

November 2023

The Balance of Payments and the International Investment Position
Methodological Note

Acronyms and abbreviations

AEAT	Spanish national tax agency (Agencia Estatal de Administración Tributaria)
AECID	Spanish agency for development cooperation (Agencia Española de Cooperación Internacional para el Desarrollo)
ATM	Automated teller machine
BE	Banco de España
BIS	Bank for International Settlements
BOP	Balance of payments
BPM6	Balance of Payments and International Investment Position Manual (sixth edition)
CAP	Common Agricultural Policy
c.i.f.	Cost, insurance and freight
CNAE	National classification of economic activities (Clasificación Nacional de Actividades Económicas)
CNMV	National securities market commission (Comisión Nacional del Mercado de Valores)
CSDB	Centralised Securities Database
DGSFP	Directorate general of insurance and pension funds (Dirección General de Seguros y Fondos de Pensiones)
DIRCE	Central directory of corporations (Directorio Central de Empresas)
EAFRD	European Agricultural Fund for Rural Development
EBOPS	Extended Balance of Payments Services
ECB	European Central Bank
ECH	Continuous household survey (Encuesta Continua de Hogares)
ECIS	International trade in services survey (Encuesta sobre Comercio Internacional de Servicios)
EDF	European Development Fund
EFTA	European Free Trade Association
EGATUR	Tourist expenditure survey (Encuesta de Gasto Turístico)
EPF	Household budget survey (Encuesta de Presupuestos Familiares)
ERDF	European Regional Development Fund
ESA	European System of Accounts
ESF	European Social Fund
ETR	Residents' travel survey (Encuesta de Turismo de Residentes)
EU	European Union
EUR	Euro
EUROSTAT	Statistical office of the European Union
FAD	Development aid fund (Fondo de Ayuda al Desarrollo)
FEGA	Spanish agrarian guarantee fund (Fondo Español de Garantía Agraria)
FISIM	Financial intermediation services indirectly measured
f.o.b.	Free on board
FRA	Forward rate agreement
FRONTUR	Inbound tourism survey
GATS	General Agreement on Trade in Services
GDP	Gross domestic product
GNI	Gross national income
IFRS	International Financial Reporting Standards
IGAE	National audit office (Intervención General de la Administración del Estado)
IIP	International investment position
IMF	International Monetary Fund
INE	National statistics institute (Instituto Nacional de Estadística)
INSS	National social security institute (Instituto Nacional de la Seguridad Social)
Intrastat	System for collecting data on intra-EU trade in goods
ISIN	International Securities Identification Number
MFI	Monetary financial institutions
MMFs	Money market funds
MSITS	Manual on Statistics of International Trade in Services
MTOs	Money Transfers Operators
NA	National Accounts
NACE	Statistical classification of economic activities in the European Community
NPISHs	Non-profit institutions serving households
OECD	Organisation for Economic Co-operation and Development
ORSS	Other resident sectors
PERE	Census of Spanish residents abroad (Padrón de Españoles Residentes en el Exterior)
PSPs	Payment service providers
P&L	Profit and loss account
RIE	Foreign investment register (Registro de Inversiones Exteriores)
R+D	Research and development
SEPE	National public employment service (Servicio Público de Empleo Estatal)
SNA	System of National Accounts
SPE	Special purpose entities (Entidades con fines especiales)
TARGET	Trans-European Automated Real-time Gross Settlement Express Transfer System
US	United States
VAT	Value added tax

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1 Introduction

This note presents the methodology for preparing Spain's balance of payments (BOP) and international investment position (IIP), which follows the principles set out in the International Monetary Fund's (IMF) *Balance of Payments and International Investment Position Manual* (sixth edition) (hereafter, the BPM6 or the Manual). The BOP and IIP are strictly consistent with each other in terms of concepts, classifications and valuation criteria. For this reason, in this methodological note, the definitions, information sources and compilation procedures affecting financial assets and liabilities refer to both transactions and stocks, that is to say, to the two sets of statistics. Also, this form of presentation emphasises the growing importance in recent years of the analysis of IIP stocks and their reconciliation with BOP transactions. The sections on the various components of the financial account of the BOP and IIP also include a detailed explanation of investment income, which is recorded in the current account of the BOP, given its coinciding sources and consistent estimation methods.

The note is organised as follows. After this introduction, Section 2 includes the conceptual framework, describing the main criteria of residence, valuation and the time of recording of transactions and stocks. Section 3 includes the classification by heading and institutional sector, with a specific sub-section devoted to the separate presentation of the Banco de España's (BE) financial assets and liabilities, and the sign convention. Section 4 explains the concepts, information sources and calculation procedures used for compiling each BOP and IIP heading.

The publication dates for the BOP and the IIP can be accessed on the BE's website.¹ As regards revisions of the BOP, the initial revision of data usually coincides with the publication of quarterly breakdowns: the previous quarter's data may be revised. Revisions with a wider horizon, up to a maximum of four years, may be performed each year in the publications that are at the end of March and September, in line with the revision policy promoted in the European Union (EU) to harmonise practices between countries, on the one hand, and between BOP and IIP statistics and National Accounts (NA), on the other. Meanwhile, monthly data of BOP are revised coinciding with revisions for quarters. The table below shows the detail of these revisions. Note that in the case of the IIP, an additional period is always added since the revision of a quarter incorporates that of its initial stock.

Calendar of revisions of the reference periods according to the date of publication in the year T

Date of publication (year T)

	March	June	September	December
Monthly data advance	January T	April T	July T	October T
Monthly data revision	January T-1/ December T-1	October T-1/ March T	January T-3/ June T	April T/ September T
Quarterly data first estimate	T-1 Q4	T Q1	T Q2	T Q3
Quarterly data revision BOP	T-1 Q1/T-1 Q3	T-1 Q4	T-3 Q1/T Q1	T Q2
Quarterly data revision IIP	T-2 Q4/T-1 Q3	T-1 Q3/T-1 Q4	T-4 Q4/T Q1	T Q1/T Q2

¹ <https://www.bde.es/webbe/en/estadisticas/calendario/calendario-difusion-estadisticas.html>

2 Conceptual framework

The BOP and IIP are macroeconomic statistics which systematically summarise the economic relationships between the residents of an economy and the residents in the rest of the world and are called “the international accounts of an economy”. The BOP records the transactions which take place between residents and non-residents for a set period of time. The IIP shows the value and composition, at a given point in time, of the holdings of external financial assets and liabilities, and presents the stocks of assets and liabilities which are structured in the same way and from the same point of view as the corresponding financial transactions of the BOP.

The Spanish BOP and IIP are compiled under the guidelines of the IMF’s BPM6. The concepts and definitions included in the Manual are consistent with those included in the System of National Accounts (SNA) and in the European version of the latter, namely the European System of Accounts (ESA), ensuring that official macroeconomic statistics are consistent, and part of a harmonised common framework.

2.1 Economic territory and residence

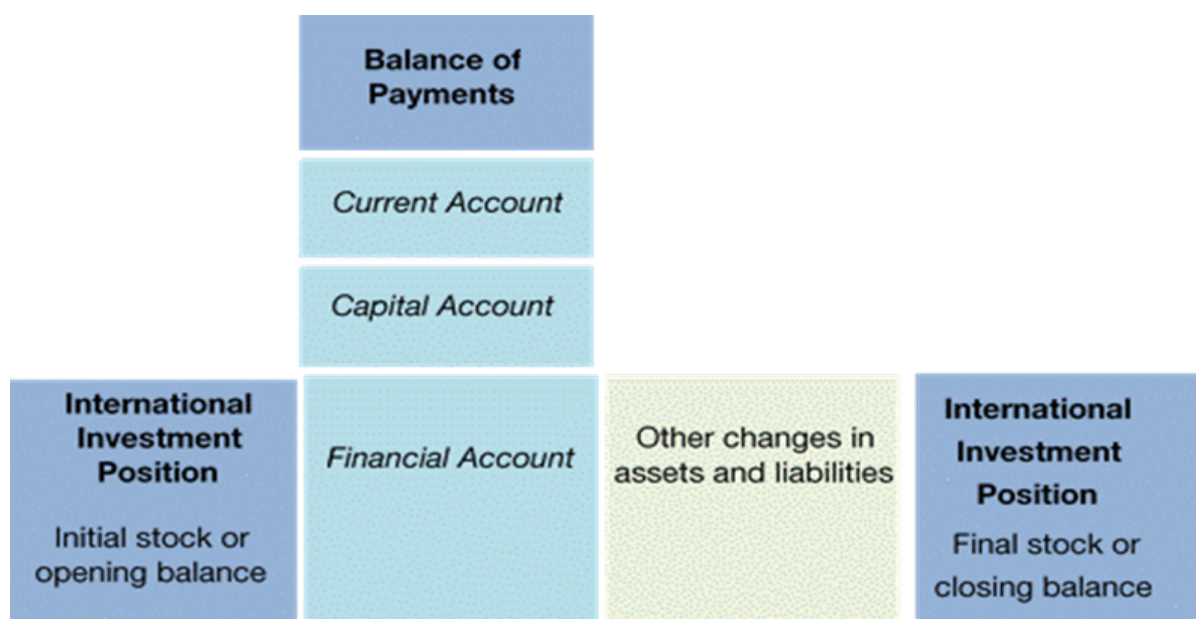
The IMF considers a unit to be resident in a country when its "centre of predominant economic interest" is located in the economic territory of that country,² that is, when there is a location, a dwelling, a production plant, or other premises in which or from which this unit engages or intends to engage (either indefinitely or over a long period of time) in economic activities and transactions on a large scale. In practice, it is suggested that permanence of one year or more in the country be used as a reference, although this is not an inflexible rule.

The economic territory of a country includes, in addition to the national territory, territorial enclaves in the rest of the world (for example, embassies, consulates or military bases). However, it does not include international organisations located in that country (they are economic territories in their own right).

2.2 Structure of the accounts

The international accounts provide an integrated framework for the analysis of an economy’s economic relationships with the rest of the world. The framework provides a sequence of accounts, which is summarised in the next figure.

² In practice, in macroeconomic statistics, the economic territory is the area under the effective control of a single government.



As the figure shows, the variation in the IIP between two periods can be explained by the transactions included in the financial account of the BOP and also by other flows.

2.3 Flows and positions

While developments in the non-financial portion of the external sector are reflected in current and capital account transactions, financial developments are principally reflected in positions, that is, in the balance sheet of the economy, which is explained by both financial account transactions and by other flows.

Thus, the flows which explain changes in the IIP include:

- the transactions of the financial account of the BOP.
- other flows:
 - revaluations (owing to exchange rate or price changes)
 - other changes in volume.

A transaction is the result of an interaction between two independent parties (by mutual agreement or through the operation of the law) and involves an exchange or a transfer (with no counterpart entry) of resources. Transactions are recorded in the BOP.

The so-called "other flows" are events that affect the value or the composition of external asset or liability positions, but are not the result of interactions between two parties.

2.4 Valuation

Market prices are the basis for valuation in the international accounts. Market price is defined as the amount of money that a buyer pays (or is willing to pay) to acquire goods from a seller in a transaction entered into between independent parties (an arm's length transaction) for purely commercial reasons. Transactions should be valued at market rates prevailing at the time of the transaction. Financial asset and liability positions should be

valued at the data reference date. For assets or liabilities that are not traded in financial markets, or are not traded frequently, the BPM6 allows for the use of other criteria. In the specific case of direct investment, for example, the BPM6 envisages the use of the "own funds at book value" method for valuing positions in unlisted and other equity. In the case of loans and other items under the other investment heading, which are not easily transferable, the IMF recommends using nominal value.

The Spanish BOP and IIP are compiled in euro. For conversion of transactions and stocks into currencies other than the euro, the Manual's recommendations are generally followed: that is, the use of market rates prevailing at the time of the transaction in the case of the BOP, or the data reference date in the case of the IIP. However, for some information sources, monthly average exchange rates must inevitably be used for transactions, for example, for those in which transactions are deducted from the stocks.

2.5 Time of recording of flows

In the international accounts, flows should be recorded at their accrued value. This means that flows should be recorded "when economic value is created, transformed, exchanged, transferred, or extinguished". In other words, the effects of economic events should be recorded when they occur, regardless of whether there is any settlement of related proceeds and payments and irrespective of the time when they are settled.

According to the Manual, the time of recording for transactions is as follows: a) in goods, non-produced non-financial assets and financial assets, accrual coincides with the time economic ownership of the asset is transferred; b) in services, when the services are provided, and c) primary and secondary income is recorded at the time the corresponding collection/payment claims or obligations arise. As regards other flows, other changes in the volume of assets must be recorded when they occur. Revaluations, which can occur continuously as prices and exchange rates change, are computed between two points in time at which the relevant positions are valued.

In practice, the application of the accrual principle proves difficult and costly, and therefore, it cannot always be guaranteed that, on the one hand, BOP transactions are not recorded at the time when they are settled, and, on the other, that the distinction between the changes in the IIP which relate to transactions and those which relate to other flows (only recorded in the IIP) is always accurate. However, in order to minimise possible variances, the accrual principle especially determines the selection or design of information sources and the calculation procedures used in the headings related to goods, investment income and transfers to/from the EU.

3 Classification of transactions and stocks by heading and institutional sector

This section summarises the basic classification criteria in the presentation of the BOP and IIP, without providing a detailed explanation of each heading (included in Section 4).

3.1 Classification by heading

The BOP transactions are structured around three basic accounts: the current, capital and financial accounts. As mentioned earlier, the IIP presents the stocks of assets and liabilities

following the same structure and from the same perspective as the corresponding transactions of the financial account of the BOP.

The BOP current account is divided into four basic sub-accounts: goods, services (including tourism and travel), primary income and secondary income. Primary income includes labour income, investment income and other primary income (taxes on production and imports, and subsidies). Secondary income includes current transfers. The capital account of the BOP includes capital transfers and the acquisition and disposal of non-produced, non-financial assets.³ In the Spanish case, capital transfers are, by far, the most sizeable heading in this account. The balance of the current account plus the capital account is what is called, in NA terms, “an economy's net lending or borrowing”.

As for the classification by heading of the financial account of the BOP, and therefore of the IIP, it worth noting firstly that, unlike the NA, the international accounts include a functional classification in addition to a classification by instrument. This classification underlines the economic factors behind each heading and their different behaviour. Thus, as explained in detail in Section 4, the following are shown separately: transactions and stocks relating to international reserves, irrespective of instrument; transactions and balances between companies belonging to the same group, under direct investment; other investments in negotiable securities, except for derivatives, under portfolio investment; financial derivatives; and, finally, other investment which includes other foreign assets and liabilities, essentially loans and deposits not included under the other categories.

3.2 Separate presentation of the Banco de España's assets and liabilities

Since the creation of the euro area, in order to facilitate the economic analysis of the international accounts, it has been necessary to present the data for the financial account of the BOP and for the IIP separating the BE's assets and liabilities. Until then, these assets and liabilities were mainly concentrated in the functional category of reserves. Since then, other foreign assets and liabilities of significance for this sector have appeared. The reasons for separate presentation are, firstly, the greater significance of securities which no longer constitute reserves and which are included in portfolio investment, since they are denominated in euro, irrespective of the issuer's country of residence, or in foreign currencies, with the issuer residing in the euro area. Secondly, because the BE's transactions and positions vis-à-vis the Eurosystem are the counterpart of all the cross-border transactions settled through TARGET,⁴ which account for the vast majority of those that take place vis-à-vis the rest of the world. Therefore, in order to comply with the functional classification and the classification by instrument recommended by methodological manuals, the financial account of the BOP and the IIP are structured so that the transactions and stocks of the BE are treated separately.

3.3 Classification by institutional sector

The investment income account and the various headings of the financial account and the IIP are broken down into the four institutional sectors listed below (along with their sub-sectors):

³ An example of a transaction in non-produced, non-financial assets is gas emissions permits trading in the secondary market.

⁴ Trans-European Automated Real-time Gross Settlement Express Transfer System.

- 1 Banco de España
- 2 Other monetary financial institutions (other MFIs)
 - 1 Credit institutions
 - 2 Money market funds (MMFs)
 - 3 Electronic money institutions
 - 4 Specialised lending institutions
- 3 General government
 - 1 Central government
 - 2 Regional (autonomous) governments
 - 3 Local government
 - 4 Social security funds
- 4 Other resident sectors (ORSs)
 - a Non-monetary financial corporations
 - 1 Other financial intermediaries (excluding insurance corporations and pension funds)
 - 2 Financial auxiliaries
 - 3 Insurance corporations and pension funds
 - 4 Captive financial institutions and money lenders
 - b Other non-financial sectors
 - 1 Public and private non-financial corporations
 - 2 Households and non-profit institutions serving households (NPISHs)

It should be noted that this grouping of sectors differs from that of the NA, which establish a top level of financial corporations including the central bank, other MFIs and other financial resident sectors. However, BOP and IIP are published in which ORSs are separated into financial and non-financial corporations according to the guidelines of BPM6 and to facilitate comparison by users with the NA.

Transactions and stocks are allocated to the various institutional sectors according to the sector to which the resident party to the transaction belongs.⁵ Thus, if a resident bank purchases US Treasury bills, the transaction is recorded as a portfolio investment abroad (changes in assets) by the MFI 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. In practice the institutional sector is obtained by taking into account the tax identification number of the resident to which the transactions are allocated and a database which links residents' tax identification numbers to their institutional sector and is consistent with the sectorisation database for the Spanish economy available on the BE's website, in the Statistics section. This database includes

⁵ In the case of financial liabilities, the transactions and stocks are allocated to the sector of the resident which incurs the liability, although sometimes it may not coincide with the sector of the resident which performs the transaction with the non-resident. This is most frequent in the case of transactions with negotiable securities. Indeed, when a non-resident acquires securities issued by a resident, the issuer of those securities (which is the party that incurs the financial liability and, consequently, the party to which the transaction is allocated) may not coincide with the resident which owned the securities sold or with the financial intermediary that settled the transaction.

data from numerous sources, such as the official registers of the BE, the Directorate General of Insurance and Pension Funds, the CNMV, etc.

3.4 Sign convention and classification of financial transactions by change in assets and change in liabilities

The signs with which items are posted in the BOP require an accounting convention. Transactions are recorded in the current and capital accounts as credits or as debits from the resident's standpoint, with the result that, for example, a merchandise export is a credit and an import is a debit. In the financial account, an increase in a resident's assets vis-à-vis a non-resident (which involves a payment abroad, i.e. an outflow) is recorded under assets with a positive sign. An increase in a resident's liabilities vis-à-vis a non-resident (which involves a receipt from abroad, i.e. an inflow) is recorded under liabilities also with a positive sign. Lastly, the net values in the financial account and in the IIP are recorded as assets minus liabilities. Thus, a positive (negative) sign indicates net outflows and a net asset position, respectively (net inflows and a net liability position).

The BOP errors and omissions heading is calculated as the difference between total receipts and total payments and arises from the impossibility of capturing precise information about all the transactions which are performed between an economy and the rest of the world. Consequently, it does not feature as a heading in the current, capital or financial account. In the tables included in Chapter 1, it is recorded separately as a balancing item. If its sign is positive, this indicates that one of the following circumstances or combination thereof arises: understatement of the receipts in the current and capital accounts, understatement of the net change in liabilities in the financial account, overstatement of the payments in the current and capital accounts, overstatement of the net change in assets in the financial account. Conversely, the negative sign would be used.

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. This means that the data reflect residents' purchases of assets vis-à-vis non-residents, less their sales and redemptions (on the assets side) and the purchases by non-residents of assets issued by residents, less their sales and redemptions (on the liabilities side). This is due to the fact that the recording of gross transactions, in most cases, is no longer of significance given the extraordinary mobility of capital and the way markets are structured and function, which has increased the purchase and sale transactions of financial assets exponentially and, on occasions, artificially. This not only affects transactions involving negotiable securities in the traditional sense, but also applies to virtually the entire range of assets and liabilities, now characterised by high motion produced by financial and technological innovation.

As a result, the volume of financial transactions is far superior to that of other transactions. This means that errors and omissions are more linked to the financial account than the current and capital accounts in most cases. In this context, it is less meaningful to relativise errors and omissions in terms of gross figures of the current and capital accounts, which is the usual practice. It is more useful to use the gross cash flows of the financial account and, since these flows are not usually available, the IIP stocks.

4 Statistical system

This section describes in detail additional concepts and definitions and explains the information sources and calculation procedures used for the current and capital accounts of the BOP, on the one hand, and for the IIP and the financial account of the BOP, on the other. The latter includes the components of investment income, as the related concepts, sources and procedures are naturally consistent with those of the corresponding financial asset and liability flows and positions.

However, prior to explaining in detail the information sources used to estimate the non-financial external relations on the one hand, and financial external relations on the other, a source used in both cases must be noted, since it serves, for some of the items, to delimit the resident unit population operating with the external sector. This information relates to external transactions and is provided by the payment service providers (PSP) to the BE in accordance with Circular 1/2012. PSPs report receipts/payments received/ordered by their customers flowing from/to accounts open at non-resident PSPs and exceeding the reporting threshold of €50,000. The fields reported are limited, in accordance with the new European legislation, to those available totally automatically in their operating procedures, which do not include the statistical item of the transaction or any information relating to the issuer/final recipient of the receipts/payments.

The information provided by the PSPs includes the tax identification number of the resident sender/recipient of the cross-border transaction, and the amount, which makes it a valuable source of information for delimiting the population carrying out transactions with the rest of the world and for detecting possible reporting failures in other sources. Sections 4.1 and 4.2 discuss the use of this source in greater detail.

4.1 Current and capital accounts⁶

Firstly, it should be stressed that the current and capital accounts are compiled using methodological principles that are wholly consistent with the rest-of-the-world account of the Spanish National Accounts, since the manuals currently in force - SNA2008 (ESA2010 in Europe) and the BPM6- were prepared in a harmonised framework for official macroeconomic statistics. The National Statistics Institute (INE) and the BE have in place a working group which ensures that compilation of both sets of statistics is coordinated.

Before explaining the sources of data for each component in detail, the basic sources of information used to prepare the current and capital accounts of the BOP are discussed below.

- **Foreign trade statistics** compiled by the Spanish Customs and Excise Department:
 - **Intra-EU trade.** Based on Intrastat statistical reporting, as there have been no customs formalities between EU countries since 1993. Also includes the estimates of intra-EU trade not covered by the Intrastat system, either because the

⁶ Investment income from the current account is discussed in the following section, as the information sources are, in general, common to those used for the IIP and the financial account of the BOP.

transactions are below the reporting threshold or because they have not been reported although they are subject to reporting requirements.

- **Trade with third countries.** Based on the customs clearance statement (or single administrative document)

- **The INE's International trade in services survey (ECIS).** It includes information on the value of imports and exports of non-tourism services, net exports of goods under merchanting,⁷ various transfers (current and capital) and acquisitions or disposals of non-produced non-financial assets.⁸ It is a quarterly sample survey targeted at firms and other resident units in Spain. The ECIS uses as its main framework: a) until 2022 data, the population carrying out external transactions, as reported by PSPs to the BE (see beginning of Section 4 above); b) from 2023 data onwards, tax declarations. In addition, a specific sub-population for firms engaging in transactions relating to the processing and repair of goods is also included in the framework. The latter unit group is obtained from information provided by the AEAT (Spanish national tax agency). The framework has been stratified based on the propensity to engage in the transactions under review, taking into account: a) available historical information, and b) economic activity (Spanish National Classification of Economic Activities, CNAE) and size (number of employees) of the firms. From 2023 data onwards stratification also takes into account foreign control of the companies. The period to which the data refer is the calendar quarter.

- **The INE's tourist expenditure survey (EGATUR).** This survey compiles data on the tourism expenditure of non-resident visitors to Spain,⁹ on an ongoing basis, at the main border crossing points (road, airports, trains and seaports). The survey is performed through personal interviews on exit from Spain. The grossing-up framework used for the EGATUR survey is that provided by the Inbound tourism survey (FRONTUR). The period to which the data refer is the calendar month.

- **Information on EU funds.** The information used is that supplied by Spain's State Agrarian Guarantee Fund (FEGA, by its Spanish abbreviation) and the National Audit Office (IGAE, by its Spanish abbreviation), and, additionally, information published by the Treasury. The FEGA and the Treasury sources are monthly, and the IGAE's information is provided quarterly (for more aggregated data) and annually (for more detailed data).

4.1.1 Goods

The value of goods involving a change of economic ownership between residents and non-residents is recorded under this heading, regardless of whether the goods do or do not

⁷ Transactions of merchandise which do not cross borders, but which do involve a change of ownership, and, therefore, are not included in the Customs and Excise trade statistics (see Section 4.1.1 for a more detailed explanation).

⁸ The survey provides information on the type of transaction (according to the Extended Balance of Payments Services [EBOPS] Classification for those related to services), on the country or region of origin or destination, the mode of supply of the services (cross-border supply, consumption abroad, commercial presence, or linked to the movement of natural person) and on the characteristics of the declaring unit (economic activity and number of employees).

⁹ With a breakdown by type of visitor, country of residence, length of stay, type of expense (accommodation, transport, food, shopping, etc.), point of entry, type of accommodation, reason for travel, use of all-inclusive reservations (tourist packages), etc.

cross the border of the country compiling the related statistics.¹⁰ It should be stressed that not all external transactions of goods are recorded in this account, only those involving a change of economic ownership, this being the key distinction between transactions included in this account and those related to services.

The balance on trade in goods includes general merchandise, non-monetary gold and net exports of goods under merchanting. These (also known as triangular transactions) involve the purchase by residents of goods abroad from non-residents for their subsequent resale to other non-residents, without the goods being present in the compiling economy. Since these two transactions involve a change of ownership, the net receipts from these transactions (i.e. the difference between the amount of the sale and of the purchase of the merchandise) are recorded as an export of goods.

For the goods account, the BOP uses as its basic source of information the Foreign trade statistics compiled by the Spanish Customs and Excise Department, albeit with the relevant adjustments made in coordination with the INE, so as to ensure consistency between the rest of the world account in the NA and the BOP.

- First, imports, which in the statistics published by the Customs Department are valued using a c.i.f.-type valuation (cost, insurance and freight), are adjusted to their f.o.b. (free on board) value for inclusion in the BOP. A c.i.f.-type valuation means that the statistical value includes the amounts corresponding to freight and insurance specifically associated with the imports, which are services that may have been provided by residents or non-residents and which must be deducted when calculating the imports figures.
- Second, the information obtained from this source is adjusted to: a) include transactions of goods which do not cross borders, but do involve a change of economic ownership, and b) exclude merchandise which cross borders but do not involve a change of economic ownership. The former type of trading is chiefly related to merchanting, and the latter to the provision of services for processing or repairing goods (see section 4.1.2.2). The information needed to estimate the transactions not included in the Customs trade statistics is obtained from the ECIS survey.
- Lastly, the information includes the estimates relating to illegal activities in the international trade in goods, made by the INE in relation to the National Accounts. These estimates, which were prepared using the methodology and procedures recommended by Eurostat¹¹ are based on various academic and scientific studies, of a national and international nature, conducted in both the private and public sector. The sources used by the INE include the Ministry of the Interior and the Ministry of Health, Social Services and Equality.

¹⁰ Except for purchase and sale transactions relating to travel, construction projects or government enclaves, in which case they would be recorded under the corresponding services headings.

¹¹ According to the European Commission's requirement that all Member States incorporate flows from illegal activities into their GDP estimates.

4.1.2 Services

Before explaining this account, it should be noted that, here, the concepts and definitions of the BPM6 are consistent with those of the *Manual on Statistics of International Trade in Services* (MSITS 2010). The MSITS 2010, like the BPM6, is in line with the SCN2008, although it serves different needs, chiefly those relating to the General Agreement on Trade in Services (GATS) and other trade agreements. Both manuals share the same classification method by type of services (the Extended Balance of Payments Services [EBOPS] Classification), and the MSITS 2010 can prove useful to analyse in greater depth certain methodological aspects of the services.¹²

4.1.2.1 Travel

This heading covers the goods and services purchased by residents in an economy during a stay of less than a year in another economy for business or personal reasons (including health and education).¹³

The data on the tourism expenditure of non-residents obtained from the EGATUR survey is the basic information source for the estimation of travel credits. Until September 2019, the BOP levels (from the October 2015 data onwards) were based on EGATUR year-on-year rates; as from September 2019 (for October 2014 data onwards), they are now based on EGATUR levels. Data of this survey are adjusted by deducting the international transport costs of passengers and the portion of visitors' expenses relating to the margins of non-resident travel agencies and tour operators. Data prior to the reference date of October 2014 have been estimated by linking the EGATUR results to the 1995 data, using the historic time series.¹⁴

The estimates for payments are based essentially on the information available through the BE's payment systems regarding external transactions settled with bank cards issued against accounts in Spain. This information, which is broken down by type of transaction (via ATMs, point of sale terminals or e-commerce), is complemented with data published by the National Commission of Markets and Competition on the breakdown of e-commerce by activity sector, which enables identifying and excluding digital trade not related to tourism. In addition, the results of the INE's Residents' travel survey (ETR)¹⁵ is used to estimate the geographical breakdown and the "mirror" data (travel credits published by the main counterpart countries) to correct the most striking differences.

In accordance with international methodological guidelines, estimated rental expenses imputed to the owners of real estate located in a country other than their country of

¹² The MSITS 2010 broadens the meaning of the trade in services to include services provided through the creation of local enterprises. See MSITS 2010, Chapter II, "Conceptual framework for the development of statistics on international trade in services". For trading through local enterprises, see appendix 4, "Statistics of the activities of multinational enterprises".

¹³ The one-year rule does not apply to students and patients receiving medical treatment who remain residents of the economy of origin (and, consequently, tourists of the economy visited) even if they stay for more than one year. By contrast, personnel posted to a military base or government agency (including embassies) or accompanying dependents are never considered tourists (see Section 2.1 on economic territory and residence).

¹⁴ It was decided to take the year 1995 as anchor, given its proximity to when the statistic began to be compiled (1993) and that it dates back to the period before the euro came into effect, which involved a significant change in the information system used to estimate travel in the BOP.

¹⁵ The ETR is a continuous survey designed principally to provide monthly, quarterly and annual estimates of travel by the population of residents in Spain and its main features (destination, duration, reason, accommodation, means of transport, expenditure, socio-demographic characteristics of travellers, etc.). This survey gives continuity to the statistic of Spanish Residents' Domestic and Foreign Travel (FAMILITUR), with results from February 2015 onwards.

residence are recorded both as travel receipts and payments when they are on temporary stays there. Thus, for example, in the case of a non-resident owner of real estate in Spain, when temporarily occupied, imputed investment income is recorded (see direct investment income below) as a payment in Spain's BOP, and, at the same time, imputed consumption of rental services during the length of the stay, which is recorded as receipts in Spain's BOP, under the tourism and travel heading. The imputed investment income is recorded in net terms, this is discounting the associated expenditures (taxes for instance).

The estimates of such imputed receipts and payments are made by the INE in relation to the NA and combine information on overnight stays of travellers in their own home, average size of homes and average rental expenses in secondary homes.¹⁶

4.1.2.2 Non-tourism services

The INE's ECIS survey is the fundamental source for this heading, and it is supplemented for some types of services with additional sources which are specified below, where appropriate. The results of the ECIS survey are adjusted to include an estimate for any transactions relating to units operating exclusively below the €50,000 threshold. This is necessary since this type of unit is not covered by the information reported to the BE by PSPs (see Section 4, second paragraph) and, therefore, is not included in the survey's population framework.¹⁷ Lastly, the information also includes the estimates relating to illegal activities in the international trade in services, made by the INE in relation to the NA (see note 11).

a Processing and repair services. These include the transformation, assembly, packaging, etc. of goods, and maintenance and repair work performed by companies that are not the owners of such goods. An example of the former would be natural gas liquefaction, textile manufacturing and product assembly. The latter would include repairs of ships and aircraft, for example.¹⁸ The value recorded for maintenance and repairs is the value of the service provided by whoever transforms or repairs the goods, and not the difference between the gross value of the goods before and after the repairs. As mentioned in the goods heading, any imports/exports included in Customs Department data relating to maintenance and repairs are excluded from goods trading both in the BOP and in the rest-of-the-world account in the NA, which only include the service provision, in keeping with the key criterion of change in ownership.

b Transport. The transport heading includes freight services, services of passenger transport, auxiliary services (such as cargo handling, storage, etc.) and postal and courier services. Freight is estimated on the basis of information provided by the INE in relation to the NA, in keeping with the c.i.f./f.o.b. adjustment mentioned in the goods heading. The estimates of freight are based on prices per kilometre and tonne transported according to

¹⁶ The information sources for receipts are: EGATUR, information published by Eurostat on household size in the EU and the Household budget survey (EPF, by its Spanish abbreviation). For payments: the ETR, EPF data corrected against the purchasing power parity index of the main counterpart countries and the consumer price index, and data obtained from the population and housing census and the Continuous household survey (ECH).

¹⁷ The estimate included in the BOP is obtained from information supplied by the AEAT on intra-EU transactions.

¹⁸ This heading does not include construction maintenance or repairs (included under construction services) or computer equipment (included under computer services)

the origin and destination calculated on the basis of the Foreign trade statistics of the Customs Department and other sources.¹⁹

c Construction services. Construction services are those rendered or received when no branch or subsidiary has been established in the country where the construction works take place (a temporary local establishment or office could be set up).²⁰ Therefore, long-term construction projects are generally not recorded under this heading. The heading also includes the value of the goods and services which the construction company has acquired in the country of location of the construction work.

d Insurance and pension services. Insurance services should be valued on the basis of the weight of the service in the premiums and not on the basis of total premiums. The ECIS survey provides information on premiums and claims collected and paid, but not on the cost of the service. Consequently, the INE's estimates made in relation to the NA on the value of the service in the strict sense are included in the BOP. In the case of non-life insurance, the estimation basically consists in applying to the ECIS premium and claims data the ratios observed for the insurance companies' institutional subsector (S.128) of the national economy (based on information supplied by the Directorate General of Insurance and Pension Funds (DGSFP)). In the case of freight transport insurance, the estimates are based on prices per kilometre and tonne transported according to the origin and destination calculated on the basis of the Foreign trade statistics of the Customs Department and other sources. Reinsurance is estimated using DGSFP information for the final data and ECIS data for the preliminary data. The remainder of the premium and claims (adjusted for volatility) are included in secondary income, except in the case of life insurance which is included in the financial account.

e Financial services. This heading covers the services that financial intermediaries charge their customers (commissions and related expenses) explicitly and an estimate of the financial services charged implicitly in income. The latter, known as "financial intermediation services indirectly measured" (FISIM), are another example of statistical imputation. FISIM are essentially calculated by applying the difference between reference rates which do not incorporate FISIM, between financial intermediaries, and the rates they charge those who consume their services. The following is an example of how FISIM is imputed: the interest payable to a Spanish resident with a deposit abroad is grossed up taking into account that the actual interest earned is higher. However, a portion of the interest includes a charge for financial services rendered by the non-resident bank in which the deposit is held. FISIM therefore has no impact on the net current account figures given that its items in services are offset by its items in rent.

f Charges for the use of intellectual property (not included elsewhere). This heading records the payments and receipts for the rights to use patents, designs, franchises or trademarks, and licenses to reproduce or distribute often related to computer or audio-visual products. Other transactions involving intellectual property may also be recorded as research and development (R+D), computer or audio-visual services, this being the reason why the heading specifies "not included elsewhere". Since the dividing line between these

¹⁹ Main transport companies and associations and port authority among others.

²⁰ If branches or subsidiaries were established, the related transactions would be recorded as direct investment (investment and related income).

transactions is not always clear, the BPM6 includes a specific table on the treatment of intellectual property (see Table 10.4 of the BPM6).

g Telecommunications, computer and information services. Telecommunications services encompass the broadcast or transmission of sound, images, data, or other information by telephone, telegram, radio, TV, etc. as well as mobile telephone or online access services, among others.²¹ Computer services include hardware, customised software and the related licences for use. This heading does not cover certain non-customised products (for example, general software supplies provided on physical media), which are recorded as goods. Lastly, information services include news agency services, feature articles, etc., and database services (automatic processing, recording, etc.).

h Other business services. This heading covers R+D, consulting, technical (architectural, engineering, etc.), trade-related (commissions on exports and imports), agricultural, mining, waste treatment and depollution, operational leasing and other business services of a diverse nature (security, translation, cleaning of buildings, etc.). It should be noted that basic research, applied research, and experimental development of products and processes are recorded under the R+D heading. The heading also includes the direct purchases/sales of R+D results (such as patents or processes). The receipts/payments for the use of licences are not included here but under charges for the use of intellectual property. Lastly, financial leasing, unlike operational leasing, is recorded in the financial account (its principal) and in the primary income account as investment income (its interest).

i Personal, cultural and recreational services. This heading covers audio-visual and related services and other personal, cultural, and recreational services. This heading includes the production of films and radio and television programmes and services related to health or education, for example, and excludes the purchase or sale of licenses to reproduce or distribute audio-visual products (included in charges for the use of intellectual property).

j Government goods and services (not included elsewhere). Included here are the receipts and payments linked to the expenses of embassies, consulates, military units, etc. and some expenses relating to the provision by the Spanish Government of services associated with health, education, administrative costs, tourism offices, educational institutions, etc. This heading also includes as government services receipts, 20%²² of the payments to the EU for “traditional own resources”,²³ on account of services rendered by the Spanish Government to the EU for the collection of these funds. For these fund flows with the EU, data is directly obtained from Spanish Treasury publications.

4.1.3 Primary income

4.1.3.1 Compensation of employees

The gross compensation of border, seasonal and other short-term workers (including contributions and related taxes) is included here. These workers may be: a) residents in Spain who move abroad for less than one year (in receipts) or b) residents in the rest of the

²¹ The heading does not include the value of the information transmitted.

²² The 25% prior to the entry into force, in October 2016, of the Own Resources Decision 2014/335 of the Council.

²³ Customs duties, agricultural levies and tax on the production of sugar and isoglucose.

world who move to Spain for less than one year (in payments) The data are calculated by estimating the number of migrant workers and applying an average remuneration, taking into account information on the country where they have established themselves and the industry.

For receipts (residents in Spain who obtain income abroad), use is made of Spanish Labour Force Survey population data and of average remuneration data in the NA of the counterpart countries. For payments (residents in the rest of the world who obtain income in Spain), the population data are obtained from various sources, depending on the country of origin of the workers, due to the different administrative procedures required. In the case of EU or European Free Trade Association (EFTA) countries, use is made of FRONTUR-EGATUR data on inflows of travellers for business reasons. In the case of non-EU and non-EFTA countries, authorisation and employment contract data are used. Average remuneration data are taken from the Spanish National Accounts. The estimate of payments is supplemented by the estimate of payments reported by general government on its remuneration of local (non-resident) staff hired in enclaves abroad (resident).

4.1.3.2 Investment income

As mentioned above, the information sources for preparing this heading are, naturally, the same as those used for the IIP and the financial account of the BOP, and the preparation methods are consistent with them, so the reader is referred to Section 4.2 for details on investment income.

4.1.3.3 Other primary income

Taxes and subsidies on products and production are included in other primary income. These transactions arise if an international organisation levies its own taxes or pays subsidies and are generally not significant (with the exception of economic unions). In the case of the Spanish BOP, transfers to the private sector from the European Agricultural Guarantee Fund are recorded in the other primary income item as receipts and contributions to the EU for so-called "traditional own funds", which include customs duties, agricultural levies and the tax on sugar and isoglucose production, are recorded as payments. From data referred to December 2015 onwards, due to the implementation of the Single Resolution Mechanism, and more precisely to the constitution of the so called "single resolution fund", the contributions of the Spanish credit sector to this fund are also included here. The information is obtained monthly from Treasury publications, the State Agricultural Guarantee Fund and the Operations Department of BE.

4.1.4 Secondary income

The secondary income account shows current transfers between residents and non-residents. The distinction between current transfers and capital transfers is not simple. For this reason, the BPM6 prefers to define capital transfers and then establish the convention that all other transfers are to be recorded as current transfers.

According to the IMF, a transfer in kind is a capital transfer when it consists of: a) the transfer of ownership of a fixed asset or b) the forgiveness of a liability by a creditor when no counterpart is received in return. It is important to distinguish between debt forgiveness

(voluntary cancellation by the creditor), which is recorded as a transaction, and debt write-off, which is not recorded as a transaction but as other changes in volume in the IIP. 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, financial or not, of one or both parties to the transaction.

Current transfers consist of all transfers that are not transfers of capital. They directly affect the level of disposable income and should influence the consumption of goods or services. The international accounts distinguish two types of current transfers: personal transfers and other current transfers.

a Personal transfers. Personal transfers are current transfers between households in cash or in kind, their main component being workers' remittances.²⁴ The procedure for estimating workers' remittances is as follows. In the case of receipts, the estimate combines two basic sources: data reported by payment institutions (money transfer operators (MTOs)) to the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences (SEPBLAC by its Spanish acronym) within the scope of its supervisory role and the Census of Spanish Residents Abroad (PERE, by its Spanish abbreviation) compiled by the INE from the registers of consulates and embassies. The MTO data include transfers by migrants resident abroad not born in Spain.²⁵ The data from PERE are used to estimate transfers by migrants born in Spain, imposing certain restrictions on age in order to estimate the working-age population. The average remittance per remitter data is attributed to this population. In the case of payments, the available evidence is that, unlike in that of receipts, transfers through MTOs account for a very high proportion of the total. This means that the estimate can basically be obtained by grossing up these data. The result of this process is checked regularly against indicators of population and disposable income and against the receipts of the main counterpart countries and adjustments are made when necessary.

b Other current transfers

- **Current taxes on income and wealth, and social contributions.** The taxes include mainly those on labour and investment income. Social contributions are those paid within the framework of social security systems. Current taxes are estimated from information provided by the AEAT, taking into account the income payable/receivable to/from the world. For social contributions, use is made of information from the NA (published by the INE, and by Eurostat for countries other than Spain) on compensation of employees and social contributions.

- **Social benefits.** Like social contributions, social benefits comprise those payable under social security schemes, and include, for example, those for retirement, sickness, unemployment or death of spouse.²⁶ The basic source of information is the

²⁴ Also included are other transfers of smaller amount relating to betting and lottery and gambling prizes.

²⁵ These may, in turn, be divided into two types of remitters: a) foreigners who have resided in Spain and have emigrated leaving here their family or friends (returning to their country of origin or not) and b) family or friends of foreigners in Spain who reside in other countries.

²⁶ Not only direct transactions between social security funds and beneficiaries are included, but also transactions between social security systems of different countries. These latter normally take place under agreements to compensate services provided in a country under entitlements accrued in another (in which social contributions were paid). In the case of Spain, for example, they are due to healthcare agreements.

National Social Security Institute (INSS, by its Spanish abbreviation). To calculate pension receipts, the data of residents in Spain who have paid social security contributions in other countries are combined with average pension information on counterpart countries [published by Eurostat and by the Organisation for Economic Co-operation and Development (OECD)]. To record pension payments and receipts and payments under healthcare agreements, direct use is made of information provided by the INSS. The INSS data are supplemented by information on foreign transactions of the Servicio Público de Empleo Estatal (National Public Employment Service), the Subdirección General de Inmigración (Sub-Directorate General of Immigration and Emigration) and the Ministry of Defence.

- **Non-life insurance premiums and claims and calls under standardised guarantees.**²⁷ Included here 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 insurance i.e. claims plus premiums less service charges. The information needed to record these transactions is obtained from the ECIS survey and from estimates made by the INE in relation to the NA based on accounting information of the corporations in the sector supplied by the DGSFP.

- **Current international cooperation.** Current international cooperation consists of current transfers in cash or in kind between the governments of different countries or between governments and international organisations. This includes, for example, emergency aid after natural disasters, membership fees of international organisations (if they do not involve an ownership interest), other regular transfers made as part of an established policy and payments to cover the salaries of staff sent abroad on technical assistance missions (when these staff are employees of the host government). Most significant in the Spanish case, are those in which the EU is the counterparty, specifically those relating to the European Social Fund (ESF), the European Development Fund (EDF) and, more recently, to the Next Generation EU programme, which includes the Recovery and Resilience Facility (RRF). Information on these is obtained from different sources depending on their frequency. Monthly data are, essentially, based on information supplied by the National Audit Office and on Treasury publications [and supplemented by direct data from the Spanish Agency for Development Cooperation (AECID, by its Spanish abbreviation) and from the Ministry of Defence]. Quarterly and annual data come from the National Audit Office.

- **Miscellaneous current transfers.** Apart from those described above, BOP secondary income also includes other miscellaneous transfers, of which the following may be mentioned: a) current transfers to non-profit institutions serving households (NPISHs); b) fines, penalties and payments of compensation imposed by courts or other public bodies, and c) payments to supranational authorities which are compulsory but which are not taxes. The latter type includes contributions to the EU denoted “VAT resource” and “GNI resource”²⁸ and, since January 2021, a new contribution based on the non-recycled plastic packaging waste. For non-EU

²⁷ In Spain (as in many European countries) standardised guarantees are not significant. As explained by the BPM6, they are guarantees which, unlike insurance-related guarantees, do not involve an individual valuation of the risk because they are granted on the basis of general parameters applicable to all of them (e.g. some governments underwrite student loans).

²⁸ Value Added Tax (VAT) and gross national income (GNI).

transfers, the basic information source is the INE's ECIS survey. For EU funds, it is the information provided by the National Audit Office and that published by the Treasury.

4.1.5 Capital account

The capital account includes capital transfers and the acquisition of non-produced, non-financial assets.

a Capital transfers. Quantitatively, the main item under the capital transfers heading is the part reflecting the receipts of the general government sector from the EU. Particularly notable is the European Regional Development Fund (ERDF) and those under the Next Generation EU programme. Also included here are the receipts from the European Agricultural Fund for Rural Development (EAFRD). For these transfers, the information sources are the National Audit Office and the Treasury. Also recorded here, albeit much less important, are other private and public transfers reported to the ECIS survey or directly to the BE by the AECID and the Ministry of Defence.

b Acquisition of non-produced, non-financial assets. This heading comprises transactions associated with assets that may be used or needed for production of goods and services but have not themselves been produced, e.g. trademarks, franchises, etc. and leases or other transferable contracts. Likewise, the purchase and sale of CO₂ emission rights is included here. The information used to calculate these transactions is that reported to the ECIS survey, and contrasted with that supplied by the Ministry for the Ecological Transition and the Demographic Challenge.

4.2 Financial account (flows and positions, including investment income)

Just as the current account and the capital account had to be consistent with the rest of the world account of the NA, the financial account of the BOP and IIP has to be prepared according to methodological principles which are fully consistent with those of the rest of the world sector of the financial accounts.²⁹ In this case, both sets of statistics (the BOP/IIP and the financial accounts) are prepared by the BE. That said, while the primary classification used in the financial accounts is the financial instrument, the primary classification used in the BOP and IIP is the functional category. This variable has an additional dimension to that of instrument and captures certain aspects of the relationship between the parties and of the purpose of the investment which are of great significance for economic analysis. The functional categories are: direct investment, portfolio investment, other investment, financial derivatives and reserve assets.

Before explaining in detail the functional categories, we enumerate here the basic information sources for preparing the financial account of the BOP, the IIP and its income items. In addition to these sources, use is made of others, which are stated in the specific headings of the category affected by them.

²⁹ This is because the methodological manuals in force – the SNA 2008 (ESA 2010 in Europe) and the BPM6 – were prepared in a harmonised framework for official macroeconomic statistics.

The data sources generally depend on the institutional sector to which the data relate, except for liabilities-side portfolio investments, which are assigned to the sector of the securities issuer, which is not necessarily the data provider. With this exception, the details of which may be found in the portfolio investment heading, the sources are summarised by sector as follows:

- **Banco de España.** The Operations Department of BE provides the necessary information breakdowns consistent with the balance sheet and income statement or specifically calculated for statistical purposes when so required because non-accounting criteria have to be applied.
- **Other MFIs.** The information requirements for statistical purposes have been merged with those for supervisory purposes, forming for this sector what can be described as an integrated reporting system to provide information to the BE for both purposes. The breakdowns needed to obtain the positions, transactions and income by financial instrument and functional category have been included in this reporting. Circulars 1/2009, 4/2017³⁰ and 4/2019 regulate the reports/statements which have to be provided to the BE.
- **General government and ORSs.** Circular 4/2012 of the BE obliges all natural and legal persons resident in Spain (other than payment service providers registered in the official registers of the BE) to report their transactions and positions with non-residents, giving sufficient details to determine the financial instrument and functional category. All transactions on own account (whatever their nature and however they are settled or cleared) and the balances of financial assets or liabilities vis-à-vis the rest of the world (whatever their form).³¹ There are two forms, one detailed and the other summary.³² The detailed form is monthly, quarterly or annual, depending on the amount of the transactions and/or balances of the immediately preceding year, according to the following tranches: equal to or more than €300 million; b) equal to or more than €100 million and less than €300 million; and c) less than €100 million. The summary reporting form may be used if the amount of neither the balances nor the transactions exceeds €50 million. If the amount does not exceed €1 million, the reporting form need only be sent to the BE at its express requirement. The time period for sending the information is 20 days from the end of the period to which the data refer. Should amounts of less than €1 million have to be reported, the time period is two months from the related request.

³⁰ <https://www.bde.es/wbe/en/areas-actuacion/normativa/circulares-banco-de-espana/circulares-banco-espana-indice-cronologico/>.

³¹ Accounts at banks or financial institutions, inter-company accounts, cash or securities deposits, equity holdings, debt instruments, financial derivatives, real estate, etc.

³² The breakdown covers: 1) shares and other equity; 2) tradable securities deposited at non-resident institutions and the issues of the reporting party abroad and the returns thereon; 3) non-tradable debt securities and the returns thereon; 4) repos/reverse repos, securities loans and the returns thereon; 5) loans, advances, deposits, accounts and the returns thereon; 6) land, land parcels, real estate and the returns thereon; 7) financial derivatives; and 8) trade credits and other transactions with non-residents not included above. The summary form includes opening, closing and total balances of receipts and payments.

Readers are reminded that, as mentioned at the beginning of Section 4, both for the current and capital accounts and for the financial account and the IIP, the information reported by PSPs under Circular 1/2012 of the BE is used to delimit the population of residents carrying out transactions with the rest of the world. For the IIP and the financial account, this information, since it includes the tax identification number of the sender/recipient of the cross-border transaction and the amount, is used to detect possible reporting failures in other sources and as a check on the more significant transactions.

4.2.1 Direct investment and the related income

Direct investment transactions/stocks include all financial instruments arising from financial transactions between enterprises in the same group, except for those in the form of financial derivatives. To determine the enterprises that should be considered to form part of the same group for these purposes, the methodological manuals give precise rules and distinguish various types of relationships between them.

An investor which has a long-term interest in and significant influence over the management of the investee enterprise is called a “direct investor”, and the enterprise in which the stake is held is called the “direct investment enterprise”. Thus, two types of relationship are established: between resident direct investors and non-resident direct investment enterprises, and between non-resident direct investors and resident direct investment enterprises. For practical purposes, the Manual suggests the 10% rule for identifying these relationships, namely, a direct investor is considered the owner of 10% or more of an enterprise's equity. Direct investment enterprises include the direct investor's direct investees and its indirect investees owned through vertical chains of ownership. In addition to the aforementioned two types of vertical relationships, there is a third type – horizontal relationships – i.e. between the investee companies of the same investor but which do not own a holding in each other or, if they do, it is less than 10% (also called “fellow” enterprises).

It is worth emphasising that, once the scope of the enterprises which have a direct investment relationship has been identified, all the transactions and balances which may arise from financial transactions between these enterprises are recorded under the direct investment heading (except for financial derivatives).

Direct investment transactions, balances and income are included in the BOP and IIP on a gross asset and liability basis. However, when direct investment data are presented separately to provide greater detail of this phenomenon in particular – through breakdowns by counterpart country or by industrial activity – the directional principle is used, as recommended in international guidelines (BPM6 and OECD direct investment manual).³³

When direct investment is presented under the directional principle, investments in opposing directions are netted, i.e. direct investments are classified as follows:

- **Spanish investment abroad** = A (assets of Spanish parent vis-à-vis foreign subsidiary) – B (liabilities of Spanish parent vis-à-vis foreign subsidiary) + C (assets of

³³ Benchmark Definition of Foreign Direct Investment, fourth edition 2008.

subsidiaries vis-à-vis other subsidiaries of the same group, where the ultimate parent is resident) – D (liabilities of subsidiaries vis-à-vis other subsidiaries of the same group, where the ultimate parent is resident).

- **Foreign investment in Spain** = E (liabilities of Spanish subsidiaries vis-à-vis foreign parents) – F (assets of Spanish subsidiaries vis-à-vis foreign parents) + G (liabilities of subsidiaries vis-à-vis other subsidiaries of the same group, where the ultimate parent is non-resident) – H (assets of subsidiaries or associates vis-à-vis other subsidiaries of the same group, where the ultimate parent is non-resident)

However, when they form part of the BOP and the IIP, in the main presentation these investments are classified simply as assets (A, C, F, H) and liabilities (E, G, B, D), which is consistent with how they are recorded in the NA.

The standard presentations of FDI broken down by counterpart economy, as set out in the OECD Benchmark Definition of Foreign Direct Investment, 4th edition (BD4), prescribe the compilation of data according to the territory of residence of the immediate investing economy, while it leaves to the discretion of each reporting economy the possibility of presenting complementary statistics, including the publication of direct foreign investment in a country by ultimate investing economy³⁴.

Direct investment includes shares, other equity, reinvested earnings, real estate and intercompany lending.

a Shares and other equity

Shares covers the subscription, sale and purchase of shares and the purchase of subscription rights by direct investors. Other equity includes the purchase and sale of capital other than shares, capital contributions to branches or establishments, and, in general, any other ownership interest in firms that is not in the form of 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.

For MFIs the information source is the data reported by them to the BE under the integrated system of financial statement reporting. Based on this information, the IIP stocks of the MFI sector's holdings in capital are valued, in the case of Spanish investment abroad, in accordance with the fair value of the investments, a basic criterion of the IFRSs which is a good approximation of the market value required by the IMF Manual.³⁵ In inward investment, positions in listed corporations are valued on the basis of their stock market capitalisation or, equivalently, at their market price, and positions in unlisted shares are valued on the basis of the equity recorded on the investees' balance sheet.

³⁴ For more details, consult the statistical note on UIE published by the BE <https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/PublicacionesSerias/NotasEstadisticas/21/Files/nest15e.pdf>

³⁵ Fair value is defined as the amount for which an asset could be acquired, or a liability settled, between knowledgeable, interested parties in an arm's-length transaction. The sixth edition of the BPM6 expressly recognises fair value as a valuation method in the absence of market value.

For ORSs, the data of the system for directly reporting cross-border transactions and external positions to the BE are supplemented by those from the Foreign Investment Register (hereafter RIE by its Spanish abbreviation) of the Ministry of Economic Affairs and Competitiveness.³⁶ The RIE is a key tool for checking transactions and detecting the non-reporting of data, particularly in offsetting transactions relating to the restructuring of non-resident multinational groups carried out through foreign-equity holding companies (SPEs)³⁷. Furthermore, the RIE is a basic source for recording stocks and for estimating reinvested earnings.

With respect to IIP stocks of ORSs, for December 2004 and subsequent data, the RIE data were used to estimate the stock of direct investment in the form of equity holdings in unlisted non-financial corporations. The data used are reported to the Ministry in the annual reports on Spanish investment abroad and foreign investment in Spain. The reports include information about equity, results, shareholder structure of the (resident or non-resident) investee companies and the country where the companies engaging in, or subject to, direct investment transactions are located, along with their sector of activity. With the RIE data, the balances under the heading equity, direct investment of ORSs are valued on a basis consistent with the recommendations of the BPM6. Equity holdings in unlisted companies are valued on the basis of the own funds recorded in their balance sheets.

It is important to note that the RIE data are available with a time lag which requires the IIP stocks for the last two years to be estimated on the basis of other sources of information. For this purpose, the BOP transactions adjusted for swings in the exchange rate are added to the latest stock available from the RIE data. The BOP transactions are also used to estimate the quarterly stocks since the frequency of the RIE data is annual.

The data reported under Circular 2/2001, followed by Circular 3/2013, from the reference period of December 2008, which was consistent with the RIE data, are used as the source for the IIP for equity holdings in listed non-financial corporations. This information source, which will be explained in more detail in section 4.2.2 on portfolio investment, offers up-to-date quarterly data of the stocks at market price of listed shares issued by residents and held by non-residents, and vice versa. However, in order to distinguish between direct investment and portfolio investment, this source is supplemented with other sources (data from the CNMV on significant holdings, from the ORS direct reporting system, from the BE's Central Balance Sheet Data Office, from the RIE and from the press).

For the income relating to this component, which includes the dividends distributed and the reinvested earnings, it is important to note that the income account should only include that arising from the regular business of the direct investment enterprise and not that from extraordinary results. When the latter are distributed, they are included as divestment transactions in the financial account of the BOP and, when they are reinvested, they are not considered transactions and, consequently, they are treated as other changes in value of financial assets and liabilities and are aggregated in the IIP stocks.

³⁶ Royal Decree 664/1999. The reporting procedures and the corresponding forms are detailed in the Ministerial Order of 28 May 2001 and in the Resolution of the Directorate General for Trade and Investment of 21 February 2002, amended by the Resolution of 3 April 2008.

³⁷ SPE: Special purpose entities. The definition of these entities can be found in the IMF methodological guide: <https://www.imf.org/external/pubs/ft/bop/2020/pdf/20-26.pdf>. In the Spanish case, these are mainly companies whose main purpose is to channel direct investment.

The information source used for distributed profits is the financial statements reported by MFIs and the system for reporting cross-border transactions and external positions for ORSs. The particular features and information sources of reinvested earnings are described in more detail below.

Investments in real estate are included in direct investment equity holdings, since notional branches or units are defined to cater for ownership of real estate assets by non-residents.³⁸ The data sources and methods used to estimate the stocks and transactions of this type of investment vary according to whether the investments are abroad or in Spain. Estimates of the former are based on the information directly declared to the BE under Circular 4/2012, supplemented on an ad hoc basis by information on assets abroad supplied by the Tax Agency. Foreign investments in Spain are calculated on the basis of the following: a) information on sales and purchases from the General Council of Notaries, b) data on tourists staying in their own dwellings from the INE's FRONTUR/EGATUR surveys, c) prices estimated on the basis of the detailed information used for the INE's housing price index and d) information compiled by the AEAT on the basis of the cross-checking of the tax returns of non-residents against information available in the Cadastre.

As noted in Section 4.1.2, both in receipts and in payments the procedure set out in international methodological guidelines is to record under direct investment income the counterparties of the rental services consumption imputed to owners of real estate located in a country other than that of their residence when they are on temporary stays there. The direct investment income is recorded in net terms, in accordance with the net operating surplus concept, this is discounting the associated expenditures (taxes for instance).

b Reinvested earnings

The reinvested earnings arising from investee companies' regular business are included, following the double-entry principle, as income and as direct investment transactions, giving rise in turn to a change in the corresponding stock in the IIP. Conversely, the other reinvested earnings are calculated in the IIP and are not treated as transactions but as other changes in the value of financial assets and liabilities. 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. Reinvested earnings are a standard component of the BOP, but they are not a standard component of the IIP. In the case of the IIP, the methods recommended for valuing the heading equity, direct investment involve consideration of the reinvested earnings component of direct investment enterprises' own funds and, therefore, they are not presented separately.

The BOP includes an estimate of reinvested earnings based on reference data for 1995. Until the 2006 data, the procedure applied in assets and in liabilities differed due to the different information sources available. For the data for 2007 and subsequent years, due to the inclusion of information provided by the RIE, it has been possible to harmonise the

³⁸ This heading is difficult to estimate because of the complexity of deciding the residence of agents who divide their time between two countries, since the administrative records may have information on nationality which is at variance with the statistical definition of residence and there is no information source providing direct information on stocks.

procedure for assets and liabilities. For MFIs, the main source is profit and loss data drawn from accounting data. The source for ORSs is information from the Central Balance Sheet Data Office of the BE or other accounting information, including profit and loss data reported to the RIE source. It should be noted that, owing to the date when full information is available from the RIE, it is necessary to estimate the profit/loss of the past two years when information from other sources is not available. To calculate these estimates, a projection is made using the profit and loss (P&L) figures available in the RIE. Lastly, excluded for both sectors is P&L not obtained from ordinary activities,³⁹ and taxes paid and dividends distributed in the year. The separation between ordinary and extraordinary results is not always clear in the accounting records and the reliability of this separation can only be assured in cases involving large amounts.

c Inter-company lending

This heading includes, in general, loan transactions (and transactions in other debt securities) between parent companies and their subsidiaries or investee companies and between subsidiaries of the same group, unless the latter are financial intermediaries (except for insurance corporations and pension funds). As recommended in the IMF's BPM6, the debt between financial intermediaries is included under the other investment or portfolio investment headings, even though it refers to transactions between parent companies and their subsidiaries or between fellow enterprises.

In addition to financing in the form of loans, this heading encompasses the changes in the balances of inter-company accounts, i.e. accounts between subsidiaries and parents, or between companies in the same group, where reciprocal transactions, or transactions of the corporate group with third parties, are settled. As for debt between group companies in the form of fixed-income securities, although it is more difficult to capture, it is classified under direct investment in the relevant cases.

To estimate BOP financial account transactions, IIP balances and income from inter-company lending, use is made of data drawn from the integrated MFI financial statement reporting system and from the system for direct reporting of ORS transactions and positions to the BE.

Finally, it should be pointed out that in the area of direct investment, the classification in accordance with NACE is also obtained from the Tax Identification Number, using a database that relates it to the industrial activity classification and which includes data from the BE's Central Balance Sheet Data Office and the INE's Central Directory of Corporations (DIRCE), the BE's Register of Entities and information available on firms that report directly their transactions with the rest of the world.

4.2.2 Portfolio investment and the related income, excluding Banco de España

Portfolio investment is broken down into equity and investment fund shares or units, debt securities with original maturity of more than one year and debt securities with original maturity of one year or less. The transactions are recorded at the effective amount paid or

³⁹ Reinvested extraordinary income forms part of the stock of the IIP, but should not be recorded as transactions but rather as other flows (price changes).

received, excluding commissions and expenses; stocks are recorded at market prices at the end of the period and income is recorded on an accrual basis.

The institutional sector corresponding to these transactions, the stocks and their respective income 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. Note that, on occasions, the financing obtained by Spanish credit institutions in the form of fixed income acquired by non-residents is channelled through securitisation special purpose entities or bond issues by MFIs' subsidiaries and, in both cases, the issuers are classified institutionally under ORSs, irrespective of whether they are solely financing vehicles whose purpose is to channel funds to MFIs.

Securities and the related income, if they are held as a result of repos or securities lending involving the exchange of cash, are not recorded under this heading. This type of transactions, positions and the related income are included in Other investment, in the resident sector that carries out the operation, irrespective of the issuer of the securities, under the asset headings (purchases by residents) or the liabilities headings (sales by residents). They are treated, therefore, as secured loans. On the contrary, no amount is recorded under portfolio investment or other investment when the securities lending does not involve the exchange of cash.

The portfolio assets of MFIs are obtained from the portfolios reported under the integrated financial statement reporting system. In other cases, the main source of information used to calculate portfolio investment in the financial account of the BOP and in the IIP is the negotiable securities reporting system, the rules of which are contained in BE Circular 3/2013.⁴⁰ The parties obliged to report pursuant to this circular are resident securities depository institutions. In the case of portfolio assets of general government and ORSs deposited with non-resident institutions, the source is the system for directly reporting cross-border transactions and external positions of these sectors.

In all cases, monthly security-by-security data are used. Data on residents' issues abroad are gathered 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; accounting statements reported to BE under Circular 4/2017 in the case of securities issued by MFIs; and finally, issues abroad reported directly by ORS issuers under Circular 1/2012. The acquisition of these securities by resident investors, which should be subtracted from the total issues, is covered by the aforementioned sources.

As for income from debt instruments, the accrual principle has been applied since 1993 to investment-income payments to non-residents arising from interest on bonds issued by the Spanish general government sector and, likewise since 2005, it has been applied to other interest income from portfolio investment. For this purpose, information on IIP stocks is combined with information on the characteristics of the issues security by security or with information on issuers' statements of income, in the case of liabilities. On the assets side, the ISIN code is used to check stocks security by security against the ECB Centralised

⁴⁰ This Circular abolished BE Circular 2/2001.

Securities Database (CSDB) which, among many other variables, contains the information needed to estimate accrued income.

4.2.3 Other investment and the related income, excluding Banco de España

This heading reflects, by exclusion, financial assets and liabilities vis-à-vis non-residents that are not recorded as direct or portfolio investment, financial derivatives or reserves. It comprises fundamentally loans and deposits; trade credits extended directly by the supplier to the buyer; financial leases for purchases of goods; and temporary transfers and acquisitions of securities between residents and non-residents, either through repos or securities lending involving the exchange of cash. These reverse transactions, for the purposes of the BOP and the IIP, are treated as secured loans or deposits. In addition, development aid credit (FONPRODE credit) granted by the Government to other countries to deal with situations of humanitarian crises arising from wars or natural catastrophes.

As for the separation of loans and deposits, on the liabilities side this depends on the resident institutional sector: deposits are included in the case of MFIs and loans for the other sectors. On the assets side, stocks and transactions vis-à-vis non-residents other than credit institutions are classified as loans, and those vis-à-vis non-resident credit institutions are classified as deposits.

The classification of a number of financial instruments under other investment or portfolio investment 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.

Also encompassed under this heading are Spain's membership quotas for international organisations and, for data referring to 2002 and subsequent periods, assets and liabilities of the BE vis-à-vis the Eurosystem related to banknote issuance. Additionally, it incorporates the difference between the estimated banknote holdings in euro of the residents of a country and the banknotes which its central bank is legally authorised to issue. Also included are insurance technical reserves and reinsurance loans. Insurance technical reserves are considered liabilities of insurance companies and assets of policyholders and their beneficiaries since they back the obligations the firms have entered into with their insured and they represent the commitment of the insurer to its insured. The technical reserves may include reinsurance if the risk has been transferred to the reinsurer. If the risk has not been transferred, the policy performs a financing function and is classified as a loan. Lastly, this heading includes other accounts receivable/payable, which basically relate to financial claims arising from timing differences between the accrual of a transaction and the corresponding receipt or payment.

In the case of trade credit, the information reported to the BE under Circular 4/2012 is supplemented by estimates calculating by applying average collection/payment periods (obtained by the Central Balance Sheet Office from the accounting information of reporting firms) to the external goods and services trade data (Customs and ECIS data, respectively).

The data for other investment are basically obtained from the general sources described by sector at the beginning of Section 4.2. That said, in the case of the assets-side deposits of ORSs in the IIP, the recommendation given in international fora is to take as a reference the stocks of the “Locational banking statistics by residence” database of the Bank for International Settlements (BIS) and if these are higher, they should be included in the IIP. The national central banks of countries which collaborate with the BIS for the compilation of these statistics provide, inter alia, the data of liabilities-side deposits reported by deposit-taking institutions in their country, broken down by the holder’s sector and country of residence. Thus, they can be taken as mirror data for comparison purposes and as a reference for the level of our assets. In the Spanish case, different data sources are combined for the estimation of such asset-side deposits: BIS mirror data (ORSs of non-EU countries), mirror data of ECB banking statistics (ORSs of EU countries), direct declarations of foreign transactions (ORSs countries not covered by the two previously mentioned data sources) reported to the BE and to the DGSFP and Form 720 of the AEAT for the remaining countries.

For the estimation of insurance and pension fund technical reserves different data sources are used depending on the sector. For the estimation of the assets and liabilities of the insurance and pension fund sectors, data provided by the DGSFP are used. For the estimation of the household sector, the data source consists of the information vis-à-vis Spain that insurance companies and pension funds from other European countries report to the ECB (under the ECB Regulation (EU) No 1374/2014 of November 28, 2014 (ECB / 2014/50) and ECB Regulation (EU) 2018/231 of 26 January 2018 on statistical reporting requirements for pension funds (ECB/2018/2)).

4.2.4 Financial derivatives, excluding Banco de España

Any financial derivative which can be valued because a market price exists for its underlying asset should be recorded in the financial account and in the IIP, regardless of whether it is traded on organised markets and irrespective of the type of underlying asset.

Nonetheless, the IMF acknowledges the practical difficulties of its recommendations. Specifically, difficulties can be expected to arise in the separation of the price of the derivative and of its underlying asset 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 ECB decided to record financial derivatives in the BOP of the euro area as the net amount of change in assets less change in liabilities, as is done in this report. Nevertheless, in the IIP it was possible to obtain from the above-mentioned sources of information, data on stocks of financial derivative assets and 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, these may be overstated, so the net data are more reliable.

The data on financial derivatives 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. 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, long- or short-term debt securities).

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. Stocks in general are valued, as always, at market prices at the end of the period.

The information sources are those stated for each institutional sector at the beginning of Section 4.2.

4.2.5 Financial account of the BOP and IIP of the Banco de España

The financial account of the BOP and the IIP of the BE records the changes in and stocks of its foreign assets and liabilities, broken down into the change in reserves, the change in the BE's claims on the Eurosystem and the change in its other foreign assets and liabilities. The methodological principles applied to the income from these assets and liabilities are the same as those used for the other institutional sectors.

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. This is the key reference for readers interested in the detailed breakdown of this heading. The BE 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 BE and the Treasury, and on the liabilities constituting a predetermined or contingent short-term drain on such liquidity. The full data can be found on the BE's website in the External Sector Statistics section of the Statistics webpage, in "International reserves and foreign currency liquidity". These data are consistent with those in the reserves heading in the IIP and for all the components of reserves which have been valued since December 1998 at market prices.

The net claims of the BE on the Eurosystem comprise the claims of the former on the European Central Bank and the central banks of the other euro area countries. 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 BE 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 BE's claims on the ECB as a result of the transfer of reserves and the relevant updates. It would be beyond the scope of this methodological note to offer a detailed and rigorous analysis of the working of TARGET.⁴¹ In the tables, which follow the standard IMF presentation, the change in the balance of this account appears under the heading other investment, in assets or liabilities depending on whether the end-quarter balance is a credit or debit balance, respectively.

Other net assets include the net change in the other BE liabilities and assets not included in the two foregoing headings. The tables, which follow the standard IMF presentation, show the assets in other investment, in derivatives or, from 2002, in portfolio investment; the liabilities are included in other investment or in derivatives. The assets include those BE investments (other than those of the account with the Eurosystem) which, due to their nature, cannot be considered as reserves. It should be noted that included here is the BE's contribution to the ECB's capital in 1998, and the successive updates. The liabilities also include certain foreign liabilities of the BE, likewise of limited significance, and liabilities referred to by the IMF as "reserve-related liabilities", which reflect those transactions involving borrowing by the monetary authorities that generate, in turn, changes in reserves and special drawing rights assigned by the IMF, which in the standard presentation form part of other investment.⁴² Also included in other net assets are the figures for financial derivatives that are not part of the reserves, as the net amount of the change in assets minus the change in liabilities.

Prior to the publication of BOP and IIP in September 2015, the Spanish balance of payments statistics included an estimation of entries of EUR banknotes into Spain (highly related to tourism) as an asset of other resident sectors, in other Investment. The accumulation of these net transactions was recorded as an asset in the IIP.

European statistical committees have agreed on a new harmonised treatment from 2002 for the transactions and positions in external statistics due to the issue and circulation of euro banknotes that ensures consistency at national level between BOP/IIP and the quarterly financial accounts of the institutional sectors. This new treatment requires the recording of

⁴¹ 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 BE 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 Eurosystem, which in turn credits the Banque de France's account with the Eurosystem. The Banque de France 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 BE (in addition to the bank's transaction with its client), and a transaction by the BE with the Eurosystem (besides the transactions between French residents). The Spanish BOP does not show the transaction between the BE and the Spanish bank, nor that between the latter and its client, as these are transactions between residents (the corresponding stocks are not reflected in the IIP either). Double-entry accounting would show an import payment and a receipt by the reduction in the balance of the BE's account with the Eurosystem (which would reflect a change in the stocks of other investment of the BE in the IIP). Although in practice the arrangements are more complex, the final result is the same as far as the accounting entries in the BOP and in the IIP are concerned.

⁴² The special drawing rights assigned are recorded as the issuance of a liability of the Member State that receives them (since there is an obligation to refund them in certain circumstances, and interests are accrued).

these operations, as was already the case in the Spanish external statistics, to ensure compliance with double-entry accounting principles, but it necessarily entails breaking down this amount in more components, as explained below.

- The positive difference between the amount of euro banknotes actually put into circulation and the legal issuance of euro banknotes according to the banknote allocation key⁴³ must be recorded in the BOP/IIP statistics in deposits of other investment as a liability of central banks vis-à-vis the Eurosystem; if the difference is negative, it has to be recorded as an asset. This treatment is consistent with the principles applied by central banks in their own accounting statements.
- The positive difference between the estimate of euro banknotes actually held by residents in the respective country and the legal issuance of euro banknotes according to the banknote allocation key must be recorded in the BOP/IIP statistics in the heading other investment, instrument deposits, as an asset of other resident sectors; if the difference is negative, it must be recorded as an external liability of the central bank, in the instrument currency.

This different treatment is applied to BOP and IIP data from the reference year of 2002.

⁴³ The banknote allocation key is that which results from applying 92% to the Eurosystem subscribed capital key. See Annual Report of the BE, Part 2 (Balance sheet and profit and loss account) of the Annual Accounts of the BE section.

Annex I. Main methodological and presentational changes introduced into the balance of payments and international investment position since 2000⁴⁴

Year of implementation	First year of reference of the data	Heading	Change	Remarks
2003	2001	Direct investment	Inclusion of information from the foreign investment register (RIE) of the Directorate General for Trade and Investment of the Ministry of Industry, Tourism and Trade, to include transactions difficult to detect using the BOP system	Gives rise to more extensive revisions of the figures published previously
	2002	Portfolio investment	Incorporation of a new reporting system for calculating international investment position portfolio investment	The time series of investment in shares and mutual funds in the case of the sector other resident sectors in the IIP has been revised to eliminate the methodological break. In the rest of the headings the break is considered minor
2004	1995	General Merchandise	Inclusion in customs data of an estimate of intra-Community goods trade transactions below the Intrastat reporting threshold.	
	1995	Tourism and travel	Revision of the level of the travel series since 1995 due to changes in the implicit assumptions. Also, travel receipts since 2001 incorporate the results obtained using a new method of estimation that combines the EGATUR survey and real indicators for the tourism sector	
	1995	Current international cooperation	Reallocation of EU transfers corresponding to the EDF to the heading current international cooperation, in line with the treatment applied by both the NA and Eurostat	These transactions were previously recorded as capital transfers. The series have been revised since 1995
	1995	Income from investment and direct investment	Incorporation of an estimate of the reinvested earnings of direct investment firms obtained from information supplied by the Central Balance Sheet Data Office, BOP and Eurostat	Affects, in the BOP, the headings of reinvested earnings included in direct investment income, and shares and other equity of direct investment and, therefore, the IIP
	1995	Direct and portfolio investment	Monthly reallocation of the specific transactions of foreign investment in listed shares in Spain to the direct investment or portfolio investment heading, as appropriate, in the BOP	Carried out with information provided by the Ministry of Industry, Tourism and Trade
2005	1995	Subsidies on products and production	Application of the accrual principle to the recording of funds transferred by the European Commission to Spain under the Guarantee Section of the former European Agricultural Guidance and Guarantee Fund. This fund has been replaced by the European Agricultural Guarantee Fund. Until 2005 these funds were recorded when the European Commission paid them to the Spanish government	The new criterion is applied retroactively from 1995
	2001	Workers' remittances	Revision of the procedure for estimating payments under the heading workers' remittances	The new method includes information on outward transfers issued from Spain via payment institutions (MTOs), known as currency-exchange bureaux under the terminology prior to Circular 3/2009)
	2005	Portfolio investment income	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
2006	2006	Financial derivatives	Inclusion in the IIP of data on stocks of financial derivatives	For the first time data from December 2006 were included for the sectors monetary financial institutions and central government
2007	2005	Tourism and travel	Revision of the procedure for estimating travel receipts	Travel receipts were estimated using a factorial econometric model which includes information from EGATUR and supply and demand indicators (passengers on international flights, prices and overnight stays, among others) and supplementary information (including that from the general system for receipts and payments). Applied to data from 2005
2014	1993	Balance of payments	In October 2014, the balance of payments is published for the first time on the basis of BPM6 and the new system of information sources is fully established	See Changes in the BOP and in the IIP in 2014 in the External Sector Statistics webpage

⁴⁴ For a detailed explanation of each of the changes, depending on the year of implementation (first column of the table), the following may be consulted: a) the annual publications "The Spanish Balance of Payments and International Investment Position" (1999-2010) and "*Balanza de Pagos de España*" (2011-2014) (available in Spanish only), b) "Changes in the Balance of Payments and in the International Investment Position in 2014" and c) "The 2019 benchmark revision of the Balance of Payments/International Investment Position".

Year of implementation	First year of reference of the data	Heading	Change	Remarks
2014	2012	International investment position	In October 2014, the international investment position is published for the first time on the basis of BPM6 and the new system of information sources is fully established	The presentation of the IIP data is affected. The data commence in December 2012
	1995	General merchandise	Inclusion of an estimate of illegal activities relating to international trade in goods	Estimates made by the INE in relation to the NA following the methodology and procedures recommended by EUROSTAT, and based on various academic and scientific studies, of a national and international nature, conducted in both the private and public sector
	1995	General merchandise and non-monetary gold	Exclusion of merchandise which crosses borders but does not involve a change of economic ownership, and which is related to the provision of processing and repair services	Estimates obtained by combining customs information on the nature of transactions with information on the value of processing and repair services from the INE's survey ECIS
	2013	Goods under merchanting	In BPM6 merchanting of goods is classified under goods (previously under services), with both gross and net values shown, with net amounts classified in the goods aggregate (exports)	Estimates obtained from the ECIS
	1995	Tourism and travel	Inclusion of an estimate of the rental expenses imputed to the owners of real estate located in a country other than their country of residence	Estimates made by the INE in relation to the NA following international methodological guidelines
	2013	Non-Tourism services	The ECIS is adopted as the main information source for these headings	The results of the ECIS are adjusted to include an estimate of transactions that may correspond to units operating exclusively below the €50,000 threshold and not included in the survey's framework. In addition, methodological adjustments are included for certain headings. The detailed breakdown by heading is available from 2013, while the total figure is available from 1993
	1995	Non-Tourism services	Inclusion of an estimate of illegal activities in the international trade in services	Estimate made by the INE in relation to the NA following the methodology and procedures recommended by EUROSTAT
	2013	Insurance and pension services	Reinsurance and direct insurance are treated consistently	Following BPM6 guidelines, and in a manner consistent with the NA, reinsurance services are estimated using an INE estimate of the ratio of the value of the service to the premium estimated by the ECIS
	1995	Financial services	Inclusion of an estimate of financial intermediation services indirectly measured (FISIM)	Estimate made by the BE's Statistics Department that takes into account the difference between reference rates that financial intermediaries charge each other, which are considered to be FISIM free, and the rates the latter charge the consumers of their services
	2010	Compensation of employees	New procedure for estimating compensation of employees based on population data combined with average compensation data	The sources for the population data are the Spanish Labour Force Survey, FRONTUR and EGATUR, and data on authorisations and employment contracts. The sources for average remuneration data are the NA (INE and Eurostat) and the national minimum wage
	2008	Social benefits	New procedure for estimating social benefits based on direct sources combined with data on beneficiaries and the average pension	Obtained from INSS information, combined, in the case of credits, with average pension information for counterpart countries published by Eurostat and the OECD. Supplementary information from SEPE and Ministry of Defence is also used
	2008	Workers' remittances	New procedure for estimating workers' remittances credits, based on data reported to the BE by payment institutions (MTOs) pursuant to Circular 3/2009, supplemented by information on the migrant population	Data from MTOs include transfers by migrants resident abroad and not born in Spain. To estimate transfers by migrants born in Spain, data from PERE, subject to certain restrictions on age, are combined with average remittance estimates obtained from MTOs
	1995	Exclusion of capital transfers	The transfers of migrants who sell their assets when returning to their country of origin are not included in the system transactions	The methodological change from BPM5 to BPM6 means that these operations are now considered to be other changes in volume rather than transactions
2014	2002	Income from investment and portfolio investment	Incorporation of an estimate of the reinvested earnings of investment funds	Included both in income from investment and in the relevant headings of the Financial Account. The aggregate system is maintained for pre-2012 data
	2012	Income from investment and portfolio investment	The system for calculating the accrual of interest on the assets side is changed. Calculation is carried out at the ISIN level instead of at the aggregate level	Included both in income from investment and in the relevant headings of the Financial Account. The aggregate system is maintained for pre-2012 data
	2010	Direct investment	The information taken from financial statements as the book value of own funds of MFIs when they are direct investment enterprises has been revised	Previously the capital and reserves were taken, whereas now equity is taken
	2012	Direct and portfolio investment	The distinction between bonds and money market instruments is now based on whether they are short-term (less than one year) or long-term (one year or more)	

Year of implementation	First year of reference of the data	Heading	Change	Remarks
	1995	Direct and other investment	Change in those headings/sectors for which the accumulation-of-flows method continued to be used since some sources provide the stock directly. This is the case of the cash and deposits of ORSs; changes in accounts abroad due to centralised cash management of ORSs and loans of ORSs (both direct investment and other investment)	
	2012	Direct and other investment	Reclassification from other investment to direct investment of loans and deposits between Spanish MFIs and related companies belonging to certain institutional sectors	
	1995	Other investment	New details of other investment	From 1995, except in the case of trade credit and other holdings for which there are data only from 2012
	2013	Financial derivatives	To calculate the financial derivatives transactions of MFIs the system of receipts and payments is replaced by direct reporting through the financial statements sent to the Banco de España	The change is made from June
	2012	Financial derivatives	Inclusion of the outstanding amounts of financial derivatives of general government other than the State and of ORSs	Previously stocks were available for MFIs and for the State
2015	2002	Other investment	New statistical treatment of the external assets and liabilities generated by euro banknotes in circulation, involving their redistribution among the assets and liabilities of the BE and of ORSs	The claims and liabilities of the BE vis-à-vis the Eurosystem in relation to banknotes are included from 2002, as is the difference between the estimated holdings of euro banknotes of the residents of one country and the banknotes its central bank is legally responsible for issuing
2016	1992	International investment position	In March 2016 the dissemination of historical data of IIP, which was initialized in October 2014, is completed	Due to the changes which were incorporated on October 2014, the dissemination of new series of IIP was done in that date with data starting on 2012. In 2016 year, the data series are completed publishing the period 1992 to 2011
	2013	EU flows (secondary income and capital account)	Recording of all EU flows in accrual terms	More detailed information of FEAGA is available, and complementary information from IGAE about revenues and payments of the general government in accrual terms. These new pieces of information allow, from 2013 year onwards, a stricter application, on one side, of the accrual principle in all EU flows, and not only for those related to the CAP, as at the present, and, on the other side, of the distinction between current flows and capital transfers. This change implies likewise a bigger homogenization with the sources and methods of NA, facilitating the consistence between BOP and the rest of the world account of NA. No break has been observed for the financing capacity/necessity in the beginning of the modified period
	2015	Tourism and travel	EGATUR becomes the only source of information for estimating the growth rates of travel credits	From the reference period of October 2015, travel credits are estimated on the basis of the performance of tourist expenditure according to the EGATUR survey. This change arose from the methodological change undergone by the EGATUR survey when the INE took over responsibility for preparing it.
2017	2013	International investment position	In March 2017 began the dissemination of the integrated IIP statement that allows to show changes in stocks of financial assets or liabilities with the different flows.	According to the BPM6 the changes in the IIP between two dates can be decomposed by the different flows that are presented: the transactions of BP occurred during the period and the so called other flows. At the same time, other flows are composed by revaluations (changes in the prices or in the exchange rates) and in other changes in volume (OCV).
2019	2014	Tourism and travel	EGATUR becomes the only source of information for estimating the levels of travel credits	From the data for October 2014 onwards, EGATUR is now the sole data source for estimating the levels of BOP travel credits. The time series have been revised, with linking of the new results to the 1993-1995 data, taking into account the evolution of the published time series
	1995	Insurance and pension services	INE NA estimates are incorporated and differences with respect to the rest of the world account eliminated	The new estimates are essentially based on the application of ratios observed for the insurance companies sector (S.128) of the national economy (calculated on the basis of accounting information) to ECIS data on premiums and claims. INE data from 1995 onwards and BOP estimates for 1993-1994.
	2012	Financial services	Consideration of the other financial intermediaries sector (S.125) as a producer of FISIM	In consequence: a) the balances of loans received from non-resident other financial intermediaries are included in the calculation of FISIM and b) the uses of resident other financial intermediaries are no longer recorded. The foregoing applies from the data for 2012 and the historic time series are revised back to 1995.

Year of implementation	First year of reference of the data	Heading	Change	Remarks
	1993	Other investment income from loans and deposits	Improvement in the estimation of the accrual of income from loans and deposits	The complete series of other investment income has been revised. The system of projections based on growth rates, anchored to the levels of the data sources available up to 2013, has been abandoned, and estimates are now based on the application of reference rates to contemporaneous stocks.
	2007	Direct investment – real estate	Foreign investment in Spain begins to be calculated taking into account information supplied by the INE (tourism and prices), and the General Council of Notaries and the AEAT	The method of estimation now used anchors the level of the stock and takes into account price developments. The following data are used: a) data on tourists staying in their own homes from the INE's FRONTUR/EGATUR surveys, b) data on sales and purchases from the General Council of Notaries, c) prices estimated using the detailed information that the INE's housing price index is based on and d) AEAT data based on the cross-checking of the tax returns of non-residents against information available in the Cadastre. This estimation of the stock is performed from time to time and is updated in intermediate periods using the transactions of the source mentioned for sales and purchases and the price data. The new sources apply from the data for 2007. The historic time series are revised on the basis of the information previously available from data for 1993.
	2015	Other investment – trade credit	New estimates based on the application of average collection/payment periods to the foreign trade data are incorporated	The data reported to the BE under Circular 4/2012 are supplemented by estimates obtained by applying average collection/payment periods calculated by the Central Balance Sheet Data Office to the data on foreign trade in goods and services (from Customs and the ECIS, respectively). The new sources apply from the data for 2015. The data from December 2012 previously available are revised taking into account information from the Financial Accounts and the time series up to 1993 are completed with the same source.
	2016	Other investment – insurance technical reserves	The data source for estimating the insurance technical reserves of the non-monetary financial corporations sector is replaced and the insurance technical reserves held by Spanish households are included	The estimation is improved by means of the application (from 2016) of the new information that the insurance companies report to the DGSFP under Regulation (EU) No 1374/2014 of the ECB of 28 November 2014 on statistical reporting requirements for insurance corporations (ECB/2014/50) and, in addition, an estimate is included of the insurance technical reserves held by Spanish households through the use of the same source of information as mirror data from 2016 and Form 720 of the Tax Agency from 2012. All the series up to 1999 are reconstructed.
	2002	Other investment – BE deposits	The estimation of banknote "over-circulation" is improved	The estimate of euro banknote inflows used to estimate the difference between the amount of euro banknotes actually put into circulation by the BE and the legal issuance of euro banknotes according to the banknote allocation key has been revised.
	2013	Portfolio investment – debt (outstanding amounts, transactions and income)	Sectoral reallocation of securities-issuing companies that are subsidiaries of non-financial corporations and improvement of the estimation of their income	These corporations have until now been included in the financial sector, on the basis of their activity, but they are going to be recorded along with their parent companies in the non-financial corporations sector, given their absence of decision-making autonomy. This does not affect the total of portfolio investment headings.
2019	2013	International investment position, financial account of the balance of payments and investment income	The delimitation of companies that are considered special purpose entities and other holding-type companies assigned to the financial sector has been updated	The classification of these companies has been improved thanks to the introduction in the protocol for delimitation of this group of more sources of information and the establishment by the IMF Committee on Balance of Payments Statistics (BOPCOM) of a clearer definition of special purpose entities.
2021	2017	Greater sectoral breakdown by instrument and by currency	More disaggregated information on the balance of payments and the international investment position by currencies, sectors and instruments begins to be published	In order to comply with the changes in the European information requirements on Foreign Statistics and the recommendations made by the Data gaps initiative-phase II, the breakdowns of the published information are expanded.
	2017	Foreign direct investment data by ultimate investing economy	The data on Foreign Investment in Spain begins to be compiled for the ultimate investing economy	For more information, see statistical note nº 15: "Foreign direct investment in Spain: which are the immediate and which are the ultimate investing countries?".