National Accounts and Eurostat.	These transactions were previously recorded as capital transfers. The series are revised from 1995.
	Incorporation of an estimate of the reinvested earnings of direct investment firms obtained from information supplied by the Central Balance Sheet Data Office, Balance of Payments and EUROSTAT.	Affects, in the balance of payments, the headings of reinvested earnings included in direct investment income, and shares and other equity of direct investment and, therefore, the IIP. The new estimates are incorporated from 1995.
	Monthly reassignment of the specific transactions of foreign investment in listed shares in Spain to the direct investment or portfolio investment heading, as appropriate, in the balance of payments.	Carried out with information provided by the Ministry of Industry, Tourism and Trade. The balance of payments series are revised from 1995.

Edition	Change	Remarks
2005	Gross treatment of the heading compensation of employees, incorporating the net payments by non-resident (resident) employers to resident (non-resident) employees, the amounts relating to taxes and social contributions.	The required information for treatment in gross terms of the heading was obtained from the estimates made by the INE for the National Accounts. This enabled the differences between the balance of payments and the rest of the world account to be eliminated. Data revised from 1995.
	Estimation of portfolio investment income by the accrual principle. Until 2005, this principle was only used to record income in the case of investment income paid to non-residents arising from interest on peseta- or euro-denominated bonds issued by general government.	The procedure used to calculate income under the accrual principle takes into account the IIP data on the stock of portfolio investment, which include disaggregated security-by-security information and the most representative interest rates. The change affects data for 2005 and subsequent years.
	Application of the accrual principle to the recording of funds transferred by the European Commission to Spain under the guarantee section of the European Agricultural Guarantee and Guidance Fund. These funds are included under the heading other current private transfers and, until 2005, were recorded when the European Commission paid them to the Spanish government.	This treatment was changed in co-ordination with that introduced by the INE into the Spanish National Accounts. This new criterion is applied retroactively to 1995.
	Revision of the procedure for estimating payments under the heading workers' remittances.	The new method includes information on outward transfers issued from Spain via currency-exchange bureaux. Data revised from 2001.
2006	Revision of the procedure for estimating travel receipts.	Travel receipts were estimated using a factorial econometric model which includes information from EGATUR (Tourism Expenditure Survey) and supply and demand indicators (passengers on international flights, prices and overnight stays, among others) and other supplementary information (including that from the general information system for receipts and payments). Applied to data from 2005.
	Inclusion of the data on financial derivatives stocks in the IPP.	For the first time data from December 2006 for the MFI and the general government sectors were included.
	Change in the information source for repairs in the goods balance.	Customs data no longer includes repairs for intra-EU data from 2005 and for extra-EU data from 2006 and, consequently, an adjustment is made to calculate the goods balance which adds to this source the repairs obtained from the general system for receipts and payments.
2008	Revision of the procedure for estimating the direct investment stock of the IIP.	Inclusion of the data from the Foreign Investment Register of the Ministry of Industry, Tourism and Trade in the estimate of the shares and other equity heading of other resident sectors. Data have been revised since 1992.
	Change in the dissemination and revision policy of the balance of payments data.	The raising of the threshold for reporting transactions between residents and non-residents through deposit institutions and the bringing forward of the publication date of the balance of payments monthly data by two weeks, plus the introduction of quarterly revisions have triggered changes in the frequency and content of the tables in the <i>Boletín Estadístico</i> .

b) Direct investment

In September 2008, and for information from December 2004, data on the stock of shares and other equity holdings of direct investment of the other resident sectors were published. They were calculated from data reported by investors and companies with foreign participating interests in annual reports on Spanish investment abroad and foreign investment in Spain to the Foreign Investment Register of the Ministry of Industry, Tourism and Trade. At the same time as this report was published, the series on Spanish investment abroad was revised in order to obtain a consistent time series. The more limited impact of this change in source on the foreign investment in Spain series, meant that it did not need revising.

The incorporation of these data provides for a valuation of equity holdings which is more in line with established standards. Thus, equity holdings in listed companies are valued at market price and holdings in unlisted companies are valued according to the equity recorded in the

investees' balance sheets. Until these data were included, the stock of the above-mentioned holdings was basically estimated, by adding together the transactions recorded in the balance of payments adjusted, insofar as possible, by the appreciation or depreciation of assets in companies' balance sheets or by exchange rate fluctuations. The new information source has made it possible to redress the main methodological limitation of Spain's IIP.

Box 5.1 describes in detail the changes and the reasons behind them.

#### c) Portfolio investment

The Banco de España established in Circular 2/2001 of July 2001, a reporting system for negotiable securities, in order to calculate more accurately the portfolio investment heading, both in the balance of payments and in the IIP. After an initial period of processing the information received, these data were included in 2003 in the calculation of the IIP stock of portfolio investment. During 2008 these data have been incorporated into the calculation of Spain's investment abroad portfolio in the balance of payments, thus increasing the quality and the homogeneity of the data obtained and improving the reconciliation of said statistic with the IIP.

#### 5.4.2 CHANGES IN THE DISSEMINATION AND REVISION OF STATISTICS

In April 2008 the policy on the dissemination and revision of balance of payments statistics was changed. From then onwards, the publication of monthly data on Spain's balance of payments was brought forward 15 days and the data are published two months after the end of the related month. The quarterly data are disseminated three months after the quarter to which they refer. Furthermore, the calendar for revisions of the published figures was changed. The sole annual revision at the close of each year has been replaced by quarterly and annual revisions. Hence, when the data for each new quarter are published, the data of the immediately preceding quarter are revised along with the monthly data. Also, with the publication of the data for the fourth quarter, the monthly and quarterly series of the last two years are revised.<sup>13</sup>

#### 5.4.3 NEW DEVELOPMENTS IN THE REVISION OF THE INTERNATIONAL MONETARY FUND'S BALANCE OF PAYMENTS MANUAL

In December 2008, the International Monetary Fund published the final version of the sixth edition of the Balance of Payments and International Investment Position Manual on its website. Thus, the revision process of the Balance of Payments Manual, which started in 2001 and on which previous editions of this report have provided information, was completed.<sup>14</sup> The hard copy in English is expected to be available in 2009. One of the engines behind this revision has been the harmonisation with the manuals on other macroeconomic statistics, which are also immersed in a widespread process of methodological revisions. The revision of the System of National Accounts (SNA 93), of the European System of Accounts and of the Manual on Statistics of International Trade in Services (2002) is at a very advanced stage. In April 2008, the OECD published the fourth edition of the *Benchmark Definition of Foreign Direct Investment* (April 2008).

During 2008, both the Statistics Committee of the European System of Central Banks and Eurostat's Committee on Monetary, Financial and Balance of Payments Statistics agreed to introduce in coordination at European level, and at the same time as the implementation of the European System of Accounts, the new standards established in the sixth edition of the IMF's Balance of Payments and International Investment Position Manual. On the basis of the calendars agreed, the first statistics prepared according to the new Balance of Payments Manual will be published in 2014 with annual data referring to 2013.

---

<sup>13</sup>. For a more detailed explanation of the changes, see Box 5.1, "The Spanish Balance of Payments and International Investment Position 2006". <sup>14</sup>. See, for example, the section on changes introduced in the 2007 edition and Box 5.1 of the 2006 edition.