

**IMPACT OF THE 2019 BENCHMARK
REVISION ON THE NET LENDING/NET
BORROWING AND INTERNATIONAL
INVESTMENT POSITION OF THE SPANISH
ECONOMY**

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IMPACT OF THE 2019 BENCHMARK REVISION ON THE NET LENDING/NET BORROWING AND INTERNATIONAL INVESTMENT POSITION OF THE SPANISH ECONOMY

1 Introduction

This note describes the quantitative impact of the revision of the balance of payments (BOP) and international investment position (IIP) published by the Banco de España with the dissemination of the data for 2019 Q2, on 26 September 2019. It also details the main reasons for the change in results. This so-called “benchmark” revision is an extraordinary revision that has been coordinated with the Spanish National Statistics Institute’s (INE) revision of the National Accounts (NA), the National Audit Office’s (IGAE) revision of the general government accounts and the revision of the Financial Accounts (FA) (the financial face of the NA), to be disseminated by the Banco de España itself.¹

WHAT IS A BENCHMARK REVISION?

A benchmark revision is a regular extraordinary revision, coordinated across the European Union (EU) countries, Eurostat, and the European Central Bank (ECB), and across several statistical domains (BOP/IIP, FA and NA). It differs from a regular routine revision in that it affects longer periods (complete time series if necessary). Such revisions allow lengthy periods to be reviewed and changes to be accumulated which, if introduced in an isolated fashion, might give rise to successive contradictory results (effects of different sign in the fundamental aggregates that are ultimately offset when changes are considered together). They are necessary because: new data sources emerge or existing ones change; unsatisfactory results are observed requiring calculation methods to be altered; or compilation procedures are aligned with specific recommendations by relevant international fora. The outcome is better quality, more coherent statistics that are better adapted to international standards.² One of the objectives is full consistency with the rest of the world account of the NA. As from October, the data available for the current and capital accounts of the BOP will be fully consistent with those available for the rest of the world account of the NA.

HOW OFTEN ARE THESE REVISIONS MADE?

Revisions are regular because the NA (non-financial), FA and BOP/IIP need updating from time to time. In Europe it has been decided that these updates should be made every five years.³

Section 2 sets out the quantitative impact of the 2019 benchmark revision on the net lending/net borrowing of the Spanish economy from the start of the time series and on its main components. The main changes made are also briefly described. Section 3 does the same for the IIP.

2 Net lending/net borrowing

As seen in Chart 1, the revision of the series has a certain impact on net lending/net borrowing, which is more relevant in the more recent period. The impact is slightly negative in the early years (-0.2% of GDP in 1995), from 1999 to 2003 its sign is changing and it is less than 0.1% of GDP, and from 2004 it is positive. It begins to be relevant in 2013, with a revision of close to 0.5% of GDP, and in 2018 it stands at around 1% of GDP.

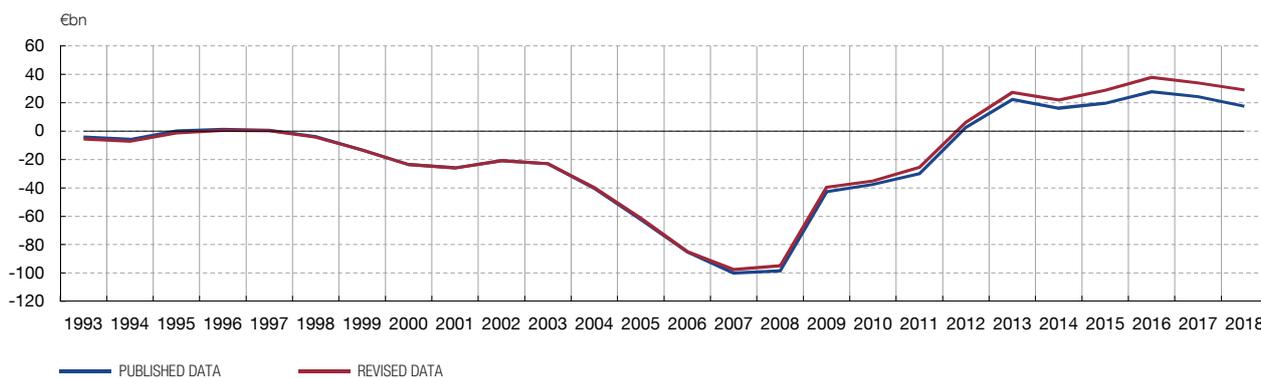
Chart 2 breaks down the revision into the various components of net lending/net borrowing, travel being the one with the highest weight (accounting in 2018 for around half the total

¹ See INE (2019) and Section 6 of the Methodological Summary of Banco de España (2019).

² Spain’s balance of payments and international investment position are compiled in accordance with the statistical principles laid down in the Balance of Payments and International Investment Position Manual, IMF (2009), which is coherent with the ESA 2010, Eurostat (2013).

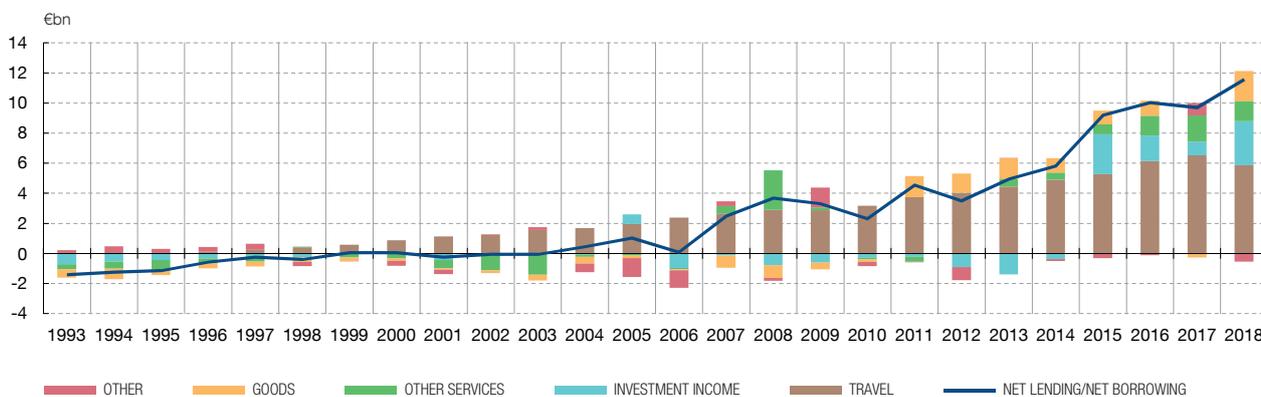
³ See Committee on Monetary, Financial and Balance of Payments Statistics, CMFB (2017).

NET LENDING/NET BORROWING OF THE SPANISH ECONOMY



SOURCE: Banco de España.

CHANGES IN NET LENDING/NET BORROWING (REVISED - PUBLISHED)



SOURCE: Banco de España.

revision). The upward revision to the travel surplus increases over time, amounting to some €6 billion from 2016. This increase is basically determined by the rise in receipts, resulting from full incorporation of the Tourism Expenditure Survey data. Since the INE became responsible for the Tourism Expenditure Survey (which was previously compiled by the Institute of Tourism Studies) in 2015, this source has been the only one used to estimate travel receipts. However, previously, only its growth rate was taken into account, whereas now its level has been incorporated and the whole series has been revised.⁴ As a result, travel receipts are on average 5% higher, the maximum revision being 11%.

Albeit smaller, the impact of the 2019 benchmark revision on the balance on investment income, non-travel services and goods is also significant, and has been upwards in recent years.

Among the improvements made to the investment income estimates, notable in the case of other investment income is the abandonment of the system of projection based on growth rates. This system began to be applied following the substantive change in data

⁴ See Banco de España (2018).

sources in 2014, and was anchored to the levels of the data sources available up to 2013.⁵ The estimates are now based on reference rates applied to contemporaneous stocks.

The changes in the area of other (non-travel) services revolve around the updating, by the INE of the estimation method for the CIF/FOB adjustment and freight services, and the incorporation of new information on passenger transport service payments from the Survey of International Trade in Services (*Encuesta de Comercio Internacional de Servicios*, the “ECIS survey”).

Finally, the changes to the balance on goods reinforce, from 2011, the impact that increases net lending, mainly due to: a) a methodological revision of the level of the CIF/FOB adjustment and of the estimation of certain illegal activities by the INE; b) improvements to the adjustments made to Customs data to deduct transactions that do not involve changes in the ownership of goods, thanks to the matching of these data with those from the ECIS survey.

Annex 1 details other changes made to components of the net lending/net borrowing of the Spanish economy that have had a smaller effect than those mentioned above.

3 International investment position

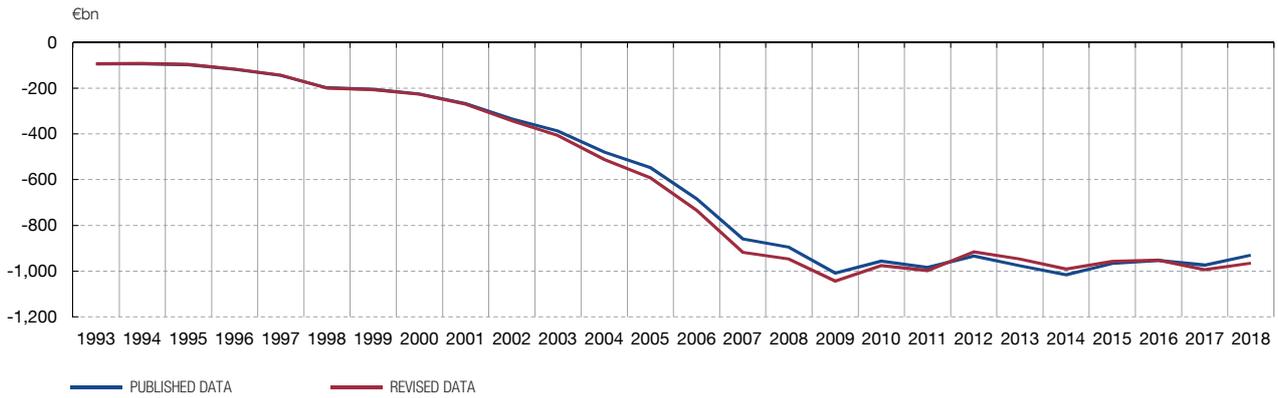
As seen in Chart 3, the revision to the series has a moderate impact on the net IIP. Chart 4 shows more clearly that the impact is practically zero for the first years of the series, and then negative in the period 2001-2011, with an average upward revision to the net debtor position of the Spanish economy of 3% of GDP (€38 billion). The revision is in the opposite direction between 2012 and 2016, when the negative net IIP is reduced by an average of 1.6% of GDP (€17 billion). Finally, in the most recent periods (2016-2018), the impact is again negative, and in the last complete year of the series, 2018, it is €-35 billion, so that the IIP in 2018 is now -79.9% of GDP, instead of -77.1% of GDP.

The category with the highest weight in the revision is direct investment, and within the latter, investment in real estate, in those periods in which the debtor position increases (see Chart 4.1). The most significant revision to investment in real estate is on the liabilities side, which corresponds to real estate that is situated in Spain and held by non-residents (see Chart 4.3).

The stock of real estate liabilities was previously estimated by accumulation of flows since the start of the time series. In 2014, there was a break in the data sources for these flows, owing to the disappearance that year of the general reporting system for BOP receipts and payments. As a result of the 2019 revision, the method now used seeks to anchor the level of the stock, at least from time to time, and takes price developments into account.

For this purpose, a wide range of data sources has been used: a) data on tourists staying in their own dwellings from the INE’s FRONTUR/EGATUR surveys, b) data on sales from the General Council of Notaries c) prices estimated on the basis of the detailed information used for the INE’s house price index and d) information compiled by the tax authorities by matching the tax returns of non-residents with information available in the Cadastre. This information has allowed the number of dwellings owned by non-residents to be estimated, and for such dwellings to be valued at market prices. This estimation of the stock will be made from time to time, using the transactions of the above-mentioned source for sales and the price data to update the stocks in intermediate periods. The impact between 2001

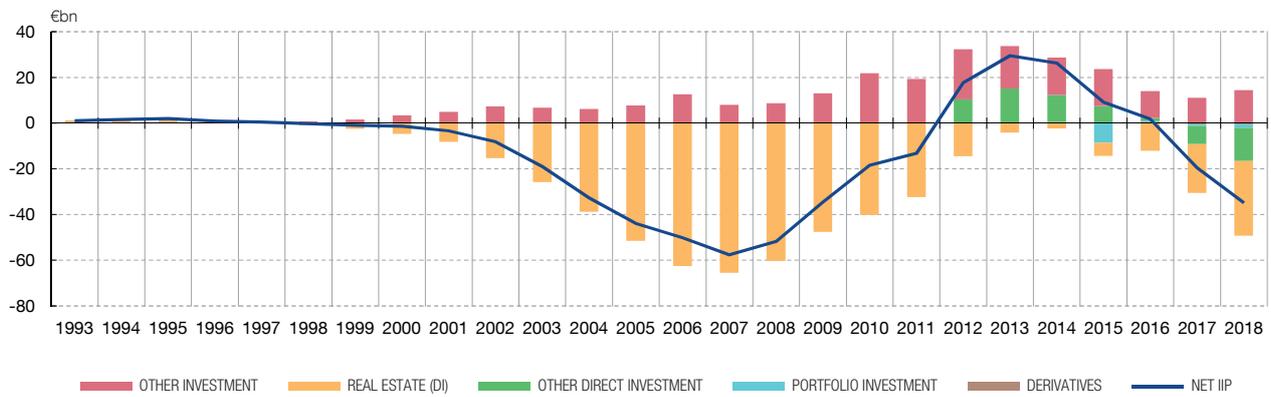
⁵ See Banco de España (2014).



SOURCE: Banco de España.

IMPACT OF THE 2019 BENCHMARK REVISION

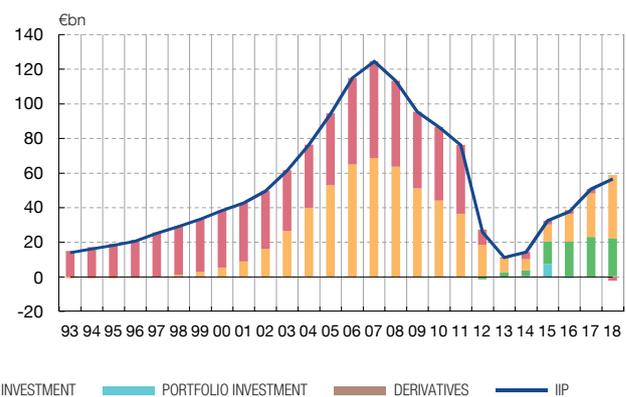
1 CONTRIBUTIONS TO THE CHANGES IN THE NET INTERNATIONAL INVESTMENT POSITION (FUNCTIONAL CATEGORIES)



2 CONTRIBUTIONS TO THE CHANGES IN THE INTERNATIONAL INVESTMENT POSITION. ASSETS (FUNCTIONAL CATEGORIES)



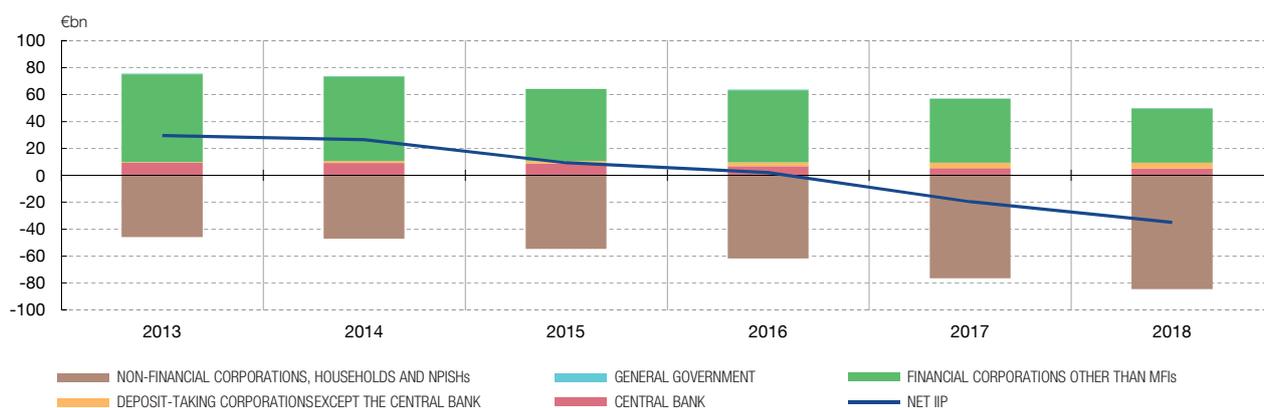
3 CONTRIBUTIONS TO THE CHANGES IN THE INTERNATIONAL INVESTMENT POSITION. LIABILITIES (FUNCTIONAL CATEGORIES)



SOURCE: Banco de España.

and 2011 is an average increase in the amount of foreign investment in real estate of €43 billion, with the most significant effect occurring between 2004 and 2010 (€55 billion on average) and a maximum impact of €68.5 billion in 2007, owing to the strong increase in house prices in Spain in that period.

CONTRIBUTIONS TO THE CHANGES IN THE NET INTERNATIONAL INVESTMENT POSITION (SECTORAL BREAKDOWN)



SOURCE: Banco de España.

The revision of direct investment has a negative impact again at the end of the series, amounting to €-47 billion in 2018. In this case, in addition to the impact of the change in the method for estimating real estate there have been other types of revisions. Note that, for the period from 2016, apart from the benchmark revision there is the regular revision of the preceding three years carried out every September, owing to the receipt of data only available with a lag in the sources and the greater editing of the data. This regular revision has had a negative impact on direct investment in 2017 and 2018, especially as a result of the incorporation of new data for 2017 from the Foreign Investment Register (source available with an 18-month lag).

In the other functional categories, the positive impact on the net IIP, throughout the period, of the revisions made to other investment, is notable, although more significant from the year 2000 (€12 billion on average in the period 2000-2018 and €14 billion in 2018). This improvement in the net IIP is basically a consequence of the change in the estimation of inflows of euro banknotes⁶ (which has resulted in an increase in assets up to 2012 and a reduction in liabilities since then) and of the increase in life insurance assets thanks to the incorporation of mirror data from other countries, available under recent ECB requirements.⁷

In terms of gross assets and liabilities, the revision of trade credits has also been significant, although, in this case, the impact on the net IIP has been of minor importance. The information on trade credits available from the direct reporting of external transactions and positions to the Banco de España, which began with data for 2013, is subject to reporting thresholds that affect this item in particular, given its atomised nature arising from its link to trade. For this reason, these data have been matched with Customs trade data and ECIS survey data and the reported information has been supplemented with estimates calculated by applying average collection/payment periods (obtained using information from the Banco de España's Central Balance Sheet Data Office) to data on external trade in goods and services. The result is that the amounts of trade credits, which are included in the category Other investment, have been increased from 2013 both on the assets and the liabilities sides. For periods before 2013 the series has been back-calculated

6 For a detailed explanation of the treatment of euro banknotes in the BOP/IIP, see Banco de España (2015).

7 See Guideline ECB/2015/44 on monetary and financial statistics.

and the impact on other investment of the revision of trade credits is more significant, since previously no amount was included for trade credits in such periods.

Finally, it is important to point out that there have been significant changes in the sectoral composition of the net IIP. As seen in Chart 5, since 2013⁸ there has been a reduction in the net IIP of non-financial corporations and households (€61 billion) and an increase in that of financial corporations other than monetary financial institutions (€54 billion). A significant part of this change has been due to the sectoral reallocation of certain firms. First, the case of securities issuing companies that are subsidiaries of non-financial corporations is noteworthy. These companies were previously included in the financial sector, on the basis of their activity, but they are now recorded, along with their parent company, in the sector non-financial corporations, owing to their lack of decision-making autonomy. Note that 85%-90% of the issues of these companies are held by non-residents. Second, more data sources have been taken into account to delimit the set of firms that are considered holding companies in the strict sense (and are therefore allocated to the financial sector), which has led to expansion of this group.

At the same time, some of the other types of revisions mentioned have impacted certain specific sectors very significantly. In particular, the revision of the stock of real estate held by non-residents has had a notable effect on the liabilities of non-financial corporations. Within the accounting framework of the national accounts and the BOP/IIP, real estate assets are always considered to be the property of the economy in which they are located.⁹ Accordingly, the ownership of a real estate asset cannot directly give rise to an external asset or liability. If a non-resident owns such an asset, it is assumed that, instead of owning the asset itself, the non-resident owns a notional company, resident in the same country as the real estate asset, which in turn owns the asset. Therefore, foreign investment in real estate in Spain is reflected in the BOP/IIP in direct investment liabilities in the form of capital holdings in (also by convention) non-financial corporations. The value of the real estate asset is considered to be equal to 100% of the capital of the notional company. Consistently with the foregoing, foreign investment is also treated in the National Accounts as investment by non-residents in the capital of resident non-financial corporations.

As regards the external debt¹⁰ of the Spanish economy, the impact of the revision has been small in recent years. From 2012 to 2018 the revision was practically zero (-0.1% of GDP), the 2018 external debt standing at 166.6% of GDP, just 0.2 percentage points below the figure published previously. In the previous period, 1993-2011, the data have been revised, on average, by 4.5% of GDP (€35 billion), basically as a consequence of the back-calculation of the new estimate of trade credit, an item that was previously only included from the start of the current system of direct reporting of external transactions and positions (December 2012 stock).

Annex 2 details other changes made to the various components of the IIP, which have had a smaller effect than those mentioned above.

⁸ The sectoral breakdown between the financial and non-financial sector of other resident sectors is available from 2013, the first year according to the requirements of international agencies.

⁹ See paragraph 159 OECD (2008) and paragraph 3.182(b) of ESA 2010, Eurostat (2013).

¹⁰ Gross external debt is made up of the liabilities of the IIP except for equity liabilities (shares, including investment fund shares and other capital securities) and financial derivatives.

ANNEXES

ANNEX 1 OTHER CHANGES IN NET LENDING/NET BORROWING

1 Travel payments

- Revision of total levels using “mirror” data for the main counterpart countries published by Eurostat.
- Revision of the geographic breakdown using information from the Resident Tourism Survey (*Encuesta de Turismo de Residentes*) conducted by the INE.

2 Insurance

- Harmonisation with the NA compiled by the INE of the methods used to estimate insurance services and related items recorded in income (premium supplements, net premiums and adjusted claims), incorporating, in addition to the ECIS survey, which was already being used, data supplied by the Directorate General Insurance.

3 Financial services

- Under agreements adopted within the framework of the Committee on Monetary, Financial and Balance of Payments Statistics, the sector other financial intermediaries, except insurance corporations and pension funds¹¹ is now considered to be a producer of financial intermediation services indirectly measured (FISIM). In consequence, a) the calculation of FISIM includes the balances of loans received from non-resident other financial intermediaries and b) the intermediate consumption of resident other financial intermediaries is no longer recorded.

4 Pensions

- Revision of the pre-2014 pension receipts time series due to the incorporation of a more precise country-by-country estimation method and new information from the Ministry of Social Security that was previously not available.

5 Public transfers

- Adoption of the accruals basis in some cases where this has not already been done, in line with the approach adopted by the INE and the IGAE. This change was made in 2016 but the pre-2013 data had not been revised until now. This revision mainly affects the contributions to the Community budget or to the development aid funds, and funds received from co-operation or investment assistance programmes.

6 Workers' remittances

- Reduction in asymmetries with the main counterpart countries for greater accuracy of the country-by-country statistics.

¹¹ See paragraph 2.86 of Regulation (EU) No 549/2013 of the European Parliament and of the Council on the European system of national and regional accounts in the European Union and paragraph 4.76 of the IMF's Balance of Payments and International Investment Position Manual (sixth edition).

7 Direct investment income

- Various improvements in the estimation of the intra-year profile of total income and of the component of reinvested earnings, including the possible effects of changes in the exchange rates of the currencies of denomination of the investments.
- The 2017 data from the Foreign Investment Register (this would be the regular revision, not the extraordinary one, although it has been significant) and a somewhat broader analysis has been performed to try to value the income generated from the analysis of the indirect holdings included in the chain of business ownership.

8 Portfolio investment income

- More information is available to improve the estimation of the profits obtained by non-resident investment funds that should be imputed in the BOP to the resident holders of their shares/units.
- A more precise treatment is given to portfolio investment inflation-indexed instruments.
- The Centralised Securities Database (CSDB) is now used to estimate the income accrued on the Banco de España's portfolio to better approximate accruals in accordance with the debtor approach.¹²

¹² For an explanation of the debtor principle see paragraphs 11.52 and 11.53 of IMF (2009).

ANNEX 2 OTHER CHANGES IN THE INTERNATIONAL INVESTMENT POSITION

1 Direct investment

- The stock of real estate properties situated abroad and owned by households resident in Spain has been revised upwards, taking as reference the declaration of assets abroad data supplied by the tax authorities.
- An analysis has been performed to refine the valuation, in recent years, of investment in shares, both on the assets and liabilities sides, based on indirect holdings along the chain of business ownership, which has resulted in an increase in level on both sides of the balance sheet.

2 Other investment

- Asset-side deposits of other resident sectors (ORS) and their sectoral distribution. Estimation of these items has been improved through the use of more data sources. Bank for International Settlements (BIS) mirror data are supplemented by ECB banking statistics mirror data, data on external transactions/positions reported to the Banco de España and to the Directorate General of Insurance and Pension Funds and declaration of assets abroad data from the tax authorities. As a result, the total was revised upwards and a sectoral breakdown will be available (financial/non-financial ORS), obtained directly from the sources.
- Revision of the insurance liabilities data using the data reported pursuant to the new ECB requirements laid down in Guideline ECB/2015/44 on monetary and financial statistics.
- Other receivables (assets) have been revised upwards in the sector monetary financial institutions owing to the improved breakdown provided in new financial statements following the entry into force of Circulars 4/2016 and 7/2016 on public and confidential financial reporting rules and formats for credit institutions; and in the sector general government owing to improvements in the estimates provided by the IGAE.

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- 2 STATISTICS AND CENTRAL BALANCE SHEET DEPARTMENT: Valuation of shares and other equity in the Financial Accounts of the Spanish Economy. (The Spanish original of this publication has the same number.)
- 3 STATISTICS AND CENTRAL BALANCE SHEET DEPARTMENT: Registering Financial Intermediation Services on the National Accounts as of 2005. Addendum. (The Spanish original of this publication has the same number.)
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- 5 STATISTICS DEPARTMENT: Methodological notes on the Financial Accounts of the Spanish Economy.
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- 7 STATISTICS DEPARTMENT: Holding companies and Head offices within the framework of the SNA 2008 / ESA 2010.
- 8 STATISTICS DEPARTMENT: Presentation of the results of the Banco de España statistics user satisfaction survey.
- 9 STATISTICS DEPARTMENT: Changes in the Balance of Payments and in the International Investment Position in 2014.
- 10 STATISTICS DEPARTMENT: Impact of the 2019 benchmark revision on the net lending/ net borrowing and international investment position of the Spanish economy.

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