



EUROPEAN CENTRAL BANK

EUROSYSTEM

**EUROPEAN UNION BALANCE OF PAYMENTS AND INTERNATIONAL
INVESTMENT POSITION STATISTICAL METHODS
("B.O.P. AND I.I.P. BOOK")**

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1 INTRODUCTION

The ECB compiles and publishes the balance of payments (b.o.p.) and the international investment position (i.i.p.) of the euro area. These statistics depict the economic relations of the euro area as a whole vis-à-vis the rest of the world. The euro area is, therefore, considered as if it were a country.

The euro area b.o.p./i.i.p. are compiled by summing up the individual b.o.p./i.i.p. statistics of each euro area Member State vis-à-vis non-euro area countries (with some exceptions, as explained in Chapter 2.5 on the methods for compiling the euro area aggregates). Cross-border transactions/positions of euro area Member States vis-à-vis each other are therefore excluded.

The European Commission (Eurostat) compiles the b.o.p./i.i.p. of the European Union. Both the euro area and the EU b.o.p./i.i.p. apply/adhere to the same statistical standards and are fully consistent.

B.o.p. and i.i.p. statistics are important indicators of economic performance. The ECB analyses the euro area b.o.p. and i.i.p. in the context of its monetary policy mandate. B.o.p./i.i.p. statistics from individual Member States also provide crucial information, which is closely monitored in the context of the European Commission's macroeconomic imbalances procedure.

This publication, commonly referred to as the *B.o.p. and i.i.p. Book*, aims to provide users with an overview of the main features of the methodological framework for euro area external statistics. Chapters 2 and 3 largely draw on the IMF's Balance of Payments and International Investment Position Manual (currently in its sixth edition), the worldwide reference standard for the compilation of b.o.p. and i.i.p. statistics. This last edition was revised in parallel with the introduction of the System of National Accounts 2008 (2008 SNA) and the European System of Accounts 2010 (ESA 2010) to ensure consistency between external and domestic macroeconomic statistics. These two chapters describe the concepts, classifications and special conventions that euro area Member States observe when compiling their contributions to the euro area external statistics, as legally defined in the ECB Guideline (ECB/2011/23) of 9 December 2011 on the statistical reporting requirements of the ECB in the field of external statistics (as amended by Guideline ECB/2013/25).

A fourth chapter will be introduced in the course of 2015, which will include a summary, for each EU Member State, of the data sources used, as well as describe the collection and compilation methods implemented by national compilers.

2. COMPILATION OF EURO AREA BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION STATISTICS

2.1. LEGAL FRAMEWORK

The European Central Bank (ECB) compiles and publishes the euro area balance of payments (b.o.p.) and the international investment position (i.i.p.) on the basis of data on international transactions and positions reported by the national central banks (NCBs) of euro area countries.

The statistical requirements of the ECB in the field of external statistics (b.o.p. and i.i.p., as well as the international reserves template and cross-border shipments of euro banknotes) are defined in Guideline ECB/2011/23 of 9 December 2011¹, as amended by Guideline ECB/2013/25 of 30 July 2013², which is addressed to euro area NCBs, in accordance with Council Regulation (EC) No 2533/98 of 23 November 1998 (as amended). Recommendation ECB/2011/24 of 9 December 2011, as last amended by Recommendation ECB/2014/2 of 23 January 2014, complements Guideline ECB/2011/23 by addressing other competent authorities that are entrusted with the collection and/or compilation of external statistics in their respective Member States.

In the context of euro area external statistics, the statistical requirements defined in these more recent legal acts were designed to implement the methodological changes introduced by virtue of the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6), the international standard for b.o.p. and i.i.p. statistics. They also aim to close some remaining data gaps and to bring external euro area statistics into closer alignment with national accounts in terms of both concepts and presentation. The BPM6 was in fact developed in parallel with the new System of National Accounts (SNA 2008) and the European System of Accounts (ESA 2010) in order to ensure consistency between external and domestic macroeconomic statistics.

When translating the updated international statistical manuals into legal acts, the European Commission (Eurostat) and the ECB took the opportunity to simplify and align their data requests. Hence the monthly b.o.p., and the quarterly b.o.p. and i.i.p. datasets to be reported to Eurostat and the ECB are now identical in every detail. Regulation (EC) No 184/2005 of the European Parliament and of the Council on Community statistics concerning balance of payments, international trade in services and foreign direct investment was amended by Commission Regulation (EU) No 555/2012 of 22 June 2012 in line with the aforementioned new ECB Guideline.

¹ OJ L 65, 3.3.2012, p. 1.

² OJ L 247, 18.9.2013, p. 38.

2.2. SHARED RESPONSIBILITY BETWEEN THE EUROPEAN CENTRAL BANK (DIRECTORATE GENERAL STATISTICS) AND THE EUROPEAN COMMISSION (EUROSTAT)

In the field of b.o.p. and i.i.p. statistics, responsibility at the EU level is shared between the European Commission (Eurostat) and the ECB's Directorate General Statistics (DG/S). To ensure optimal cooperation between the two institutions, Eurostat and DG/S established a framework for the joint definition and compilation of b.o.p. and i.i.p. statistics at the European level, as laid down in the Memorandum of Understanding (MoU) on economic and financial statistics dated 10 March 2003, in particular in Annex 1. This MoU defines the responsibilities and cooperation modalities between DG/S and Eurostat without prejudice to Article 285 of the EC Treaty, which defines the competencies of the EU institutions and the ECB with regard to the provision of statistics, or to Article 5 of the Statute of the ESCB.

With regard to the conceptual work, DG/S has prime responsibility for issues concerning the b.o.p. financial account and the related investment income, as well as the i.i.p., whereas Eurostat has prime responsibility for issues concerning all other parts of the b.o.p. current account (except investment income) and the capital account. In view of the joint interest and expertise in foreign direct investment statistics, DG/S and Eurostat share responsibility and tasks in this area. DG/S compiles euro area b.o.p. and i.i.p. aggregates, while Eurostat compiles EU aggregates. Annual detailed services and direct investment data for the euro area are validated and published by Eurostat.

The European Commission and the ECB cooperate closely in order to ensure that b.o.p. and i.i.p. statistics for the euro area and the EU are consistent and, as far as possible, comply with European and international statistical standards.

2.3. STATISTICAL REPORTING REQUIREMENTS FOR NATIONAL COMPILERS

In the field of b.o.p. and i.i.p. statistics, the ECB requires that NCBs report data on international transactions and international reserve assets (including revaluations) at monthly frequency. Reports on more detailed international transactions, on international positions and respective revaluations are due on a quarterly basis.

International transactions are all transactions that create or redeem, in full or in part, claims or debts, or any transaction that implies the transfer of a right over an object between residents in a euro area Member State and non-residents in the euro area.

International positions are the stocks of financial claims on, and financial liabilities to, non-residents in the euro area. International positions also encompass: (a) land, other tangible non-produced assets and other immovable assets physically located outside a euro area Member State that are owned by residents in that Member State, and/or physically located inside a euro area Member State and owned by non-residents; and (b) monetary gold and special drawing rights (SDRs) owned by residents.

Revaluations are holding (realised and unrealised) gains/losses on international positions arising from changes to the exchange rate and/or other prices of those assets/liabilities.

Additionally, the ECB requires that NCBs report, on a monthly basis, their imports and exports of euro banknotes, i.e. the delivery of euro banknotes to/from an NCB or to/from another MFI resident in the euro area from/to any legal person outside the euro area.

2.3.1. Monthly requirements

2.3.1.1. Monthly b.o.p.

The ECB requires NCBs to provide, on a monthly basis, a selection of the main items of the b.o.p., as well as data on the revaluations of euro area reserve assets. These data are made available to the ECB within 44 calendar days after the end of the month to which they relate. The collection of data from reporting agents is organised by the national authorities, who take this deadline into account, thereby striking the right balance between accuracy and the reporting burden. Therefore, owing to the nature of the data and to this short reporting period, it is common practice to use time series modelling or indirect estimation methods in the compilation of some components of the monthly b.o.p.

The aim of the monthly b.o.p. is to provide an overall picture of major developments quickly enough to be of use for policy decisions. This is notably reflected in the monetary presentation of the b.o.p. (see the ECB's website [\[Link\]](#)), which is aimed at linking developments in broad money (M3) with the cross-border transactions of non-MFIs resident in the euro area.³

As shown in the table below, transactions in the net external assets of the MFI sector can be presented as the mirror image of non-MFIs' b.o.p. transactions with non-euro area residents.

Monetary presentation of the euro area balance of payments

	Current account
+	Capital account
+	Balance of financial transactions by the non-MFI sector
+	Errors and omissions
=	Balance of payments of the non-MFI sector
=	- Balance of payments of the MFI sector
=	Transactions in the net external assets of the MFI sector

³ Data going back to 1999 are temporarily available on a BPM5 basis.

Hence, changes in the monetary aggregate M3 can be presented as the arithmetic result of changes in its counterparts, namely: (i) credit to euro area residents; (ii) net external assets of euro area MFIs; (iii) long-term financial liabilities; and (iv) other counterparts.

2.3.1.2. Template on international reserve assets and foreign currency liquidity

The ECB requires NCBs to report monthly data in order to compile the stock of international reserves held by the Eurosystem (the ECB and the NCBs of the euro area Member States). The reserve assets of the Eurosystem are the financial assets held and effectively controlled by the ECB and the euro area NCBs which are issued by residents outside the euro area and denominated in currencies other than the euro. This definition, approved by the ECB's Governing Council in March 1999, conforms to the BPM6 (Appendix 3 on regional arrangements, Paragraph A3.29).

Foreign currency-denominated claims (i.e. claims denominated in any currency other than the euro) on euro area residents held by the Eurosystem are shown as a memorandum item in the ECB Monthly Bulletin. The purpose of this approach is to support an analysis for monetary purposes as well as to permit the reconciliation of the Eurosystem's international reserves with its foreign currency liquidity position.

From the April 2000 edition of the ECB Monthly Bulletin onwards, the same breakdown has been used for the ECB's reserves (and related assets), and pooled in accordance with Article 30 of the Statute of the ESCB. In addition to the information provided in the ECB Monthly Bulletin, the ECB publishes, on its website, Eurosystem and ECB data in line with the [Template on International Reserves and Foreign Currency Liquidity](#), set out in early 2000 in the context of the IMF's Special Data Dissemination Standard (SDDS). This information covers not only data on reserve assets, but also data on the reserve-related liabilities of the Eurosystem, and differs in some respects from the data on international reserves included in the euro area b.o.p.⁴

2.3.2. Quarterly requirements

The required breakdowns of the quarterly b.o.p. and i.i.p. statistics replicate, to a large extent, the standard components of the BPM6, which is now consistent with the System of National Accounts 2008 (SNA 2008) and the European System of National and Regional Accounts 2010 (ESA 2010).

The ECB requires quarterly data on b.o.p., i.i.p., and revaluations to be reported within 85 calendar days after the end of the reference quarter.

In terms of the breakdown, the structure of the i.i.p. is broadly equivalent to the structure of the b.o.p. financial account.

⁴ For more details see the publication entitled "[Statistical treatment of the Eurosystem's international reserves](#)", October 2000 (to be updated).

As a contribution to the annual review of *the international role of the euro*, quarterly data on transactions and positions in debt securities are broken down by currency to allow an assessment of the role of the euro as an investment currency.

2.4. THE ECB'S CONTRIBUTION TO THE EURO AREA AGGREGATES

The ECB's own transactions and positions vis-à-vis non-euro area counterparts are also reflected in the external statistics of the euro area.

In practice, the ECB's main contributions to the euro area b.o.p. and i.i.p. are related to the following items.

- *Reserve assets*: reserve assets of the ECB are claims on non-residents of the euro area pooled in accordance with Article 30 of the Statute of the ESCB and thus under the direct and effective control of the ECB. As long as no further transfer of ownership takes place, in accordance with Article 30.4, external assets retained by the NCBs are under their direct and effective control and are treated as reserve assets of each individual NCB.
- *Other investment*: transactions between the ECB and the NCBs of Member States not participating in the euro area related to the operation of the TARGET2 system; repo transactions with non-residents of the euro area in euro or in foreign currency (the latter only refers to liabilities, because reverse repos are included in reserve assets); non-euro area participations in the ECB's capital.
- *Portfolio investment*: debt securities denominated in euro and issued by non-residents of the euro area (the ECB's holdings of debt securities denominated in foreign currency, which were issued by non-euro area residents, are included in the ECB's reserve assets).
- *Income on portfolio investment and other investment*: income received by the ECB from the above-mentioned investment assets.

2.5. METHODS OF COMPILING THE EURO AREA AGGREGATES

The ECB compiles the figures for the euro area b.o.p. and i.i.p. by summing up the euro area Member States' transactions/positions vis-à-vis non-residents of the euro area, excluding portfolio investment and related income.

The compilation of portfolio investment (positions, flows and related income) follows a different approach. According to the debtor/creditor principle⁵, transactions and positions in foreign assets should be allocated vis-à-vis the country of the debtor (issuer), while liabilities should be allocated

⁵ For additional details, see Chapter 3, Section 3.1.5.3 on the geographical allocation principle for change of ownership.

vis-à-vis the country of the creditor (the holder). However, in practice it is difficult to identify the residency of the holders of securities issued by euro area residents. This is because these instruments are often transacted/held via intermediaries resident in the euro area on behalf of their non-resident clients. In such cases, the first counterpart – the resident custodian or other intermediary – may be known, but the final investor often is not. Identifying residency becomes increasingly complicated as the length of the chain of intermediaries increases.

To circumvent this difficulty, portfolio investment liabilities of the euro area (broken down by resident sector) are estimated residually by deducting the holdings by residents in the euro area from the total securities issued by euro area residents.

The same logic applies to the estimation of income paid to the non-euro area holders of securities issued by euro area residents. These income payments are calculated as total payments made by euro area residents minus the component received by residents in the euro area countries.

The geographical allocation of portfolio investment income liabilities is performed by applying the geographical structure implicit in the IMF's Coordinated Portfolio Investment Survey (CPIS).

2.6. GEOGRAPHICAL BREAKDOWN

A detailed geographical breakdown of the euro area b.o.p. and i.i.p. is available from 2008 for some items vis-à-vis the main partner countries, namely non-euro area EU Member States (Bulgaria, Czech Republic, Denmark, Croatia, Lithuania, Hungary, Poland, Romania, Sweden, and the United Kingdom) and non-EU countries (Brazil, Canada, China, Hong Kong, India, Japan, Russian Federation, Switzerland and the United States) and counterpart groupings (namely offshore financial centres, EU institutions, and other international organisations). Prior to 2008, fewer geographical details are available.

2.7. REVISION PRACTICE

A harmonised EU revision practice for b.o.p./i.i.p. and national accounts (including government finance statistics) has been introduced for quarterly data. This practice aims at achieving consistency at three levels: (i) within Member States (aligning revision practices between national accounts and b.o.p./i.i.p.); (ii) across Member States (common revision practices for the different blocks of statistics reported to the European institutions according to BPM6 and ESA 2010); and (iii) at the European level, among the various domains of the euro area/EU b.o.p./i.i.p. and national accounts.

In this context, two distinct concepts of major revisions and routine revisions have been introduced; the latter are further subdivided into monthly, quarterly and annual cycles.

Major revisions require coordination across domains and across Member States. Therefore, it entails a clear coordination role at the European level, particularly to ensure the correct timing across the two statistical domains.

Monthly routine revisions affect only monthly data (b.o.p. and the international reserves template). *Quarterly and annual routine revisions* allow the revision of a variable number of periods (quarters), but never the full series:

- When reporting quarterly data for the first quarter of year T: Member States may revise all observations of year T-1;
- When reporting quarterly data for the second quarter of year T: Member States may revise all observations of year T and all observations of years T-1, T-2, T-3, T-4;
- When reporting quarterly data for the third quarter of year T: Member States may revise all observations of year T and all observations of year T-1;
- When reporting quarterly data for the fourth quarter of year T: Member States may revise all observations of year T and all observations of years T-1, T-2, T-3.

Guideline ECB/2011/23 does not require full consistency between monthly and quarterly data; while quarterly data are requested on a full accruals basis, best estimates (e.g. partly on a cash basis) are accepted for the monthly b.o.p., as it constitutes a first preliminary assessment. Nonetheless, Member States are strongly encouraged to ensure consistency between different frequencies and between different breakdowns. Therefore, the revision of monthly b.o.p. data is highly recommended when quarterly data are first reported or revised. When reporting monthly data, Member States may revise all months for which no quarterly data has yet been reported. For example, when reporting monthly b.o.p. data with reference to the month of October (around mid-December), Member States may revise all reference months from July to September, since quarterly data are only available up to the second quarter; however, when reporting data with reference to the month of November (around mid-January of the following year), Member States can only revise data for the reference month of October. This practice ensures permanent consistency between monthly data and published quarterly data.

Member States may report revisions to the ECB at any time, particularly if a slightly different revision practice is followed at the national level. These revised data would be reflected in the ECB publications of national data, such as the ESRB White Book (dashboard) and the Commission's scoreboard. However, only revisions within the defined practice described above are taken on board for the compilation of euro area aggregates. In general, data revisions received by the ECB outside the defined windows will be "frozen" until the revision practice allows for the incorporation of these data in the compilation of euro area aggregates.

2.8. PUBLICATION

The euro area b.o.p. and i.i.p. are primarily published in the ECB's [press releases](#) and the ECB [Monthly Bulletin](#). More detailed and longer runs of data are available in the "[Statistics](#)" section of the ECB's website and in the [Statistical Data Warehouse](#).

2.9 CONTRIBUTION TO OTHER STATISTICS

The euro area b.o.p. and i.i.p. statistics are used as a “building block” in the compilation of the *rest of the world* account in the quarterly euro area (financial and non-financial) accounts.

3. CONCEPTS, DEFINITIONS AND AGREED PRACTICES

3.1. GENERAL PRINCIPLES OF BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION STATISTICS

The euro area b.o.p. and i.i.p. statistics follow the BPM6 classifications and principles with very few exceptions or deviations. These are presented in Section 3.12.

3.1.1. Balance of payments

The *balance of payments* (b.o.p.) is a statistical statement of the economic transactions between residents and non-residents in an economy over a specific period of time. A transaction is an interaction between two institutional units which occurs by mutual agreement or through the operation of the law and involves an exchange of economic value or a transfer thereof.

Despite its name, which refers to standards applied in the past in accordance with the recommendations of the IMF Manuals up to the 4th edition, the b.o.p. is now less concerned with payments, as that term is generally understood, than with *transactions*. In fact, international transactions recorded in the b.o.p. may not involve the transfer of money, and some are not paid for in any sense: a change in ownership is the relevant concept for recording transactions. This development from a financial towards an economic approach was deemed more appropriate in order to: (i) foster a sound economic interpretation of the figures; and (ii) make the b.o.p. concepts compliant with the national accounts (the b.o.p. corresponds to the “rest of the world” account).

The b.o.p. is organised in three main accounts:

- current account;
- capital account;
- financial account.

The current account shows the flow of goods, services and income between residents and non-residents. The capital account shows the flow of non-produced, non-financial assets, and capital transfers between residents and non-residents. The financial account shows the net acquisitions and disposals of financial assets and liabilities grouped into the following five functional categories:

- direct investment;
- portfolio investment;
- financial derivatives;

- reserve assets;
- other investment.

The current and capital accounts record gross flows; the inward flows are classified as credits, whereas the outward flows are classified as debits. By contrast, the financial account records transactions in net terms, separately for each financial asset and liability (i.e. they reflect changes arising from all credit and debit entries during the accounting period). The net acquisition of financial assets records all acquisitions minus the disposal of assets, whereas the net incurrence of liabilities records all incurrences minus the redemption of liabilities.

The sum of the current and capital accounts balances corresponds to the net lending (surplus) or net borrowing (deficit) of an economy vis-à-vis the rest of the world. The same concept can be derived from the financial account as the net acquisition of financial assets minus the net incurrence of liabilities.

3.1.2. International investment position

The international investment position (i.i.p.) is a statistical statement that shows, at a specific point in time, the value of the stocks of residents' financial assets that are non-contingent claims on non-residents in that economy or gold bullion held as reserve assets, and of the non-contingent liabilities of the residents to non-residents in that economy. As with the b.o.p. financial account, financial assets and liabilities are grouped into five functional categories.

In addition to "normal" financial assets/liabilities, it also includes land, other real estate properties (e.g. dwellings) and other immovable assets which are:

- physically located outside the economic territory of the participating Member States and owned by residents of participating Member States (considered as assets from the perspective of the euro area); or
- physically located inside the economic territory of the participating Member States and owned by residents of non-participating Member States or residents of third countries (considered as liabilities from the perspective of the euro area).

The difference between the financial assets and liabilities is the net i.i.p. It represents either a net claim on or, a net liability to non-residents. Changes in the i.i.p. between consecutive periods can be due to transactions, as recorded in the b.o.p. financial account during that period, or to other flows (see below).

Associated with the i.i.p. is the concept of *gross external debt*, which is the outstanding amount of current, rather than contingent, liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to non-residents by residents of an

economy.⁶ A *net external debt* concept can also be derived by subtracting gross external assets in debt instruments from the gross external debt concept. In practice, the concept of “debt” corresponds to debt securities, currency, deposits, loans and trade credits.

3.1.3. Reconciliation of positions and flows

Changes in positions between consecutive periods are explained by the following flows during that period:

- (i) transactions in the b.o.p. financial account;
- (ii) revaluations (changes in the euro exchange rate vis-à-vis the currencies in which the assets/liabilities are denominated and/or in the price of the assets/liabilities);
- (iii) other changes in the volume of assets and liabilities (such as reclassifications and write-offs).

The greater the level of detail of the basic information on both stocks and flows – namely currency breakdown, applicable market prices (especially for portfolio investment) and the timing of the transaction (using the price and exchange rate for that date) – the more precise the reconciliation of consecutive positions will be.

Revaluations are holding gains or losses on international positions arising from changes in the exchange rate (in the case of assets and liabilities issued in foreign currency) and/or other prices, rather than from transactions.

If not available directly from reporting agents, an approximation needs to be derived from balance sheet aggregates for each currency denomination in order to split revaluations into exchange rate changes and other price changes.

For equity shares of unlisted companies, the transactions recorded in the b.o.p. financial account may differ from the change in the own funds at book value (OFBV) recorded in the i.i.p. Such differences are recorded as revaluations due to price changes.

For non-negotiable instruments, namely loans, deposits and other accounts receivable/payable, financial account transactions, which are valued at market prices, will differ from the change in the nominal values recorded in the i.i.p. Such differences are recorded as other price changes during the period in which the transaction occurs.

Other changes in the volume of assets and liabilities are recorded when new assets that were not in the beginning-of-period balance sheet appear in the end-of-period balance sheet, or when existing assets that were in the beginning-of-period balance sheet disappear from the end-of-period balance sheet, and these appearances/disappearances are not the result of transactions. These include

⁶ For more details on the concept of external debt please consult the IMF publication entitled “[External Debt Statistics: Guide for Compilers and Users](#)”.

write-offs of claims by creditors, statistical reclassifications (of instruments, sectors, etc.), and monetisation and demonetisation of gold bullion.

When writing off financial instruments that are valued at nominal values, the value recorded in the other changes in volume should correspond to their nominal value prior to being written off. For reclassifications (e.g. a sector reclassification), the values of both the new and the old instruments are in general identical.

3.1.4. The main accounting principles for transactions and positions

3.1.4.1. *Quadruple-entry system*

The accounting system for national and international accounts relies on quadruple-entry bookkeeping, which results from the simultaneous application of both vertical and horizontal double-entry bookkeeping.

Vertical double-entry bookkeeping implies that each transaction is recorded with two entries in the books of the respective unit, one *credit* and one *debit*. In the current and capital accounts, a credit corresponds to exports, primary income receivable, transfers receivable, or disposals of non-produced, non-financial assets; a debit corresponds to imports, primary income payable, transfers payable, or acquisitions of non-produced, non-financial assets. In the financial account, transactions are recorded separately for assets and liabilities on a net basis, i.e. all credits minus all debits during the accounting period, and are, therefore, classified as *net acquisition of financial assets* and *net incurrence of liabilities* respectively. This means that, in principle, the total for all credit entries is equal to the total for all debit entries, which allows the “vertical” consistency of the accounts for a single resident unit to be checked.

Horizontal double-entry bookkeeping ensures the consistency of recording between resident units and their (non-resident) counterparties. For example, an export recorded by a resident unit should be recorded as an import by a non-resident unit. This is useful for compiling accounts that reflect the mutual economic relationships between different institutional units in a consistent manner.

The quadruple-entry system deals in a coherent manner with multiple transactors or groups of transactors, each of which practises vertical double-entry bookkeeping. A single transaction between two counterparties thus gives rise to four entries, as a liability of one unit is mirrored by a financial asset of another unit.

Although the total of all the credit entries and all the debit entries should, in principle, be equal, imbalances occur in practice due to imperfections in source data and compilation systems. This imbalance is known as *net errors and omissions*. A positive value for net errors and omissions indicates that the total value of debits is higher than the total value of credits recorded in the b.o.p., whereas negative net errors and omissions indicate the opposite.

Net errors and omissions should be carefully monitored by compilers, as a large or volatile value hampers the economic interpretation of the results and its use for economic policy. The size and patterns may help identify data problems such as under-coverage or misreporting. For instance, a

persistent positive value for net errors and omissions suggests that some credit entries have been undervalued or not captured at all, or that debit entries have been overvalued or double-entered. A volatile pattern may suggest issues with the timing of the recording.

Following a careful review of the *euro area net errors and omissions*, the ECB introduced a statistical methodology for the correction of these errors and omissions in 2009. The introduction of BPM6 forces the reassessment of the empirical and methodological assumptions used in this process, which will only be possible once a sufficiently long time series in BPM6 format has been estimated.

3.1.4.2. Time of recording of transactions

In line with the BPM6, the ECB requires, as a general principle, that flows be recorded on an *accrual basis*, meaning that flows are recorded when economic value is created, transformed, exchanged, transferred or extinguished. Flows that imply a *change of economic ownership* are recorded when ownership passes, and services are recorded when provided.

However, it is not mandatory to report the monthly b.o.p. on a full accrual basis, due to the short time frame for the collection and reporting of monthly data. In agreement with the ECB, the NCBs and other national compilers may provide monthly b.o.p. statistics that are partially based on other recording principles, such as cash basis (flows are recorded when the respective payment/receipt occurs). However, national compilers are invited to review these data once quarterly data are available on a full accrual basis (see also Section 2.7 on revision practices).

3.1.4.3. Valuation

Market prices are the basis for valuation in the international accounts.

The market price of a transaction is the amount of money that buyers are willing to pay to acquire something from willing sellers. If these prices cannot be observed, valuation according to *market-equivalent prices* – market prices of the same or similar items, taken from the markets in which the same or similar items are currently traded in sufficient numbers and in similar circumstances – provides an acceptable approximation of market prices.

Imports and exports of general merchandise are recorded at free on board (f.o.b.) values (for details see Section 3.2 on goods).

For transactions between affiliated enterprises, replacing book values (transfer prices) with market-equivalent values is, in principle, recommended if the distortions are large and if the availability of data (from tax authorities or counterpart economies) makes it feasible.

Transactions of financial assets and liabilities should be recorded exclusive of any commissions, fees, and taxes. These should be recorded separately under the appropriate categories.

Positions in financial assets and liabilities should, in general, be valued as if they were acquired in the market on the balance sheet reporting date. Many financial assets are traded in markets on a regular

basis and, therefore, can be valued directly by using the quotations from these markets. If the financial markets are closed on the balance sheet date, the market prices on the closest preceding date should be used.

Valuation according to the *market-value equivalent* is necessary for financial assets and liabilities that are not traded in financial markets or that are traded too seldom. *Fair values* that approximate market prices should be estimated for these assets and liabilities. The *present value of future cash flows* is one of the valid approximations.

To increase consistency in the valuation of assets and liabilities of *equity positions in unlisted direct investment companies* in Europe, these positions are generally valued on the basis of a common definition of own funds at book value (OFBV). Exceptions to this rule are possible (see Section 3.7.3. on special valuation issues).

Positions on loans, deposits and trade credits, and advances and other accounts receivable/payable are recorded at nominal value.

3.1.4.4. Geographical allocation principle for change of ownership

In order to achieve a more precise geographical allocation from a risk analysis perspective, BPM6 requires the application of the *debtor/creditor principle*. This principle is also fundamental for ensuring bilateral symmetry in the transmission of national contributions to euro area aggregates. According to this principle, transactions/positions in a country's financial assets are assigned to the country that incurs the liability (the debtor) and transactions/positions in a country's financial liabilities are assigned to the country of residence of the creditor.

By contrast, the application of the *transactor principle* translates into classifying transactions/positions according to the country of the non-resident first-known counterpart or by country of settlement, both of which may not reflect the country of residence of the actual owner of the asset/liability acquired/incurred in all cases.

3.1.4.5. Aggregation and netting

Aggregations or combinations in which all elementary items are shown for their full values are called gross recordings (e.g. all interest credits are aggregated separately from all interest debits). The international accounts show the gross recording in their current and capital accounts.

The international accounts show the net recording in their financial account and other respective changes, meaning aggregations or combinations that show net changes (increases minus reductions) in a particular financial asset or a liability. In general, the net recording of flows in financial assets and liabilities is recommended in the international accounts from both an analytical and a pragmatic perspective. Net acquisition of external financial claims and net incurrence of external liabilities are generally of more analytical interest than the gross flows. Gross reporting of data may not be

possible for different classes of units and for some financial instruments. Furthermore, transactions in some financial assets and liabilities often have to be derived from balance sheet data because gross transactions are not available.

3.1.4.6. Imputations

While most transactions can be clearly observed, some transactions do not reflect the underlying economic relationships and need to be rearranged so that the accounts portray economic reality.

In the imputation of transactions, entries are created in the accounts when no separate transactions are identified by the parties involved. As a general rule, transactions are to be imputed only in specific cases to reflect underlying economic relationships.

The following are the most notable cases of imputation of transactions in the international accounts.

- (i) Retained earnings of direct investment enterprises are attributed to direct investors as if the retained earnings had been distributed in proportion to direct investors' shares in the earnings of the direct investment enterprises and then reinvested by them in the direct investment enterprise. The rationale behind this treatment is that because a direct investment enterprise is, by definition, subject to control or influence by a direct investor or investors, the decision to retain some of its earnings within the enterprise represents an investment decision on the part of the direct investor or investors. The treatment of the retained earnings of direct investment enterprises are described in Section 3.4.2.3.
- (ii) Investment income earned on technical reserves held by insurance corporations is deemed to be payable to policyholders, who are then deemed to return the funds back to insurance corporations as premium supplements even though in terms of actual cash flows the property income is retained by the insurance corporations. The same treatment is applied for the income earned by investing the technical reserves for standardised guarantees. Investment income earned on technical reserves held by life insurance corporations and defined contribution pension schemes, as well as the increase in entitlements during the period for defined benefits pension schemes, are also deemed to be payable to policyholders, who are then deemed to acquire financial claims on the life insurance corporations and pension funds.
- (iii) Retained earnings of investment funds are treated as if they were distributed to shareholders, who are then deemed to reinvest in the fund. The treatment and recording of these transactions are explained in Section 3.4.2.4.

3.1.5. Euro area residency

In general, the term *resident* means having one's centre of predominant economic interest in the economic territory of a country.

In the euro area, the *economic territory* comprises: (i) the economic territory of those EU Member States whose currency is the euro; and (ii) the ECB and the European Stability Mechanism (ESM), which are regarded as resident units of the euro area. *The b.o.p. of the euro area* is therefore the statistical statement of the economic transactions between residents in the euro area (seen as one economic territory) and residents outside the euro area. Similarly, the *i.i.p. of the euro area* is the statistical statement of the positions in financial assets and liabilities of the residents in the euro area vis-à-vis residents outside the euro area.

The *rest of the world (RoW)* comprises all third countries and international organisations, including those physically located within the euro area (except the ECB and ESM). Consequently, all transactions of euro area Member States vis-à-vis EU institutions are recorded and classified as non-euro area transactions in euro area b.o.p. and i.i.p. statistics.

A *centre of economic interest* exists when a unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale in or from a location, dwelling, place of production or other premises within a territory. For practical reasons, actual or intended location for *one year or more* is used as an operational threshold. However, the following are examples of borderline cases in the determination of residency.

- *Students* who go abroad to study full-time generally continue to be resident in the territory in which they were resident prior to studying abroad. This treatment is adopted even though their course of study may exceed a year, assuming that the movement is temporary and thus their centre of predominant economic interest remains the home country.
- *Patients* who go abroad for medical treatment maintain their predominant centre of interest in the territory in which they were resident before they received the treatment, even if the treatment lasts one year or more.
- *Crews* of ships, aircraft, oil rigs, space stations or other similar equipment which operate outside a territory or across several territories are treated as being resident in their home country.
- *National diplomats, peacekeeping and other military personnel, and other civil servants employed abroad in government enclaves*, as well as members of their households are considered to be residents of the economic territory of the employing government.
- *Staff of international organisations*, including those with diplomatic status and military personnel are resident in the territory of their principal dwelling.
- *Border workers, seasonal workers and other short-term workers* who cross borders for a short period to undertake a job are considered residents in the economic territory in which they maintain a dwelling used by members of the household as their principal dwelling.

When undertaking international transactions in *land and/or buildings* (e.g. holiday homes), property owners are treated as if they have transferred their ownership to a notional institutional unit resident in the country where the property is located. The notional unit is treated as being owned and controlled by the non-resident owner.

A legal entity is resident in the economic territory under whose laws the entity is incorporated or registered. This applies also to *legal entities with little or no physical presence*, e.g. investment funds (as distinct from their managers), securitisation vehicles, and some special purpose entities (SPEs). If the entity is not incorporated, it is considered to be resident in the country whose legal system governs the creation and continued existence of the entity.

Subsidiaries are separate institutional units with independent legal status, either wholly owned or with majority ownership held by another entity (the parent institution). *Branches* are entities without independent legal status (they are wholly owned by the parent). However, when branches are located in a country other than the one in which the company controlling them is located, they are deemed to be separate institutional units.

Some territories belonging to, or associated with, euro area Member States might give rise to difficulties in the statistical classification. These can be divided into the following groups:

Territories which are part of the euro area:

- Heligoland: Germany;
- Canary Islands, Ceuta and Melilla, Balearic islands: Spain;
- Monaco, French overseas departments (Guyana, Guadeloupe, Martinique, Réunion and Mayotte), Saint Pierre and Miquelon, Saint Barthélémy, Saint Martin: France;
- Madeira, the Azores: Portugal;
- the Åland Islands: Finland.

Territories associated with euro area Member States which are to be included in the RoW:

- Büsingen: not Germany;
- Andorra: neither Spain nor France;
- Aruba, Bonaire, Sint Eustatius and Saba, Curaçao and Sint Maarten: not the Netherlands;
- French overseas territories (French Polynesia, New Caledonia and the Wallis and Futuna Islands): not France;
- San Marino and the Vatican City: not Italy.

3.1.6. Allocation to institutional sectors

The sector breakdowns of the euro area b.o.p. and i.i.p. are consistent with ESA 2010. Monthly b.o.p. data are required using the following sector breakdown of the resident units:

- (i) central banks;
- (ii) other monetary financial institutions (MFIs):
 - deposit-taking corporations except the central bank;
 - money market funds;
- (iii) general government;
- (iv) other sectors.

For the quarterly b.o.p. and i.i.p. data, the ECB generally requests that the “other sectors” category be further broken down into:

- financial corporations other than MFIs;
- non-financial corporations, households, and non-profit institutions serving households.

The full BPM6 sector breakdown will be implemented gradually, with the split of *other sectors* into *financial corporations other than MFIs* and *non-financial corporations, households, and non-profit institutions serving households* becoming available in 2016.

Central banks

The *central banks* sector of the euro area b.o.p./i.i.p. consists of the Eurosystem, i.e. the ECB and the NCBs of euro area Member States.

Other MFIs

The *other MFIs* sector identified in the euro area b.o.p./i.i.p. coincides with the *other MFIs* sector for money and banking statistics, i.e. it comprises *deposit-taking corporations except the central bank* and *money market funds*, as defined in Regulation (EU) No 1071/2013 of the ECB of 24 September 2013 concerning the balance sheet of the monetary financial institutions sector (ECB/2013/33).

Deposit-taking corporations except the central bank encompass:

- (i) euro area resident *credit institutions*, as defined in Article 4(1)(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, i.e. undertakings whose business is to take deposits or other repayable funds from the public and to grant credits for their own account;

- (ii) other resident financial institutions that are principally engaged in financial intermediation and whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs (the degree of substitutability between the instruments issued by other MFIs and the deposits placed with credit institutions shall determine their classification as MFIs) and, for their own account, at least in economic terms, to grant credits and/or to make investments in securities (for instance certain asset management and leasing corporations);
- (iii) *electronic money institutions* that are principally engaged in financial intermediation in the form of issuing electronic money.

Money market funds are collective investment undertakings that:

- (i) pursue the investment objective of maintaining a fund's principal and providing a return in line with the interest rates of money market instruments;
- (ii) invest in money market instruments which comply with the criteria for money market instruments set out in Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), or deposits with credit institutions or, alternatively, ensure that the liquidity and valuation of the portfolio in which they invest is assessed on an equivalent basis;
- (iii) ensure that the money market instruments they invest in are of high quality, as determined by the management company. The quality of a money market instrument shall be considered, inter alia, on the basis of the following factors:
 - a. the credit quality of the money market instrument;
 - b. the nature of the asset class represented by the money market instrument;
 - c. the operational and counterparty risk inherent within the structured financial transaction (for structured financial instruments);
 - d. the liquidity profile.
- (iv) ensure that their portfolio has a weighted average maturity of no more than six months and a weighted average life of no more than 12 months;
- (v) provide daily net asset value (NAV) and a price calculation of their shares/units, and daily subscription and redemption of shares/units;
- (vi) limit investment in securities to those with a residual maturity until the legal redemption date of less than or equal to two years, provided that the time remaining until the next

interest rate reset date is less than or equal to 397 days, whereby floating rate securities should reset to a money market rate or index;

- (vii) limit investment in other collective investment undertakings to those complying with the definition of MMFs;
- (viii) do not take direct or indirect exposure to equity or commodities, including via derivatives, and only use derivatives in line with the money market investment strategy of the fund. Derivatives which give exposure to foreign exchange may only be used for hedging purposes. Investment in non-base currency securities is allowed, provided the currency exposure is fully hedged;
- (ix) have either a constant or fluctuating NAV.

The ECB maintains a list of MFIs based on information provided regularly by all members of the ESCB, which can be downloaded from the [ECB's website](#).

General government

The *general government* sector consists of the following sub-sectors:

- *central government (excluding social security funds)*: all administrative departments of the state and other central agencies whose competence normally extends over the entire economic territory (with the exception of the administration of social security funds – see below);
- *state government (excluding social security funds)*: institutional units exercising some of the functions of government at a level below that of central government and above that of local government (with the exception of the administration of social security funds – see below);
- *local government (excluding social security funds)*: those types of administrative departments, agencies, etc. of Member States, the competence of which covers only a restricted part of the economic territory of a country (excluding the local agencies for social security funds – see below);
- *social security funds*: central, state and local institutional units whose principal activity is to provide social benefits and which fulfil the following criteria:
 - by law or by regulation certain groups of the population are obliged to participate in the scheme or to pay contributions;
 - general government is responsible for the management of the institution in respect of the settlement or approval of the contributions and benefits, independent of its role as supervisory body or employer.

Public non-financial corporations and quasi-corporations that are market producers principally engaged in the production of goods and non-financial services should be classified as *other sectors*. This also applies to public producers involved in the aforementioned activities and recognised as independent legal entities by virtue of special legislation. If included in the MFI list, public sector credit institutions should be included in the *other MFIs* sector, not under *general government*.

Other sectors

The *other sectors* category comprises:

(a) Financial corporations other than MFIs:

- (i) non-money market investment funds: collective investment institutions (CIIs) not considered as money market funds (MMFs) and therefore not classified as MFIs;
- (ii) other financial intermediaries, except insurance corporations and pension funds: financial corporations and quasi-corporations that are principally engaged in financial intermediation by incurring liabilities in forms other than currency, deposits or investment fund shares; or in relation to insurance, pension and standardised guarantee schemes from institutional units (includes financial vehicle corporations engaged in securitisation transactions, security and derivative dealers, financial corporations engaged in lending, and specialised financial corporations);
- (iii) financial auxiliaries: financial corporations and quasi-corporations that are principally engaged in activities closely related to financial intermediation but that are not financial intermediaries themselves;
- (iv) captive financial institutions and money lenders: financial corporations and quasi-corporations that are engaged neither in financial intermediation nor in providing financial auxiliary services, and where most of either their assets or their liabilities are not transacted on open markets;
- (v) insurance corporations: financial corporations and quasi-corporations that are principally engaged in financial intermediation as a consequence of the pooling of risks, mainly in the form of direct insurance or reinsurance;
- (vi) pension funds: all financial corporations and quasi-corporations that are principally engaged in financial intermediation as the consequence of the pooling of social risks and needs of the insured persons (social insurance). Pension funds as social insurance schemes provide income in retirement, and often also provide benefits in the case of death or disability.

(b) non-financial sub-sectors:

- (i) non-financial corporations (public, national private, and foreign controlled): institutional units that are independent legal entities and market producers, and whose principal activity is the production of goods and non-financial services;
- (ii) households: individuals or groups of individuals as consumers and as entrepreneurs producing market goods and non-financial and financial services (market producers), provided that the production of goods and services is not carried out by separate entities treated as quasi-corporations. It also includes individuals or groups of individuals as producers of goods and non-financial services for exclusively own final use;
- (iii) non-profit institutions serving households: non-profit institutions that are separate legal entities, that serve households and that are private non-market producers. Their principal resources are voluntary contributions in cash or in kind from households in their capacity as consumers, from payments made by general government and from property income.

Transactions and positions in external financial assets are assigned to the institutional sector to which the resident creditor (owner of the asset) belongs. Transactions and positions in external financial liabilities are assigned to the institutional sector to which the resident issuer of the liability belongs.

With regard to other investment flows and stocks, it should be added that:

- (a) government-guaranteed and/or bank-insured trade credits should be treated as private operations rather than as government or bank lending and should, therefore, be included under “other sectors”. In these cases the debtors have incurred liabilities, but have not as yet failed to discharge them; liability for such loans would not be transferred to the government or bank that guaranteed them until the loan recipient defaulted in payment. Guarantees and financial intermediation in which the intermediary is not in fact the legal creditor or debtor should not be taken into account in statistical reporting (see also standardised guarantee changes in Section 3.10.1);
- (b) loans and deposits connected to repo-type agreements must be classified under the institutional sector to which the resident that extends or receives the financing belongs, regardless of the nature of the issuer of the securities acting as collateral. The residence of the borrower and lender is the decisive factor, not the residence of the issuer of the collateral.

In addition to classifying transactions and positions in financial assets/liabilities by sector of the resident creditor/debtor, the ECB requires Member States to classify quarterly flows and positions in portfolio investment assets by the sector of the counterpart issuer.

3.1.7. Additional classification of financial assets and liabilities

Besides the functional categories presented in the previous section, transactions and positions of euro area residents in financial assets and liabilities are classified according to three broad categories of instruments in the BPM6: (i) equity and investment fund shares, (ii) debt instruments, and (iii) other financial assets and liabilities.

Equity and investment fund shares include listed and unlisted shares, other equity, and investment fund shares units as components.

Debt instruments comprise an extensive array of financial instruments such as special drawing rights, currency and deposits (including repos), debt securities (bills, bonds, notes, negotiable certificates of deposit, commercial paper, debentures, asset-backed securities and money market instruments), loans (including financial leases), insurance technical reserves, pension and related entitlements, provisions for calls under standardised guarantees, trade credits and advances, and other accounts receivable/payable.

Other financial assets and liabilities include monetary gold, financial derivatives and employee stock options.

Transactions and positions in debt instruments are also classified by original maturity, into *short-term* (if payable on demand or with an original maturity of one year or less) and *long-term* (if it has a maturity of more than one year or no stated maturity). Positions in debt securities are also broken down by currency of denomination into euro-denominated, US dollar-denominated and other-currency-denominated.

3.2 GOODS

Goods are physical, produced items for which a change of ownership occurs between residents and non-residents. The goods item of the euro area b.o.p. statistics covers general merchandise, net exports of goods under merchanting, and non-monetary gold. In accordance with general b.o.p. principles, change of ownership is the principle which determines the coverage and time of the recording of international transactions in goods.

General merchandise on a balance of payments (BOP) basis covers goods for which a change of economic ownership occurs between a resident and a non-resident and that are not included in other specific categories, such as goods under merchanting and non-monetary gold, or as part of some transactions in services. Exports and imports of goods are recorded on a free on board (f.o.b.) basis, i.e. at market value at the customs frontiers of exporting economies (including charges for insurance and transport services up to the frontier of the exporting country).

The BPM6 recommends that the geographical allocation for exports be based on the country of final destination and that of imports be based on the country of origin. Nevertheless, for the purpose of compiling euro area aggregates, national contributions are to be reported according to the “country-

of-consignment” principle, i.e. according to the immediate counterpart. In this way, transactions in goods are recorded as extra-euro area transactions only by that euro area Member State in which the goods enter or leave the euro area boundaries. This treatment aims to avoid double-entry (which would occur in the euro area aggregate if the different euro area countries through which the goods are channelled recorded the transactions vis-à-vis the country of final destination/origin) or omissions. Ultimately, all intra-euro area merchandise transactions should cancel each other out and the euro area aggregates should conform to the international statistical standards.

Quasi-transit trade is a term used to define goods imported into a Member State which are cleared through customs for free circulation within the European Union (EU), and subject to import duties, by an entity that is not considered a resident institutional unit, which are then dispatched to another Member State. When applicable, *branding* is to be recorded by the Member States affected by the *quasi-transit trade* in order to report the gap between the value of general merchandise declared when the goods are initially imported from a third country and their value when dispatched to another Member State. The geographical breakdown should be compiled on the basis of the country of residence of the parent enterprise controlling the company that manages the customs procedure related to these goods in the reporting economy.

Merchanting is defined as the purchase of goods by a resident (of the compiling economy) from a non-resident, combined with the subsequent resale of the same goods to another non-resident without the goods being present in the compiling economy. Net exports of goods under merchanting represent the difference between sales over purchases of goods for merchanting. This item includes merchants’ margins, holding gains and losses, and changes in inventories of goods under merchanting. Acquisitions and subsequent resale of crude oil products when in transit between the production country and its final destination are typical examples of merchanting.

The *goods acquired under merchanting* are shown as a negative export/credit of the economy of the merchant. The sale of goods is shown under *goods sold under merchanting* as a positive export/credit of the economy of the merchant.

Non-monetary gold covers all cross-border transactions in gold other than monetary gold. Monetary gold is owned by monetary authorities and held as reserve assets. Non-monetary gold can be in the form of bullion (i.e. coins, ingots, or bars with a purity of at least 995 parts per 1,000, including such gold held in allocated gold accounts), gold powder, and gold in other unwrought or semi-manufactured forms.

3.3 SERVICES

Services are the result of a production activity that changes the conditions of the consuming units, or facilitates the exchange of products or financial assets. Services are not generally separate items over which ownership rights can be established and they cannot generally be separated from their production.

The services account of euro area b.o.p. statistics consists of the following items, which are to be recorded the moment they are delivered.

- *Manufacturing services on physical inputs owned by others* cover processing, assembly, labelling, packaging, etc. undertaken by an enterprise that does not own the goods concerned (the ownership of the goods does not change) and is paid a fee by the owner. The value of the fees charged is not necessarily the same as the difference between the value of goods sent for processing and the value of goods after processing. Assembly of prefabricated constructions (included in *construction*) and labelling and packaging incidental to transport (included in *transport*) are excluded.
- *Maintenance and repair services not included elsewhere (n.i.e.)* covers maintenance and repair work by residents on goods that are owned by non-residents (and vice versa). The repairs may be performed at the site of the repairer or elsewhere. Repairs and maintenance on ships, aircraft and other transport equipment are included in this item. Cleaning of transport equipment is included in *transport*. Construction maintenance and repairs are included under *construction*. Maintenance and repairs of computers are included under *telecommunications, computer and information services*.
- *Transport* covers all transportation services (sea, air, and other – including land, inland waterway, rail, space and pipeline) that are performed by euro area residents for non-residents, or vice versa, and that involve the carriage of people or objects from one location to another, as well as related supporting and auxiliary services. Postal and courier services are also included. Passenger services provided to non-residents in the euro area by euro area carriers within euro area economies, or vice versa (these are included under *travel*) are excluded.
- *Travel* includes goods and services which euro area travellers acquire from non-residents of the euro area, or which euro area residents provide to travellers resident outside the euro area during visits of less than one year, net of any purchases made with money earned or provided locally. Unlike other services, travel is not a specific type of service, but an assortment of goods and services consumed by travellers. Travel includes local transport (i.e. transport within the economy being visited and provided by a resident of that economy) but excludes personal international transport in connection with travel which is included under *transport*. Travel excludes goods for resale or other goods in excess of customs thresholds, which are to be included in general merchandise.
- *Construction* covers the creation, renovation, repair or extension of fixed assets in the form of buildings, land improvements of an engineering nature and other engineering constructions (including roads, bridges, dams, etc.). It includes related installation and assembly work; site preparation and general construction; specialised services such as painting, plumbing and demolition; and management of construction projects. The construction contracts covered in international trade in services are generally of a short-term nature. A large-scale construction project contracted by a non-resident enterprise that takes a year or more to be completed will usually give rise to a resident branch.
- *Insurance and pension services* comprise direct insurance, reinsurance, auxiliary insurance services, pensions and standardised guarantee services. These services are estimated or

valued by the charges included in total premiums rather than by the total value of the premiums.

- *Financial services* cover intermediary and auxiliary services, excluding insurance and pension fund services, usually provided by banks and other financial corporations. In euro area b.o.p. statistics these services are broken down into: (i) *explicitly charged and other financial services*; and (ii) *financial intermediation services indirectly measured (FISIM)*.

Many financial services are explicitly charged and require no special calculation. They include fees for deposit-taking and lending, fees for one-off guarantees, early or late repayment fees or penalties, account charges, fees related to letters of credit, credit card services, commissions and charges related to financial leasing, factoring, underwriting, and clearing of payments. Financial advisory services, custody of financial assets, financial asset management, monitoring services, liquidity provision services, risk assumption services (other than insurance), merger and acquisition services, credit rating services, stock exchange services and trust services are also included. Dealers in financial instruments may charge, in full or part, for their services by having a spread between their buying and selling prices; these margins on buying and selling transactions are also included in explicitly charged and other financial services.

Actual interest can be considered as including both an income element and a charge for a service. Lenders and deposit-takers operate by providing rates of interest to their depositors that are lower than the rates that they charge to their borrowers. The resulting interest margins are used by the financial corporations to defray their expenses and to provide an operating surplus. By convention, these indirect charges in respect of interest apply only to loans and deposits, and only when those loans and deposits are provided by, or deposited with, financial corporations. For loans from financial corporations, FISIM is the difference between the interest actually payable on loans and the amount that would be payable if a reference rate were used; for deposits with financial corporations, FISIM is the difference between the interest that would be earned if a reference rate were used and the interest actually earned. Such a reference rate should not contain a service element and should reflect the risk and maturity structure of deposits and loans (the rate prevailing in interbank borrowing and lending is usually a suitable choice).

- *Charges for the use of intellectual property n.i.e.* include: (i) charges for the use of proprietary rights (such as patents, trademarks, copyrights, industrial processes and designs including trade secrets and franchises), that can arise from research and development, as well as from marketing; and (ii) charges for licences to reproduce or distribute intellectual property embodied in produced originals or prototypes (such as copyrights on books and manuscripts, computer software, cinematographic works and sound recordings) and related rights (such as for live performances and television, cable, or satellite broadcast).
- *Telecommunications, computer, and information services:*

Telecommunications services encompass the transmission of sound, images or other information by telephone, telex, telegram, radio and television cable and broadcasting, satellite, electronic mail, facsimile services etc., including business network services, teleconferencing and support services. They do not include the value of the information transported. Mobile telecommunication services, internet backbone services and online access services, including provision of access to the internet are also included. Installation services for telephone network equipment are excluded, since they are included in construction.

Computer services consist of hardware and/or software-related services, and data-processing services. Hardware and software consultancy and implementation services; maintenance and repair of computers and peripheral equipment; disaster recovery services, provision of advice and assistance on matters related to the management of computer resources; analysis, design and programming of systems ready to use (including web page development and design), and technical consultancy related to software; licences to use non-customised software; development, production, supply and documentation of customised software, including operating systems made to order for specific users; systems maintenance and other support services, such as training provided as part of consultancy; data-processing services, such as data entry, tabulation and processing on a time-sharing basis; web page hosting services (i.e. the provision of server space on the internet to host clients' web pages); and computer facilities management are also included. Charges for licences to reproduce and/or distribute software which are included in charges for the use of intellectual property n.i.e are excluded. Leasing of computers without an operator is included in technical, trade-related and other business services.

Information services comprise news agency services, database services (database conception, data storage and the dissemination of data and databases, including directories and mailing lists), both online and through magnetic, optical or printed media; and web search portals (search engine services that find internet addresses for clients who input keyword queries). Direct, non-bulk subscriptions to newspapers and periodicals, whether by mail, electronic transmission or other means; other online content provision services; and library and archive services are also included. Bulk newspapers and periodicals are included under general merchandise.

- *Other business services* are further broken down into: (i) research and development services; (ii) professional and management consulting services; and (iii) technical, trade-related, and other business services.

Research and development services consist of services that are associated with basic research, applied research, and experimental development of new products and processes. In principle, such activities in the physical sciences, social sciences and humanities are covered within this category, including the development of operating systems that represent technological advances. Commercial research related to electronics, pharmaceuticals and biotechnology is also included.

Professional and management consulting services include: (a) legal services, accounting, management consulting, managerial services and public relations services; and (b) advertising, market research, and public opinion polling services.

Technical, trade-related, and other business services comprise: (a) architectural, engineering, scientific and other technical services; (b) waste treatment and de-pollution, agricultural and mining services; (c) operating leasing services; (d) trade-related services; and (e) other business services n.i.e.

- *Personal, cultural and recreational services* include audiovisual and related services, and other personal, cultural and recreational services. *Audiovisual and related services* are services and associated fees related to the production of motion pictures (on film or videotape), radio and television programmes (live or on tape) and musical recordings. Rentals of audiovisual and related products, and access to encrypted television channels (such as cable or satellite services); mass-produced audiovisual products purchased or sold for perpetual use that are delivered electronically (downloaded); fees received by performing artists (actors, musicians, dancers), authors, composers, etc. are included.. Charges or licences to reproduce and/or distribute audiovisual products are excluded, as these are included in charges for the use of intellectual property n.i.e. *Other personal, cultural and recreational services* are: (a) education services; (b) health services; (c) heritage and recreational services; and (d) other personal services.
- *Government goods and services n.i.e.* is a residual category covering government transactions (including those of international organisations) in goods and services which cannot be classified under other items. All transactions (in both goods and services) by enclaves such as embassies, consulates, military bases and international organisations with residents of economies in which the enclaves are located are included. Transactions of the enclaves with residents of the home economies are excluded.

3.4 PRIMARY INCOME

Primary income is the return that accrues to institutional units for their contribution to the production process, either for providing labour or for providing financial assets and renting natural resources to non-resident institutional units. It therefore comprises compensation of employees, investment income and other primary income.

3.4.1. Compensation of employees

Compensation of employees is the total remuneration, in cash or in kind, payable by resident/non-resident employers (the producing units) to non-resident/resident employees in return for work. The contributions paid by employers, on behalf of employees, to social security schemes or to private

insurance or pension funds to secure benefits for employees are included. It is important to establish whether an employer-employee relationship exists; if not, the payment constitutes a purchase of services.

3.4.2. Investment income

Investment income is derived from a resident's ownership of a financial asset issued by a non-resident (credit) or conversely, from a non-resident's ownership of a financial asset issued by a resident (debit). Investment income includes income on equity (dividends, withdrawals from income of quasi-corporations, reinvested earnings and investment income attributable to investment fund shareholders) and on debt (interest), as well as investment income attributable to policyholders in insurance, pension schemes, and standardised guarantee schemes. Capital holding gains and losses (realised or unrealised) are not classified as income on investments, but as revaluations (due to exchange rate or other price changes).

In euro area b.o.p. statistics, investment income is broken down according to the functional categories of the underlying investments (as in the b.o.p. financial account and the i.i.p.), i.e. income on direct investment, portfolio investment, other investment or on reserve assets, and further detailed according to the type of instrument. Financial derivatives and employee stock options do not give rise to investment income.

3.4.2.1. Dividends

Dividends are the distributed earnings allocated to the owners of equity shares for placing funds at the disposal of corporations. Dividends should be recorded the moment that shares go ex-dividend, gross of any withholding taxes. The following borderline cases apply.

- Distribution of earnings in the form of *stock dividends* (when stockholders elect to receive payments of dividends in the form of the issuance of new shares) is a capitalisation of current earnings and an alternative to distributing cash dividends. Distributions of such earnings are recorded in the euro area b.o.p. in the same manner as reinvested earnings (i.e. as investment income in the current account and as offsetting equity investments in the financial account).
- Bonus shares (new shares distributed to all stockholders in proportion to existing ownership) are not treated as transactions or income as no new resources are involved, i.e. the claim of the shareholders on the entity remains the same after the issuance of these shares.
- Liquidating dividends refer to the distribution of assets in the form of a dividend from a corporation that is going out of business. Payment of liquidating dividends may take place when a firm goes bankrupt or when a company's assets are sold and the proceeds passed to shareholders. As liquidating dividends represent more of a repayment of capital than a

distribution of earnings from current income, they should be recorded as withdrawals of equity in the financial account and should, consequently, be excluded from investment income.

- *Super-dividends* are exceptional payments by corporations (including quasi-corporations such as branches) to their shareholders that are made up of accumulated reserves or sales of assets. These are to be recorded as withdrawals of equity in the financial account and should consequently be excluded from investment income.

3.4.2.2. Withdrawals from income of quasi-corporations

Withdrawals from income of quasi-corporations (unincorporated enterprises that behave as if they were corporations which, in legal terms, cannot distribute income in the form of dividends)⁷ are income that the owners withdraw from their profits. From an economic point of view, the withdrawal of such income is equivalent to the distribution of corporate income through dividends and is treated the same way.

Withdrawals of funds realised by the sale or disposal of the quasi-corporation's assets are excluded; these (so-called super-dividends) should be recorded as a reduction in the equity of quasi-corporations in the financial account.

3.4.2.3. Reinvested earnings on foreign direct investment

Reinvested earnings are associated with the concept of attributing retained earnings of corporations to their ultimate owners. In macroeconomic statistics, corporations are defined as entities separate from their owners and able to take economic decisions. Owners receive dividends and face other financial gains and losses arising from the activity of the corporations they own. For corporations, the notion that the institutional units are decision-making entities implies that retained earnings are treated as the income and saving of that entity, rather than those of its owners. So the undistributed income arising from the net operating surplus, net property income, and net current transfers is recorded as retained earnings or net saving of corporations.

However, when owners decide to deliberately retain earnings to reinvest, treating them as if they were retained by corporations would not reflect economic reality. Although most economic relationships between a corporation and its owners may be considered to take place "at arm's length", the distribution of its net earnings to its owners may, in some cases, be subject to the control and influence that the owners have on corporate decisions. Therefore, earnings retained by investment funds or by direct investment enterprises are imputed to their owners and shown in the

⁷ For example, these are branches, notional resident units for land and other natural resources owned by non-residents, joint ventures, trusts, etc.

primary income account as “reinvested earnings” and the corresponding flows are recorded in the financial account as the “reinvestment of earnings”. These reinvested earnings are to be recorded in the period in which they are earned.

Reinvested earnings on *foreign direct investment* represent the direct investors’ proportion, in terms of equity held, of the earnings that foreign subsidiaries, associates and branches do not distribute as dividends. They are defined as the direct investor’s share of the total consolidated profits earned by the direct investment enterprise in the reference period (after allowing for tax, interest and depreciation – see below) minus dividends due for payment in the reference period, even if these dividends relate to profits earned in previous periods.

The estimation of reinvested earnings on foreign direct investment is rather challenging to estimate. It is based on:

- the *net operational profit* of the direct investment corporation, which is subject to various estimation methods in case of: (i) delays in obtaining the definitive data; or (ii) the total absence of a recording procedure to collect them;
- *interpolation* procedures to adjust the (typically annual) data to the required frequency;
- the inclusion of any *uncovered losses* by the direct investor as negative reinvested earnings (and decrease in the claims of the affiliate for the offsetting entry in the financial account).

3.4.2.4. *Investment income attributable to investment fund shareholders*

Investment income attributable to (collective) investment fund shareholders, including mutual funds and unit trusts, consists of the following separate components: i) dividends paid to collective investment fund shareholders; and ii) retained earnings attributable to collective investment fund shareholders.

The dividend component is recorded in the same manner as dividends for individual corporations, as described above. The retained earnings component is recorded using the same principles as those described for foreign direct investment enterprises.

Earnings from *investment funds* can be viewed as being passed on to their shareholders (or unit holders) as they are earned in the form of investment income on their equity. Investment funds earn income by investing the money received from shareholders. Shareholders’ income from investment funds is defined as the investment income earned on the fund’s investment portfolio after deducting operating expenses. Where only a part of the net earnings is distributed to shareholders as dividends, the retained earnings should be treated as if they were distributed to the shareholders and then deemed reinvested. As for other income components, holding gains and losses of investment funds on their portfolio are recorded in the revaluation account.

3.4.2.5. Interest

Interest is a form of investment income that is receivable by the owners of certain kinds of financial assets (debt instruments), namely deposits, debt securities, loans and other accounts receivable, for putting these financial assets at the disposal of another institutional unit. Income on special drawing rights (SDR) holdings and SDR allocations are also included in interest.

Interest is recorded on an accrual basis; that is, interest is recorded as accruing continuously over time to the creditor on the amount outstanding. Depending on the contractual arrangements, the rate at which interest accrues can be a percentage of the amount outstanding, a predetermined sum of money, a variable sum of money dependent on a defined indicator, or some combination of these methods. In euro area monthly b.o.p., deviations from accrual accounting are tolerable and methods such as cash recording are acceptable. The primary income account records so-called “pure interest”, by excluding its FISIM component (see a description in Section 3.3 on services).

As interest accrues before it is paid, the amount of the respective claim must be recorded under investment income in the current account with an offsetting entry in the financial account in the underlying instrument (e.g. other investment loans). When the actual coupon payment occurs, it should not be recorded again under investment income (where the respective value has already been accruing), but should instead be recorded in the financial account as a reduction in the underlying instrument (such as, as in the example above, other investment loans), cancelling out the interest that had been accruing. For the creditor, the actual receipt of interest on, for example, loans would typically correspond to an increase in deposits as a counterpart to a reduction in loans.

For the purpose of defining and measuring interest, it is useful to distinguish between the following two types of arrangements: i) fixed-rate instruments (the contracting parties determine at inception all future cash flows that the debtor must make in domestic currency); and ii) index-linked instruments (the indexation mechanism links the amount to be paid at maturity, periodic payments – such as coupons – or both to indicators agreed by the parties. The values of the indicators are not known in advance).

In general, the interest accrual on deposits, loans and accounts receivable/payable is determined by applying the relevant interest rate, as specified in the contractual arrangements between parties, to the amount outstanding at each point of time throughout the accounting period. For each period, the relevant interest rate should be used to calculate interest accrued in that period.

Fees for securities lending without cash collateral and gold loans are payments for putting a financial instrument at the disposal of another institutional unit. Accordingly, fees for securities lending (equity securities as well as debt securities) and for gold loans accrue to the owner of the security and are treated as interest (with the corresponding entry in other investment – other accounts receivable/payable).

Amounts outstanding of non-performing debt remain a legal liability of the debtor, so interest should continue to accrue unless the liability has been extinguished (e.g. by repayment or as a result of a bilateral arrangement between debtor and creditor). Following the accrual principle, arrears on debt repayments (both periodic payments and amount to be paid at maturity) that are not paid on

due dates should continue to be shown in the same instrument until the liability is extinguished. Income on non-participating preference shares is treated as interest rather than as dividends and is generally recorded under direct investment income on debt instruments.

i) On debt securities traded in secondary markets

Defining and measuring interest for debt securities traded in secondary markets is not straightforward. While debtors have obligations to settle according to the terms and conditions set at the inception of the debt instruments, holders of securities acquired in the secondary markets may not know about the interest rate at the time of issue. Therefore, there are three approaches for defining and measuring interest for these debt instruments.

- (a) Interest is equal to the amounts the debtors will have to pay to their creditors over and above the repayment of the amounts advanced by the creditors. Interest accrual on a debt instrument is determined for its entire life by the conditions set at the inception of the instrument. Interest accrual is determined using the original yield-to-maturity. A single effective yield, established at the time of security issuance, is used to calculate the amount of accrued interest in each period to maturity. This approach is also known as the *debtor approach*. In the international accounts, interest is recorded following this approach.
- (b) Interest is the income that follows from applying, at any point in time, the discount rate of future receivables implicit in the instrument's market value.
- (c) Interest is the income that follows from applying the discount rate implicit in the cost at which the instrument was acquired.

ii) With known cash flows

For debt securities for which the issue and redemption prices are the same (i.e. issued at par), total interest accruals over the whole life of the securities are given by the periodic coupon payments. If coupon payments are fixed, accrued interest can be calculated by allocating the coupon payment to the relevant period using a daily compound formula.

Certain debt securities, such as short-term bills of exchange and zero-coupon bonds, are such that the debtor is under no obligation to make any payments to the creditor until the liability matures. In effect, the debtor's liability is discharged by a single payment covering both the amount of the funds originally borrowed and the interest accrued and accumulated over the entire life of the liability. Instruments of this type are said to be discounted because the amount initially borrowed is less than the amount to be repaid. The difference between the amount to be repaid at the end of the contract and the amount originally borrowed is interest that must be allocated over the accounting periods between the beginning and end of the contract. A slightly more complicated case is a deep-discount bond, which is a discounted instrument that also requires periodic coupon payments. In such cases, the interest accrual is the amount of the coupon payable periodically plus the amount of interest

accruing in each period attributable to the difference between the redemption price and the issue price.

In some cases, debt securities are issued at a premium rather than at a discount. The method of determining the interest accrual is identical to the case of a discounted instrument except that when issued at a premium, the difference between the redemption and issue price is amortized over the life of the instrument and reduces (rather than increases as in the case of the discounted instrument) the amount of interest accruing in each period.

iii) Index-linked debt securities

In the case of index-linked debt securities, an indexation mechanism links the amount to be paid at maturity or coupon payments (or both) to indicators agreed by the parties. The values of the indicators are not known in advance. Therefore, in order to estimate interest accruals before the values of the reference indicators are known, some proxy measures need to be used.

When only coupon payments are index-linked, the full amount resulting from indexation is treated as interest accruing during the period covered by the coupon. It is most likely that by the time data are compiled for a reporting period, the date for the coupon payment would have passed and hence the value of index is known. When the date for the coupon payment has not passed, the movement in the index during that part of the reporting period covered by the coupon can be used to calculate the interest accrual.

When the amount to be paid at maturity is index-linked, the calculation of interest accruals becomes uncertain, because the redemption value is unknown; in some cases the maturity time may be several years in the future. Two approaches can be followed to determine the interest accrual in each accounting period: i) interest accruing in an accounting period due to the indexation of the amount to be paid at maturity may be calculated as the change in the value of this amount outstanding between the end and beginning of the accounting period due to the movement in the relevant index; and ii) interest accruals may be determined by fixing the rate of accrual at the time of issue. Accordingly, interest is the difference between the issue price and the market expectation, at inception, of all payments that the debtor will have to make, which is recorded as accruing over the life of the instrument. This approach records the yield-to-maturity at issuance as income, which incorporates the results of the indexation that are foreseen at the moment the instrument was created. Any deviation of the underlying index from the originally expected path leads to holding gains or losses that will not normally be cancelled out over the life of the instrument. There are pros and cons in the use of these two methods which are related to the nature of the underlying index.

For debt securities with embedded derivatives, such as call, put, or equity conversion options, the accounting for accrued interest is the same as for securities that do not have such features. For all periods leading up to the exercise of the option, the interest accrual is unaffected by the presence of the option.

3.4.2.6. *Investment income and the functional categories*

Direct investment income includes all investment income arising from direct investment positions between resident and non-resident institutional units (see also Section 3.7). Debt between selected affiliated financial intermediaries is not included in direct investment, so the corresponding income on those instruments is also classified as portfolio or other investment income. Rare cases of other primary income, such as compensation of employees and rent between direct investors and direct investment enterprises, are not included under direct investment income. Dividends, withdrawals from income of quasi-corporations and interest can apply for any of the types of direct investment relationships.

Transfer pricing at values that differ significantly from “arm’s length” prices is usually associated with shifting resources between related enterprises, so it relates to direct investment income measures. Transfer pricing may be motivated by income distribution (hidden dividends), or equity build-ups or withdrawals. Examples of this include the provision of goods and services without explicitly charging, or at understated or overstated values. Where transfer pricing is identified and quantified with a high degree of certainty, the relevant income entries should be adjusted to an “arm’s length” value.⁸

Portfolio investment income includes income flows between residents and non-residents arising from positions in equity and debt securities other than those classified under direct investment or reserve assets. Three types of portfolio investment income are distinguished at the first level, namely as, income on equity securities (dividends), income attributable to investment fund shareholders, and income on debt securities (interest). The income attributable to investment fund shareholders includes both dividends and reinvested earnings. Interest is further classified by types of debt securities and by maturity. Such a detailed classification of portfolio investment income ensures consistency with both instrument and functional classifications of financial assets and liabilities.

In the euro area balance of payments, investments of investment funds (the institutional unit) are never classified as direct investment (see also Section 3.7.1). Similarly, income from investments in investment fund shares is, by assumption, always classified in the portfolio investment functional category, independent of the existence of a direct investment relationship.

Ideally, portfolio investment income in the euro area should be compiled on a security-by-security basis, using information available in the Centralised Securities Database. As specified in Annex VI of Guideline ECB/2011/23, stocks of securities reported to the national compiler on an aggregate basis, i.e. not using standard (ISIN or similar) codes, should not exceed 15% of the total portfolio investment stocks of assets or liabilities; the same threshold should apply for the compilation of the respective portfolio investment income. The centralised securities database (CSDB) shall provide security-by-security information on dividends paid (for equity and investment funds shares) and

⁸ The adjustments for transfer pricing have implications for reinvested earnings and for the data of the counterpart economy. It is therefore useful to exchange information with counterpart economies to as great an extent as possible, in order to avoid asymmetrical recordings.

income accrued (for debt securities and investment funds shares), in addition to price, maturity, market capitalisation and outstanding amounts. These data allow b.o.p. compilers to calculate the income flows related to their countries' assets and liabilities on those portfolio investment instruments.

Other investment income covers flows between resident and non-resident institutional units with regard to interest on deposits, loans, trade credit and advances, and other accounts receivable/payable; income on other equity not classified in any other functional categories;⁹ and investment income attributable to policyholders in insurance, standardised guarantees and pension funds. Interest payable on SDR allocations is also recorded under other investment income. Fees for non-monetary gold loans should also be included in interest under other investment income.

Investment income on reserve assets includes income on equity and investment fund shares, and interest from securities included in reserve assets. Fees on security lending and monetary gold loans, and interest on unallocated gold accounts are also included under interest on reserve assets. Interest on SDR holdings is also shown on a gross basis under income on reserve assets. That is, the value of interest payable on SDR allocations (other investment) is not deducted. The major practical problem regarding the compilation of income on reserve assets on an accruals basis arises from the discrepancies between the concept of income in the statistical standards and the accounting rules, since, in many cases, national compilers collect information on reserve assets from the accounting departments of their respective NCBs.

3.4.3. Other primary income

Other primary income comprises rents, taxes and subsidies on products and production. Rents and investment income (see above) together correspond to the national accounts concept of property income. This component is presented in the primary income account to maintain consistency with national accounts and it is broken down by institutional sector of the compiling economy (general government and other sectors).

3.4.3.1. Taxes and subsidies on products and production

Taxes on production and imports consist of compulsory, unrequited payments, in cash or in kind, which are levied by general government or by the institutions of the EU in respect of the production and importation of goods and services, the employment of labour, and the ownership or use of land, buildings or other assets used in production (such taxes are payable irrespective of profits made).

⁹ Other investment income on equity excludes income on direct investment equity and portfolio investment in equity securities. Equity participation in some incorporated or unincorporated enterprises (such as partnership or joint ventures) does not qualify either as direct investment (because the equity participation is below the 10% threshold) or as portfolio investment (because they are not equity securities).

Conversely, subsidies are current unrequited payments which general government or the institutions of the EU make to resident producers. Cross-border taxes and subsidies on products and production are normally not significant, except in the case of economic unions such as the euro area.

In the euro area, taxes on production and imports paid to EU institutions include the following taxes collected by national governments on behalf of EU institutions : receipts from the common agricultural policy (levies on imported agricultural products; monetary compensatory amounts levied on exports and imports; sugar production levies and the tax on isoglucose; co-responsibility taxes on milk and cereals; and receipts from trade with third countries) and customs duties levied on the basis of the Integrated Tariff of the European Communities (TARIC). The taxes on production and imports paid to the institutions of the EU do not include the VAT-based third own resource, which is included in other current transfers (see Section 3.5.4). Subsidies granted by the institutions of the EU cover only current transfers made directly by them to resident producer units.

3.4.3.2. Rents

Rents cover income receivable for putting natural resources at the disposal of non-resident institutional units. Examples of rents include amounts payable for the use of land for extracting mineral deposits and other subsoil assets, and for fishing, forestry, and grazing rights. The regular payments made by the lessees of natural resources, such as subsoil assets, are often described as royalties, but they are classified as rents.

Notional direct investment enterprises (i.e. “fictitious” institutional units) created for holding land and leases on land for long periods will normally generate rent (or travel or operational leasing services if there is a building on the land). If the land or buildings are used by the owners (who are non-residents) of the notional unit, an imputation for rent (in the case of use of land), travel services (e.g. in territories that have a large number of vacation homes owned by non-residents) or operational leasing (if non-resident enterprises own premises for their own use) would be necessary. These imputations are recorded under relevant categories of the current account (mostly services). The income arising from the notional direct investment enterprise is recorded under direct investment income (see Section 3.4.2.6). For example, if a vacation home is rented, the notional unit receives the payment for accommodation and generates net earnings that are considered withdrawals from income of quasi-corporations, generated by the provision of accommodation services.

3.5 SECONDARY INCOME

The secondary income account shows current transfers (in cash or in kind) between residents and non-residents. Various types of current transfers are recorded in this account to show the different roles in the process of income distribution between the economies.

A transfer is an entry that corresponds to the provision of a good, service, financial asset, or other non-produced asset by an institutional unit to another institutional unit when there is no corresponding return of an item of economic value (or much below its value).

Current transfers consist of all transfers that are not transfers of capital (which are shown in the capital account – see Section 3.6). Current transfers directly affect the level of disposable income of the donor or recipient. They include transfers typically related to general government, e.g. transfers relating to current international cooperation between different governments, payment of current taxes on income and wealth, etc., and transfers related to other sectors, e.g. personal transfers (or workers' remittances) or non-life insurance premiums and claims (excluding the service charges).

The distinction between current and capital transfers is that in the case of the latter, the ownership of an asset (other than cash or inventories) changes from one party to another, or one or both parties acquire or dispose of an asset (other than cash or inventories), or a liability is forgiven by the creditor. Moreover, a capital transfer results in a commensurate change in the stocks of assets of one or both parties to the transaction without affecting the savings of either party. Capital transfers are typically large and infrequent, but they cannot be defined in terms of size or frequency.

In the euro area balance of payments, a primary distinction is made between transfers of general government and transfers of other sectors, while BPM6 distinguishes primarily between personal transfers and other current transfers. For simplicity, a more detailed description of current transfers is provided by type of transfer.

3.5.1. Current taxes on income and wealth, etc.

Current taxes on income and wealth, etc. in the international accounts consist mainly of taxes levied on the income earned by non-residents from the provision of their labour or financial assets. Taxes on capital gains arising from non-residents' assets are also included. Taxes on income and capital gains from financial assets are generally payable by other sectors (individuals, corporations and non-profit institutions) and receivable by general government. Inheritance taxes are treated as capital transfers (see Section 3.6.2) and refunds of taxes to taxpayers are treated as negative taxes, that is, the amount of taxes is reduced by tax refunds.

3.5.2. Social contributions and benefits

Social contributions are the actual or imputed contributions (including contribution supplements, which represent investment income payable on pension entitlements) made by households to social insurance schemes to make provisions for social benefits to be paid. Social contributions in the international accounts are recorded when a resident makes contributions to social security and pension schemes in another economy (or a non-resident makes contributions to social security and pension schemes in the resident economy) for his or her employment in that economy, or when an employer makes actual or imputed contributions on behalf of the employee. While in practice it is

employers who actually transfer social contributions to general government, in national accounts these contributions are recorded as paid to employees (as compensation of employees – see Section 3.4.1), who then transfer them to general government and pension funds.

Social benefits include benefits payable under social security and pension schemes. It includes pensions and non-pension benefits for events or circumstances such as sickness, unemployment, housing and education, and may be in cash or in kind.

3.5.3. Net non-life insurance premiums and non-life insurance claims

Non-life insurance premiums consist of both the gross premiums payable by policyholders to obtain insurance during the accounting period (premiums earned) and the premium supplements payable out of the investment income attributable to insurance policyholders (see Section 3.1.4.6) after deducting the service charges of insurance enterprises arranging the insurance. The service charges constitute purchases of services by the policyholders and are recorded as insurance services. Non-life insurance cover against various events or accidents resulting in damage to goods or property or harm to persons as a result of natural or human causes – fires, floods, crashes, collisions, sinking, theft, violence, accidents, sickness and so forth – or against financial losses resulting from events such as sickness, unemployment, and accidents.

Non-life insurance claims are the amounts payable in settlement of claims that become due during the accounting period. Claims become due at the moment when the event occurs thus giving rise to a valid claim.

Net premiums and claims on standardised guarantees are also included, although they are expected to be rather minor in international accounts. On the contrary, non-life reinsurance is expected to be rather significant for international accounts. A life policy that provides a benefit in the event of death within a given period but in no other circumstances, usually called term insurance, is regarded in the national accounts as non-life insurance, because a claim is payable only if a specified contingency occurs.

3.5.4. Other current transfers

Other current transfers comprise current internal cooperation, adjustments for change in pension entitlements, value added and gross national income (GNI)-based EU own resources, and miscellaneous current transfers, including personal transfers. When analysing residual current transfers categories, in particular when comparing BPM6 standard components data with euro area balance of payments, particular attention should be paid to the respective content of these categories.

Current international cooperation consists of current transfers in cash or in kind between the governments of different countries or between governments and international organisations. Part of

current international cooperation is vis-à-vis EU institutions. Generally, the funding of technical assistance or international aid has characteristics of current transfers. However, technical assistance that is tied to, or part of capital projects, is classified as capital transfers, because investment grants are capital transfers (see Section 3.6.2).

The adjustment for the change in pension entitlements is an imputed item which is necessary to reconcile the treatment of pensions as current transfers with the treatment of pension entitlements as financial assets. After the adjustment, the current account balance is the same as it would have been if social contributions and pension receipts were not recorded as current transfers.

The VAT and GNI-based third and fourth EU own resources are current transfers paid by the general government of each Member State to the EU institutions.

Miscellaneous current transfers, in cash or in kind, include current transfers between households (personal transfers), current transfers to non-profit institutions serving households, fines and penalties, payments of compensation (for injury to persons or damage to property caused by the former that are not settled as payments of non-life insurance claims) and others (e.g. gifts and donations of a current nature).

3.5.4.1. Personal transfers

Personal transfers between resident and non-resident households consist of all current transfers in cash or in kind made or received by resident households to or from non-resident households. This is independent from the source of income of the sender or the relationship between the households. Personal transfers also include *workers' remittances*, which consist of personal transfers made by migrants resident and employed in new economies to non-resident households.

Personal transfers also include current transfers that are payable from gamblers to winners and, in some cases, to charities; these transfers are regarded as taking place directly from those participating in the lottery or gambling to the winners and charities.

3.6 CAPITAL ACCOUNT

The capital account covers the acquisition/disposal of non-produced, non-financial assets and capital transfers. The sum of the current and capital account balances can also be shown as a balancing item, which is labelled as net lending (+)/net borrowing (-).

3.6.1. Acquisition and disposal of non-produced, non-financial assets

Non-produced, non-financial assets consist of: (i) natural resources (land, mineral rights, forestry rights, water, fishing rights, air space, and electromagnetic spectrum); (ii) contracts, leases and

licences; and (iii) marketing assets (brand names, trademarks) and goodwill. Acquisitions and disposals of non-produced, non-financial assets are recorded separately on a gross basis, rather than netted. Only the purchase/sale of such assets, but not their use, is to be recorded in this item of the capital account. International transactions in land and other natural resources do not usually arise, because notional resident units are generally identified as the owners of these immovable assets. Therefore, changes of ownership in land (typically including real estate) are usually classified as financial transactions under direct investment (see also Section 3.7).

3.6.2. Capital transfers

Capital transfers consist of: (i) transfers of ownership of fixed assets; (ii) transfers of funds linked to, or conditional on the acquisition or disposal of fixed assets; and (iii) the cancellation, without any consideration being received in return, of liabilities by creditors (such as debt forgiveness). The distinction between current and capital transfers, in practice, rests in the use of the transfer by the recipient country (see also Section 3.5 on secondary income). As is the case for current transfers, capital transfers in the euro area b.o.p. are classified according to the institutional sector making or receiving the transfer in the compiling economy (general government or other sectors) and are further broken down into: (i) capital taxes; (ii) investment grants; and (iii) other capital transfers.

Capital taxes consist of taxes levied at irregular and infrequent intervals on the values of the assets or net worth owned by institutional units, or on the values of assets transferred between institutional units. These include inheritance taxes and taxes on gifts between persons that are levied on the capital of the beneficiaries.

Investment grants consist of capital transfers, in cash or in kind, made to finance all or part of the costs of acquiring fixed assets. The recipients are obliged to use investment grants received in cash for the purposes of gross fixed capital formation; the grants are often tied to specific investment projects, such as large construction projects. A direct investment stake is distinguished from a project funded by an investment grant in that the direct investor owns voting power in the enterprise and has a right to future benefits, such as dividends or the right to sell the asset, which is not the case with investment grants. An investment grant in cash may be paid in instalments if the investment project continues over a long period of time. Payments of instalments continue to be classified as capital transfers even though they may be recorded in a succession of different accounting periods.

Other capital transfers include: i) debt forgiveness;¹⁰ ii) large non-life insurance claims (e.g. in the context of catastrophes); iii) one-off guarantees and other debt assumptions; iv) major non-recurrent payments as compensation for extensive damages or serious injuries not covered by insurance policies; v) large gifts, donations and inheritances (legacies), including those to non-profit

¹⁰ Debt forgiveness is the voluntary cancellation of all or part of a debt obligation within a contractual agreement between the creditor and the debtor.

institutions; and vi) some capital contributions to international organisations or non-profit institutions (if they do not give rise to equity).

3.7 DIRECT INVESTMENT

3.7.1. Definition and coverage

Foreign direct investment (FDI), or simply direct investment, is the functional category of cross-border investment associated with a resident in one economy having control of, or a significant degree of influence over, the management of an enterprise resident in another economy. In addition to the equity that gives rise to control or influence, FDI also includes investment associated with that relationship, including investment in indirectly influenced or controlled enterprises, investment in fellow enterprises, debt (except between affiliated financial corporations) and reverse investment.

A direct investor is an entity or group of related entities that is able to exercise control or a significant degree of influence over another entity that is resident of a different economy. Conversely, a direct investment enterprise is an entity subject to the control of, or a significant degree of influence from, a direct investor. Fellow enterprises are those enterprises that are under the control or influence of the same immediate or indirect investor, but neither fellow enterprise controls or influences the other. In some cases, a single entity may at the same time be a direct investor, a direct investment enterprise, and a fellow enterprise in different relationships to other enterprises. All these enterprises are so-called affiliates and are in a direct investment relationship with each other.

The OECD Framework for Direct Investment Relationships (FDIR) provides criteria based on control and influence for determining whether cross-border ownership results in a direct investment relationship.¹¹ Control or influence may be gained directly by owning equity that gives voting power in the enterprise, or indirectly by having voting power in another enterprise which has voting power in that enterprise. There are two types of direct investment relationship:

- (a) immediate direct investment relationships arise when a direct investor directly owns equity that entitles it to 10% or more of the voting power in the direct investment enterprise;
- (b) indirect direct investment relationships arise through the ownership of voting power in one direct investment enterprise that owns voting power in another enterprise or enterprises, that is, an entity is able to exercise indirect control or influence through a chain of direct investment relationships (under special rules).

Accordingly, there are two ways of having control or influence:

¹¹ This definition is in line with BPM6 and the OECD Benchmark Definition of Foreign Direct Investment, fourth edition (BD4).

- (a) control exists if the direct investor owns (directly or indirectly) more than 50% of the voting power in the direct investment enterprise;
- (b) a significant degree of influence exists if the direct investor owns (directly or indirectly) from 10% to 50% of the voting power in the direct investment enterprise.

Once the direct investment relationships have been established, all subsequent financial flows between affiliates resident in different economies are recorded as direct investment, with the exception of: (i) transactions in SDRs, currency and pension related entitlements; (ii) transactions between affiliated financial intermediaries (with the exception of insurance companies and pension funds)¹² where direct investment transactions are confined to equity, with debts therefore being recorded as portfolio or other investment; and (iii) financial derivatives and employee stock options, which should be reported under the functional category financial derivatives (other than reserves).

The components of direct investment transactions and positions are: (i) equity (including reinvestment of earnings); and (ii) debt instruments associated with various inter-company debt transactions. Real estate investment, including investment properties and vacation homes (whether for personal use or leased to others) are also included. Equity in international organisations is excluded from direct investment, even in cases in which voting power is 10% or more; these equity contributions are included in portfolio investment (if they are in the form of securities) or other investment otherwise.

Investment funds may be direct investors or direct investment enterprises. A fund of funds is an investment fund that invests in other investment funds which may thus become a direct investor in one or more of the funds. In a master-feeder fund arrangement, one or more investment funds (feeder funds) pool their portfolio in another fund (the master fund). In this case, a feeder fund that has 10% or more of the voting power in the master fund would meet the FDIR definition of a direct investor. Similarly, retail funds that hold 10% or more of voting power in an enterprise are direct investors. However, investment funds in the context of euro area b.o.p. are never in a direct investment relationship, therefore all investments by and in investment funds are classified within portfolio investment (see Section 3.8).

In the BPM6 standard components and the euro area b.o.p., direct investment is classified according to the relationship between the investor and the entity receiving the investment on a gross basis, namely:

- (a) investment by a direct investor in its direct investment enterprise (whether in an immediate relationship or not);
- (b) reverse investment by a direct investment enterprise in its own immediate or indirect direct investor;

¹² In other words, the usual direct investment definitions apply for captive financial institutions and money lenders, insurance corporations, pension funds, and financial auxiliaries.

- (c) investment between resident and non-resident fellow enterprises.

Data on reverse investment and investment between fellow enterprises are published separately in order to assist users in understanding the nature of direct investment (so-called asset/liability presentation). However, direct investment data can also be organised according to the direction of the direct investment relationship (the so-called directional principle). Under the directional principle, direct investment is shown as either direct investment abroad or direct investment in the reporting economy.

- (a) Direct investment abroad covers assets and liabilities between resident direct investors and their direct investment enterprises. It also covers assets and liabilities between resident and non-resident fellow enterprises if the ultimate controlling parent is a resident. Direct investment abroad is also called outward direct investment.
- (b) Direct investment in the reporting economy includes all assets and liabilities between resident direct investment enterprises and their direct investors. It also covers assets and liabilities between resident and non-resident fellow enterprises if the ultimate controlling parent is a non-resident. Direct investment in the reporting economy is also called inward direct investment.

3.7.2. Entities with little or no physical presence

Special purpose entities (SPEs) or vehicles (SPVs), conduits, international business companies, shell companies, shelf companies, and brass plate companies are all labels that are used when referring to legal entities registered in jurisdictions which offer various benefits, such as lower tax rates, speedy and low-cost incorporation, limited regulatory burdens, and confidentiality.¹³ Although there is no international standard definition of such companies, typical features of these entities are that their owners are not residents of the jurisdiction of incorporation; significant parts of their balance sheets are claims on, or liabilities to, non-residents; they have few or no employees; and they have little or no physical presence. Such companies are typically used to hold and manage the wealth of private individuals, hold assets for securitisation (as securitisation vehicles), issue debt securities on behalf of related companies (conduits), or hold shares in subsidiaries without actively directing them.

Where SPEs have the sole purpose of acting as financial intermediaries (as is the case for banks and other financial intermediaries such as brokers), transactions with the direct investors (parent companies) or with direct investment companies that are also financial intermediaries recorded under direct investment are limited to those associated with equity. In such cases, transactions/positions are recorded in portfolio investment (if they involve securities) or other investment (see Section 3.10).

¹³ The “captive financial institutions and money lenders” institutional sector class encompasses many of these entities (see Section 3.1.6)

3.7.3. Special valuation issues

Equity securities listed on stock exchanges are valued at market prices using the quotations from those exchanges. In the case of equity of unlisted direct investment companies, positions are valued on the basis of book values using a common definition of own funds at book value (OFBV) comprising the following accounting items:

- (a) paid-up capital (shares effectively paid for excluding own shares and including share premium accounts);
- (b) all types of reserves (including investment grants where accounting guidelines consider them to be company reserves);
- (c) non-distributed profits net of losses (including results for the current year).

To increase consistency in the valuation of assets and liabilities, equity stocks in unlisted direct investment companies can be valued according to one of the alternative valuation methods mentioned in BPM6 (Paragraph 7.16) if at least one of the following cases applies:

- (a) at least one enterprise in a direct investment chain is listed on the stock exchange, while at least one does not, leading to a significant distortion in the net i.i.p. of a company in the chain; in this case the market price of the listed company may be used as a reference for the valuation of the related unlisted companies;
- (b) differences occur in the recording of acquired goodwill along a chain of direct investment enterprises, leading to a significant distortion in the net i.i.p. of the country in which the company in the middle of the chain is resident;
- (c) the accounts of enterprises in a direct investment chain are denominated in different currencies and exchange rate fluctuations lead to a significant distortion in the net i.i.p. of the country in which the company in the middle of the chain is resident.

If one of these alternative methods is applied for valuing equity stocks in unlisted direct investment companies, the i.i.p. compiler is encouraged to inform the compiler in the counterpart country about the alternative method and to cooperate in order to minimise the risk of bilateral asymmetric recording.

Member States should compile foreign direct investment equity stocks and reinvested earnings on the basis of the results of foreign direct investment surveys to be collected at least annually. The following practices are not acceptable: (i) leaving the choice of the valuation criterion to reporting agents (market values or book values); and (ii) the accumulation of b.o.p. flows to compile stocks.

For equity shares of unlisted companies, the transactions recorded in the financial account may differ from the OFBV recorded in the i.i.p. Such differences are recorded as revaluations due to other price changes.

3.8 PORTFOLIO INVESTMENT¹⁴

3.8.1. Definition and coverage

Portfolio investment includes transactions and positions involving equity securities, and investment fund shares and debt securities other than those included in direct investment or reserve assets. Transactions as repurchase agreements and securities lending are excluded from portfolio investment.

Portfolio investment transactions and positions are valued at market prices. For portfolio investment in unlisted securities, however, differences in the valuation of transactions and positions may occur, as in the case of direct investment in unlisted shares.¹⁵ Such differences should be recorded as revaluations due to other price changes.

Portfolio investment is distinctive owing to the nature of the funds raised, the largely anonymous relationship between the issuers and holders, and the degree of trading liquidity in the instruments. In the euro area, portfolio investment is represented by instrument, original or remaining maturity (when applicable) and institutional sector.

Equity securities are all instruments representing claims on the residual value of a corporation or quasi-corporation after the claims of all creditors have been met. By contrast to debt, equity does not generally provide the owner with a right to an amount which is predetermined or determined according to a fixed formula. Equity securities can be listed on a recognised stock exchange, on any other form of secondary market (listed shares), or can be not listed on any exchange (unlisted shares).

Investment fund shares are equity securities issued by investment funds. They are known as units if the fund is a trust. Investment funds are collective investment undertakings through which investors pool funds for investment in financial and/or non-financial assets. Investment fund shares have a specialised role in financial intermediation as a kind of collective investment in other assets so they are identified separately from other equity shares. In addition, their income is treated differently, because reinvested earnings need to be imputed.

Debt securities are negotiable instruments that require the payment of principal and/or interest at some point(s) in the future. They include bills, bonds, notes, negotiable certificates of deposit, commercial paper, debentures, asset-backed securities, money market instruments, non-

¹⁴ For a more in-depth discussion of measurement issues related to portfolio investment, see the June 2002 [report](#) of the ESCB Task Force on Portfolio Investment Collection Systems, available on the ECB's website.

¹⁵ For debt securities that are not readily tradable, the net present value of the expected stream of future payments/receipts could be a good proxy. Otherwise, the market price of a security that closely approximates the tenor, risk and payment characteristics of the unlisted security could be an alternative. Finally, a price index based on similar maturities in the same currency could also be used to approach the market value of these types of securities. In all cases, the closing mid-market exchange rates prevailing at the end of the reference period should be applied to the instruments denominated in foreign currency in order to convert them into euro.

participating preferred stocks, convertible bonds and similar instruments normally traded in the financial markets. Transactions and positions in debt securities are broken down by original maturity into short-term and long-term.

Short-term debt securities are payable on demand or issued with an initial maturity of one year or less. They generally give the holder the unconditional right to receive a stated, fixed sum of money on a specified date. These instruments are usually traded, at a discount, in organised markets; the discount depends on the interest rate and the time remaining to maturity. Examples of such instruments are treasury bills, commercial and financial paper and bankers' acceptances.

Long-term debt securities are issued with an initial maturity of more than one year or with no stated maturity (other than on demand, which is included in short-term). They generally give the holder: (a) the unconditional right to a fixed monetary income or contractually-determined variable monetary income (payment of interest being independent from the earnings of the debtor); and (b) the unconditional right to a fixed sum in repayment of principal on a specified date or dates.

3.8.2. Euro area particularities in the compilation of portfolio investment

Given the difficulties inherent in compiling portfolio investment statistics in the euro area, in particular according to harmonised geographical and sector classifications among Member States, it was considered necessary to define common approaches for the collection of this information across the euro area. A centralised securities database (the CSDB) is essential for this purpose. The CSDB is a database owned by the ESCB that contains detailed data on the features of individual debt and equity securities issued worldwide, such as currency of denomination, country and sector of issuer, amounts outstanding, maturity, dividend payments, coupon structures, prices, etc. Member States collect data on a security-by-security basis on securities held by residents in their country, i.e. the amounts held by residents on each individual security. On the basis of the respective security identifiers (mostly ISIN), this information is combined with the individual securities data stored in the CSDB to compile the i.i.p. portfolio investment assets.

Flows and stocks of portfolio investment assets are broken down by sector of the resident issuer and, in the case of assets, also by sector of the counterpart. The latter, in combination with national portfolio investment liabilities, allows for the compilation of euro area portfolio investment liabilities broken down by the sector of the euro area resident issuer.

Portfolio investment stocks of assets and liabilities within the i.i.p. are compiled purely from stock data. Euro area portfolio investment collection systems have to conform to one of the following models:

- Monthly stocks (security-by-security) + monthly flows (security-by-security)
- Quarterly stocks (security-by-security) + monthly flows (security-by-security)
- Monthly stocks (security-by-security) + derived monthly flows (security-by-security)

— Quarterly stocks (security-by-security) + monthly flows (aggregate)

Derived flows are equal to the change in stocks during the reference month, adjusted for movements in exchange rates, prices and other identified changes in volume.

The target coverage is defined as follows: stocks of securities reported to the national compiler on an aggregate basis, i.e. not using standard (ISIN or similar) codes, should not exceed 15% of the total portfolio investment stocks of assets or liabilities. This threshold should be used as a guide in the assessment of the coverage of Member States' systems. The CSDB should sufficiently cover portfolio investment securities worldwide, so as to enable the compilation of statistics from security-by-security data on holdings.

The recording of portfolio investment transactions in the euro area b.o.p. takes place when euro area creditors or debtors enter the claim or liability in their books. Transactions should be recorded, in principle, at the effective price paid or received, less commissions and expenses. Thus, in the case of securities with coupon, the interest accrued from the last payment of interest is included and, for securities issued at a discount, the interest accumulated since issue is included. Offsetting entries for interest accrued is required in the quarterly b.o.p. financial account and in the i.i.p. (see Sub-section 3.1.4.2); in the monthly b.o.p., the same treatment is recommended (but not required), in line with the income account.

In practice, for euro area statistics, portfolio investment stocks are valued on the basis of the prices available in the CSDB for each individual security included in the assets or liabilities of the euro area (with the exception of the maximum 15% of total assets/liabilities for which data might be available on an aggregated basis only).

3.9 FINANCIAL DERIVATIVES AND EMPLOYEE STOCK OPTIONS (OTHER THAN RESERVES)

3.9.1. Definition and coverage

The functional category financial derivatives and employee stock options (other than reserves) largely coincides with the corresponding financial instrument class, the exception being the financial derivatives included in reserve assets.

A financial derivative contract is a financial instrument that is linked to another specific financial instrument, indicator or commodity, and through which specific financial risks (such as interest rate risk, foreign exchange risk, equity and commodity price risks, credit risk, etc.) can be traded in their own right in financial markets. Transactions and positions in financial derivatives are treated separately to the values of any underlying items to which they are linked. This category is identified separately to other categories, because it relates to risk transfer rather than supply of funds or other resources. Unlike other functional categories, no primary income accrues on financial derivatives; net flows associated with interest rate derivatives are recorded as financial derivatives, not as investment income. Any amounts accruing under the contract are classified as revaluations and are included in other changes in the respective assets/liabilities.

There are two broad types of derivatives contracts: option and forward-type contracts. A *forward-type contract* is an unconditional contract by which two counterparties agree to exchange a specified quantity of an underlying item (real or financial) at an agreed-upon contract price (the strike price) on a specified date. Forward-type contracts include futures, forwards and swaps. In an *option contract*, the purchaser acquires from the seller the right to buy or sell (depending on whether the option is a call (buy) or a put (sell)) a specified underlying item at a strike price on or before a specified date. The main difference between the two categories is that in an option contract, one of the counterparties acquires a right without having an obligation towards the other party.

Special cases of financial derivatives are: i) swap contracts, which involve the counterparties exchanging, in accordance with prearranged terms, cash flows based on the reference prices of the underlying items. (Swap contracts classified as forward-type contracts include currency swaps, interest rate swaps, and cross-currency interest rate swaps; other types of arrangements also called swaps, but that do not meet the definition above, include gold swaps, central bank swap arrangements and credit default swaps); and ii) credit derivatives, which are financial derivatives whose primary purpose is to trade credit risk. They are designed for trading in loan and security default risk. Credit derivatives take the form of both forward-type (total return swaps) and option-type contracts (credit default swaps). Under a credit default swap, premiums are paid in return for a cash payment in the event of a default by the debtor of the underlying instrument.

Margins are payments of cash or deposits of collateral that cover actual or potential obligations incurred. The classification of margins depends on whether they are repayable or non-repayable. Repayable margin payments consist of cash or other collateral deposited to protect a counterpart against default risk. They are classified as deposits under other investment (if the debtor's liabilities are included in broad money) or in other accounts receivable/payable. Non-repayable margin payments (also known as variation margin) reduce the financial liability created through a derivative; they are therefore classified as transactions in financial derivatives.

The valuation of financial derivatives should be performed on a marked-to-market basis. The accumulation of transactions should never be used to estimate financial derivative positions. Transactions relate largely to those in options and to settlements. Settlements eliminate positions, while the value of derivatives positions emerges largely from revaluation. Changes in the prices of derivatives are recorded as holding gains or losses (revaluations due to price changes). The value of derivatives contracts can switch from positive to negative and vice versa throughout the life of the contract, depending on how the price of the underlying behaves in comparison to the contractual price.

Owing to practical problems involved in separating the asset and liability flows in a meaningful way for some derivative instruments, all financial derivatives transactions in the euro area b.o.p. are recorded on a net basis. Financial derivative asset and liability positions in the i.i.p. statistics are recorded on a gross basis (with the exception of those financial derivatives that fall into the category of reserve assets, which are recorded on a net basis).

Financial instruments with embedded derivatives are not financial derivatives. If a primary instrument, such as a security or loan, contains an embedded derivative, the instrument is valued

and classified according to its primary characteristics. However, detachable warrants are treated as separate financial derivatives, because they can be detached and sold in financial markets.

Employee stock options are options to buy the equity of a company offered to employees of the company as a form of remuneration. If a stock option granted to employees can be traded on financial markets without restriction, it is classified as a financial derivative.

With regard to the geographical allocation of financial derivative transactions and positions, the following cases need to be distinguished

- (a) For financial derivatives traded in specifically organised markets (e.g. futures and options, with the exception of over-the-counter (OTC) paper), information on the residency of the ultimate investor is usually not available. The clearing houses search the market for opposite orders which match each other. Since each market participant holds a position vis-à-vis the market, which requires all participants to provide margins for open positions, usually day-by-day, the ultimate risk of the counterparty is determined solely by the central clearer. Therefore, as a practical solution, the country in which the clearing house is located should determine the geographical allocation of assets and liabilities associated with such financial derivatives. Where such practices are significant, it is recommended that the clearing houses themselves are included in the population of reporting agents in order to ensure full coverage and a correct allocation between domestic and external transactions/positions.
- (b) Non-negotiable OTC financial derivatives (e.g. most types of swaps and forward rate agreements (FRAs)) are, in principle, not traded in organised markets, since they are designed to meet the specific needs of the parties involved. For these kinds of contracts, the counterparty and its actual location can usually be identified.
- (c) Other negotiable financial derivatives (e.g. some types of options, warrants, etc.) are instruments which may be actively traded in secondary markets. Identifying the ultimate holder of liabilities poses the same problem as identifying the ultimate holder of financial instruments in the portfolio investment account, meaning that only the first counterparty to which the financial derivative was initially sold might be known.

3.10 OTHER INVESTMENT

3.10.1. Definition and coverage

Other investment is a residual category that includes positions and transactions other than those included in the other functional categories. Therefore, to the extent that the following classes of financial assets and liabilities are not included under direct investment or reserve assets, other investment includes: (a) other equity; (b) currency and deposits; (c) loans (including use of IMF credit and loans from the IMF); (d) insurance, pension and standardised guarantee schemes; (e) trade

credit and advances; (f) other accounts receivable/payable; and (g) SDR allocations (SDR holdings are included in reserve assets).

The valuation of positions in non-negotiable instruments, i.e. loans, deposits and other accounts receivable/payable (including trade credits and advances) is at nominal value. Nevertheless, transactions in loans, deposits and other accounts receivable/payable should also be valued at market prices. The use of nominal values for positions is partly influenced by pragmatic concerns about data availability and the need to maintain symmetry between debtors and creditors. These instruments should be recorded at their nominal value until they are written off. However, when loans, deposits, and other accounts receivable/payable are sold, the transaction values recorded in the financial account may differ from the nominal values recorded in the i.i.p. Such differences are recorded as valuation changes in the other changes in financial assets and liabilities account.

Other equity includes equity not in the form of securities and therefore not included in portfolio investment. Participation in the capital of some international organisations is generally not in the form of securities and thus is classified as other equity.

Currency and deposits include currency in circulation and deposits. Deposits are standardised, non-negotiable contracts generally offered by deposit-taking institutions which allow the placement and the later withdrawal of a variable amount of money by the creditor. Deposits usually involve a guarantee by the debtor to return the principal amount to the investor.

The distinction between “loans” and “currency and deposits” depends on the nature of the borrower. On the assets side, this implies that money granted by the resident money-holding sector to non-resident banks is to be classified as deposits and money granted by the resident money-holding sector to non-resident non-banks (i.e. institutional units other than banks) is to be classified as loans. On the liabilities side, money taken by resident non-banks, i.e. non-monetary financial institutions (MFIs) is always to be classified as loans. Finally, this distinction implies that all transactions involving resident MFIs and non-resident banks are to be classified as deposits.

Loans are financial assets that are: (a) created when a creditor lends funds directly to a debtor; and (b) evidenced by documents that are not negotiable. This category includes all loans, including mortgages, financial leases and repo-type operations. All repo-type operations, i.e. repurchase agreements, sell/buy-back operations and securities lending (with exchange of cash as collateral), are treated as collateralised loans, not as outright purchases/sales of securities, and are recorded under other investment within the resident sector that carries out the operation. This treatment, which is also in line with the accounting practice of banks and other financial corporations, is intended to more accurately reflect the economic rationale behind these financial instruments (see Section 3.10.2).

Insurance, pension schemes, and standardised guarantee schemes include the following: (a) non-life insurance technical reserves; (b) life insurance and annuity entitlements; (c) pension entitlements, claims of pension funds on pension managers, and entitlements to non-pension funds; and (d) provisions for calls under standardised guarantees.

Trade credit and advances are financial claims arising from the direct extension of credit by the suppliers of goods and services to their customers, and from advances for work that is in progress or yet to be undertaken, in the form of prepayment by customers for goods and services not yet provided. Trade credit and advances arise when payment for goods or services is not made at the same time as the change in ownership of a good or the provision of a service.

Other accounts receivable or payable comprise financial assets and liabilities created as counterparts to transactions where there is a timing difference between these transactions and the corresponding payments. This includes temporary liabilities for taxes, purchase and sale of securities, securities lending fees, gold loan fees, wages and salaries, dividends, and social contributions that have accrued but have not yet been paid.

SDR allocation to IMF members is shown as a liability incurred by the recipient under the SDRs in other investment, with a corresponding entry under SDRs in reserve assets.

3.10.2. Repurchase agreements, bonds lending and other related instruments

Repurchase agreements (repos), securities lending with cash collateral, and sale-buybacks are different terms for arrangements with the same economic effect as a securities repurchase agreement: all involve the provision of securities as collateral for a loan or deposit. These transactions are often a way of raising or lending short-term capital which is secured against securities.

Under repos and sale-buybacks, there is an obligation to return the securities. Such instruments are “genuine” repurchase agreements. In some Member States, there are instruments which appear to be similar to genuine repos or have the same name, but which do not entail an obligation to return the underlying securities; instead, there is an “option” to return them. These instruments are, for example, “*unechte Wertpapierpensionsgeschäfte*” or “*spurious repurchase agreements*” (Germany, Luxembourg, Austria and Italy), “*Réméré*” (France) and “*outright sale with an option to buy back*” (Denmark and Portugal). Such transactions should be recorded under portfolio investment.

Under a *repo*, the holder of a security provides it in exchange for cash with the commitment to repurchase the same or an equivalent security at a fixed price. The commitment may be to repurchase either on a specified future date (often one or a few days hence, but also further in the future) or an “open” maturity. There is a formal contract between the two parties which sets out the legal standing of the transaction. If a coupon is paid during the life of the repo it is passed on to the original holder (lender) of the securities.

Bond lending may or may not involve the provision of cash or marketable paper as collateral or the payment of the fee for the bonds lent without any capital transfer involved. Under lending of securities collateralised by cash or marketable paper, the borrower can sell or hold these securities, or deliver the securities under a futures or options contract. The collateral, if it is cash, will most likely be invested and the borrower of the securities will be paid a rate of interest. Coupon payments on the bonds belong to the original owner.

The supply and receipt of funds under a securities repurchase agreement is treated as a loan or deposit. It is generally a loan, but it is classified as a deposit if it involves the liabilities of a deposit-taking corporation and is included in national measures of broad money. Margin calls in cash under a repo are also classified as loans.

The securities provided as collateral under securities lending, including a securities repurchase agreement, are treated as not having changed economic ownership. This treatment is adopted because the cash receiver is still subject to the risks and rewards of any change in the price of the security. The same treatment is adopted for repurchase agreements without cash collateral, in which case there is no transaction in the securities and no loan.

The treatment recommended by the ECB is based on the notion of the transfer of “economic” or “beneficial” ownership as distinct from the transfer of “legal” ownership. All repo-type operations, i.e. “genuine” repos, sale-buyback operations and bond lending with cash collateral are treated as collateralised loans in the euro area b.o.p./i.i.p., not as outright purchases/sales of securities, and are recorded under other investment. This treatment, which is also in line with the accounting practices of banks and other financial corporations, is intended to reflect the economic rationale behind these financial instruments. The firm commitment to repurchase the securities implies that the economic ownership remains with the original owner, who retains the risks and rewards associated with that ownership, while not necessarily retaining legal title. Such a procedure is, in addition, consistent with the treatment in money and banking statistics and with the current practice in the MFI sector.

3.10.3. Treatment of intra-ESCB transactions

Among the transactions between the members of the European System of Central Banks (“intra-ESCB” transactions), only those involving the NCB of a euro area Member State and the NCB of a non-euro area Member State are, in principle, relevant for the compilation of the euro area aggregates. However, in some areas, asymmetric statistical treatment, even within the Eurosystem, would lead to distortions in the euro area b.o.p. as a result of the method used to compile some of the euro area aggregates (e.g. portfolio investment and income on portfolio investment).

All intra-ESCB transactions are settled via TARGET. Therefore, the treatment of the required offsetting entries, as required by the quadruple-entry structure of the b.o.p., is conducted in line with the agreed treatment of changes or positions in TARGET balances, as described in Section 3.10.4.

The treatment of specific intra-ESCB transactions (and positions where appropriate) is the following:

- *Initial transfer of reserve assets*: EUR claims on the ECB resulting from the initial transfer of international reserves from NCBs to the ECB should be recorded under “other investment/monetary authorities/assets/currency and deposits”.
- *Shares of the ECB*: the NCBs should record their participation in the ECB’s capital under “other investment/monetary authorities/assets/other assets”.

- *Reallocation of monetary income* is treated as an intra-euro area current transfer, either positive or negative, on a gross basis, i.e. identified separately from any other transaction (such as coverage of ECB losses), under “current account/current transfers”.
- *Distribution of ECB profit to NCBs and coverage of ECB financial losses by NCBs* are considered as positive or negative income (as appropriate) accruing on the share of each NCB in the capital of the ECB. Thus, they are recorded as intra-euro area transactions under “current account/investment income/income on other investment”.
- *Intra-Eurosystem (“technical”) balances resulting from the issuance and circulation of euro banknotes* are not considered as “external” and therefore they are not included in the national b.o.p./i.i.p. The remuneration of these technical balances is treated in the national b.o.p. as redistribution transfers and is thus recorded under “current account/current transfers”.
- *Remuneration of intra-ESCB balances* is treated as income on deposits and recorded under “current account/investment income/income on other investment”.
- *Proceeds from sanctions imposed by the ECB*: in accordance with Article 3.9 of Council Regulation (EC) No 2532/98 of 23 November 1998 concerning the powers of the ECB to impose sanctions, these proceeds belong to the ECB. The NCB which holds the account of the market participant concerned debits the latter’s current account for the amount of the financial sanction and transfers this amount to the ECB. In b.o.p. statistics, NCBs consider these transactions as “current account/current transfers”.
- *Remuneration of the claims on the ECB resulting from the transfer by NCBs of pooled reserve assets* is considered to be an intra-euro area income payment and recorded under “current account/investment income/income on other investment”.
- *Collateral exchanged under the correspondent central banking model (CCBM)* in the event of redemption, coupon payments, fees, etc.: in line with ECB recommendations, the NCBs of the countries of residence of the issuer and the ultimate holder record these b.o.p. transactions as intra-euro area or extra-euro area flows, respectively, and allocate them to the relevant sector under “financial account/portfolio investment”. Countries that do not yet fully apply the accruals principle should record coupon payments under “current account/investment income on portfolio investment”.

3.10.4. Balances from TARGET operations

Since the start of Stage Three of EMU in 1999, cross-border transactions within the ESCB have largely been executed via TARGET, giving rise to daily intra-ESCB balances. The economic and functional rationale behind these intra-ESCB transactions/balances, which are denominated in euro, is similar to that behind the movements of nostro/vostro accounts.

In order to simplify the recording procedures, it was agreed that, as of 30 November 2000, all TARGET-related bilateral claims and liabilities would be netted at the end of each day within the ESCB in such a way that each participant would hold only one single (net) position exclusively vis-à-vis the ECB. The ECB performs the role of a central clearing house within the Eurosystem and is the sole holder of overnight TARGET balances vis-à-vis the NCBs of the non-euro area Member States. In other words, the TARGET balances of the ECB represent the euro area TARGET balances vis-à-vis those Member States which are not participating in the euro area.

Since the TARGET legislation does not allow for granting overnight credit to the NCBs of non-euro area Member States, the Eurosystem may only hold aggregated overnight debit balances vis-à-vis these NCBs. These net positions and changes in the TARGET balances of the Eurosystem vis-à-vis the NCBs of non-euro area Member States are recorded under “other investment/liabilities” of the sector “monetary authorities” as “loans, currency and deposits” within the euro area i.i.p. and b.o.p.

3.10.5. Non-euro area holdings of euro banknotes

Both the b.o.p. and the i.i.p. of the euro area incorporate an adjustment for the holdings of euro banknotes by non-euro area residents. This adjustment is recorded under “other investment/liabilities/currency and deposits/Eurosystem”. Initially, the adjustment was mostly intended to take into account the effect of the euro cash changeover on b.o.p. transactions in 2002 and was based on euro banknote shipments from/to euro area MFIs.

Since 2003, holdings of euro banknotes by non-residents have been estimated using a statistical method. The method is based on a weighted average of two components.

(a) Fixed proportion of non-resident holdings to total euro banknotes in circulation

This component (accounting for 75%) is based on the assumption that the ratio between the holdings of banknotes inside and outside the euro area has remained stable since 2002. Under that assumption, the proportion of non-resident holdings to the total circulation of banknotes (seasonally adjusted) was set to 9.39% on the basis of banknote shipments data as at end-2002.

(b) Fixed proportion of coins to banknotes in circulation inside the euro area

This component (accounting for 25%) is based on the proportion of coins to banknotes in circulation inside the euro area. The estimation relies on two assumptions: (i) coins do not circulate outside the euro area; and (ii) the proportion of coins to banknotes circulating inside the euro area remains stable over time. The fixed proportion (4.16%) was calculated on the basis of the weighted average of the currency in circulation before the changeover to the euro in those euro area countries whose legacy currencies were not frequently circulating outside their respective countries (i.e. all original euro area countries excluding DE and FR). By using the actual coins in circulation (seasonally adjusted) and deriving the proportion of this to the

total banknotes issued (also seasonally adjusted), banknotes in circulation outside the euro area can be obtained as a residual.

3.11 RESERVE ASSETS

3.11.1. Definition of the Eurosystem's reserve assets

The definition of the Eurosystem's international reserves was approved by the ECB's Governing Council in March 1999. The reserve assets of the euro area consist of the Eurosystem's reserve assets, i.e. the ECB's reserve assets and the reserve assets held by the NCBs of the participating Member States.¹⁶

Reserve assets are those external assets that are readily available to, and controlled by, monetary authorities and that are used for meeting b.o.p. financing needs, intervening in exchange markets to manage the currency exchange rate, and other related purposes (such as maintaining confidence in the currency and the economy or serving as a basis for foreign borrowing). Reserve assets must be foreign currency assets, claims vis-à-vis non-residents and assets that actually exist. Potential assets are excluded. Underlying the concept of reserve assets are the notions of "control" and "availability for use" by the monetary authorities. Reserve assets must: (i) be under the effective control of the relevant monetary authority, either the ECB or the NCBs of the participating Member States; and (ii) be highly liquid, marketable and creditworthy foreign (i.e. non-euro) currency-denominated claims on non-residents of the euro area, in addition to monetary gold, SDRs and IMF reserve positions. This definition expressly excludes foreign-currency claims on residents of the euro area, and euro-denominated claims on non-residents of the euro area from being considered reserve assets either at the national or at the euro area level.

Although governments may hold working balances in foreign currencies, foreign exchange positions of central governments and/or of the ministries of finance are not included in the reserve assets definition for the euro area in accordance with the institutional arrangements in the Treaty establishing the European Community. Article 105 (2) of the Treaty, in conjunction with Article 116 (3), gives the Eurosystem the exclusive right to hold and manage the official foreign reserves of the Member States from the beginning of Stage Three of EMU.

Reserve assets of the ECB are pooled in accordance with Article 30 of the Statute of the European System of Central Banks and are thus considered to be under the direct and effective control of the ECB. As long as no further transfer of ownership takes place, reserve assets retained by the NCBs are under their direct and effective control and are treated as reserve assets of each individual NCB.

Against the background of the financial crisis of the late 1990s, the concept of usable reserves has gained importance. This concept supplements data on the gross reserves with information about

¹⁶ See also the ECB publication entitled "[Statistical treatment of the Eurosystem's international reserves](#)", October 2000, (to be updated).

commitments relating to reserves, i.e. the so-called reserve-related liabilities¹⁷, and might be an important indicator of a country's ability to meet its foreign exchange obligations. However, it was agreed that reserve assets presented on a gross basis without any netting-off of reserve-related liabilities should remain the central indicator of a country's ability to meet its foreign exchange obligations.¹⁸

Monthly data on (gross) reserve assets of the Eurosystem are therefore supplemented with information on other foreign currency assets, and on predetermined and contingent short-term net drains on the gross reserve assets classified according to residual maturity. Moreover, a currency distinction between gross reserve assets denominated in SDR currencies (in total) and other currencies (in total) with a quarter's lag is also required.

The valuation of reserve assets (and other foreign currency assets) is no different from similar instruments classified in the other functional categories, i.e. it is based on market prices for all tradable instruments and nominal value (for positions) in non-tradable instruments. Gold should be valued at the closing market price (gold fixing is usually quoted in terms of US dollars per fine troy ounce) prevailing at the end of the reference period. The offsetting entries for accrued interest on reserve assets should be recorded within the relevant reserve assets items.

Prevailing market exchange rates at the time when the transaction takes place and closing mid-market exchange rates at the end of the reference period are used for the conversion of transactions and holdings of foreign currency-denominated assets into euro, respectively.

3.11.2. Specific issues related to gold

Monetary gold is gold to which the monetary authorities (or others who are subject to the effective control of the monetary authorities) have title and is held as reserve assets. It includes gold bullion and unallocated gold accounts of non-residents that give title to claim the delivery of gold.

Gold bullion takes the form of coins, ingots or bars with a purity of at least 995 parts per 1,000, including such gold bullion held in allocated gold accounts.

Unallocated gold accounts represent a claim against the account operator to deliver gold. For these accounts, the account provider holds title to a reserve base of physical allocated gold and issues claims to account holders denominated in gold. Unallocated gold accounts not classified as monetary gold are included as currency and deposits in other investment.

A special case of change in classification occurs for gold bullion. Gold bullion can be a financial asset (monetary gold) or a good (non-monetary gold), depending on the holder and the motivation for holding. Monetisation is the change in the classification of gold bullion from non-monetary to

¹⁷ This concept has been developed by the IMF in the context of the Special Data Dissemination Standard.

¹⁸ The only exception relates to the sub-category of financial derivatives, which are recorded on a net basis.

monetary. De-monetisation is the change in the classification of gold bullion from monetary to non-monetary.

With regard to *outright purchases and sales of gold*, only gold transactions in which both counterparts belong to the “monetary authorities” institutional sector (including international monetary organisations) should be recorded under reserve assets (sub-item “monetary gold”) in the b.o.p. When at least one counterpart is not a monetary authority, gold transactions vis-à-vis non-residents should be recorded under the *goods* item of the b.o.p. *current account*. The consequent monetisation/de-monetisation of the gold would induce increases/decreases in the monetary gold position of the monetary authority involved. However, this reclassification of the gold should only give rise to entries in the “other adjustments” column of the i.i.p., without any recording in the b.o.p.

As regards *reversible transactions in gold (swaps, repos, loans and deposits)*, the statistical treatment of the gold is similar to that of securities: neither lending of gold nor delivery of securities as collateral involve any recording in the b.o.p. or the i.i.p., i.e. holdings of monetary gold should remain unchanged in all reversible gold transactions. Only the foreign exchange cash delivered in gold swaps/repos is recorded under reserve assets (sub-item “foreign exchange/currency and deposits” matched by an entry in “other investment/monetary authorities/liabilities”).

3.11.3. Specific issues related to the positions vis-à-vis the IMF (including SDRs)

For statistical purposes, SDR accounts reflect the same rationale as traditional correspondent bank accounts, i.e. variations in SDR holdings may constitute offsetting entries for the rest of the cross-border b.o.p. flows. Transactions/positions in these accounts should be recorded under reserve assets (sub-item “SDRs”). Allocation/cancellation of SDRs should be recorded as b.o.p. transaction as well as increase/decrease in the i.i.p. under other investment/SDRs. The operations related to the *reserve position in the IMF* should be recorded under the sub-item of the same name. Consequently, no entry under sub-item “SDRs” should be derived from movements in this position, despite their being denominated in SDRs.

Purchases of foreign currency using the Fund’s General Resources Account by drawing on the position in the Fund should be regarded as reclassifications of reserve assets, thus not altering the total level of reserves. Such transactions cause increases in holdings of foreign exchange and symmetrical decreases in the reserve position in the Fund. Repurchases represent reverse transactions and would therefore give rise to similar but reverse entries.

Claims on the IMF arising from Fund financing under the New Arrangements to Borrow (NAB) and the General Arrangements to Borrow (GAB) should be reflected in the sub-item “Reserve position in the IMF”. However, claims arising from commitments under the Enhanced Structural Adjustment

Facility (ESAF)¹⁹ should be treated statistically as deposits, and should thus be allocated to the sub-item “foreign exchange/currency and deposits”.

3.12. EURO AREA B.O.P./I.I.P. DEVIATIONS FROM BPM6

The required principles and classifications of the quarterly b.o.p. and i.i.p. statistics replicate, to a large extent, the standard components of the BPM6, which is now consistent with the System of National Accounts 2008 (SNA 2008) and the European System of National and Regional Accounts 2010 (ESA 2010). Exceptions to the application of BPM6 standards in the euro area are:

- (a) the classification of all transactions/position in/from investment funds in portfolio investment, instead of following the agreed rules for the classifications of transactions/positions as foreign direct investment;
- (b) the classification of the exchange of external financial assets between two resident institutional units as external transactions instead of “other changes in volume”: in other words, country contributions to the euro area/EU aggregates follow the “pure” debtor/creditor approach to ensure consistency vis-à-vis quarterly euro area accounts on a from-whom-to-whom basis.

¹⁹ Replaced from 2000 onwards by the Poverty Reduction and Growth Facility (PRGF).