

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

In 2007 work continued with the process of adapting the information system used to compile the balance of payments and international investment position, which began in previous years, and progress was made essentially with the incorporation of data provided by other Spanish or international statistics agencies.

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. The section on changes introduced also includes the progress made in 2007 with the revision of the International Monetary Fund's (IMF) Balance of Payments Manual, which is the methodological reference manual for the preparation of the data disseminated in this report. The main changes which will be included in the sixth edition of this Manual were described in the 2006 edition of this report.

The most important of the changes introduced in 2007 is the incorporation of data from the Investment Register of the Ministerio de Industria, Turismo y Comercio (Ministry of Industry, Tourism and Trade) in the estimates of reinvested earnings on direct investment. Including these data has made it possible to provide a better approximation of the item being measured.

Unlike other years, the changes introduced in 2007 did not involve an in-depth revision of the calculation methods or procedures used and, consequently, there were no extraordinary revisions of the data disseminated previously. However, they did make it possible to fulfil new reporting requirements of international agencies and to introduce improvements in the estimates made to date. Furthermore, in general, the new sources were used more intensively in quality controls of the data disseminated.

Nevertheless, it is worth mentioning the usual revisions which account for the differences between the information published in this report and that disseminated previously. In the case of the balance of payments, these revisions, which relate to the two previous years and arise from the correction of errors or the inclusion of transactions whose information has been received late, have normally been made each year when the January data are published. The most important of the revisions affecting the current account are those arising from the incorporation of the revised goods trade figures published by the Departamento de Aduanas de la Agencia Estatal de la Administración Tributaria (Customs and Excise Department) and from the updating of information that is preliminary and, therefore, subject to major revision, used to estimate the reinvested earnings on direct investment. In the financial account, the main revisions affect the portfolio investment and direct investment headings, in this case partly due to the aforementioned updating of reinvested earnings and partly due to the incorporation of information from the Foreign Investment Register of the Ministerio de Industria, Turismo y Comercio which, because it does not give rise to any receipt or payment, is received with a certain time lag.

In April 2008 the calendar for the dissemination and revision of balance of payments data was changed. The publication of monthly data on Spain's balance of payments has been brought forward 15 days with the result that the data are published two months after the end of the related month. The quarterly data will be published three months after the end of the quarter to which they refer. At the same time, data are revised more frequently, the practice mentioned in the paragraph above of only one revision at year-end has been replaced by quarterly and

annual revisions. Consequently, after the dissemination of the data for 2008 in the Statistical Bulletin, when the data for each new quarter are published, the data of the immediately previous quarter and the related monthly data will be revised. Also, with the publication of the data for the fourth quarter, the monthly and quarterly series of the last two years will be revised. The changes and reasons behind them are described in detail in Box 5.1.

The calendar for the dissemination and revision of the international investment position data has not been changed and, therefore, the periodic revisions to these data will continue to be made when the quarterly data are compiled and will generally affect 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 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 May 2008 edition of the Banco de España's *Boletín Estadístico*. The related time series are available monthly since 1990 in the case of the balance of payments, and quarterly since 1992 in the case of the international investment position<sup>1</sup>, and can be found in the statistics section of the Banco de España website (<http://www.bde.es>).<sup>2</sup> Note that the *Boletín Estadístico* also includes additional tables with details of the heading other services of the balance of payments by type of service and counterpart area or country, a breakdown by lender and borrower of the outstanding credit received from abroad by non-credit sectors, and the composition of reserve assets under the IIP.

The international investment position is compiled using the same information and 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 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.

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 comparability, 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

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1. Reserve assets have a monthly periodicity and start from January 1962. 2. There are also time series for the period 1980-1990, compiled by the Secretary of State for Trade, in accordance with the 4th edition of the IMF Balance of Payments Manual.

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 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 comparability. As a result, the transactions of the Banco de España, other than reserves, appear under the other investments heading and, from 2002, also in portfolio investment, 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, although in many transactions the ISIN (International Securities Identification Number) is used, from which the issuer's country can generally be identified, it is not always possible to ensure the correct geographical allocation of issues. 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 heading and sector; 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; procedures 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 in the design and implementation of new information sources. This section also presents the main progress made in the revision of the IMF Balance of Payments 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 Departamento de Aduanas de la Agencia Estatal de la Administración Tributaria, albeit with the relevant adjustments. Section I.4.1 of the 1993 report described the data-collection methods applied by the Departamento de Aduanas de la Agencia Estatal de la Administración Tributaria, 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 Departamento de Aduanas 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 Departamento de Aduanas 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 sup-

pliers 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.

#### 5.2.1.2 Other transactions

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, in 2007 the regulations governing the declaration of transactions described herein were changed. The change entails raising the threshold for which the content of transactions must be reported from EUR 12,500 to EUR 50,000.<sup>3</sup> This change came into force in January 2008 and, consequently, it does not affect the data disseminated in this report. 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.

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3. 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.

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.

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 expecta-

tions) 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 Ministerio de Industria, Turismo y Comercio 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>4</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 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.

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4. The IMF's Balance of Payments Manual is currently being revised. 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.

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>5</sup>, although, as explained above, numerous transactions are also included that do not 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 2007 report. The Departamento de Aduanas 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

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5. 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.

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 calculation procedure used to estimate the reinvested earnings on foreign direct investment in Spain is not the same as that used to calculate those on Spanish investment abroad. In each case, the procedure used depends on the information sources available, although both estimates are based on the calculation of average rates of return applied to direct investment position data. In the case of enterprises resident in Spain, until this year the estimate has been obtained from the ratio of net saving to own funds for the whole non-financial corporations sector obtained essentially from the National Accounts and Financial Accounts. In the last year, due to the comparison of the results with new information sources, differences were identified between the rate of return calculated in this way and that which would be obtained if the specific behaviour of foreign direct investment firms were considered. This has led to adjusting the estimates published for 2006 and 2007, taking into account the accounting information on these firms provided by the Investment Register of the Ministerio de Industria, Turismo y Comercio and from the Banco de España's Central Balance Sheet Data Office. As a result of greater integration of data from the Foreign Investment Register in the balance of payments processes, it has also been possible to improve the estimate of reinvested earnings of non-resident firms. Consequently, the data for 2006 and 2007 were calculated using a combination of information published by Eurostat about reinvested income flows for the European Union vis-à-vis the main counterparty countries of Spanish foreign direct investment abroad<sup>6</sup>, and information provided by the Investment Register about the different rates of return of resident and non-resident foreign direct investment firms.

#### 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

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6. See the changes-introduced section of the 2004 report for a more detailed explanation of this estimate.

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 de-

crease, 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 5.2.5.3.1.

### 5.2.3 CLASSIFICATION OF TRANSACTIONS BY HEADING AND INSTITUTIONAL SECTOR

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

#### 5.2.3.1 Classification by heading

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 com-

pany (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 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 included, 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)<sup>7</sup>
- 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
    - 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

7. The number of mutual funds assigned to this sub-sector has gradually decreased since the entry into force of Law 35/2003 of 4 November 2003, due to the change in their objectives with the result that no fund has been assigned to this sub-sector since December 2006. The new regulation provides that the National Securities Market Commission will establish the categories of collective investment institutions based on their investment objectives and, consequently, from then onwards the funds which are deemed monetary funds will be determined and included in monetary financial institutions.

- 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) 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 2007 are presented in the tables whose headings begin with 6.1, and the revised 2006

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 2007 and 2006) contain the same number of tables, with the same content and numbering; except for the new Table 6.1.12, which gives a geographical breakdown of direct investment for the period 1999-2007. 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 2007 and 2006), 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 comparability. 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 2007 and 2006 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>8</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

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

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 2007 and 6.2.10, for 2006, 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. Note that this conception of an ETVE does not include resident holding companies that have carried out direct investment transactions or have been the object of the same, when the transactions involve an actual contribution of funds between Spain and the rest of the world. These firms have been classified in the economic sector corresponding to the main activity of the group in Spain, when it has been possible to determine this.

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 important to point out that from 2004 onwards, information is included on the distribution of MFI transactions by country. By contrast, 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 12,500 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 NOTES ON 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).

As earlier noted, the data for merchandise that crosses borders are those furnished by the Departamento de Aduanas de la Agencia Estatal de la Administración Tributaria, 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 Departamento de Aduanas. The data incorporate an estimate, obtained from information supplied by the Departamento de Aduanas, 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 Departamento de Aduanas 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 2006 data are the revised figures of the Departamento de Aduanas. The 2007 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. In recent years, the identification of these transactions on the basis of the balance of payments general information system has given rise to considerable revisions.

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 overnights stays) and other supplementary information (including that from the general information system for receipts and payments). 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 data for construction services reflect the application of a precise definition of the concept of residence to the firms involved, for the purpose of distinguishing 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. As a result, the corresponding 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.

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 covers 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 (see the section on changes introduced in the 2005 report for more detail).

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.

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 bonds denominated in euro (see the section on changes introduced in the 2005 report for more detail).

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.<sup>9</sup>

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: inter-

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9. For a more detailed explanation, see the chapter on changes introduced in the 2004 edition of this report.

est 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 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 (see the section on changes introduced

in the 2005 report for a description of the estimate procedure used that year for data from 2001); taxes; Social Security contributions; donations for the acquisition of consumer goods; salaries to personnel providing services abroad in aid programmes; food pensions; 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 EAGGF-Guarantee 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 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.

##### b) Acquisition of non-produced, intangible assets

The capital account should record, together with capital transfers, the acquisition/disposal of 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 (including subsoil assets), 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, inter-company debt transactions, and real estate.

##### a) Shares

Included here are subscriptions and sale/purchase transactions in shares if the investor's participation 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).

5.2.5.3.3 Other investment, excluding the Banco de España 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>10</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. This estimate has been revised in accordance with that made under the travel heading for 2005 and 2006.

#### 5.2.5.3.4 Financial derivatives

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.

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<sup>10</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.

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 foreign investment in Spain 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.

### **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).

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*. 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.

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 re-

ceived 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 The Spanish balance of payments

This Banco de España statistic has been used to construct the stocks, by accumulation of transactions, when there are no reliable census statistics for a specific financial instrument, such as the direct investment of other resident sectors, which is currently the main statistical gap.

#### 6 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 PROCEDURE FOR OBTAINING POSITIONS

The stocks of the financial instruments making up the asset and liability positions at a given date are basically estimated by one of the following procedures:

Direct. From the sources of information available, when they provide the data in stocks. This is the case for all the series on the credit system's assets and liabilities, whose data, except for portfolio investments, come from current financial statements, and which are in most cases valued at market prices; the stocks of negotiable securities of all sectors, which are obtained from the reporting system regulated by Circular 2/2001; the loans extended and received by other resident sectors, which are obtained from the register of such loans; and the Banco de España series.

Accumulation of transactions. In those items in which this procedure is used the initial end-1992 stock has, unless indicated otherwise, been taken as the starting point. This, in turn, has normally been estimated by accumulation of transactions, adjusted for the exchange-rate valuation effect, where applicable, from the balance of payments on a cash basis, available since 1959. The stocks compiled since 1993 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. This adjustment has been made by applying to the accumulated transactions the average market exchange rate as of the date to which the position refers. 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 to calculate the direct investment and asset-side deposits of other resident sectors.

### 5.3.3 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 2006 and 2007 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* and 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 comparability, 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.

### 5.3.4 SPECIFIC NOTES ON EACH HEADING

#### 5.3.4.1 Direct investment

The headings of the IIP tables coincide with those of the IMF's 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 time-share 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.

MFIs' stocks are taken from their financial statements, and those of other resident sectors are obtained by accumulation of transactions, which include reinvested earnings, except loans, which are obtained from the above-mentioned register of loans. In those cases in which transactions have accumulated, they are adjusted for exchange rate valuation effects. However, due to a lack of adequate information, the accumulation of transactions has not generally been adjusted for changes in the price of the assets, which constitutes a limitation of the estimates of this heading.

As discussed in the section on changes introduced, this limitation could be remedied in future due to the use of stocks data from the Investment Register of the Ministerio de Industria, Turismo y Comercio.

#### 5.3.4.2 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.

#### 5.3.4.3 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.

#### 5.3.4.4 Financial derivatives

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.

#### 5.3.4.5 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 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.

#### 5.3.5 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.

##### c) Repos

As mentioned above, in the IIP, repo purchases of securities by resident MFIs from non-residents other than credit institutions are treated as loans, while those between resident credit institutions and non-resident credit institutions, as well as all those carried out by other resident sectors, are treated as deposits. Repo purchases of securities by non-residents from resident credit institutions are also treated as deposits, and those from other resident sectors as loans. The balance of payments presents these operations separately when they are conducted by resident MFIs, and records them under the general heading "loans and deposits" when they are transacted by other resident sectors.

### 5.4 Changes introduced

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

Most noteworthy among the changes introduced, which affect the information system used, is 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. Under the Resolution of 20 December 2007 of the Directorate General of the Treasury and Financial Policy, which came into force on 1 January 2008, 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 payment area for the euro<sup>12</sup> and, finally, the general rise in the amounts of transfers in the market. For the moment, raising the threshold does not affect the data disseminated in this report. However, it has meant significant changes in information systems (as discussed in previous editions). 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 immediate 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).

#### 5.4.2 CHANGES IN THE DISSEMINATION OF STATISTICS

In 2007 and early 2008 work has been done on changing the policy of dissemination and revision of balance of payments statistics. As mentioned in the introduction to this chapter, the

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

publication of the monthly Spanish balance of payments data has been brought forward 15 days from April 2008 and a more frequent calendar of revisions for published figures has been included. Box 5.1 describes in detail the changes and the reasons behind them.

#### 5.4.3 CHANGES IN THE DESIGN AND IMPLEMENTATION OF NEW INFORMATION SOURCES

In 2007 significant progress was made in integrating the results of the Survey on International Trade in Services (CIS by its Spanish acronym) and information supplied by the Foreign Investment Register in the databases and processes used to compile the balance of payments statistics. Priority was given to implementing the changes required for the automated processing of the results. Consequently, it was possible to perform a more detailed and efficient analysis of the information, thus facilitating a comparison with the data obtained from the balance of payments general information system. This comparison was essential not only for processing and improving the quality of the information communicated to either source, but also for identifying and evaluating some methodological differences. On-line access to information is the main change with respect to the Centralised Securities Database (CSDB). The specific changes to each heading are described in detail below.

##### a) Other services

In addition to the progress mentioned in the previous paragraph with regard to the CIS, other advances have been made which are more of an organisational and technical type and have undoubtedly resulted in the improved quality of the results obtained. In 2007 the CIS survey was included in a specialisation process of data collection units undertaken by the National Statistics Office for conjunctural surveys targeted at companies. This involved a drastic reduction in the number of units involved in the CIS survey<sup>13</sup> and made it possible to provide more specific training to employees performing these tasks. Furthermore, in the last year the National Statistics Office has introduced improvements in the information transmission systems and made available to the declarant firms a new electronic questionnaire which is accessed through its website. Since the information is available for a longer period of time, it has been possible to revise the processing methods used to date, and new techniques have been introduced to ensure that the results are statistically consistent and to assign non-response rates. Lastly, from 2008 onwards, the National Statistics Office and the Banco de España, in view of the response rate obtained to date, decided to eliminate the simplified version of the questionnaire and to send the detailed questionnaire to all sample firms.<sup>14</sup> In recent months progress was also made in studying the appropriate method for the monthly distribution of the survey's quarterly results. Two alternatives were considered: firstly, using ARIMA models based on historical balance of payments information and, secondly, using the trend in foreign transactions, reported to the Banco de España within the general information system, which exceed the new minimum reporting threshold of EUR 50,000.

##### b) Direct investment

The improvements introduced in 2007 to integrate the new sources of information in the balance of payments databases and automated processes are important for data on the stock of direct investment from the Investment Register of the Ministerio de Industria, Turismo y Comercio, due to the volume and detail of this information. In the last year the Ministry has provided information to the Banco de España about Spanish investment abroad reported by approximately 1,800 firms and foreign investment in Spain declared by more than 3,500 firms.

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<sup>13</sup> Until January 2007, information for the survey on International Trade in Services was collected at 52 provincial offices and at the central services of the National Statistics Institute. From that date onwards 10 provincial offices have been involved. <sup>14</sup> In the detailed questionnaire the value of exports and imports is requested with the maximum breakdown by type of service required by international agencies, 51 headings, the individual counterparty country and in the last quarter of the year, the distribution by transaction currency in the annual total of exports and imports. In the simplified version a less detailed breakdown was requested by type of service than above, 10 aggregate headings and the weight in the total exports and imports of the three main counterparty countries.

The Spanish balance of payments is a monthly statistic which, until 2007, has been published two and a half months after the month to which the data refer. Furthermore, additional breakdowns of the services headings have been disseminated quarterly. Likewise, the annual data of various accounts and sub-accounts with more breakdowns have been published in the annual report on the Spanish balance of payments and international investment position.

The monthly base for the preparation of the balance of payments and, indirectly, of its current dissemination calendar, is highly influenced by the information system based on the reporting of individual transactions (essentially foreign receipts and payments), which is being modified at present with the progressive inclusion of surveys and other sources of information.

As a result of the changes in European payment systems and, in particular, the entry into force in January 2008 of the Single Euro Payments Area (SEPA), and at the request of the Governing Council of the European Central Bank and the European Commission, most euro area countries that still use information on foreign receipts and

payments (including Spain) as a data source for preparing the balance of payments raised the minimum threshold for reporting these receipts and payments to EUR 50,000.<sup>1</sup> In Spain, this threshold was increased through the Resolution of 20 December 2007 of the Directorate General of the Treasury and Financial Policy. It came on top of the rise in 2001 establishing a threshold of EUR 12,500, and reduces even further the usefulness of the receipts and payments data for preparing the balance of payments, especially for headings in which most transactions were for amounts lower than the above-mentioned threshold (the bulk of services and income, and workers' remittances, among them).

Therefore, from January 2008, in view of the rise in the reporting threshold, different sources of information and calculation methods, which complement or replace foreign receipts and payments data,

1. It should be remembered that in the case of Spain the threshold is for simplification purposes and, consequently, although information is available for the amount of total transactions, institutions are not obliged to report the content for transactions amounting to less than the threshold established.

#### COMPARISON OF THE NEW PUBLICATION AND REVISION CALENDAR FOR THE BALANCE OF PAYMENTS AND THE CALENDARS FOR THE INTERNATIONAL INVESTMENT POSITION, FINANCIAL ACCOUNTS OF THE SPANISH ECONOMY AND NATIONAL ACCOUNTS

DATA REFERRING TO THE PERIOD (a)						
	Balance of Payments Monthly Data	Balance of Payments Quarterly Data	International Investment Position	Financial Accounts of the Spanish Economy	Quarterly National Accounts (INE)	Quarterly Non-financial Accounts of the Institutional Sectors (INE)
April 2008	FEB 2008 <i>JAN 2006 - DEC 2007</i>			2007 Q4 <i>2005 Q4 - 2007 Q3</i>		2007 Q4 <i>2007 Q1 - 2007 Q3</i>
May 2008	MAR 2008				2008 Q1	
June 2008	APRIL 2008 <i>OCT 2007 - MAR 2008</i>	2008 Q1 <i>2007 Q4</i>	2008 Q1 <i>2005 Q1 - 2007 Q4</i>	2004 Q1 - 2007 Q4		
July 2008	MAY 2008			2008 Q1 <i>2006 Q1 - 2007 Q4</i>		2008 Q1
August 2008	JUNE 2008				2008 Q2 <i>2005 Q1 - 2008 Q1</i>	
September 2008	JULY 2008 <i>JAN - JUNE 2008</i>	2008 Q2 <i>2008 Q1</i>	2008 Q2 <i>2006 Q1 - 2008 Q1</i>			
October 2008	AUG 2008			2008 Q2 <i>2006 Q2 - 2008 Q1</i>		2008 Q2 <i>2005 Q1 - 2008 Q1</i>
November 2008	SEPT 2008				2008 Q3 <i>2008 Q1 - 2008 Q2</i>	
December 2008	OCT 2008 <i>APRIL - SEPT 2008</i>	2008 Q3 <i>2008 Q2</i>	2008 Q3 <i>2006 Q1 - 2008 Q2</i>			2008 Q3 <i>2008 Q1 - 2008 Q2</i>
January 2009	NOV 2008			2008 Q3 <i>2006 Q3 - 2008 Q2</i>		
February 2009	DEC 2008				2008 Q4 <i>2008 Q1 - 2008 Q3</i>	
March 2009	JAN 2009 <i>JAN 2007 - DEC 2008</i>	2008 Q4 <i>2007 Q1 - 2008 Q3</i>	2008 Q4 <i>2006 Q1 - 2008 Q3</i>			2008 Q4 <i>2008 Q1 - 2008 Q3</i>
April 2009	FEB 2009			2008 Q4 <i>2006 Q4 - 2008 Q3</i>		

a. The data disseminated for the first time are presented in normal print and the usual revisions of previous periods are in italics. In exceptional cases longer periods can be revised.

are used to prepare the balance of payments data to a greater extent than in the past. The periodicity of the vast majority of these alternative sources and methods is lower and, consequently, in the absence of data that provide foreign receipts and payments, it is not possible to prepare monthly data for certain balance of payments headings.

The revisions policy followed to date was also conditioned by the same reason, since the information gathered on foreign receipts and payments gave rise to revisions of a relatively small magnitude. The changes in the information system, as mentioned, entail the inclusion of new sources, most of which are not monthly; consequently, the monthly estimates of data obtained from these sources may be expected to be less reliable and need to be revised more frequently. In short, the loss of the relative importance of foreign receipts and payments in the information system warrants a change in the balance of payments dissemination and revision policy to adapt it to the new situation.

From the standpoint of international agencies' requirements, the compilation and dissemination of monthly balances of payments has not been established as mandatory, generally, by the IMF. In the European arena, Eurostat only lays down quarterly reporting requirements for EU Member States, while the European Central Bank uses the euro area's balance of payments to evaluate the area's economic and financial position and to decide on the direction of its monetary policy. To this end, it compiles monthly data (in addition to quarterly and annual data) of the euro area members to prepare the balance of payments and international investment position of the euro area as a whole. Therefore, there is a monthly demand, at least for certain accounts, for the balance of payments which euro area members must provide to the ECB. However, not all euro area members disseminate monthly balances of payments. This is the case, for example, of Belgium, the Netherlands, Luxembourg and Ireland and, among EU members, the United Kingdom, Sweden, Cyprus and Hungary.<sup>2</sup> In most instances, the dissemination of a monthly balance of payments was discontinued as the compilation systems based on foreign receipts and payments information were replaced, as in the case of Spain, by combined systems or systems based exclusively on sur-

2. While not an exhaustive list but one merely for illustrative purposes, outside Europe the United States, Canada, Switzerland, Hong Kong and practically all Latin American countries do not disseminate monthly balances of payments.

veys, and the cost of obtaining them monthly rose at the same time as their reliability fell.

The balance of payments is a source of information for the international investment position, the financial accounts and the Spanish national accounts, which are compiled and disseminated quarterly. Thus, coordinating the dissemination and revision calendars is essential to ensure consistency between these statistics. The balance of payments dissemination and revision calendars were not fully consistent with those of other macroeconomic statistics and, therefore, it was advisable to revise them.

For the above-mentioned reasons, in April 2008 the balance of payments dissemination and revision policy was changed with the result that the balance of payments monthly data will be disseminated two months after the end of the period to which they refer and the quarterly data will be disseminated three months after the quarter to which they refer.<sup>3</sup> The monthly data will follow the standard IMF presentation and will show the major headings of the current and capital accounts and a certain level of detail for the financial account. The quarterly data will retain the level of detail of the data published monthly to date.<sup>4</sup> At the same time, the frequency with which the data are revised will increase, replacing the current practice of only one annual revision at the close of each year with quarterly and annual revisions. Hence, when the data for each new quarter are published, the data of the immediately preceding quarter will be revised, as will the monthly data. Furthermore, with the publication of the data for the fourth quarter, the monthly and quarterly series of the last two years will be revised.

A table with the various publication and revision calendars of the balance of payments, the international investment position, the financial accounts of the Spanish economy, the non-financial accounts of institutional sectors and Spanish national accounts accompanies this Box.

3. The detailed dissemination calendar of the balance of payments data is available on the Banco de España website ([http://www.bde.es/bpagos/SDDS\\_2008.pdf](http://www.bde.es/bpagos/SDDS_2008.pdf)). 4. The details of the indicators to be disseminated monthly and quarterly are available in the changes introduced in the April 2008 edition of the *Boletín Estadístico* of the Banco de España (<http://www.bde.es/infoest/htmls/novebe.htm>).

As for the detail of these data, approximately 15 variables are considered in each case. These variables provide accounting information not only on the firms directly related to the declarants but also on other group companies. The Register provides coverage of two levels of participation for Spanish investment abroad and three levels of participation for foreign investment in Spain.<sup>15</sup> As a result of greater efficiency in analysing this information, it has been possible, for

15. In both cases (Spanish investment abroad and foreign investment in Spain) the new source provides coverage of more than 10,000 firms.

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

TABLE 5.1

Year	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.

Year	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.

the moment, to achieve improvements in the quality control of the data published. Accordingly, as mentioned in section 5.2.2.2., in 2008 the estimates of reinvested earning for the 2006 and 2007 data were adjusted, taking into account the accounting information provided by the Register on resident and non-resident firms. Also, with a view to including the new source for the production of data on shares and other equity, the changes introduced in the last year are also essential for evaluating the differences between the methods used to date and those envisaged in Guideline ECB/2004/15 and Regulation EC (No) 184/2005 of the European Parliament and of the Council on the sending of data to the European Central Bank and to Eurostat, respectively. As explained in section 5.3.4.1, these stocks are currently estimated by combining the accumulation of transactions for the other resident sectors sector with accounting information for monetary financial institutions, while under the above-mentioned requirements financial statements must be used in all cases. Lastly, it should be pointed out that the full adaptation of the new annual source to the calendar and methodology envisaged for IPP data requires quarterly estimates and this is the overriding priority of the work in progress.

c) Portfolio investment

With regard to portfolio investment, progress was made with work relating to the integration of the ECB's Centralised Securities Database<sup>16</sup> in 2007 and early 2008 in relation to the ration-

<sup>16</sup> More detailed information about the whole project is presented in the 2004 and 2005 reports.

alisation of quality control tasks which must be performed by the national central banks (NCBs) participating in the Project.<sup>17</sup> Thus, it was considered important to broach the definition of automated processes to detect and assign anomalous or non-existent values<sup>18</sup> and to follow-up the information provided by commercial suppliers, as prior tasks to the direct involvement of the NCBs. However, undoubtedly, the major new development in the new database's quality control processes is on-line access to the system as a result of which the NCB will perform quality control tasks more effectively. Access to the database was staggered: five NCBs<sup>19</sup> connected to the database in December 2007, in order to identify possible shortfalls and improvements, and the remaining NCBs connected to the database later in March 2008. Lastly, it should be pointed out that in recent months the CSDB has gained importance as a reference source for purposes other than the compilation of balance of payments and IIP statistics. Accordingly, a project in which the BIS, IMF and ECB participate has been revived, the purpose of which is to draft a good practices manual for designing a global, security-by-security database. This project is part of the G8 action plan for the development of local debt markets in emerging market economies and developing countries.

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

2007 and early 2008 saw the continuation of the revision of the Balance of Payments Manual detailed in Box 5.1 of the previous edition of this report. In March 2008, the IMF's Statistics Department published a second draft including the changes proposed to the first version of March 2007 by approximately sixty institutions. The aim of most of the changes accepted is to clarify the content of the previous version, especially as refers the processing of transactions which must be recorded under the direct investment and reserves headings.<sup>20</sup> There are fewer changes representing a revision of previously agreed upon concepts and classifications. In order to facilitate interpretation of the Manual, unlike the previous draft, the new draft includes numerous practical examples and explanatory tables. Furthermore, new appendices have been included for the in-depth analysis of certain issues such as the activity of multinational enterprises, remittances and the consistency between balance of payments and national account statistics. The changes between the sixth and fifth editions of the Manual have also been included in a new appendix. The electronic version of the sixth edition of the Balance of Payments Manual will be published at the end of 2008 and the print version will foreseeably be available during 2009.

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**17.** The participating NCBs are responsible for ensuring the quality of information on the securities issued by their residents, while the ECB ensures the quality in the case of non-EU issues. **18.** Taking into account the results of the latest quality report prepared in June 2007 by the European Central Bank's Statistics Department, special attention was paid to the coverage and accuracy of the information on prices and accrued income. **19.** The Pioneer Group in which Germany, Austria, Finland, the Netherlands and Italy participated. **20.** Noteworthy is the introduction in the new draft of detailed explanations for the recording in the balance of payments and IIP of transactions/positions arising between firms that are both direct investees of the same investor and do not have a direct ownership interest, of 10% or more, in each other.