

Box 4**Change in methodology for compiling portfolio investment income**

The balance of payments (b.o.p.) income account comprises the compensation of employees (payments to non-resident workers or receipts of residents working abroad) and investment income relating to external financial assets and liabilities of the euro area. Included in the latter are receipts and payments on direct, portfolio and “other” investment. The change in methodology affects only portfolio investment-related income.

International standards require income flows vis-à-vis non-residents of the euro area to be allocated to the end-investor (payments from the euro area) or to the non-resident debtor (receipts). Interest and dividends relating to portfolio investment are often paid or received through central securities depositories or other intermediaries located in the euro area. Where, for practical reasons, national compilers allocate payments and receipts according to the immediate counterpart, some income debit payments have been incorrectly classified, in particular those related to euro area securities held by non-residents of the euro area.

The new methodology, which is consistent with the compilation of portfolio investment flows in the financial account, avoids any such misallocation. The new methodology first calculates total portfolio income payments arising from euro area debtors and then subtracts income payments received by euro area residents.