THE BALANCE OF PAYMENTS AND THE INTERNATIONAL INVESTMENT POSITION: METHODOLOGICAL NOTE
This chapter presents the methodology for preparing Spain’s Balance of Payments (BP) and International Investment Position (IIP), which follows the principles laid down in the International Monetary Fund’s (IMF) 5th edition of the Balance of Payments Manual (BPM5). The BP and IIP are strictly consistent in terms of concepts, classifications and valuation criteria. For this reason, in this methodological note, the definitions, information sources and calculation procedures affecting financial assets and liabilities refer to 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 BP transactions. The sections on the various components of the financial account of the BP and IIP also include a detailed explanation of investment income.

The conceptual scope of the BP and the IIP is very similar to that used to compile the Financial Accounts of the Spanish Economy which is published by the Banco de España in an annual monograph with this title. This other set of statistics is compiled following the methodology established by the 1995 version of the European System of Accounts (ESA 95), a European adaptation of the System of National Accounts (SNA 93). The IMF, when compiling the 5th edition of its Balance of Payments Manual, made further headway towards homogeneity, to the point that the BP and IIP statistics compiled under the 5th edition, unlike those compiled under previous editions, are consistent with the 4th revision of SNA 93 and, consequently, with ESA 95. However, the different data compilation and cut-off dates explain the discrepancies that may exist at any given moment between these two sets of statistics.

It should be pointed out that during 2008 the IMF completed its revision of the Balance of Payments Manual and the BPM6, which will replace the BPM5, already exists. The main changes introduced have been described in previous editions of this publication and are consistent with the revisions made in SNA 93. The new manuals will be implemented in the European Union in coordination in 2014.

This chapter is organised as follows. Following this introduction, Section 4.2 includes the conceptual framework, describing the main criteria of residence, the time of recording and the valuation of transactions and stocks. Section 4.3 includes the classification by heading and institutional sector and a specific sub-section is devoted to the separate presentation of the Banco de España’s financial assets and liabilities. Section 4.4 explains the concepts, information sources and calculation procedures used for compiling each BP and IIP heading. Section 4.5 summarises the structure and content of the tables in Chapters 5 and 6. Finally, at the end of the chapter is the table which details the main methodological and presentational changes introduced in the BP and in the IIP since the 2000 edition.

The BP and IIP data in Chapters 5 and 6 of this report are consistent with those in Chapter 17 of the March 2011 edition of the Banco de España’s Boletín Estadístico. The related time series are available since 1990 in the case of the BP, and since 1992 in the case of the IIP, on the Banco de España website (http://www.bde.es).

4.2 Conceptual framework

The BP 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 BP records the...
transactions which take place between residents and non-residents for a set period of time. These transactions cover those related to the real sector of the economy, i.e. the production and marketing of goods and services, those related to distribution (income and transfers) and those of a financial nature. The IIP shows the value, 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 BP. Both sets of statistics are part of the National Accounts framework. In this way, the transactions of the BP specify the contribution of an economy’s external sector to aggregates such as value added, disposable income and the net lending/borrowing requirement. For its part, the net IIP, namely, holdings of financial assets less holdings of financial liabilities plus an economy’s holdings of non-financial assets, provides information of the net value or wealth of that economy.

The Spanish BP and IIP are compiled under the guidelines of the 5th edition of the IMF Balance of Payments Manual. This Manual’s concepts and definitions are consistent with those included in the System of National Accounts and in the European version of the latter, namely the European System of Accounts, which are the reference manuals for compiling official economic statistics. In recent years, in order to adapt this theoretical framework to the processes of economic integration and financial innovation that have taken place, the methodological manuals mentioned have been revised. Although the 6th edition of the Balance of Payments Manual, whose new title is Balance of Payments and International Investment Position Manual, was published in December 2008, the general application of the latest edition’s changes to Spain’s BP and IIP data is not planned to take place until 2014. This date has been agreed within the framework of the European Union in order to have sufficient time to adapt the information systems currently in place, and to guarantee the methodological consistency of the statistics compiled in countries in the European Union and in the euro area.

This section does not go into a detailed description of what the Manual calls the “conceptual framework”, as it is sufficiently detailed to act as a direct reference. This is why areas posing no special problems are only briefly summarised in this report. However, the basic criteria and conventions allowing the systematic and consistent recording of international accounts call for somewhat more detailed treatment.

4.2.1 RESIDENCE

The IMF considers an institutional unit to be a resident unit in a country when its centre of economic interest is located in the economic territory of that country. At the same time, an institutional unit is deemed to have a centre of economic interest and to be resident in a country when from some location (a dwelling, a production plant, or other premises) in the economic territory of the country, this institutional unit engages and intends to continue engaging (either indefinitely or over a finite 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 concept of residence is important because the scope and contents of the BP and IIP headings depend fundamentally on it. For this reason, the Manual devotes a whole chapter to explaining the above-mentioned definition and gives specific guidance on how to

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1 For a detailed explanation of this process and the changes involved in the IMF’s Balance of Payments Manual, see Box 5.1, The Spanish Balance of Payments and International Investment Position 2006.

2 The economic territory may not coincide with recognised political borders. It consists of the geographic territory administered by a government in which people, goods and capital circulate freely. It also includes islands which are subject to the same fiscal and monetary authorities as the continental territory.
identify residence for households and individuals, corporations, non-profit institutions, governments and regional central banks.

The particular impact of the increasing mobility of the factors of production on how the concept of residence is applied is worth mentioning. Cases in point are, for example, the boom in migration in recent years and the penetration of foreign markets through the creation of subsidiaries or branches. All this has led to the need to adapt the production of statistics to the new environment and, specifically, to the development of supplementary statistics such as the FAS (Foreign Affiliates Statistics) which measure the activity of subsidiaries set up outside the parent company’s country as an alternative to the export of goods or the cross-border provision of services.3

Transactions should be recorded in the BP at their accrued value. According to IMF terminology, this means that transactions should be recorded “at the time economic value is created, transformed, exchanged, transferred, or extinguished”.

Thus, the transactions recorded in the BP do not necessarily coincide with the settlement of the corresponding proceeds and payments. In fact, very often the transactions of the BP do not give rise to proceeds and payments, and in other cases they are recorded at a different time. But, in practice, the application of this principle to all transactions with non-residents proves difficult and costly, and many transactions are therefore recorded at the time when they are settled. It should be taken into account that, in many cases, the difference between applying one criterion rather than the other would be minimal. However, the accrual principle required is important and especially determines the sources of information and the calculation procedures used in the headings related to merchandise trade, investment income and transfers to/from the EU. For the goods trade, for example, the Manual recommends recording transactions at the time when the change of ownership takes place and, for services, at the time when the service is provided.

Market price is the basic criterion for valuing BP transactions and IIP stocks and is defined as the amount of money that a buyer pays (or is willing to pay) to acquire goods from a seller in an arm’s length transaction entered into for purely commercial reasons.

In the case of the BP, the 5th edition of the IMF Manual recommends that all transactions be valued at the market price in effect on the date of the transaction. The IMF is clear in this respect. For IIP stocks, the 5th edition of the IMF Manual requires that all external assets and liabilities be valued at the prevailing market price at any given time. However, in certain specific cases and for practical reasons, other criteria may be used. Thus, in the case of direct investment, the use of book value is envisaged, although it is pointed out that such valuation must be revised regularly in line with market value. In the case of loans and other items under the other investment heading, which are not easily transferable, the Manual recommends using nominal value as an alternative to market value. Furthermore, the IMF recommends using the national currency as a unit of account except in the case of countries with volatile currencies. For translation into the national currency, the Manual suggests, on a basis consistent with the above-mentioned recommended criteria for the timing of recording and for the valuation, the use of the market rates prevailing at the time of the transaction in the case of the BP, or on the data reference date in the case of the IIP.

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3 In Spain the FAS statistics are the responsibility of the INE. The initial results of the statistics on foreign corporations’ Spanish subsidiaries in the services sector have already been published on the INE and Eurostat websites and the statistics on Spanish corporations’ foreign subsidiaries are being compiled.
The valuation principle is essential for understanding the relationship between transactions and stocks or, in other words, the relationship between the BP and the IIP. The 5th edition of the Manual defines the IIP as the value of the stock of each financial asset and liability defined in the standard components of the BP. For each standard component of the financial account, the IIP should reflect the value of the stock of that type of asset or liability at specific points in time. The difference between the value of the IIP at two different points in time must be equal to: the flow recorded in the BP, which reflects the sum of the transactions in these assets or liabilities that actually took place in that period; plus the change in the value of the stock induced by swings in the exchange rate; plus the change caused by movements in the price of the related assets or liabilities; plus the change caused by variations in the volume of the financial assets or liabilities (for example, the unilateral cancellation of a loan). Therefore, all changes in the valuation (irrespective of their nature) of the foreign assets and liabilities which do not reflect transactions are excluded from the BP, but are reflected in the IIP.

The Spanish BP and IIP are compiled in euro. In most cases, transactions and stocks are declared in their original currency. Transactions have been translated into euro using the average exchange rate of the reporting period (ten days or monthly, as appropriate), and stocks have been translated into euro using the exchange rate prevailing at the end of the data reference period.

This section summarises the basic classification criteria in the presentation of the BP and IIP, without providing a detailed explanation of each heading which is included in Section 4.4.

The BP transactions are structured around three basic accounts: the current, capital and financial accounts. As mentioned above, 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 BP. The 5th edition of the Manual thus explicitly links an economy’s holdings of financial assets and liabilities and the transactions in the related financial instruments by establishing, for each of the headings that together form the financial account of the BP, the corresponding stock in the IIP.

The BP current account is divided into four basic sub-accounts: goods, services (including travel), income and current transfers. It is worth noting that labour income and investment income have their own accounts, separate from that of services. Furthermore, it should be underlined that the components of the financial account of the BP and of the IIP, and the income components of the current account are interrelated and should be consistent to make their analysis easier, to enable the BP and IIP to be linked effectively and to maintain compatibility with the National System of Accounts and with other macroeconomic statistical systems.

The capital account of the BP includes capital transfers and the disposal and acquisition of non-produced, non-financial assets. In the Spanish case, capital transfers are, by far, the most sizeable heading in this account.

The balance of the current account plus the capital account is what is called, in National Accounts terms, “an economy’s net lending or borrowing”.

As for the classification by heading of the financial account of the BP and of the IIP, it is noteworthy firstly that, unlike the National Accounts, 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, 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 the direct investment heading; 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.

**International reserves** include liquid external assets denominated in foreign currency which are controlled by the monetary authorities. For euro area member countries, since January 1999 when the euro area was created, reserves only include assets vis-à-vis residents in non-euro area countries. Since January 2000, entries under this heading have followed the guidelines laid down by the IMF in the document *Data Template on International Reserves and Foreign Currency Liquidity, Operational Guidelines*, October 1999. This category includes: monetary gold, special drawing rights, the reserve position in the IMF, assets in foreign currency (cash, deposits and securities) and other assets (including financial derivatives).

**Direct investment** includes investments that reflect the investor's objective of obtaining a lasting return from the investee enterprise, achieving a significant degree of influence in its management. For practical purposes, the 5th edition of the *Manual* defines the owner of 10% or more of the capital of a direct investment enterprise as a direct investor. The figure of 10% can be reached through direct or indirect holdings in other enterprises. In addition to direct investor-direct investment enterprise relationships (vertical relationships), direct investments also include those relationships that might exist between direct investment enterprises in which the same direct investor has an ownership interest (horizontal relationships) irrespective of the percentage holding that may exist between them. Once a direct investment relationship has been established, all the transactions and balances of assets and liabilities between companies in the same group, irrespective of their nature (the only exception being financial derivatives) must be included in this functional category. Shareholdings, funding to branches, reinvested earnings and any other type of financing in the form of debt instruments are included. Lastly, investment in real estate is also recorded under this heading.

**Portfolio investment** records investment in the form of negotiable securities, with the exception of shareholdings that fall within the definition of direct investment. Financial derivatives are not included, even if they are negotiable. This investment category is divided into three main components: shares and mutual funds, bonds and notes, and money market instruments.

**Financial derivatives** cover all instruments of this nature, except for those that meet the conditions for classification under international reserves, irrespective of whether they are traded or not on organised markets, and irrespective of what the underlying asset is.

**Other investment** includes investment that does not fulfil the conditions for classification under any of the above-mentioned categories; essentially trade-related and financial loans, with separate short- and long-term categories, and deposits including foreign currency. It is worth mentioning that, for accounting purposes, the 5th edition of the *Manual* considers transactions involving securities with repurchase agreements (repos) as similar to secured loans or deposits because the determinants of the demand for this type of asset in investors' portfolios are more similar to those of loans and deposits than to those of portfolio investment in listed securities.
Since the creation of the euro area, in order to facilitate the economic analysis of the international accounts in this new situation, it has been necessary to present the data for the financial account of the BP and for the IIP separating the Banco de España’s assets and liabilities for two fundamental reasons. Firstly, due to the greater importance of its portfolio investment which no longer constitutes reserves, since the counterparties to these investments are residents in euro area countries or the investment is denominated in euro and, secondly, because the Banco de España’s transactions and positions vis-à-vis the Eurosystem are the counterpart of all the cross-border transactions settled through TARGET,4 the vast majority of which ultimately 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 BP and the IIP are structured so that the transactions and stocks of the Banco de España are treated separately.

The financial account of the BP and the IIP of the Banco de España include the changes in and balances of reserves, the Banco de España’s accounts with the Eurosystem, and the other foreign assets and liabilities of this institution.

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

1 Monetary financial institutions sector
   1 Banco de España
   2 Other monetary financial institutions
      1 Credit institutions
         1 Banks
      2 Savings banks
      3 Credit co-operative banks
      4 Specialised credit institutions
      5 Instituto de Crédito Oficial
      2 Money market funds (MMFs = FIAMM)
      3 Electronic money institutions

2 General government sector
   1 Central government
      1 State
      2 Central government agencies – including autonomous administrative agencies (except social security units), universities and corporations considered to be government
      2 Regional (autonomous) governments
      3 Local government
      4 Social security funds
         1 Social Security System
         2 Other social security funds

3 Other resident sectors
   1 Non-monetary financial corporations (excluding insurance corporations and pension funds)
      1 Other financial intermediaries (excluding insurance corporations and pension funds)

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4 Trans-European Automated Real-time Gross Settlement Express Transfer System.
1 Collective investment institutions (except money market funds)
   a) Investment companies
   b) Capital-market mutual funds
2 Real estate investment institutions
   a) Real estate investment companies
   b) Real estate mutual funds
3 Securities dealer companies
4 Financial vehicle corporations
5 Venture capital funds and companies
6 Financial holding corporations
7 Issuers of preference shares and other negotiable securities

2 Financial auxiliaries
1 Deposit guarantee funds
2 Portfolio management companies and the management companies of other financial institutions and insurance corporations
3 Official market governing bodies
4 Securities agencies
5 Rating agencies
6 Appraisal companies
7 Mortgage market regulation funds
8 Guarantee companies
9 Comisión Liquidadora de Entidades Aseguradoras (until absorbed by Consorcio de Compensación de Seguros)
10 Currency-exchange bureaux
11 Securities clearing and settlement companies
12 Holding corporations performing activities of financial auxiliaries
13 Payment institutions

2 Insurance corporations and pension funds
1 Private insurance corporations
2 Non-profit insurance entities
3 Consorcio de Compensación de Seguros
4 Pension funds

3 Public and private non-financial corporations

4 Households and non-profit institutions (NPIs serving households)

Transactions 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 monetary financial institutions (MFIs) sector. By contrast, if a foreign bank purchases Spanish Treasury bills, the transaction is recorded as a foreign portfolio investment (changes in liabilities) in the general government sector. 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 linking residents’ Tax Identification Numbers to their institutional sector. This database includes data from numerous sources, such as the official registers of the Banco de España, the Directorate General of Insurance and Pension Funds, the CNMV, etc.

\(^5\) In the case of financial liabilities, the transactions and stocks are allocated to the sector of the resident which incurs said 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.
The signs with which items are posted in the BP require an accounting convention. Transactions are recorded in the current and capital accounts as receipts or as payments from the resident’s standpoint, with the result that, for example, a merchandise export is a receipt and an import is a payment. 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. Lastly, 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. However, each table in Chapter 5 details the accounting convention used.

The BP 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 in Chapter 5, it is recorded separately as a balancing item. If its sign is positive (negative), this indicates there is an understatement (overstatement), through errors or omissions, in the net balance (measured as receipts less payments) of the sum of the current and capital accounts, in relation to the net financial-account balance.

In the tables in Chapter 5, 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 structure of markets, 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 mobility produced by financial and technological innovation.

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

This section is organised by heading. Detailed under each one are the concepts, information sources and procedures used to calculate the heading concerned both in the case of the BP and that of the IIP. However, prior to the explanation by heading, it is necessary to discuss a set of information sources which, due to their particular nature, are widely used in the case of most of the headings. This set of sources is referred to by the abbreviation ITRS (International Transaction Reporting System). Some years ago this system covered virtually the entire BP and IIP, and has gradually become less important as other sources of information that are usually more specific to each heading have been exploited.
The ITRS covers every type of transaction between residents and non-residents, irrespective of their nature, according to various Banco de España circulars, on the basis of the procedure by which they are settled. Thus, this information source can be divided into three parts which are basically differentiated in accordance with how the transactions are settled, i.e. through a resident institution, through non-resident institutions or by offsetting between the parties without any receipt or payment.

a) Transactions settled through resident institutions

Under Circular 15/1992, in this case, the reporting obligation is applicable to deposit-taking institutions, comprising banks, savings banks, credit cooperatives and other financial institutions registered with the Banco de España or the CNMV (specialised credit institutions, money market funds and non-monetary financial corporations). These institutions must report transactions performed with non-residents, both on their own behalf and on behalf of their customers. For reporting purposes, transactions with customers are the responsibility of the resident party to the transaction, which has to provide the data to the institution for their presentation to the Banco de España. When the amount settled by an institution is the net amount of several transactions (on its own or its customers’ behalf), the institution has to include the details of the gross amounts in its declarations. The threshold below which it is not compulsory to report the details of transactions is EUR 50,000, having been raised in 2008.

b) Transactions settled through non-resident institutions

In accordance with the regulations in Banco de España Circular 3/2006, all residents who hold accounts abroad, either accounts at non-resident credit institutions or intercompany accounts with non-resident companies, must inform the Banco de España of the opening and closing of accounts of this nature and of the gross amounts of all transactions settled through them.

c) Transactions settled by offsetting, without any receipt or payment

Banco de España Circular 6/2000 establishes the obligation to report offsetting transactions undertaken by residents other than registered institutions. These transactions do not give rise to a settlement via credits or debits in a bank or inter-company account, or an exchange of cash, due to the fact they involve a receipt and a payment of the same amount with opposite signs. If credit institutions or other financial institutions registered with the Banco de España or the CNMV (National Securities Market Commission) are involved, these offsetting transactions are reported according to Circular 15/1992 together

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6 The basic rule including the declarations referred to below is Law 19/2003 on capital movements and cross-border economic transactions and on specific measures for the prevention of money laundering. Under this Law, foreign receipts and payments between residents and non-residents and certain transactions with financial assets and liabilities must be reported. The Law is implemented in the corresponding Royal Decree, Ministerial Order and Resolution, however, the Banco de España circulars, which will be referred to, specify the data collection procedures.

7 It should be pointed out that although no details are available for transactions below the EUR 50,000 threshold, there is information on their total amount. Various estimates are used to distribute these transactions by heading, basically in accordance with the distribution of the transactions for amounts immediately higher than them and the distribution observed below the threshold established in a period before it was raised.
with the transactions described in paragraph a). One special case of this type of transaction is merchandise trade financed through direct credit between sellers and their customers. Circular 6/2000 establishes the obligation to report this type of transaction which applies only when the maturity of the credit exceeds one year.

Detailed below are the concepts, information sources and calculation procedures used for each heading.

4.4.2 CURRENT ACCOUNT

4.4.2.1 Trade balance

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

For the trade balance, as is customary in most countries, the Spanish BP uses as its basic source of information the foreign trade statistics compiled by the Customs and Excise Department, albeit with the relevant adjustments. Interested readers may learn of the practical workings of the system from the resolutions issued annually which detail the applicable regulations. Moreover, the Banco de España’s Boletín Estadístico of April 1995 provided methodological notes on foreign trade statistics, with a summary of the data collection system in general and of the intra-Community trade system (Intrastat) in particular. In the information included in the tables in Chapter 5, the 2009 data are those revised by the Customs Department. The 2010 data are provisional.

Since customs statistics are used as the basic source of information for merchandise trade, the latter is generally recorded on an accrual basis, that is, when the actual transaction occurs. Nonetheless, in intra-Community trade, due to the lifting of customs borders, time lags can arise between the physical movement of goods and their statistical declaration and recording. This is especially so in the provisional monthly data, which are those used for closing the latest annual BP report, in this case the 2010 issue. The Customs Department, when it publishes the revised figures for the previous year, revises its monthly data on an accrual basis by assigning the transactions to the periods in which they actually occurred.

The recording of goods in the period in which they are physically moved also means that all goods trade is included, even that involving direct short-term financing between suppliers and their customers. Since, as later noted, the financial account does not reflect data for short-term trade credit, the counterpart of these transactions, not charged or paid for when recorded, appears under the errors and omissions heading. As a result, a portion of this heading is attributable to leads and lags in foreign trade, reflecting the time elapsing between the physical movement of goods at borders and the relevant receipt or payment of their amount.

The differences that users of the data will find between the foreign trade figures published by the Customs Department and those of the trade balance of the BP mostly arise from the accounting guidelines set out in the 5th edition of the IMF Manual. Thus, in order to calculate the trade balance figures the following adjustments and estimates are added to the foreign trade figures in coordination with the INE so as to ensure consistency between the rest of the world account in the National Accounts and in the BP. First, imports, which in the statistics published by the Customs Department are valued CIF (Cost, Insurance and Freight), are adjusted to their FOB (Free On Board) value for inclusion in the BP. This requires estimating the freight and insurance specifically associated with the imports recorded by Customs and Excise, which are services that may have been provided by residents
or non-residents and which must be deducted from the Customs and Excise CIF imports figures. Second, the estimates of intra-Community trade not included by the Intrastat system, either because the transactions are below the reporting threshold or because they have not been reported although they are subject to reporting requirements, are added to the Customs and Excise figures for imports and exports. These estimates are compiled on the basis of the information provided by the Customs and Excise Department.

Third, an adjustment to the Customs and Excise figures has been made to deduct the net amount of the arrivals and dispatches of goods leased out under operational leases using ITRS data. Fourth as for merchandise that crosses borders to be repaired, the net amounts of the repairs obtained from the ITRS are totalled in line with the IMF’s recommended recording method. Lastly, notable in this regard, is the inclusion in the BP of imports and exports of merchandise which do not cross borders and, therefore, are not included in the Customs and Excise trade statistics but which do involve a change of ownership; the ITRS was once again used as the source for the estimate.

This heading covers the goods and services purchased in an economy by non-resident travellers who, for business or personal reasons (including health and education), stay in the country for less than a year. Since 2005 travel receipts have been calculated using a factorial econometric model which includes information from the tourism expenditure survey (EGATUR) and supply and demand indicators (including passengers on international flights, prices and overnight stays) and other supplementary information (including that from the ITRS). Also, from the 2006 data onwards, the distribution by country of the receipts under this heading has been calculated from the EGATUR information.

The estimates for travel payments are based essentially on the information available regarding bank transfers and cards and transactions with foreign notes although supplementary sources are also used such as counterparty country data and, in the short term, the results of univariate analysis of the series. In recent years transactions settled with bank cards have gained weight in the estimate due to their growing importance. In order to study them, data provided by the Banco de España’s Payment Systems Department are used. The estimate also includes information about the breakdown by activity of e-commerce published by the Telecommunications Market Commission (Comisión del Mercado de Telecomunicaciones).

The ITRS is generally used as a source for this heading, supplemented for some types of services with additional sources which are specified below, where appropriate. Also, for some time information collected by the INE in the survey on International Trade in Services has been available and, although it is not currently included directly in the BP statistics, is used systematically for the cross-checking with the ITRS data.

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8 Merchandise that crosses borders temporarily for this purpose is included in the Customs and Excise statistics at its gross value, so that with this adjustment the net – not the gross – amounts are approximated to the requirements of the Balance of Payments Manual, which excludes operational leases from merchandise imports and exports, including them in services (see the “changes introduced” chapter in the 2004 report for further details on the adjustments introduced).

9 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 dependants are never considered tourists.

10 For a detailed explanation, see the chapter on changes introduced in the 2006 edition of this report.
a) Transportation

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

ITRS data are used for this heading, except for freight which is estimated on the basis of information provided by the INE and in co-ordination therewith, in order to ensure consistency between the rest of the world account in the National Accounts and in the BP, and that the methodological principles are applied in accordance with the manuals in force and in keeping with the above-mentioned CIF/FOB adjustment.

b) Communication services

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

c) Construction services

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

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

d) Insurance 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 ITRS provides information on premiums and claims collected and paid. Consequently, the National Accounts estimates on the value of the service in the strict sense are included in the BP. The remainder of the premium and claims, as recommended by the manuals, are included in current transfers, except in the case of life assurance which is included in the financial account. In the case of reinsurance, receipts reflect the net amount of the reinsurance policy purchased, and payments reflect that of the reinsurance policy provided.
In addition to freight insurance, this heading encompasses life assurance, contributions to pension funds, personal accident, health, traffic accidents, general liability, fire, property damage insurance, etc., and reinsurance. Not included are Social Security benefits and payments, which are posted in the balance of transfers. Also excluded is export credit insurance, which is recorded under the financial services heading.

e) Financial services

This covers the broad range of financial intermediary services. Though not an exhaustive list, this heading encompasses commissions and expenses relating to: foreign investment, such as the issuance, placement and redemption of securities and, in general, brokerage fees for direct and portfolio investment and the sale/purchase of real estate; commissions and expenses relating to the acquisition and placement of funds in deposits; bank drafts; cheques paid and certified; money changing; travellers' cheques; loans received and extended; financial leases; credit cards; swaps; options; futures operations; administrative services and asset management; treasury management; financial consultancy; factoring; letters of credit, underwriting and credit insurance, etc. Naturally, not included are the receipts and payments linked to the principal and to the returns generated by the above-mentioned transactions, which are recorded in the financial account and in the income account, respectively. An estimate is not made in the BP of the financial services which corporations collect implicitly through their interest rates or the prices of their products (financial intermediation services indirectly measured - FISIM) which are included in the National Accounts.

f) Computer and information services

This heading records receipts and payments relating to: hardware services, taken to mean the assessment and configuration of computer equipment, including maintenance and repairs; software services, such as the development and start-up of software, including the analysis, design, installation, documentation and maintenance of the system; news agency services, including the provision of news, feature articles, photographs, etc.; computerised data processing, including their recording, transfer to other equipment, etc.; and, in general, services relating to databases. This heading does not cover certain non-customised products, for example, general software supplies provided on physical media, which are recorded as goods.

g) Other business services

In addition to merchanting and operational leases, this heading includes, under the generic classification miscellaneous business, professional and technical services, a broad range of transactions of this type which do not fit into other categories. Like any heading defined by exclusion, it reflects a large number of diverse transactions whose quantitative significance is gauged in relation to other more precisely defined headings. Merely by way of example, it covers advertising and market research; research and development; legal, accounting, consulting, architectural, engineering, translation and interpretation, security and training services, etc. It also includes services rendered by
parent companies to their subsidiaries, branches and associates that are billed as part of the overheads of the parent company.

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

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

h) Personal, cultural and recreational services

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

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

i) Government services

Included here are the receipts and payments linked to the expenses of embassies, consulates, military units, etc. and expenditure relating to the provision by the Spanish government of services associated with health, education, administrative costs, tourism offices, educational institutions, etc. This heading also includes as government services receipts, 25% of the payments to the EU for “traditional own resources” on account of services for the collection of these funds. These flows with the EU are taken directly from data published by the Spanish Treasury.

j) Royalties and licence fees

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

4.4.2.4 Labour income

The compensation of short-term, border and seasonal employees is included here. Supplementing the information from the ITRS with National Accounts estimates provided by
the INE, the data under this heading include, from 1995 onwards, social contributions and direct taxes on compensation received/paid by/to resident/non-resident workers. That is to say, from 1995 the figures are recorded gross, as recommended by the 5th IMF Balance of Payments Manual, rather than net, as was done previously.  

Investment income is that obtained from a resident entity’s ownership of foreign financial assets and, similarly, that arising from financial liabilities issued by residents and acquired by non-residents. It includes direct investment income, portfolio investment income and other investment income. The most common types of investment income are derived from shares and other equity holdings (dividends) and debt (interest).

It was considered appropriate to mention only certain basic methodological aspects in this section and to leave the explanation of the specific issues of income associated with each of the components of the financial account in the BP and the IIP for section 4.4.4 where the latter are presented in detail.

As highlighted in the 5th edition of the IMF Manual and as with the trade balance, the time of recording, i.e. how the accrual principle is applied, is particularly important in recording investment income. Dividends, because they are distributed discretionally at any time, even during a period when net losses are recorded, should be recorded on the date when it is resolved to pay them. Interest income is recorded on an accrual basis. If the interest is not actually paid in the period in which it accrues, the corresponding income entry must be recorded under the appropriate instrument and a counterpart entry must be made in the financial account to reflect an increase in the claim associated with non-payment. This recording of income on an accrual basis thus signifies that interest accrued during the related period will in turn be recorded in the financial account as an increase in investment, where the interest accrued is higher than that paid. If the interest accrued in the period is less than that paid, the use of the accrual principle entails carrying the difference as a decrease in the investment. Similarly, the 5th edition of the IMF Manual states that: “Reinvested earnings of direct investment enterprises are recorded in the balance of payments in the periods in which the income is earned”. Therefore, direct investors’ shares of reinvested earnings are deemed to provide additional capital to the enterprises and to increase the value of the two economies’ stocks of foreign assets and liabilities. Consequently, when these reinvested earnings are recorded in the BP, direct investment income and direct investment capital entries shall be made.

Also, it should be pointed out that, according to the guidelines in the 5th edition of the Manual, all financial derivatives should be included as such in the financial account, even if the underlying instruments are interest rates or other types of income. Although the guidelines for reporting these transactions establish that derivatives in the strict sense should be reported separately from other financial transactions with which they are associated, this might not always be the case due to practical difficulties. As a result, interest rate swaps and forward rate agreements (FRAs), when associated with another transaction (a loan, for instance) may be treated as the income of said transaction, thus being implicitly included, in net terms, in the investment income of the category corresponding to the underlying instrument. When these instruments are traded separately, there is more certainty.

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11 For a more detailed explanation, see the chapter on changes introduced in the 2005 report.
12 The BPM5 states literally “as of the date payable”. A more detailed explanation of the various dates associated with dividends is included in the BPM6 and, in the case of listed shares, the date of recording is that as of which the shares go ex-dividend.
13 The treatment of losses would be symmetrical to that of earnings.
that they are treated, correctly, as financial derivatives, and are therefore not included in income. Several additional observations on the recording problems posed by derivatives transactions can be found in Section 4.4.4.4.

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

According to the 5th edition of the IMF Manual, “first, a transfer in kind is a capital transfer when it consists of: (i) the transfer of ownership of a fixed asset or (ii) the forgiveness of a liability by a creditor when no counterpart is received in return. Second, a transfer of cash is a capital transfer when it is linked to, or conditional on, the acquisition or disposal of a fixed asset (for example, an investment grant) by one or both parties to the transaction. A capital transfer should result in a commensurate change in the stocks of assets of one or both parties to the transaction. Capital transfers also may be distinguished by being large and infrequent, but capital transfers cannot be defined in terms of size or frequency. Current transfers consist of all transfers that are not transfers of capital. Current transfers directly affect the level of disposable income and should influence the consumption of goods or services. That is, current transfers reduce the income and consumption possibilities of the donor and increase the income and consumption possibilities of the recipient.”

In practice, the difference is not readily distinguished. In the tables in Chapter 5, current transfers of the private sector record: workers’ remittances; taxes; Social Security contributions and benefits; donations for the acquisition of consumer goods; salaries to personnel providing services abroad in aid programmes; alimony; inheritances; literary, artistic and scientific awards, among others; prizes from lotteries; dues paid to charitable, recreational, cultural, scientific and sports organisations, etc. Also included is that part of the current transactions of insurance companies, which is not recorded as service charges, in the case of insurance other than life assurance i.e. claims plus premiums less service charges. Likewise, the receipts from the EU via the European Agricultural Guarantee Fund (EAGF) are included as transfers to the private sector.

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

The ITRS is generally used as the source, except for workers’ remittance payments and for funds received from and paid to the EU. In the case of workers’ remittance payments, the data from administrative records and INE Surveys on population, wages and household expenditure are combined with the data of entities which perform transfers abroad and report directly to the Banco de España under Circular 6/2001. The latter data are also used for the geographical breakdown. The information provided directly by the FEGA (Spain’s State Agricultural Guarantee Fund) is used to record, in accordance with the accrual principle, the funds managed by the EU.

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14 See the changes-introduced section of the 2005 report for a description of the estimate procedure included that year for data from 2001.
The capital account includes capital transfers and the acquisition of non-produced, intangible assets.

### Capital transfers

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

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

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

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

In order to calculate the capital account, the ITRS information is supplemented with data published by the Treasury on transfers to and from the EU and with direct information from the CESCE.

### Direct investment and the related income

Direct investment transactions/stocks include all those arising from financial operations between enterprises in the same group, except for those in the form of financial derivatives. The methodological manuals provide very precise rules to identify the scope of the enterprises to be included and differentiate between three types of relationships within a group: a) direct investor-direct investment enterprise; b) direct investment enterprise-direct investor; and c) that between other affiliates. Each relationship is explained below.
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 holding is held is called the “direct investment enterprise”. For practical purposes, the Manual suggests the 10% rule for identifying direct investor-direct investment enterprise relationships, namely, a direct investor is considered the owner of 10% or more of an enterprise’s equity. 10% is considered sufficient evidence that a relationship of significant influence exists. Direct investment enterprises include the direct investor’s direct investees and its indirect investees owned through vertical chains of ownership. Direct investment enterprises may, in turn, own a holding in their direct investor. A direct investment enterprise’s holding in its direct investor may or may not be more than 10%. If it is more, two independent direct investment relationships exist since both investors reach the 10% required by the manuals. If a direct investment enterprise’s holding in its direct investor does not reach 10%, two independent direct investment relationships do not exist, but there is a holding of a direct investment enterprise in its direct investor. In addition to vertical relationships, the scope of enterprises in a direct investment relationship also includes 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 operations between these enterprises are recorded under the direct investment heading (except for financial derivatives).

Before describing the components of this heading, it is worth noting also that the direct investment transactions, balances and income are presented, unlike other BP and IIP headings, in accordance with what the IMF Manual calls “the directional principle”. This means that classification under the direct investment heading is based first on the “direction” of the investment which determines significant influence in the management of the investee; second, on the investment instrument involved (shares, loans, etc); and third, on whether these instruments are assets or liabilities, i.e. whether the resident transacting the operation is a creditor or debtor.

Briefly, this means that transactions and balances between a parent company resident in Spain and its subsidiaries or branches abroad would be recorded as follows: financing of any type extended by the resident parent company to its non-resident subsidiaries or branches would be included in Spanish investment abroad and the related income in receipts, as occurs in the case of the other transactions in the financial account. By contrast, financing of any type extended by non-resident subsidiaries or branches to their Spanish parent company are classified as a decrease in Spanish investment abroad (or a decrease in receipts in the case of income) rather than as a foreign investment in Spain, (or a payment of income) as would be the case in the absence of a direct investment relationship. This applies because it is the parent company which has significant influence in the management of its subsidiaries and branches, and not the other way round. Likewise, the financing extended by non-resident parent companies to their resident subsidiaries or branches would be recorded under foreign investment in Spain, and the related income under payments, and the financing extended by resident subsidiaries or branches to the non-resident parent company would be classified as a decrease in foreign investment in Spain, and the related income would be deducted from payments.

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

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

a) Shares and other equity

Shares covers the subscription, sale and purchase of shares and the purchase of subscription rights by direct investors. Although, in general, only holdings of 10% or more are included under this heading, in certain cases, as mentioned in the opening paragraphs of this section, holdings of less than 10% should also be recorded under the direct investment heading. This applies to the holdings of direct investment enterprises in their direct investors or to the holdings between other affiliates or fellow enterprises. In Spain, transactions involving holdings of less than 10% are generally recorded under the BP portfolio investment heading. In the stocks of the IIP for December 2007 and subsequent data, these holdings are included under the direct investment heading. However, the related amounts are not significant and the information system used permits the identification and reclassification of the associated transactions, if they are relevant.

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

The information from the ITRS is supplemented with that from the Foreign Investment Register of the Ministry of Industry, Tourism and Trade (RIE) to estimate BP transactions: first, to record foreign direct investment in Spain through listed shares; second, to capture offsetting transactions related to the restructuring of non-resident multinational groups performed through foreign-equity holding companies (ETVEs); and third, to estimate reinvested earnings.

In accordance with the Ministerial Order and Resolution implementing Royal Decree 664/1999, resident investors and investee companies report to the RIE the operations and balances related to holdings in listed or unlisted corporations, branches and other equity and investment in real estate.

With respect to IIP stocks, for December 2004 and subsequent data, the RIE data were used to estimate the stock of direct investment in the form of equity.

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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, a breakdown of the shareholders and the market price, if any, of the (resident or non-resident) investee companies and of the country where the companies engaging in, or subject to, direct investment operations are located, along with their sector of activity. Furthermore, based on the data referring to December 2007, the RIE covers direct investors’ holdings in direct investment enterprises (i.e. those of more than 10%) and direct investment enterprises’ reciprocal or cross-holdings in their direct investors (of less than 10%) and all holdings between other affiliates (also including those of less than 10%). With the RIE data, the balances under the heading shares and other direct holdings of other resident sectors are valued on a basis consistent with the recommendations of the IMF’s Balance of Payments Manual. Holdings in listed companies are valued at market price, whereas holdings in unlisted companies are valued taking into account the equity recorded on the liabilities side of 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 BP transactions adjusted for swings in the exchange rate are added to the latest stock available from the RIE data. The BP transactions are also used to estimate the quarterly data since the frequency of the RIE data is annual.

The data reported under Circular 2/2001, 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 4.4.4.2 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 press, from the CNMV on significant holdings, from the ITRS on transactions, from the Banco de España’s Central Balance Sheet Data Office and from the RIE).

In the case of the MFI sector, the positions in shares and other direct equity are also calculated as recommended by the methodological manuals on the basis of pure stock data. The information used is that provided by credit institutions to the Banco de España by virtue of Circular 4/2004. This Circular establishes the accounting rules to be applied by credit institutions and the formats for the financial statements they must periodically submit to the Banco de España. The Circular came into force in 2005 with the aim of adapting the accounting regime of Spanish credit institutions to the new accounting framework arising from the adoption by the European Union of the International Financial Reporting Standards (IFRSs).

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. For foreign investment in Spain, positions in listed corporations are valued on the basis of their stock market capitalisation or, the equivalent, which is on the basis of their market price, and positions in unlisted shares are valued on the basis of their own funds which are recorded on the liabilities side of the investees’ balance sheet.

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 BP 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.

With the exception of reinvested earnings, the information source used for direct investment income is the ITRS and, consequently, this income is generally recorded when paid. The particular features and information sources of reinvested earnings are described in more detail below.

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 capital 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. In the case of Spanish foreign direct investment, undistributed earnings (losses) give rise to an increase (decline) in such investment and to a receipt (negative receipt) of direct investment income. Likewise, such transactions are recorded in foreign direct investment in Spain and in the related income. The share of the direct investor (in proportion to its direct share in the share capital) in the earnings or losses that subsidiaries or associates have not distributed as dividends and the earnings of branches that have not been remitted to the direct investor are included. Reinvested earnings are a standard component of the BP, but they are not a standard component of the IIP. In the case of the IIP, the methods recommended for valuing the heading shares and other direct equity involve consideration of the reinvested earnings component of direct investment enterprises’ own funds and, therefore, they are not presented separately.

The BP includes an estimate of reinvested earnings based on reference data for 1995. Until the 2006 data, the procedure applied to Spanish direct investment abroad and foreign direct investment in Spain differed because of the varying availability of information sources. For the data for 2007 and subsequent years, due to the inclusion of information provided by the Foreign

16 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 6th edition of the Balance of Payments and International Investment Position Manual explicitly recognises fair value as a valuation method if no market value exists.
Investment Register (RIE),\(^{17}\) it has been possible to harmonise the procedure for the two sides of direct investment. This procedure is based, for Spanish investment abroad and foreign investment in Spain, on the calculation of ratios of reinvested earnings to stocks of shareholdings of the IIP. Accounting data of direct investment enterprises’ total results and distributed earnings obtained from the RIE and foreign receipts and payments reported as dividends obtained from the ITRS are taken into account in order to calculate these ratios.

The largest transactions involving distributed income are investigated so as, in line with methodological recommendations, only the distributed income arising from the enterprise’s regular business is recorded in the current account as income. Once the income that does not relate to regular business has been excluded, the ratios are calculated, taking into account the resident enterprise’s institutional sector; thus, different ratios are obtained for the other resident sectors and for the credit sector. Furthermore, the ratios for Spanish investments abroad are calculated separately for the main counterparty countries and areas. Lastly, due to the time when the full information is available from the RIE, the levels of total and distributed results are estimated for the last two years. In order to produce these estimates a sample of corporations is investigated using the available accounting information in the Banco de España’s Central Balance Sheet Data Office, the Mercantile Register and declarations which the RIE may have received. This information is supplemented with the study of certain macroeconomic indicators on corporations’ profitability.

c) Real estate

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

In order to estimate the stocks of real estate investments, a procedure of accumulation of flows, adjusted for changes in the exchange rate, is used. Although real estate investment is also reported to the RIE, the minimum compulsory reporting thresholds set by the Ministry for this type of investment are high enough to mean that the loss of relevant information is such as to make it advisable not to use it for estimating this component. For this reason, in the case of real estate investment, both BP transactions and IIP stocks are calculated on the basis of the information obtained from the ITRS.

The information source used to estimate the income arising from ownership of real estate is the ITRS.

d) Inter-company debt transactions

This heading includes, in general, loan transactions (and transactions involving 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 Balance of Payments Manual*, the debt between financial intermediaries is included under the other investment

\(^{17}\) A more detailed explanation of this source of information is given in section 4.4.4.1 on direct investment.
or portfolio investment headings, even though it refers to transactions between parent companies and their subsidiaries or between fellow enterprises.

Specifically, this heading covers the loans extended by parent companies to their subsidiaries and investee companies, as well as the repayable advances extended to branches or establishments, minus loans in the reverse direction, i.e. those extended by branches and subsidiaries to their own direct investors which, as explained above, are subtracted from the former. Also included are loans extended between companies of the same group, even though they are not direct loans from the parent companies to their subsidiaries or vice versa. In accordance with the guidelines of the 5th edition of the IMF Manual, the loans extended by resident subsidiaries of a non-resident company to other non-resident companies in the group, other than the parent company, are included in Spanish direct investment abroad, while the amounts received by resident subsidiaries of a non-resident company in the form of loans extended by other non-resident subsidiaries are included under foreign direct investment in Spain. In the income account entries are also recorded consistently in accordance with the “directional principle” so that for example, the interest paid by a non-resident parent company to a resident subsidiary, instead of being recorded as income, is deducted from the payments of direct investment income. For loans between subsidiaries in the same group, interest collected/paid by residents from/to non-residents for loans extended to/received from non-residents is recorded as receipts/payments.

In addition to financing in the form of loans between direct investors and their subsidiaries or branches, this heading encompasses the changes in the balances of inter-company accounts, i.e. accounts between subsidiaries and parents, or between companies in the same group, where mutual transactions - or transactions of the corporate group with third parties - are settled. These transactions give rise to changes in the balances of inter-company accounts, which constitute a credit extended to or received from the parent company, or from the group company in charge of treasury management. This credit should be included under foreign investment in Spain in the item for inter-company debt transactions if the resident enterprise is a resident subsidiary or branch of the non-resident parent company, and under Spanish investment abroad if the resident company is a direct investor.

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.

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

Data from the ITRS and the accounting-administrative information reported on external loans under Circular 6/2000 are used to estimate the operations of the financial account in the BP, the IIP stocks and income related to inter-company debt transactions. On the basis of these two sources of information, the Banco de España keeps a register of the foreign loans extended and/or received by resident sectors other than the credit system which
contains highly detailed information (term, currency, counterpart country, relationship between the lender and borrower, etc.) and the corresponding stocks.\textsuperscript{18} The detailed information of this register is fundamental for identifying the loans between fellow enterprises and for correctly classifying the transactions and positions in accordance with the directional principle required by the manuals.

Finally, it should be pointed out that in the area of direct investment, the classification in accordance with NACE, presented in Chapter 3 of this report, is also obtained from the Tax Identification Number, using a database that relates it to the sector of economic activity and which includes data from the Banco de España’s Central Balance Sheet Data Office and the INE’s Central Directory of Corporations (DIRCE), the Banco de España’s Register of Entities and information available on firms that report directly their transactions with the rest of the world.

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

Portfolio investment is divided into shares and mutual funds, bonds and notes, and money market instruments. The transactions are recorded at the effective amount paid or 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.

a) Shares and mutual funds

This heading includes the shares and subscription rights that do not constitute direct investment, as well as holdings in mutual funds. Preference shares which do not involve ownership are excluded and are included in bonds and notes.

Income, which should be recorded according to the accrual principle, includes dividends distributed by corporations that should not be included in direct investment; income distributed by mutual funds and the related reinvested earnings (i.e. the increases in value of holdings in mutual funds arising from the income obtained by the latter). In practice, however, in the Spanish BP, the reinvested earnings generated by holdings in mutual funds are not included as income.

b) Bonds and notes, and money market instruments

Transactions, stocks and income relating to debt securities are presented distinguishing between bonds and notes on the one hand (in general, securities issued with an initial maturity of more than one year) and money market instruments on the other (mostly securities issued with an initial maturity of one year or less, although 18-month Treasury bills are included). Securities issued with a maturity of more than one year are always classified as bonds and notes, even though their residual maturity, in the period to which the data refer, is less than one year.

Any type of debt security is included, solely on the condition that they can be traded on Spanish or foreign markets. Conversely, investment in debt securities

\textsuperscript{18} A detailed description of the recording of loans can be found in the notes of the October 1995 Boletín Estadístico and in the Boletín Económico of September of the same year.
that are not negotiable is recorded under other investment. However, it should be pointed out that some issues, such as euronotes and commercial paper, are included in the portfolio investment heading because of their negotiability, even though they are not traded on organised markets and are placed in circulation through private offerings.

The institutional sector corresponding to these transactions, 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 many 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 the other resident sectors (ORSs), irrespective of whether they are solely financing vehicles, the ultimate recipient being the 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 main source of information used in the calculation of portfolio investment in the financial account of the BP and in the IIP is the reporting system on negotiable securities, whose rules are contained in Banco de España Circular 2/2001. The parties required to report information according to this Circular are, on the one hand, resident institutions which are depositories of securities and, on the other, resident holders of securities deposited at non-resident institutions. Resident deposit institutions shall furnish monthly information, security by security, on stocks of negotiable securities and on transactions relating to negotiable securities carried out with non-residents, on their own account or on their customer’s behalf. Holders of securities deposited abroad also have to report operations and stocks monthly, security by security. In both cases, as recommended by the methodological manuals, stocks are reported and valued at the market prices at month-end. In order to collect data on residents’ issues abroad, the information from Circular 2/2001 is supplemented with data on the total for these issues obtained from the following sources: the Official Gazette of the Mercantile Registry and the annual accounts of companies filed there; information obtained directly from the Treasury and the regional governments; official gazettes of the regional governments, in the case of local government; financial statements reported to Banco de España under Circular 4/2004 in the case of securities issued by MFIs; and finally, issues abroad reported directly by issuers in the ORSs under Circular 6/2000. The acquisition of these securities by resident investors, which should be subtracted from the total issues, is covered by Circular 2/2001.
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, and with the average of the most representative market rates, in the case of assets.

This heading reflects, by exclusion, financial assets and liabilities with non-residents that are not recorded as direct or portfolio investment, financial derivatives or reserves. It comprises fundamentally loans and deposits; trade credits with payment deferrals of more than one year extended directly by the supplier to the buyer; financial leases for purchases of goods; and temporary disposals and acquisitions of securities between residents and non-residents, either through repos or securities lending involving the exchange of cash. These repo transactions, for the purposes of the BP and the IIP, are treated as secured loans or deposits. In addition, credits to aid development (FAD credits) granted by the Government to other countries to finance the acquisition of goods and services from residents are included as loans.

As for the separation of loans and deposits, on the liabilities side this depends on the resident institution’s sector: deposits are included in the case of MFIs and loans for the other sectors. On the assets side, stocks 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. There is no information available on the counterparty solely in the case of repos involving ORSs’ securities. It is assumed that all these repos are undertaken with non-resident credit institutions and, consequently, they are considered 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, under the sub-heading of other assets, are Spain’s membership quotas for international organisations and, for data referring to 2002 and subsequent periods, an estimate of the net amount of euro banknotes purchased by residents from non-residents, basically as a result of travellers’ payments for tourism services. Finally, the insurance technical reserves set aside by non-resident institutions are also included under the other assets component. The heading other liabilities includes reinsurance deposits with non-residents. The technical reserves, in the case of the BP, are only partly included.

The information source mainly used in the financial account of the BP and in the related income for this heading is the ITRS, supplemented, firstly, by the data on loans from Circular 6/2000 to distinguish between other investment and direct and portfolio investment. The figures obtained from this second source of information include all types of intercompany loans and issuance abroad by non-financial resident sectors. The register provides the information for correctly distributing these operations and balances among
direct investment (parent/subsidiary and subsidiary/parent loans, and loans between indirectly related companies); portfolio investment (private issues deemed negotiable, such as euronotes); and other investment (other loans). Secondly, credit institutions’ financial statements are used to draw a distinction between sight deposits on the assets and liabilities side. Also, the ITRS information is supplemented with data from Iberclear on coupon payments of Spanish public debt securities assigned to or acquired temporarily by non-residents to appropriately estimate the income from repos.

In the IIP, loans and deposits (including repos involving securities) of MFIs were obtained directly from credit institutions’ financial statements, whereas those relating to other resident sectors were obtained from the Banco de España’s loans register (see Section 4.4.4.1 for a more specific reference to this register), to which the balance of the account between the Spanish Treasury and the European Union was added. The data on deposits between credit institutions are also taken from the financial statements of the credit institutions themselves. Those of other resident sectors are obtained, until 1993 inclusive, from the Bank for International Settlements, and, thereafter, by adding transactions of the BP to the initial 1993 stock, adjusting those deposits denominated in foreign currency for the exchange rate valuation effect.

In 1997 the IMF revised the guidelines of the 5th edition of the Balance of Payments Manual on the treatment of financial derivatives in its publication The statistical measurement of financial derivatives. The most significant change with respect to its initial recommendations was the clarification that any financial derivative which can be valued because a market price exists for its underlying asset should be recorded in the financial account, regardless of whether it is traded on organised markets and irrespective of the type of underlying asset. The revised text of the Manual recommended including as income in the current account of the BP those derivatives whose underlying assets are interest rates; in addition, it excludes from the financial account certain derivatives that are not traded on organised markets. The IMF also decided to classify financial derivatives in a separate account, instead of including them under portfolio investment as another component.

Nonetheless, the IMF acknowledges the practical difficulties of its recommendations. Specifically, in reporting systems such as Spain’s, the separation of the price of the derivative and of its underlying asset continues to pose problems when the contract is executed upon delivery of the underlying asset. Likewise, the classification of derivatives transactions by asset or liability is difficult not only from a practical standpoint, but also conceptually, since certain instruments go from one category to another depending on the price of the underlying asset. In fact, because of this problem, the European Central Bank decided to record financial derivatives in the BP of the euro area as the net amount of change in liabilities less change in assets, and the same procedure is applied in this report. Nevertheless, in the IIP it was possible to obtain from the above-mentioned sources of information, data on stocks of financial derivatives by assets and by liabilities, which are presented with this breakdown in the related tables. However, due to the characteristics of certain derivatives (in particular, derivatives not traded on organised markets) and the difficulty of measuring them in gross terms, the net data are more reliable.

The data in this report include options issued over the counter or on organised markets, financial futures issued over the counter or on organised markets, warrants on shares and

19 IMF, Statistics Department, November 1997.
debt securities, forward sales/purchases of currencies, FRAs, currency and interest rate swaps and swaps on indices or any other type of asset.

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

Investment in organised financial futures and options markets is recorded at the amount of the premium plus or minus the successive payments that reflect profit or loss, excluding the margin deposit, which is included in other investment. Transactions in warrants are recorded at the amount paid or received, and the settlement is treated in the same manner as in the case of over-the-counter options. Forward sales/purchases of currency (FRAs), currency and interest rate swaps, and other swaps are recorded at the difference between the amounts paid and received. Nonetheless, when these instruments are associated with another transaction, they may be incorrectly recorded under the corresponding heading of the transaction, given the practical difficulties in distinguishing between them. Stocks in general are valued, as always, at market prices at the end of the period.

The ITRS is the information source used for transactions in financial derivatives. Information is currently only available from December 2006 for the stocks and for the MFI sector (the most important sector) and the general government sector. In the case of the MFIs, stocks are taken from a financial statement established in Banco de España Circular 4/2004 which includes financial derivatives and credit derivatives at market prices. In the case of general government, the information source used for the IIP is the data provided by the Treasury.

The financial account of the BP and the IIP of the Banco de España record the changes in and stocks of its foreign assets and liabilities, broken down into the change in reserves, the change in the Banco de España’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 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 Banco de España publishes all the information required by the IMF in this document, both on reserves in the strict sense of the term and the general liquidity in foreign currency of the Banco de España and the Spanish Treasury, and on the liabilities constituting a specific or
contingent short-term drain on such liquidity. The full data can be found on the Banco de España website in the Statistics section, in International Reserves and External Debt. 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 heading *Banco de España’s net claims on the Eurosystem* includes the balance of claims of the Spanish central bank on the other euro area central banks and on the European Central Bank. The main changes here are those arising from the settlement of cross-border transactions between residents and non-residents via TARGET. As explained below, in these transactions the Banco de España and the rest of the Eurosystem are an interface to the residents and non-residents that are the final parties to the transaction. In addition, since January 1999, it includes the changes in the Banco de España’s claims on the ECB as a result of the transfer of reserves and the relevant updates. It would be beyond the scope of this methodological note to offer a detailed and rigorous analysis of the working of TARGET. Nonetheless, for readers not familiar with this settlement system, a brief outline of its workings might be useful. If a Spanish resident importer has to make a payment to a French resident, the Banco de España debits the account that the importer’s Spanish bank holds with it (and this bank will evidently have debited in turn its client’s account) and credits its account with the French central bank. The latter will credit the account of the French bank with which, in turn, the exporter who is the final recipient of the funds has its account. As a result of the transaction, there is a change in the balance of a Spanish bank’s account with the Banco de España (in addition to the bank’s transaction with its client), and a transaction by the Banco de España with a central bank of the Eurosystem (besides the transactions between French residents).

The Spanish BP does not show the transaction between the Banco de España 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 relating to the reduction in the balance of the Banco de España’s account with the Bank of France, i.e. with the Eurosystem (which would reflect a change in the stocks of other investment of the Banco de España 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 BP and in the IIP are concerned. Given the quantitative significance of cross-border transactions between residents and non-residents settled through TARGET, there is no need to underscore its importance. From an analytical standpoint, however, it should be stressed that TARGET’s relevance transcends the mere quantitative significance of the heading.

Note that, despite its generic name “net claims on the Eurosystem”, this account, which is actually a mutual account, can have a positive (credit) or negative (debit) balance at different moments in time. Since the BP shows transactions, i.e. the change in the balances of this account, the sign these transactions receive in the BP depends on the accounting convention used, but this is irrespective of whether, at a given time, its balance is positive or negative. In the footnotes to the tables in Chapter 5, the accounting convention used is specified: an increase in the net asset balance of this account (an increase in the absolute value of its balance, if it is a credit balance; a reduction in the absolute value of its balance, if it is a debit balance; change from a debit to a credit position) is recorded in the tables of Chapter 5 with a negative sign. A reduction in the net asset balance (a reduction in the absolute value of its balance, if it is a credit balance; an increase in the absolute value of its balance, if it is a debit balance; change from a credit to a debit position) is recorded in the tables of Chapter 5 with a positive sign. In Tables 5.1.9 and 5.2.9, in which the standard
IMF presentation has been chosen, the change in the balance of this account appears under the heading other Spanish investment abroad or other foreign investment in Spain, depending on whether the end-quarter balance is a credit or debit balance, respectively.

*Other net assets* include the net change in the other Banco de España’s liabilities and assets not included in the two foregoing headings. As earlier indicated, in the summary tables in Chapter 5 (5.1.1, 5.1.2, 5.2.1 and 5.2.2), they have been measured as the change in liabilities minus that in assets. In Tables 5.1.9 and 5.2.9, the assets appear either in other Spanish investment abroad or (since 2002) in portfolio investment, and the liabilities in other foreign investment in Spain. The assets include those Banco de España investments (other than those of the account with the Eurosystem) which, due to their nature, cannot be considered as reserves. It should be noted that included here is the Banco de España’s contribution to the ECB’s capital in 1998, and the successive updates. The liabilities also include certain foreign liabilities of the Banco de España, likewise of limited significance, and liabilities referred to by the IMF as “liabilities linked to reserves”, where those transactions involving borrowing by the monetary authorities that generate, in turn, changes in reserves are reflected. Notable here are swaps and financing obtained by repo transactions. Also included in other net assets are the figures for financial derivatives which are not part of the reserves, as presented in Tables 5.1.9 and 5.2.9 as the net amount of the change in liabilities minus the change in assets.

The tables in Chapters 5 and 6 have been structured in accordance with the 5th edition of the IMF Manual’s framework of accounts, sub-accounts and headings for standard components.

The table of contents at the beginning of this report gives a detailed list of the tables. The data, in the form of time series, can be consulted in the CSV files that accompany the tables of Chapters 5 and 6 in the electronic format of this publication which is available on the Banco de España website.

The BP data for 2010 are presented in the tables whose headings begin with 5.1, and the revised 2009 figures in those that begin with 5.2. Both sets of data (for 2010 and 2009) contain the same number of tables, with the same content and numbering; except for Table 5.1.11, which gives a geographical breakdown of direct investment for the period 2003-2010. The first table reflects the annual data of the main headings of the current, capital and financial accounts, while the others give, for each heading, the annual data and the estimated quarterly data for each of the two years. The first two tables are a summary of the main headings, and the rest contain more detailed, disaggregated data. The headings for which a breakdown was made of the transactions of the financial account are given in two tables with similar information but with alternative presentations. Finally, Tables 5.1.10 and 5.2.10 contain estimates of the main headings of the BP for a set of economic and geographical areas, selected from among those regularly used by international organisations, and some individual countries.

It is worth mentioning that the recording of financial derivatives on a net basis (changes in liabilities less changes in assets) precludes their geographical breakdown. In addition, certain factors that particularly limit the information content of several items should be borne in mind. In this respect, it is worth recalling that information on transactions involving less than EUR 50,000 is not available, and their distribution by country was estimated by using as an indicator the breakdown of the rest of the transactions of the different headings to which they were assigned. Further, in most foreign portfolio investment in Spain,
<table>
<thead>
<tr>
<th>Year</th>
<th>Change</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>Grouping of financial transactions of the Banco de España in a specific heading in the summary tables.</td>
<td>Affects the presentation of the BP and IIP data.</td>
</tr>
<tr>
<td></td>
<td>Inclusion in a separate heading, of the “net lending/net borrowing of the Spanish economy” (sum of the current and capital accounts).</td>
<td>Previously details were only given of the current and capital account.</td>
</tr>
<tr>
<td></td>
<td>Separation of financial derivatives into a specific heading, recording the net amount of the change in liabilities less the change in assets.</td>
<td>They were previously included in the change in assets.</td>
</tr>
<tr>
<td>2002</td>
<td>Estimation of the financial counterpart, i.e. the net financial asset, of external transactions settled using euro banknotes.</td>
<td>The net financial asset is included under the heading other investment of other resident sectors.</td>
</tr>
<tr>
<td></td>
<td>Separate inclusion, in the instrument and sector-breakdown tables, of the Banco de España’s portfolio investment transactions.</td>
<td>Affects the presentation of the BP and IIP data.</td>
</tr>
<tr>
<td>2003</td>
<td>Incorporation, from the 2002 data, of a new reporting system for calculating IIP portfolio investment.</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>Incorporation of information from the Investment Register of the Directorate General for Trade and Investment of the Ministry of Industry, Tourism and Trade, to include transactions difficult to detect using the BP system.</td>
<td>Gives rise to greater revisions of previously disseminated figures.</td>
</tr>
<tr>
<td>2004</td>
<td>Use of new INE estimates for 2000-2004 for the CIF/FOB adjustment to the Customs and Excise figures for imports and to measure freight services.</td>
<td>The new estimates have been made using the new National Accounts data with base year 2000 and revising the previous assumptions. Revision of the time series affects the data from 1995 for the merchandise (imports) and freight (credits and debits) headings.</td>
</tr>
<tr>
<td></td>
<td>Deduction of the Customs and Excise figures from an estimate of the temporary exports and imports of goods obtained from the information on operational lease services in the foreign receipts and payments register.</td>
<td>Involves a revision of the merchandise heading from 1995, to avoid double counting of operational leases in the BP. These transactions continue to be recorded in services.</td>
</tr>
<tr>
<td></td>
<td>Inclusion in the Customs and Excise figures of an estimate of intra-Community goods trade transactions below the Intrastat reporting threshold.</td>
<td>The new estimates are consistent with those incorporated in the new National Accounts data with base year 2000. Involves a revision to the merchandise series from 1995.</td>
</tr>
<tr>
<td></td>
<td>Revision of the estimate of the figures for merchandise that does not cross borders, from the information supplied by the foreign receipts and payments register.</td>
<td>Involves a revision of the merchandise series from 1999, the year from which the previous method of estimation introduces bias into the data.</td>
</tr>
<tr>
<td></td>
<td>Revision of the level of the travel series, incorporating in the credits from 2001 the results obtained using the new method of estimation that combines EGATUR and real indicators for the tourism sector, and incorporating in the credits prior to 2001, and in debits for the whole period, the results obtained with the usual procedure following the revision of the implicit assumptions.</td>
<td>The results of the new method are incorporated directly into the credits of the heading from 2000 and the time series (credits and debits) are revised from 1995.</td>
</tr>
<tr>
<td></td>
<td>Reassignment of EU transfers corresponding to the European Development Fund to the heading current transfers, in line with the treatment applied by both the National Accounts and Eurostat.</td>
<td>These transactions were previously recorded as capital transfers. The series are revised from 1995.</td>
</tr>
<tr>
<td></td>
<td>Incorporation of an estimate of the reinvested earnings of direct investment firms obtained from information supplied by the Central Balance Sheet Data Office, BP and Eurostat.</td>
<td>Affects, in the BP, the headings of reinvested earnings included in direct investment income, and shares and other equity of direct investment and, therefore, the IIP. The new estimates are incorporated from 1995.</td>
</tr>
<tr>
<td></td>
<td>Monthly reassignment of the specific transactions of foreign investment in listed shares in Spain to the direct investment or portfolio investment heading, as appropriate, in the BP.</td>
<td>Carried out with information provided by the Ministry of Industry, Tourism and Trade. The BP series are revised from 1995.</td>
</tr>
</tbody>
</table>
### Table 4.1: MAIN METHODOLOGICAL AND PRESENTATIONAL CHANGES INTRODUCED IN THE BALANCE OF PAYMENTS AND THE INTERNATIONAL INVESTMENT POSITION SINCE 2000 (cont’d)

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

Declarants designate as the country of the transaction that of the residence of the institution which manages and has custody of the related securities. This explains the large volume of operations of this type in countries such as the United Kingdom.

Chapter 6 includes the data on Spain’s IIP. A summary table with annual data since 2001, two more detailed tables with quarterly data for 2009 and 2010 and a table for each of these two years, with a breakdown by country and by economic and geographical area, are published. The estimates for successive quarters and the revisions of the provisional data for previous quarters will be published in Chapter 17 of the Banco de España’s Boletín Estadístico available in electronic format on the Banco de España website, as and when they become available.

The summary table, similar in form to the corresponding BP summary tables, separates the Banco de España’s position from that of the other institutional sectors. The analytical reasons for this design are explained in detail in the section on classification by heading.
and sector. To provide for readier international comparison, the presentation of the break-
down tables, like that of Tables 5.1.8 and 5.2.8 in the BP, is similar to that in the IMF pub-
lications, with the assets- and liabilities-side position of the Banco de España separated
from that of the other MFIs.