

PRESS RELEASE

Madrid, 15 October 2014

New Balance of Payments system: preliminary data for July and 2014 Q2, and revision of previous periods

The Banco de España is today publishing the July 2014 and the 2014 second quarter Balance of Payments data adhering for the first time to the IMF Balance of Payments Manual Sixth Edition (BPM6) and fully incorporating a new data sources system. The change is being made in a coordinated fashion, so as to set in train these Balance of Payment standards simultaneously at the European level, and consistently, too, with the entry into force of the European System of National and Regional Accounts (ESA 2010) for Spain's National Accounts and Financial Accounts.¹ The time series have been revised to avoid methodological breaks as far as possible. Today the series relating to the latest period, since 2010, are being published; the update for the preceding periods will be completed before year-end.

Monthly and quarterly data

In the new system a considerable portion of the data sources will be quarterly (and annual in some cases), and in the monthly sources, the period for full data becoming available may be somewhat longer, as stated in the press release dated 29 September, published simultaneously with the new statistical table templates. This lack of monthly data chiefly affects certain current and capital account headings that will henceforth feature fewer details for monthly data. When the data for the first month of each quarter are published, more detailed figures will be provided on the previous quarter, which will involve a possibly more extensive revision than was habitually the case. This is why the press releases for the related months – as is the case for the month of July – will include a heading and a table with the previous quarter's data.

¹ A note on the Banco de España website (http://www.bde.es/webbde/en/estadis/bpagos/ChangesBPandIIP_june2014.pdf) explains in greater detail the main changes in the Balance of Payments statistics that will arise from the implementation of the new methodological manual and the new data sources.

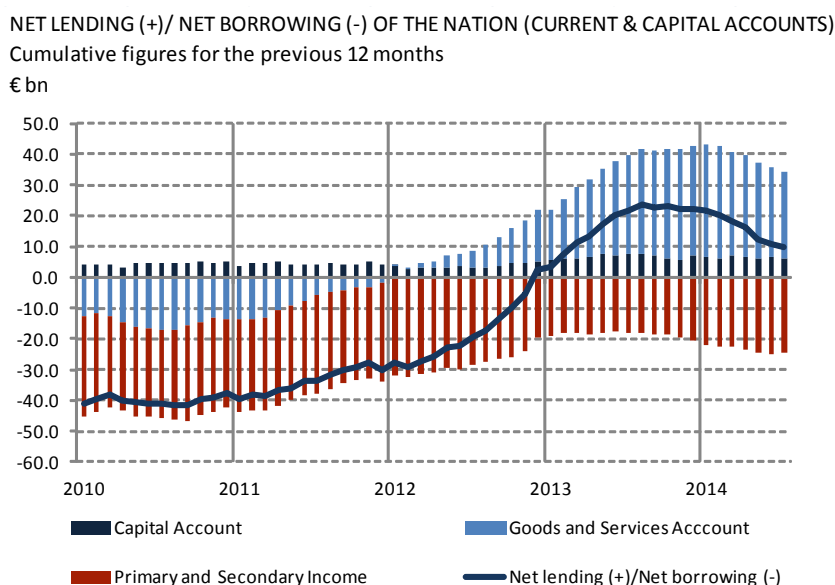
Revision of the 2013 data

The new methodology and the new data sources mean that the external balance has been revised upwards in 2013, owing especially to the improvement in the services balance. The debit balance of the international investment position, meanwhile, has been revised downwards, as has external debt. The annex to this press release summarises the main changes and their impact.

Preliminary data for July 2014

The current account surplus in July 2014 stood at €1.4 billion (bn), compared with €2.2 bn in the same month in 2013. This development was due to the lower goods and services surplus. The estimates reflect an increase of imports of goods and services higher than the increase of exports (12.6% and 6.5% respectively). On the other hand, the travel surplus decreased moderately. Further to the July 2014 figure, the cumulative deficit on the current account balance in the first seven months of the year stood at €5.9 bn, compared with a surplus of €5.7 bn in the same period in 2013.

The balance on capital account showed a surplus of €0.1 bn in July, against €0.4 bn in July 2013. As a result, the aggregate balance on the current and capital accounts was positive (€1.5 bn), but down on the same month a year earlier (€2.7 bn). Over the first seven months of the year, the Spanish economy posted net borrowing totalling €2.6 bn, compared with net lending of €9.7 bn in the same period in 2013.



Net outflows on the financial account, excluding the Banco de España, in July came about mainly due to portfolio investment (€12.2 bn), essentially as a result of reductions in liabilities (desinvestments of non-residents in securities issued by residents). Conversely, both direct investment and other investment posted net inflows in July owing to the increase in liabilities. Including the July figures, over the first seven months of 2014 there was an estimated net capital outflow of €15.1 bn. The net external position of the Banco de España evidenced net capital inflows in July 2014 of €7.7 bn (€5.3 bn in the year to end-July).

The Balance of Payments in 2014 Q2

Along with the preliminary July figures, more detailed figures for 2014 Q2 have been published. These figures indicate that the Spanish economy posted a net balance on current account that was practically zero compared with the positive balance of €6.6 bn in 2013 Q2, owing mainly to the increase in the goods deficit. To a lesser extent, the widening of the primary income deficit also contributed to the disappearance of the positive balance on current account, essentially owing to the increase in the investment income deficit.

The goods balance posted a deficit of €4.6 bn in Q2, compared with €0.7 bn in the same period a year earlier. Behind this lie the increase in imports (4.6%) and the decline in exports (1.6%). On Customs figures, the widening of the goods deficit is attributable to the decline in the surplus on non-energy goods, since the energy deficit fell.

The services balance posted a surplus of €11.9 bn in 2014 Q2, slightly down on a year earlier (€12.5 bn). These small changes were also reproduced in the attendant components. Hence the travel surplus widened by €0.2 bn to €9.1 bn, and the positive balance on other services narrowed by €0.8 bn to €2.8 bn compared with the same period a year earlier. Under both headings the increase in payments was sharper than that in receipts.

The balance on primary and secondary income posted a deficit of €7.5 bn in 2014 Q2, up on the related period in 2013 (€5.2 bn). This fall came about essentially due to the widening of the investment income deficit.

A surplus of €1.8 bn was recorded on the capital account balance in 2014 Q2, down on that for the same period in 2013 (€2.4 bn).

The aggregate balance on the current and capital accounts, which approximates net lending/borrowing arising from the Spanish economy's non-financial transactions, was positive in 2014 Q2 (€1.5 bn), although it was below the figure for the same period in 2013 (€9.0 bn).

Net financial account outflows arising in 2014 Q2, excluding the Banco de España, came about chiefly as a result of transactions involving other investment (€24.6 bn), which offset net capital inflows in the form of direct investment (€0.4 bn) and, above all, portfolio investment (€24.3 bn). Under other investment, the capital outflow was the outcome essentially of the increase in assets, while under direct and portfolio investment the inflows were the result of a sharper increase in liabilities than in assets. Lastly, financial derivatives gave rise to a net capital inflow of €0.6 bn in 2014 Q2.

The net external position of the Banco de España generated net capital outflows in 2014 Q2 totalling €15.3 bn, basically as a result of changes in the net position vis-à-vis the Eurosystem.

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BALANCE OF PAYMENTS

	JULY						€ bn
	2013			2014			
	Receipts	Payments	Balance	Receipts	Payments	Balance	
Current Account	33.5	31.3	2.2	35.0	33.6	1.4	
Goods and Services	29.7	24.2	5.4	31.6	27.3	4.3	
Of which: Travel	5.9	1.3	4.6	6.0	1.4	4.5	
Primary and Secondary Income	3.8	7.0	-3.2	3.3	6.3	-2.9	
Capital Account	0.5	0.1	0.4	0.1	0.0	0.1	
CURRENT AND CAPITAL ACCOUNTS	34.0	31.4	2.7	35.1	33.6	1.5	
Memorandum Items:							
Customs Statistics	19.9	20.6	-0.8	21.6	23.4	-1.8	
EU flows (1)	0.4	1.0	-0.6	0.1	0.7	-0.7	
	Net change in	Net change in	Balance	Net change in	Net change in	Balance	
	assets (NCA)	liabilities (NCL)	(NCA-NCL)	assets (NCA)	liabilities (NCL)	(NCA-NCL)	
FINANCIAL ACCOUNT (2)	-	-	0.5	-	-	-6.3	
Excluding Banco de España	-	-	0.8	-	-	1.3	
Direct Investment	-3.0	-1.0	-2.0	-0.6	6.5	-7.2	
Portfolio Investment	-4.6	0.3	-4.9	1.8	-10.4	12.2	
Other Investment (3)	-32.8	-40.3	7.5	-2.4	1.5	-3.9	
Financial Derivatives	-	-	0.2	-	-	0.2	
Banco de España	-	-	-0.3	-	-	-7.7	
Reserves	-	-	-0.1	-	-	0.0	
Net position of BE vis-à-vis the Eurosystem	-	-	1.2	-	-	-7.0	
Other	-	-	-1.4	-	-	-0.7	
ERRORS AND OMISSIONS	-	-	-2.2	-	-	-7.8	

Source: Banco de España

(1) Flows to (from) Spain from (to) the European Union included in primary income (taxes on production and imports, and subsidies), in secondary income and in the capital account.

(2) In the total financial account and in all its individual items, a positive (negative) sign denotes an increase (decrease) in net claims on the rest of the world, i.e. an outflow (inflow) of financing.

(3) Including mainly loans, repos and deposits.

BALANCE OF PAYMENTS

	CUMULATIVE JANUARY-JULY						€ bn
	2013			2014			
	Receipts	Payments	Balance	Receipts	Payments	Balance	
Current Account	221.0	215.4	5.7	221.2	227.1	-5.9	
Goods and Services	191.7	169.3	22.4	195.7	181.1	14.6	
Of which: Travel	25.7	6.4	19.4	26.7	6.9	19.7	
Primary and Secondary Income	29.3	46.0	-16.7	25.5	46.0	-20.5	
Capital Account	5.0	1.0	4.0	3.6	0.3	3.3	
CURRENT AND CAPITAL ACCOUNTS	226.1	216.4	9.7	224.8	227.3	-2.6	
Memorandum Items:							
Customs Statistics	138.6	145.2	-6.6	140.9	154.6	-13.7	
EU flows (1)	5.5	8.5	-3.0	4.5	8.4	-3.8	
	Net change in assets (NCA)	Net change in liabilities (NCL)	Balance (NCA-NCL)	Net change in assets (NCA)	Net change in liabilities (NCL)	Balance (NCA-NCL)	
FINANCIAL ACCOUNT (2)	-	-	11.6	-	-	9.8	
Excluding Banco de España	-	-	-38.5	-	-	15.1	
Direct Investment	8.4	17.4	-9.1	17.2	21.7	-4.4	
Portfolio Investment	-8.1	-15.8	7.7	26.8	21.4	5.4	
Other Investment (3)	-51.7	-15.5	-36.2	17.1	2.3	14.8	
Financial Derivatives	-	-	-0.9	-	-	-0.7	
Banco de España	-	-	50.1	-	-	-5.3	
Reserves	-	-	0.3	-	-	0.1	
Net position of BE vis-à-vis the Eurosystem	-	-	55.9	-	-	-2.8	
Other	-	-	-6.2	-	-	-2.7	
ERRORS AND OMISSIONS	-	-	1.9	-	-	12.4	

Source: Banco de España

(1) Flows to (from) Spain from (to) the European Union included in primary income (taxes on production and imports, and subsidies), in secondary income and in the capital account.

(2) In the total financial account and in all its individual items, a positive (negative) sign denotes an increase (decrease) in net claims on the rest of the world, i.e. an outflow (inflow) of financing.

(3) Including mainly loans, repos and deposits.

BALANCE OF PAYMENTS

	SECOND QUARTER						€ bn
	2013			2014			
	Receipts	Payments	Balance	Receipts	Payments	Balance	
Current Account	100.0	93.4	6.6	97.1	97.3	-0.2	
Goods	62.0	62.7	-0.7	61.1	65.7	-4.6	
Services	24.4	11.9	12.5	24.7	12.7	11.9	
Travel	11.5	2.6	8.9	12.0	2.9	9.1	
Other	12.9	9.3	3.6	12.6	9.8	2.8	
Primary Income	10.5	12.7	-2.3	8.2	12.9	-4.7	
Secondary Income	3.1	6.0	-2.9	3.1	6.0	-2.8	
Capital Account	2.6	0.2	2.4	1.8	0.0	1.8	
CURRENT AND CAPITAL ACCOUNTS	102.6	93.6	9.0	98.9	97.4	1.5	
	Net change in assets (NCA)	Net change in liabilities (NCL)	Balance (NCA-NCL)	Net change in assets (NCA)	Net change in liabilities (NCL)	Balance (NCA-NCL)	
FINANCIAL ACCOUNT (1)	-	-	12.3	-	-	14.6	
Excluding Banco de España	-	-	0.6	-	-	-0.7	
Direct Investment	4.0	7.5	-3.5	6.2	6.6	-0.4	
Portfolio Investment	-4.3	-15.2	11.0	5.3	29.6	-24.3	
Other Investment (3)	-14.3	-8.5	-5.8	21.7	-2.9	24.6	
Financial Derivatives	-	-	-1.1	-	-	-0.6	
Banco de España	-	-	11.8	-	-	15.3	
Reserves	-	-	-0.4	-	-	0.1	
Net position of BE vi-à-vis the Eurosystem	-	-	14.3	-	-	17.6	
Other	-	-	-2.2	-	-	-2.4	
ERRORS AND OMISSIONS	-	-	3.4	-	-	13.0	

Source: Banco de España

(1) In the total financial account and in all its individual items, a positive (negative) sign denotes an increase (decrease) in net claims on the rest of the world, i.e. an outflow (inflow) of financing.

(2) Including mainly loans, repos and deposits.

Annex. Impact of the methodological changes and the new data sources

In 2014 the European Union Member States are implementing the Sixth Edition of the International Monetary Fund's Balance of Payments Manual (BPM6), in tandem with the entry into force of the new National and Regional Accounts Manual (ESA 2010). These standards are compulsory for European Union Member States (pursuant to the Regulation of the Council and of the Parliament, updated by a Regulation of the European Commission)¹ and for euro area countries (pursuant to the Guideline of the European Central Bank on reporting requirements in the field of external statistics)².

In the case of Spain, the adoption of BPM6 coincides with the implementation in full of a new system of data sources for the Balance of Payments. The development of the Single Euro Payments Area (SEPA) signifies the end of the traditional system which was largely based on banks reporting cross-border transactions classified according to statistical codes.

The methodological changes are limited, as they do not alter the basic structure of either the balance of payments or the international investment position. Rather, the changes are an adaptation: firstly, they take into account advances in the world economy in terms of technological developments and globalisation, and their impact on international economic relations; secondly, they seek to achieve even greater harmonisation of the terminology and classification of items, financial instruments and sectors with that of other closely linked macroeconomic statistics, especially the National Accounts; and thirdly, in the financial realm, they attribute greater importance to the international investment position (IIP).

In general, what are involved are changes in the classification of items, in names and in the way the data are presented. For example: a) the reclassification between goods and services, excluding the figures for goods imported/exported for (or after) processing or repair, in which case henceforth only the amount of the service provided is recorded; b) the different grouping of income and current transfers, which will henceforth belong to the new categories *primary income* (which includes labour income, investment income and some flows previously classed as current transfers) and *secondary income* (which essentially comprises current transfers); and c) the change in the sign convention used in the financial account, with net figures now being expressed as a change in assets minus liabilities, in step with how the IIP is presented. Hence a positive sign in the net financial account now corresponds to net capital outflows.

As regards the data sources, the traditional system of reporting of cross-border receipts and payments has been replaced by data obtained through various channels, including in particular the International Trade in Services and Other International Transactions Survey of the Spanish National Statistics Institute (INE), the direct reporting of foreign transactions and positions to the Banco de España and the financial statements of credit institutions. In general, any items it has not been

¹ Commission Regulation (EU) No 555/2012 of 22 June 2012 amending Regulation (EC) No 184/2005 of the European Parliament and of the Council on Community statistics concerning balance of payments, international trade in services and foreign direct investment, as regards the update of data requirements and definitions

² Guideline of the European Central Bank of 30 July 2013 amending Guideline ECB/2011/23 on the statistical reporting requirements of the European Central Bank in the field of external statistics (ECB/2013/25)

possible to cover with these sources will be estimated by indirect methods, usually combining various statistical or administrative sources that are already available.

Naturally, as is normal practice in these cases, the changes have also been harnessed to incorporate improvements into statistical procedures which, in principle, were not affected by the above, some of which we comment on below.

For a more detailed explanation both of the methodological and the data source changes, please refer to the note published in June 2014 and which has now been updated on the statistics section of the Banco de España's website (<http://www.bde.es/webbde/es/estadis/bpagos/balpag.html>).

Main effects of the changes

As a consequence of these changes, the external balance has been revised upwards in 2013, while the net debit balance of the international investment position has been revised down. In more detail, the **net lending** of the Spanish economy in the past year (see Table 1) has been revised up by €6.2 bn (€7.1 bn in the case of the current account). The improvement is essentially due to the services balance, owing to the incorporation of the data from the INE's International Trade in Services and Other International Transactions Survey. The change in the data source entails a significant decline in non-travel services receipts and, especially, payments.

Turning to the other components, the deficit on **goods** rises by €1.0 bn, with a decrease both in receipts and payments, largely due to the exclusion of imports and exports of goods for (or after) processing or repair. The **travel** surplus increases by €1.5 bn, owing fundamentally to the inclusion of estimates of rentals imputed to nonresident owners of property in Spain when temporarily occupied.

Regarding **primary income**, which broadly speaking is equivalent to the "income" heading in BPM5:

- **Labour income** shows a more positive balance, as receipts increase and payments decline. The procedure used to estimate this heading has been overhauled, incorporating indirect estimates that combine population data with average compensation data.
- The **investment income** deficit is lower for several reasons, such as the change in treatment to income credits from portfolio investment which, on one hand, is now estimated, in the case of debt securities, security by security on an accrual basis according to the debtor principle and, on the other, includes reinvested earnings of investment funds.
- **Other primary income** (taxes on production and imports, and subsidies) is included, encompassing certain flows with the EU that were previously included in current transfers.

Secondary income, which is similar to the concept of current transfers in BPM5, shows a higher deficit in view of the lower receipts. As indicated, the reclassification in BPM6 of certain EU funds from current transfers (now included in secondary income) to primary income is largely responsible for these lower receipts.

The changes in the **capital account** relate to the changes in the data sources and to the new treatment given in BMP6 to flows of assets and liabilities due to changes in residence, which cease to be treated as transactions and are instead included in the IIP as other changes in volume. The surplus on the capital account decreases, owing to the larger reduction in receipts than in payments.

Errors and omissions have risen from €9.5 bn to €18.6 bn, reflecting either lack of receipts or excess of payments. This increase was largely foreseeable, as in the previous system much of the balance of payments was covered by the same data source, which was moreover a closed double-entry system of receipts and payments. The system involved a greater risk of flows of receipts and payments being artificially inflated, or incorrectly assigned, making data editing more difficult, but in exchange it ensured that double entries were matched. In contrast, the new system incorporates widely varying data sources, which means that a transaction entry under one heading and its counterpart entry under another will always come from a different source.

The methodological changes in financial aspects may also be seen in the **international investment position**. The net debit balance of the IIP is revised down by €30 bn in 2013, from €1,005 bn to €975 bn (92.9% of GDP) (see Table 2). The change in the methodology and the data sources used in the IIP trigger significant changes in various headings, but they generally balance out in the net total. Accordingly, the change in the total essentially reflects the traditional revision of direct investment made every year in September when the data for a new year (in this case, 2012) are incorporated from the Investment Register of the Ministry of Economic Affairs.

However, moving down to the level of individual headings, several revisions are observed, basically because some headings now include the data reported under the new system of direct reporting of foreign transactions and positions by agents to the Banco de España. This source provides data on stocks which have been included in the headings previously compiled by an accumulation-of-flows method.¹ In some cases the aforementioned direct-reporting source had to be supplemented by others, such as the BIS “Locational banking statistics by residence” database.² Also worth mentioning are some reclassifications of positions in debt instruments between direct investment and other investment. These reclassifications take place because the MBP6 includes more precise definitions of the conditions under which intra-group financing is deemed to be direct investment.

Liabilities-side revisions of debt instruments are reflected in external debt (Table 3). Thus, external debt decreased by €29 billion in 2013 due to the decline in loans received from abroad, partially offset by the recording in this statistic, for the first time,³ of debit balances of inter-company accounts and of trade credit received.

¹ The difference between the IIP figures for a given period and for the previous one should be equal to transactions which have taken place in that period plus revaluations (due to changes in prices or exchange rates) plus other changes in volume (e.g. unilateral repayments of debt).

² The national central banks of the countries that send data to the BIS to compile this statistic provide, among other things, data on deposits raised reported by deposit-taking institutions in their country, broken down by sector and by country of the counterpart resident in other countries. Accordingly, they can be taken as a guide to the level of Spanish assets.

³ The previous system did not include an account-by-account treatment to distinguish asset-side accounts from liability-side accounts; rather, they were allocated in aggregate to the assets side in view of the credit sign of the total balance and were therefore not included in external debt.

TABLE 1. CURRENT AND CAPITAL ACCOUNTS
Balance for 2013 and average for 2010 to 2012

€ bn	New balance		Size of revision (1)	
	2010-2012 average	2013	2010-2012 average	2013
Net lending/net borrowing	-21.7	22.0	4.9	6.2
Current account	-26.5	15.1	6.3	7.1
Goods and services	0.2	35.7	6.4	6.5
Goods	-40.2	-12.6	-0.4	-1.0
Services	40.4	48.3	6.8	7.5
Travel	31.3	34.8	1.4	1.5
Other services	9.1	13.6	5.3	6.0
Primary income	-14.1	-7.6	6.6	7.7
Labour income	1.0	2.0	1.1	1.9
Investment income	-19.8	-13.8	0.9	1.5
Other primary income	4.6	4.2	4.6	4.2
Secondary income	-12.6	-13.1	-6.7	-7.1
Capital account	4.7	6.9	-1.4	-1.0

(1) Difference between the net of the new balance of payments and the old one. A positive sign denotes an improvement in the relevant net, i.e. a higher surplus or a smaller deficit.

TABLE 2. INTERNATIONAL INVESTMENT POSITION (IIP)**Results for December 2012 and 2013**

€ bn	New balance		Size of revision ⁽¹⁾	
	2012	2013	2012	2013
IIP (Assets - Liabilities) (2)	-943	-975	7	30
Direct investment	-22	-62	-16	-9
Portfolio investment	-462	-554	10	22
Derivatives	3	3	1	0
Other investment	-506	-395	12	17
Reserves	38	34	0	0
Assets	1.436	1.343	16	31
Direct investment	521	512	38	46
Portfolio investment	329	343	10	16
Derivatives	149	98	0	0
Other investment	393	355	-32	-32
Reserves	38	34	0	0
Liabilities	2.379	2.318	10	2
Direct investment	543	575	54	55
Portfolio investment	791	898	0	-5
Derivatives	146	96	0	0
Other investment	899	750	-44	-49
Reserves	0	0	0	0

(1) The size of the revision is given by the difference between the stocks per the new IIP and the previous ones.

(2) A positive (negative) sign of the revision denotes a decrease (increase) in the net debtor position.

TABLE 3. EXTERNAL DEBT**Results for December 2012 and 2013**

€ bn	New balance		Size of revision ⁽¹⁾	
	2012	2013	2012	2013
External debt	1,710	1,605	-19	-29
Short term	601	493	-7	-17
Long term	910	912	-37	-38
Direct investment	199	200	25	26

(1) Difference between the new stocks of debt and the previous ones.