



EUROPEAN CENTRAL BANK

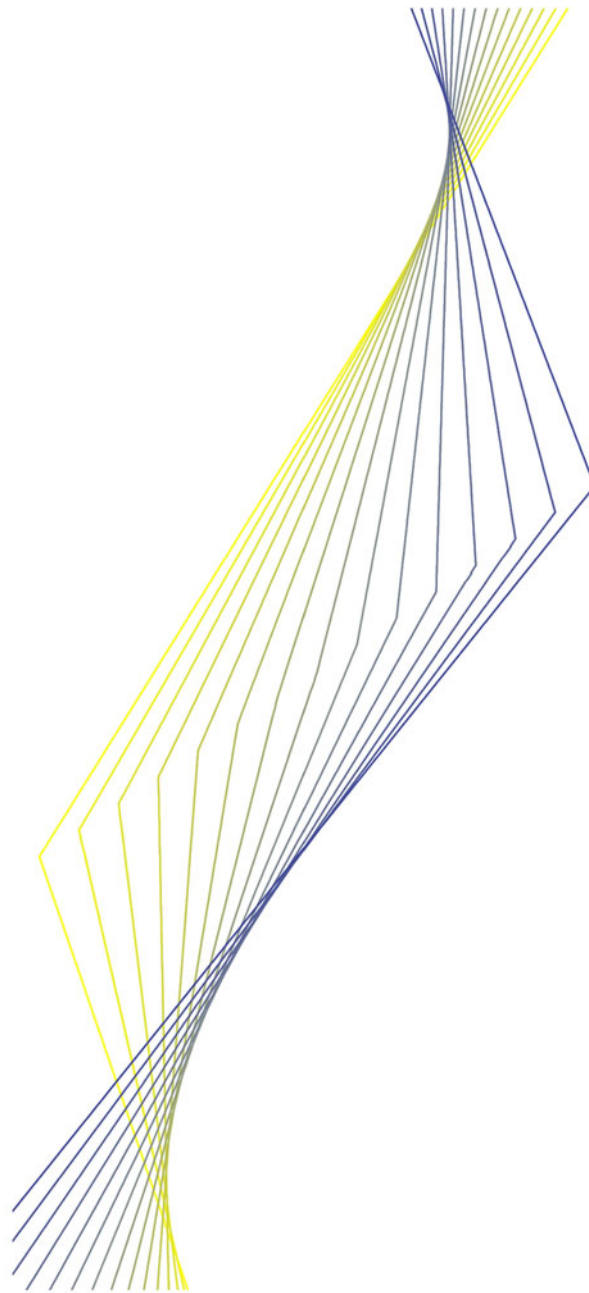


**EUROPEAN UNION
BALANCE OF PAYMENTS/
INTERNATIONAL
INVESTMENT POSITION
STATISTICAL METHODS**

November 2002



EUROPEAN CENTRAL BANK



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INTERNATIONAL
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List of abbreviations and acronyms

ARIMA	Auto-Regressive Integrated Moving Average	CRP	Compte-rendu de paiement (standard record of payment – France)
b.o.p.	Balance of payments	CSDB	ECB Centralised Securities Database (in progress)
BAFI	Database on French financial agents	CSO	Central Statistical Office (Ireland)
BcL	Banque centrale du Luxembourg	CVS	Comunicazione valutaria statistica (statistical reporting form – Italy)
BIS	Bank for International Settlements	DDG	Déclarant direct général (general direct reporting company – France)
BLEI	Belgian-Luxembourg Exchange Institute	DRC	Direct reporting company (France)
BLEU	Belgian-Luxembourg Economic Union	EAGGF	European Agricultural Guidance and Guarantee Fund
BOPFS	Balance of Payments and Financial Sector (United Kingdom)	EBRD	European Bank for Reconstruction and Development
BPM5	IMF Balance of Payments Manual (5th edition)	ECB	European Central Bank
BSG	Business Statistics Group (United Kingdom)	ECGD	Export Credit Guarantee Department
c.i.f.	Cost, insurance and freight at the importer's border	ECOSER	A sub-set of GESMES
CBS	Central Bureau of Statistics (Netherlands)	EDI	Electronic Data Interchange
CCIRS	Cross-currency interest rate swaps	EDIFACT	EDI for Administration, Commerce and Transportation
CII	Collective investment institution	EMI	European Monetary Institute
CNMV	Comisión Nacional del Mercado de Valores (Spanish national stock market Commission – Spain)	EMU	European Economic and Monetary Union
COE	External Transaction Report (registers – Portugal)	ERDF	European Regional Development Fund
COS	Chamber of Shipping (United Kingdom)	ESAF	Enhanced Structural Adjustment Facility
CPB	Central Planning Bureau (Netherlands)	ESA	European System of Accounts
CPE	External Position Report (registers – Portugal)	ESA 95	European System of National and Regional Accounts (EC Regulation No. 2223/96 dated 25 June 1996)
CPI	Consumer price index	ESCB	European System of Central Banks
CPIS	IMF Co-ordinated Portfolio Investment Survey	EU	European Union
CREST	Settlement system for UK shares and other corporate securities	Eurostat	Statistical Office of the European Communities (Commission – DG ESTAT)

Extrastat	System for the collection and compilation of statistics relating to trade in goods between Member States and non-EU countries	MESAG	Futures Exchange Macro-Economic Statistics and Analysis Group
f.o.b.	free on board at the exporter's border	MFI	Monetary Financial Institution
FATS	Foreign Affiliated Trade Statistics	MFSD	Monetary and Financial Statistics Division (United Kingdom)
FDI	Foreign direct investment	MMIs	Money market instruments
FININFO	A securities data vendor (France)	MUMS	(European Economic and Monetary Union Member State(s))
FRA	Forward rate agreements	NBB/BNB	Nationale Bank van België/ Banque Nationale de Belgique
FSA	Financial Services Authority (United Kingdom)	NAB	New Arrangements to Borrow (see GAB)
FSO	Federal Statistical Office (Germany)	NCB	National central bank
GAB	General Arrangements to Borrow (under the umbrella of the IMF)	NSSG	National Statistical Service of Greece
GDR	General direct respondent	NTMA	National Treasury Management Agency (Ireland)
GESMES	Generic Statistical Message based on EDIFACT Syntax	OECD	Organisation for Economic Co-operation and Development
GNP	Gross national product	OeNB	Oesterreichische Nationalbank (Austrian central bank)
i.i.p.	International investment position	ONS	Office for National Statistics (United Kingdom)
IBRD	International Bank for Reconstruction and Development (World Bank)	OTC	Over-the-counter
IFSC	International Financial Services Centre (Ireland)	PGRF	Poverty Reduction and Growth Facility
IMF	International Monetary Fund	PRDC	Partial direct reporting company
INE	Instituto Nacional de Estatística (National Institute of Statistics – Portugal)	RISC	Computer system used by the Bank of Greece
INSEE	French national institute for statistics and economic research	RTGS	Real-time gross settlement system
Intrastat	Intra-Community Trade Statistical System	ROW	Rest of the World
IPS	International Passenger Survey (United Kingdom)	SAS	Statistical Analysis Software (trade mark)
ISIN	International Securities Identification Number	SDDS	IMF Special Data Dissemination Standard
Istat	Istituto nazionale di statistica (National Statistical Institute – Italy)	SDRs	Special drawing rights
ITRS	International transactions reporting system	SFI	Special financial institution
LIFFE	London International Financial	SIREN	Identification code number of French firms
		SMEs	Small and medium-sized enterprises
		SNA 93	System of National Accounts of the United Nations
		SRS	Share Register Survey (United

STATEC	Kingdom) Service Central de la Statistique et des Etudes économiques (Luxembourg)	UK	(Italian Foreign Exchange Office) United Kingdom
STC	ESCB Statistics Committee	WG-BP&ER	ESCB Working Group on Balance of Payments and External Reserves Statistics
TARGET	Trans-European Automated Real-time Gross settlement Express Transfer system	WTO	World Trade Organization
UIC	Ufficio italiano dei cambi		

I Foreword

With this publication, which is commonly referred to as the “B.o.p. Book”, the European Central Bank (ECB) aims to provide parties interested in balance of payments (b.o.p.) and international investment position (i.i.p.) statistics as users or compilers with information relating to all EU countries on (i) the content and structure of statistical data and (ii) the collection methods used. It also gives an overview of the compilation of the euro area aggregate figures by explaining the compilation procedures and underlying methodological concepts agreed by the EU Member States.

In accordance with the division of responsibilities in the field of b.o.p./i.i.p. statistics between the European Commission (Eurostat) and the ECB (Directorate General Statistics), the “B.o.p. Book” focuses mainly on the concepts and definitions related to the b.o.p. financial account and related income and i.i.p. statistics. Nevertheless, it also contains a number of references to items falling under the responsibility of the European Commission (Eurostat) (i.e. goods, services, compensation of employees, the current account as a whole and the capital account) since the ECB compiles a monthly balance of payments for the euro area.

The initiative was taken in April 1993 that the European Monetary Institute (EMI), the forerunner of the ECB, would compile a description of b.o.p. statistical data and collection methods. The Guideline of the European Central Bank No. ECB/1998/17 (1 December 1998) and its updated version No. ECB/2000/4 of May 2000 state that the ECB “will monitor the compilation methods used for the reporting of b.o.p. and i.i.p.

statistics, as well as the concepts and definitions applied on a regular basis by the Member States participating in the euro area” and, therefore, provide for a regular update of the B.o.p. Book.

The “B.o.p. Book” was first issued in January 1998; updates were released in August 1998 and in November 1999, 2000 and 2001. The present update of autumn 2002 provides, in particular, further information on the statistical compilation systems in individual Member States and on the methodological standards agreed at the euro area level since the last update.

The methodological concepts follow international standards (i.e. the IMF Balance of Payments Manual, 5th edition, the “BPM5”); in addition, further harmonisation proposals in special fields have been developed and agreed within the European System of Central Banks (ESCB), in consultation with the European Commission (Eurostat). EU Member States not initially participating in the euro area were also involved in the development of the concepts, definitions and agreed practices as described in Chapter 3.

The “B.o.p. Book” is revised every year under the responsibility of the ECB’s Balance of Payments Statistics and External Reserves Division and published on the ECB website. It is also available in hard copy on request from the ECB’s Press Division. Specific enquiries relating to individual countries may be addressed to the countries concerned, whose contributions are gratefully acknowledged. A glossary is provided in the Annex (see list in Chapter 5.1).

2 Compilation of euro area balance of payments and international investment position statistics

2.1 The legal framework of the euro area balance of payments and international investment position statistics

The statistical requirements of the European Central Bank (ECB) with respect to the euro area national central banks (NCBs) and other competent national authorities are based on the Guideline on the “Statistical reporting requirements of the ECB in the field of balance of payments, international reserves template and international investment position statistics (ECB/2000/4)” of May 2000, which replaced the former Guideline of 1 December 1998 (ECB/1998/17). This Guideline formalises the requirements specified in the “implementation package” (“Statistical requirements for Stage Three of EMU”), July 1996 – see also the updated version “Statistical information collected and compiled by the European System of Central Banks” (May 2000)). It also addresses relevant needs specified in other documents formally adopted by the Governing Council of the ECB. Current international standards, such as the IMF Balance of Payments Manual (fifth edition), released in October 1993 (BPM5), the UN System of National Accounts (SNA 93) and the European System of National and Regional Accounts (ESA 95), have been used as a reference in formulating these concepts and definitions.

2.2 Shared responsibility between the European Central Bank (Directorate General Statistics) and the European Commission (Eurostat)

The European Commission (Eurostat) and the ECB’s Directorate General Statistics (DGS) have laid down the framework for the joint definition and compilation of balance of payments (b.o.p.) and international investment position (i.i.p.) statistics at the European level.

The statistical competence of the two organisations is defined with respect to (i) conceptual issues and (ii) the compilation and publication of b.o.p./i.i.p. statistics at the European level.

With respect to (i), the Commission (Eurostat) is responsible for the concepts and definitions related to the b.o.p. current and capital accounts, except for investment income, which is closely linked to the financial account. The ECB’s DGS is responsible for the concepts and definitions related to the b.o.p. financial and investment income accounts and for the i.i.p. statistics. Within the b.o.p. financial account and the i.i.p., the direct investment account is of special interest to the Commission. For the same reason, Eurostat has a special interest in direct investment income.

Additional information on the items for which the European Commission (Eurostat) is responsible is made available on its website (<http://europa.eu.int/en/comm/eurostat/serve/home.htm>). In this respect, the European Commission’s “circa” homepage (<http://forum.europa.eu.int/Public/irc/dsis/Home/main>) should be mentioned. Under “Eurostat”, documentation on certain statistical “interest groups” is available. The interest group on “Balance of Payments - BOP” contains basic b.o.p. documentation such as the *Vademecum*, the *Compilation Guide*, *Technical Group reports*, as well as a list of the latest publications in the field. Constantly updated BOP Working Group papers are available for both consultation and downloading.

As regards (ii), the allocation of data compilation and publication tasks leads, in principle, to the following distribution of responsibilities with respect to EU 15 and euro area aggregates for b.o.p. and i.i.p. statistics:

- the European Commission (Eurostat):
EU 15 b.o.p. and direct investment statistics; and

- the ECB (DGS):
euro area b.o.p./i.i.p. statistics and international reserves.

Euro area monthly b.o.p. items are thus defined and compiled only by the ECB.

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

2.3 Statistical reporting requirements for national compilers

2.3.1 ECB data requirements in balance of payments statistics

Data for the b.o.p. for the euro area as a whole are required; the ECB does not use or require data on cross-border transactions within the euro area, with the important exception of the portfolio investment and portfolio investment income accounts (see Section 2.5 “Methods of compiling the euro area aggregates”). B.o.p. statistics are published at monthly and quarterly frequencies. The scope and breakdown are different for monthly data, on the one hand, and for quarterly data, on the other. While the monthly b.o.p. for the euro area aims to show the main items affecting monetary conditions and exchange markets, the quarterly b.o.p. provides more detail of external transactions.

The statistical requirements for the national b.o.p. compilers are outlined below:

2.3.1.1 Monthly requirements

The monthly b.o.p. data are required from the Member States six weeks (30 working days) after the end of the reference month. The collection of data from reporting agents is organised by the national authorities with this deadline in mind. Owing to this short period, it is permitted, to some extent, to depart from the international guidelines set out in the

BPM5. Permitted are, inter alia, the recording of income on a cash basis, instead of on an accruals basis, and the provision of estimates. Furthermore, no sector breakdown is provided for financial derivatives.

The aim of the monthly b.o.p. is to provide a good picture of developments quickly enough to be of use for the analysis of flows affecting monetary conditions and exchange markets.

The monthly b.o.p. data have been required since mid-March 1999 (January 1999 data), showing credits/debits for the current and capital account and assets/liabilities for the financial account, excluding financial derivatives. Data relating to periods prior to January 1999 are provided for the years 1995-1997 (partially) and for 1998.

The monthly b.o.p. data are revised each quarter, in the light of more detailed quarterly information, and annually in connection with the provision of data for the i.i.p.

Table: Monthly euro area balance of payments

- I. **Current account** (credits, debits and net flows)
 - Goods
 - Services
 - Income
 - Compensation of employees
 - Investment income
 - Direct investment
 - Portfolio investment (credits and net flows)
 - Other investment
 - Current transfers
- II. **Capital account** (credits, debits and net flows)
- III. **Financial account**
 - Direct investment (abroad and in the reporting economy)
 - Equity capital
 - MFIs (excluding central banks)
 - Non-MFIs

Reinvested earnings	
MFIs (excluding central banks)	
Non-MFIs	
Other capital	
MFIs (excluding central banks)	–
Non-MFIs	
Portfolio investment (net assets and net liabilities)	–
Equity securities	
Monetary authorities	
MFIs (excluding central banks)	
Non-MFIs	
Debt securities	
Bonds and notes	
Monetary authorities	
MFIs (excluding central banks)	
Non-MFIs	
Money market instruments	
Monetary authorities	
MFIs (excluding central banks)	
Non-MFIs	
Financial derivatives (net)	
Other investment (net assets and net liabilities)	
Monetary authorities	
General government	
MFIs (excluding central banks)	
Long-term	
Short-term	
Other sectors	
Reserve assets (only assets)	

undistributed profits (i.e. dividends and reinvested earnings);

– the *capital account*, for which the ECB requires no breakdown;

– the *other investment account*, which is somewhat simplified by (i) requiring no distinction between loans and deposits on each side of the b.o.p. and (ii) requiring no maturity breakdown. There is also a change in the presentation of the breakdown (i.e. sectors as first priority) which is compatible, but not identical, with the BPM5 where instruments have priority.

In line with the SNA 93, the BPM5 recommends that interest be recorded on an accruals basis. This recommendation affects the current account (investment income), with a complementary effect on the financial account. For the b.o.p. statistics of the euro area, accrued investment income is required only on a quarterly basis.

The ECB requires quarterly details within three months of the end of the quarter to which the data relate. The detailed quarterly breakdown has been required since June 1999 (starting with first quarter 1999 data). Annual data are not required separately, but are compiled from the quarterly data reported by the Member States for the corresponding year.

IV. Errors and omissions

2.3.1.2 Quarterly requirements

The required breakdown of the quarterly b.o.p. statistics adheres, as far as possible, to the standards set out in the BPM5, which is consistent with the System of National Accounts 1993 (SNA 93) and with the European System of National and Regional Accounts 1995 (ESA 95). Exceptions to the application of BPM5 standards mainly relate to:

- *income on direct investment*, for which the ECB does not require the breakdown of income on equity into distributed and

Table: Quarterly balance of payments for the euro area

- I. **Current account** (credits, debits and net flows)
 - Goods
 - Services
 - Income
 - Compensation of employees
 - Investment income
 - Direct investment
 - Income on equity
 - Income on debt (interest)
 - Portfolio investment (credits and net flows)

	Income on equity (dividend)	Financial derivatives (net)
	Income on debt (interest)	Monetary authorities
	Bonds and notes	General government
	Money market instruments	MFIs (excluding central banks)
	Other investment	Other sectors
Current transfers		Other investment (net assets and net liabilities)
		Monetary authorities
II. Capital account (credits, debits and net flows)		Loans/currency and deposits
		Other assets/liabilities
		General government
		Trade credits
III. Financial account		Loans/currency and deposits
Direct investment (abroad and in the reporting economy)		Other assets/liabilities
Equity capital		MFIs (excluding central banks)
MFIs (excluding central banks)		Loans/currency and deposits
Non-MFIs		Other assets/liabilities
Reinvested earnings		Other sectors
MFIs (excluding central banks)		Trade credits
Non-MFIs		Loans/currency and deposits
Other capital		Other assets/liabilities
MFIs (excluding central banks)		Reserve assets (assets only)
Non-MFIs		Monetary gold
Portfolio investment		Special drawing rights
Equity securities		Reserve position in the International Monetary Fund
Net assets		Foreign exchange
Monetary authorities		Currency and deposits
General government		with monetary authorities
MFIs (excluding central banks)		with MFIs (excluding central banks)
Other sectors		Securities
Net liabilities		Equities
MFIs (excluding central banks)		Bonds and notes
Other sectors		Money market instruments
Debt securities (net assets and net liabilities)		Financial derivatives
Bonds and notes		Other claims
Monetary authorities		
General government		IV. Errors and omissions
MFIs (excluding central banks)		
Other sectors		2.3.2 ECB data requirements for international investment position statistics
Money market instruments		
Monetary authorities		
General government		
MFIs (excluding central banks)		
Other sectors		

The i.i.p. for the euro area as a whole is required on an annual basis. This annual statement of the external assets and liabilities

of the euro area reveals the structure of the euro area's external financial position and complements the b.o.p. data for monetary policy and exchange market analysis. Periodic stock data also provide a check on the plausibility of b.o.p. flows. The required breakdown is based on the standard components of the i.i.p., as presented in the fifth edition of the BPM5 and the breakdown for the quarterly b.o.p. Concepts and definitions are consistent with the b.o.p. flow statistics.

Showing assets and liabilities separately in the i.i.p. requires participating Member States to distinguish between positions with residents of other euro area countries and positions with non-residents of the euro area. This was not possible in the very first years after the formation of the euro area. From October 2002, Member States are required to report their positions following the euro area/non-euro area split for all items except for portfolio investment liabilities (as in the case of b.o.p. flows statistics).

Member States are required to make the data on the i.i.p. available to the ECB within nine months of the year-end to which the data relate.

Table: Annual international investment position for the euro area

- I. Direct investment** (abroad and in the reporting economy)
 - Equity capital and reinvested earnings
 - MFIs (excluding central banks)
 - Non-MFIs
 - Other capital
 - MFIs (excluding central banks)
 - Non-MFIs
- II. Portfolio investment**
 - Equity securities
 - Assets
 - Monetary authorities
 - General government
 - MFIs (excluding central banks)
 - Other sectors

- Liabilities
 - MFIs (excluding central banks)
 - Other sectors
- Debt securities (assets and liabilities)
 - Bonds and notes
 - Monetary authorities
 - General government
 - MFIs (excluding central banks)
 - Other sectors
 - Money market instruments
 - Monetary authorities
 - General government
 - MFIs (excluding central banks)
 - Other sectors

- III. Financial derivatives** (assets, liabilities and balance)
 - Monetary authorities
 - General government
 - MFIs (excluding central banks)
 - Other sectors

- IV. Other investment** (assets and liabilities)
 - Monetary authorities
 - Loans/currency and deposits
 - Other assets/liabilities
 - General government
 - Trade credits
 - Loans/currency and deposits
 - Other assets/liabilities
 - MFIs (excluding central banks)
 - Loans/currency and deposits
 - Other assets/liabilities
 - Other sectors
 - Trade credits
 - Loans/currency and deposits
 - Other assets/liabilities

- V. Reserve assets** (only assets)
 - Monetary gold
 - Special drawing rights
 - Reserve position in the International Monetary Fund
 - Foreign exchange
 - Currency and deposits
 - with monetary authorities
 - with MFIs (excluding central banks)
 - Securities

Equities
 Bonds and notes
 Money market instruments
 Financial derivatives
 Other claims

2.3.3 **ECB data requirements for the Eurosystem's international reserves position**

Since April 1999, the ECB has published monthly data on the stock of international reserves held by the Eurosystem (the ECB and the NCBs of the participating Member States). The definition of Eurosystem's reserve assets, approved by the ECB Governing Council in March 1999, conforms to the BPM5 (see Section 3.11). Foreign currency-denominated claims (i.e. claims denominated in any currency other than the euro or one of its national denominations) on euro area residents held by the Eurosystem are shown as a memorandum item in the ECB Monthly Bulletin. This approach supports an analysis for monetary purposes and permits a reconciliation of the Eurosystem's international reserves and its foreign currency liquidity position. From the April 2000 ECB Monthly Bulletin, the same breakdown has been presented for the ECB's reserves (and related assets) 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 entitled "International Reserves and Foreign Currency Liquidity", set out in early 2000 in 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.

2.4 **The ECB's contribution to the euro area aggregates**

The ECB's own transactions and positions with non-euro area counterparties must also be reflected in the external statistics of the euro area. In other words, the data resulting from the compilation of the ECB's own external statistics are added to the contributions of the euro area Member States so as to compile the total figures of the euro area aggregates (see Section 2.5 "Methods of compiling the euro area aggregates").

In practice, the ECB's "external" contributions are confined 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*: flows between ECB and the NCBs of Member States not participating in the euro area related to the operation of the TARGET system;
- *portfolio investment*: debt securities (mainly bonds and notes) issued in euro by non-residents of the euro area. (The ECB's claims from debt securities in foreign currency which were issued by non-euro area residents are included under the ECB's reserve assets). For reasons explained in Section 2.5 "Methods of compiling the euro area aggregates", data on the ECB's holdings of debt securities issued by other euro area residents are needed for the compilation of the total euro area aggregate figures of portfolio investment liabilities). Since the ECB has not itself issued any debt securities so far, it does not record any liabilities for portfolio investment;

- *income on portfolio investment*: income received by the ECB from the above-mentioned portfolio investment assets. As in the case of the financial account, these data are needed for the compilation of the total euro area aggregate debits of portfolio investment income (see Section 2.5 “Methods of compiling the euro area aggregates”);
- *income on other investment*: income received from the management of the ECB’s international reserves and from TARGET operations.

related flows/stocks can be measured directly, with a sector breakdown of the euro area residents undertaking the transactions/holding the assets.

Classification of non-resident purchases/holdings of securities issued by euro area residents is difficult because these transactions/holdings are often made/held through central securities depositories or other intermediaries located in the euro area (e.g. Euroclear and Clearstream, formerly Cedel). Such purchases/holdings by non-residents of the euro area may well be incorrectly classified because the first-known counterpart – the custodian or other intermediary – is a euro area resident.

2.5 Methods of compiling the euro area aggregates

Since 1997, each broad category of transaction has been broken down into credits and debits for the current and capital accounts; since 1997, into investment abroad and in the euro area for direct investment; and, since 1998, into assets and liabilities for portfolio investment and other investment. Since October 2002, the same split for direct, portfolio and other investment is applied to the euro area i.i.p. The ECB compiles the figures for the euro area by aggregating the euro area Member States’ transactions vis-à-vis non-residents of the euro area for the current and capital accounts, and transactions/holdings relating to non-residents of the euro area for the financial account and the i.i.p., excluding portfolio investment and financial derivatives.

To avoid this risk of misclassification the “liabilities” side of portfolio investment is calculated as transactions in/holdings of total securities issued by euro area residents minus the recorded acquisitions/holdings of such securities by residents of the euro area.

Euro area residents’ income on securities issued by non-residents of the euro area can be correctly identified as extra-euro area flows. However, income payments relating to securities issued by euro area residents and held by non-residents are often made through central securities depositories or other intermediaries and are therefore not identifiable for the national compiler as extra-euro area flows. Therefore, the amount of the total euro area payments to non-euro area residents is calculated as total payments made by euro area residents to recipients outside their home country minus recorded receipts by euro area residents from other euro area countries.

Compilation of portfolio investment (stocks, flows and related income) and financial derivatives follows a different approach, owing to the difficulties in identifying the residency of the holders of securities issued by domestic residents. Portfolio investment flows/stocks relating to non-residents of the euro area should be allocated according to the residency of the ultimate investor (in case of liabilities of the euro area) and the non-resident debtor (in case of assets of the euro area), respectively. When euro area residents purchase securities issued by non-residents of the euro area, the

The net figures for euro area transactions in financial derivatives are compiled by aggregating the national net transactions of the participating Member States. A sector breakdown of this account at the euro area level has not been compiled so far for the b.o.p.; for the i.i.p. this is required for assets and liabilities separately.

As regards the Eurosystem's international reserves position, the agreed definition of reserve assets is applied consistently both across the Eurosystem and at the national level. Hence, the reserve assets held by the Eurosystem are compiled by summing up the reserve asset holdings of the participating NCBs and of the ECB.

2.6 Geographical breakdown

For the euro area quarterly b.o.p. and annual i.i.p., the ECB will require geographical details as from end-June 2004 (for flows relating to the first quarter of 2003 onwards) and as from end-September 2004 (for positions relating to end 2002 onwards), respectively.

The list of counterpart countries/regions for the euro area b.o.p./i.i.p. is closely consistent with Eurostat's "level 1".

Table: The ECB's geographical breakdowns for quarterly b.o.p. flows and annual i.i.p. data

–	Denmark
–	Sweden
–	United Kingdom
–	Institutions of the European Union
–	Total "candidate countries" (i.e. Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia and Turkey)
–	Switzerland
–	Canada
–	United States
–	Japan
–	Off-shore centres ¹
–	International organisations ^{1 2}
–	Rest of the world ³

¹ Only for the b.o.p. financial account, the related income accounts and the i.i.p.

² Outside the European Union.

³ Calculated as residual (between the total of each b.o.p./i.i.p. heading and the amounts corresponding to the counterparts listed above).

3 Concepts, definitions and agreed practices of the euro area balance of payments and international investment position statistics

The main purpose of this chapter is:

- (i) to provide a comprehensive summary of the methodological standards (such as the BPM5, the SNA 93 or the ESA 95) with which all EU Member States in principle comply;
- (ii) to serve as a benchmark to identify any individual country deviations, as currently described in the chapter “Country-specific details”; and
- (iii) to supplement the “methodological notes” on the ECB’s website.

Most of these methodological standards have already been implemented in line with the ECB Guideline of May 2000 (ECB/2000/4). Further progress is expected using available information or estimates in consultation with the ECB.

This chapter concerns primarily those methodological concepts and definitions which were developed under the responsibility of the ECB. Definitions on items under the responsibility of the European Commission (Eurostat) are limited, in this release, to brief and general explanations only.

3.1 General principles of balance of payments and international investment position statistics

3.1.1 Balance of payments statistics

The b.o.p. is a statistical statement of the economic transactions of an economy with the rest of the world in a specific time period. A transaction is defined as an economic flow that reflects the creation, transformation, exchange, transfer, or extinction of economic value and involves changes in ownership of goods and/or financial assets or liabilities, the provision of

services or the provision of labour and capital. Cross-border transactions of the euro area are transactions between residents of participating Member States, seen as one economic territory, and residents of EU Member States not participating in the euro area or residents of third countries.

Despite its name, which refers to standards applicable in the past following 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. This development from a financial towards an economic approach was felt more efficient in order (i) to foster a sound economic interpretation of the figures, and (ii) to make the b.o.p. concepts compliant with the national accounts (the b.o.p. is also the “rest of the world” account). International transactions recorded in the b.o.p. may not involve the transfer of money, and some are not paid for in any sense. The inclusion of these transactions, in addition to those matched by actual payments, constitutes a principal difference between a b.o.p. statement and a record of foreign payments.

3.1.2 International investment position statistics

Closely related to the flow-oriented b.o.p. framework is the stock-oriented i.i.p. Compiled at a specified date, the i.i.p. is a statistical statement of (i) the value and composition of the stock of an economy’s financial assets, or the economy’s claims on the rest of the world, and (ii) the value and composition of the stock of an economy’s liabilities to the rest of the world. Cross-border positions of the euro area comprise the participating Member States’ stocks of financial claims and financial liabilities vis-à-vis residents of EU Member States not participating in the euro area or residents of

third countries. Also encompassed are land, other real property 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 euro area perspective); 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 euro area perspective).

In addition, monetary gold and special drawing rights (SDRs) owned by residents of participating Member States are included.

The difference between the two sides of the balance sheet (the net position) measures that portion of the euro area's net worth attributable to, or derived from, its relationship with the rest of the world. A change in stocks during any defined period can be attributable to transactions (i.e. b.o.p. flows), to revaluations reflecting changes in exchange rates, prices, etc. or to other adjustments (e. g., reclassifications, corrections, uncompensated seizures).

Since the i.i.p. and the financial account of the b.o.p. share many sources and methods of compilation, these two accounts are dealt with together in the following sections so as to stress their close relationship.

3.1.3 Accounting principles for transactions and stocks

3.1.3.1 Double-entry system

The basic convention applied in constructing a euro area b.o.p. statement is that every recorded transaction is represented by two entries with equal values. One of these entries

is designated a credit; the other is designated a debit. In principle, the sum of all credit entries is identical to the sum of all debit entries, and the net balance of all entries in the statement is zero. In practice, however, the accounts frequently do not balance. Data for b.o.p. estimates are often derived independently from different sources and may be incomplete. Moreover, timing and valuation effects along with a variety of other factors tend to cause imbalances in the information recorded. As a result individual b.o.p. accounts tend to aggregate to a summary net credit or net debit. A separate entry, equal to that amount with the sign reversed and labelled "net errors and omissions", is then included to balance the overall b.o.p. account.

3.1.3.2 Time of recording the transactions

In line with the BPM5, the ECB principally requires recording on a transactions basis ("accruals principle"), meaning that transactions are recorded when economic value is created, transformed, exchanged, transferred or extinguished. Claims and liabilities arise when there is a change in ownership. The change may be legal or economic. In practice, when a change in ownership is not obvious, the change may be assessed at the time that parties to a transaction record it in their books or accounts.

However, for the reporting of the monthly b.o.p., recording on a full accruals or transactions basis is not mandatory, owing to the short deadline and the highly aggregated nature of the provision of monthly data. In agreement with the ECB, the NCBs and other national compilers may provide data on the current and financial account in the monthly b.o.p. statistics which are based on full/partial accruals or on settlements (i.e. cash).

3.1.3.3 Valuation of transactions and stocks

In principle, market prices should be used as the basis of valuation for both transactions and

stocks. Thus, transactions are generally valued at the actual prices agreed upon by transactors, and stocks of assets and liabilities are valued at the market prices in effect at the time to which the balance sheet relates. Market valuation provides the most meaningful measure of the economic value of the resources available to an economy; alternatives to valuation at market price should only be used if absolutely necessary.

In practice, some deviations from the market principle may occur. Book values from the reporting agents' balance sheets may, in some cases, be the only readily available source for the valuation of assets and liabilities. In this case, owing to the accounting principles established by the appropriate authority and/or different investment policies, book values may differ from the market value. In practice, book values are used to a large extent in compiling direct investment stocks. Moreover, equity and debt securities are not always recorded on a security-by-security basis. Suitable means (e.g., indices) must then be chosen by either the data provider or the compiler to approach the market value.

3.1.3.4 Reconciliation of stocks and flows

The reconciliation of changes in stocks and b.o.p. flow data allows sets of data to be validated when they are collected independently and gives possible explanations for the changes in positions over a given period. These factors are:

- (i) the transactions that have taken place during the period;
- (ii) price changes;
- (iii) exchange rate changes; and
- (iv) other adjustments reflecting changes in stocks.

The greater the level of detail of the basic information on both stocks and flows, the

more precise the reconciliation is. In particular, the following information is necessary:

- (i) a currency breakdown to capture the exchange rate effect;
- (ii) a breakdown of applicable market prices, especially for portfolio investment instruments, to isolate the market value effect;
- (iii) the timing of transactions to select the appropriate price and exchange rate.

3.1.4 Euro area residency

In general, the terms "resident" and "residing" mean having a centre of economic interest in the economic territory of a country, as described in Annex A of the Council Regulation (EC) No. 2533/1998. In the case of the euro area, the economic territory comprises (i) the economic territory of the EU Member States which have adopted the euro and (ii) the ECB, which is regarded as a resident unit of the euro area.

The rest of the world (RoW) comprises the territories outside the euro area, i.e. EU Member States which have not adopted the euro, all third countries and non-European supranational and international organisations, including those physically located within the euro area. All EU institutions except the ECB are considered to be resident outside the euro area. Consequently, all transactions of participating Member States vis-à-vis EU institutions are recorded and classified as non-euro area transactions in the euro area b.o.p./i.i.p. statistics. A list of supranational and international institutions is given in Eurostat's Balance of Payments Vademecum booklet.

The following are examples of borderline cases in the determination of residence:

- (i) individuals from embassies and military bases are to be classified as residents of their country of origin, thereby ensuring

that a distinction is made between staff employed from among host country residents and those from the country which the embassy or military base represents;

- (ii) when undertaking cross-border transactions in land and/or buildings (e.g. holiday homes), the owner is treated as if he has transferred his ownership to a notional institutional unit that is actually resident in the country where the property is located. The notional unit is to be treated as being owned and controlled by the non-resident owner;
- (iii) where an institutional unit operates in an offshore financial centre, it should be treated as a resident of the territory in which the centre is located.

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

Territories forming part of the euro area:

- Helgoland: Germany
- Balearic Islands, Canary Islands, Ceuta and Melilla: Spain;
- Monaco, French Overseas Departments (Guyana, Guadeloupe, Martinique and Réunion), Saint Pierre and Miquelon, Mayotte: France;
- Madeira, the Azores: Portugal;
- The Åland Islands: Finland.

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

- Büsingen (not Germany);
- Andorra (neither Spain nor France);
- The Netherlands Antilles and Aruba (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).

3.1.5 Classification principles for balance of payments and international investment position statements

3.1.5.1 Standard components of balance of payments and international investment position statements

According to the BPM5, the two major classifications of transactions in the b.o.p. statement are the current account and the capital and financial accounts. In brief, the current account shows transactions in the real economy and relates to goods, services, income and current transfers; the capital and financial accounts show (broadly speaking) the transactions in the financial economy.

The major classifications within the current account are:

- goods;
- services;
- income; and
- current transfers.

The capital account records an economy's capital transfers and its transactions in non-produced, non-financial assets (such as patents and copyrights). The financial account records an economy's transactions in external financial assets and liabilities.

The financial account of the euro area b.o.p. and the euro area i.i.p. are structured around five accounts, differentiated by the type of financial assets/liabilities involved in the transaction:

- direct investment;
- portfolio investment;
- financial derivatives;
- other investment; and
- reserve assets.

In addition, transactions within the euro area portfolio investment, financial derivatives and other investment accounts are classified by sector, according to the institutional sector to which the euro area resident undertaking the

transaction belongs (see Section 3.1.6 Sectorisation). This sectoral analysis also applies to the corresponding stock data requested for the i.i.p.

3.1.5.2 *Classification of financial flows by credits/change in assets and debits/change in liabilities*

Economic transactions of the euro area b.o.p. are recorded (i) as credits or debits in the case of all items of the current and capital accounts, and (ii) as changes in assets or liabilities in the case of all items of the financial account. Credits and debits are shown as gross figures, i.e. inflows from non-euro area residents will increase the amount of credits, while outflows to non-euro area residents mean an increase of debits. By contrast, changes in assets and liabilities are shown as net figures: increases (decreases) in assets indicate that a net outflow (inflow) has occurred, since the payments by euro area residents in respect of their acquisitions of assets issued by non-residents of the euro area are larger (smaller) than the receipts derived from their sale or redemption. Increases (decreases) in liabilities indicate a net inflow (outflow), since the receipts from non-residents of the euro area in respect of their acquisitions of assets issued by euro area residents are larger (smaller) than the payments generated by their sale or redemption.

3.1.5.3 *Geographical allocation principle for change of ownership in the case of financial transactions and positions*

For financial transactions/positions, there are two possible means of classification considered to be in accord with the change-of-ownership principle, the debtor/creditor principle and the transactor principle. In order to achieve a more precise geographical allocation, the ECB requires, in principle, the application of the debtor/creditor principle, according to which transactions/positions in a country's external liabilities are classified according to the country

of the owner of the claim (the creditor) and transactions/positions in a country's financial assets are classified according to the country that incurs the liability (the debtor). The transactor principle, on the other hand, means that transactions/positions are classified according to the country of the non-resident counterparty to the transaction. The latter principle can, in practice, be applied in two different ways, i.e. classification either by country of first-known counterpart or by country of settlement, both of which may not in all cases reflect the residency of the actual owner of the asset/liability acquired/incurred.

3.1.6 **Sectorisation**

3.1.6.1 *Institutional sectors*

Four sectors are identified separately for euro area b.o.p./i.i.p. statistics:

- (i) monetary authorities;
- (ii) general government;
- (iii) Monetary Financial Institutions (MFIs);
- (iv) other sectors.

Monetary authorities

The "monetary authorities" sector of the euro area b.o.p./i.i.p. and international reserve statistics consists of the Eurosystem, i.e., the ECB and the NCBs from participating Member States.

General government

The "general government" sector is defined as in the ESA 95 (and the SNA93) and consists of the following units:

- central government: all administrative departments, agencies, foundations, institutes and similar state bodies, the competence of which covers the entire economic territory of one country (with the exception of the administration of social security funds - see below);
- state/regional government: 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: 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); and
- social security funds: schemes managed by a central, state/regional or local government, the principal objective of which is to provide social benefits to the population of the country. Certain population groups are obliged to pay contributions to these schemes.

Public non-financial corporations and quasi-corporations which 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. Public sector credit institutions should be included in the "MFI sector" according to both the MFI definition and the ESA 95 definition, and not under "general government".

MFI sector

The "MFI sector" identified in the euro area b.o.p./i.i.p. presentation coincides with the MFI sector for money and banking statistics. Hence, it comprises (i) euro area resident credit institutions, as defined in Community Law, i.e. institutions whose business is to receive deposits or other repayable funds from the public (including the proceeds arising from the sales of bank bonds to the public) and to grant credit for their own account, and (ii) all other resident financial institutions located in the euro area whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to

grant credits and/or to make investments in securities. The MFI sector includes money market funds. MFIs located in EU Member States that do not participate in the euro area and banks outside the EU comprise:

- (i) MFIs located in EU Member States not participating in the euro area, including those subsidiaries and branches, the parent institution of which is an MFI located in the euro area;
- (ii) banks located outside the EU, including those subsidiaries and branches, the parent institution of which is an MFI located in the euro area.

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 another country than that in which the company controlling them is located, they are deemed to be separate institutional units.

Other sectors

The "other sectors" category comprises:

- (a) other financial institutions not covered by the MFI definition: this sector should include the following institutions:
 - (i) collective investment institutions (CIIs) not considered as money market funds (MMFs) and, therefore, not classified as MFIs;
 - (ii) real estate investment institutions;
 - (iii) securities-dealer companies and agencies;
 - (iv) mortgage credit securitisation funds;
 - (v) insurance companies;
 - (vi) pension funds; and
 - (vii) financial auxiliaries;

- (b) non-financial institutions:
 - (i) non-financial enterprises (public and private);
 - (ii) non-profit-making institutions serving households; and
 - (iii) households.

For analytical purposes and with regard to the use of the euro area i.i.p. for the compilation of other euro area statistics, such as the euro area financial accounts, information about the different sub-sectors is useful. However, in general, it is difficult for b.o.p. compilers to split “other sectors” into households, non-financial enterprises and other (non-MFI) financial institutions.

In the field of reserve assets, claims on the Bank for International Settlements (BIS) and the International Monetary Fund (IMF) are classified as claims on other monetary authorities outside the euro area.

3.1.6.2 Sectorisation criteria for flows and stocks

In principle, the sector attribution rules for financial flows and stocks seem to be easy to apply. Transactions and holdings in external financial assets are assigned to the institutional sector to which the resident creditor (owner of the asset) belongs. Transactions in and holdings of external financial liabilities are allocated to the institutional sector to which the resident issuer of the liability belongs.

Securities issued by euro area residents and owned by non-residents of the euro area are euro area liabilities; those issued by non-residents of the euro area and owned by euro area residents are euro area assets. Sectorisation should be carried out according to the above-mentioned principles.

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

- (i) *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. Indeed, 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. In addition, in some Member States it is not always clear whether these loans are insured by the government or by a public insurance company;

- (ii) 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 residency of the borrower and lender is decisive, not the residency of the issuer of the collateral.

3.1.6.3 Practical sectorisation problems

Practical problems related to sectorisation issues may arise.

Transactions between resident sectors

On the assets side - i.e. securities issued by non-residents of the euro area and acquired by euro area residents - flows are assigned to the institutional sector to which the resident subscriber or buyer of the securities belongs. As a result, the securities issued by non-residents, which are initially subscribed by credit institutions and subsequently sold to other residents, appear, in the first place, in the “MFI sector” of the b.o.p. If subsequent sales by the resident MFI sector to resident non-banks are not reflected in the b.o.p., a discrepancy between b.o.p. and i.i.p. data will arise. It may be possible to allow for such onward sales by recourse to balance sheet statistics where MFIs’ sales of foreign securities to non-MFIs may be reflected.

Assignment of an institution in a different resident sector

Institutions subject to changes in their legal status (institutional changes) or changes in the definition of the requirements to be considered for their inclusion in the different sectors (functional changes) may require special treatment in order to avoid discrepancies. The recommendation is to proceed as follows:

- (i) in the flow statistics, transactions involving an institution whose sector has changed should be allocated to the appropriate new sector from the date of the change;
- (ii) in the stock statistics, the reclassification of the stocks attributed to the institution in question should be made from the former sector to the new sector by means of an entry in the "other adjustments" column of the reconciliation statement.

3.2 Goods

The goods item of the euro area b.o.p. statistics covers general merchandise, goods for processing, repairs on goods, goods procured in ports by carriers and non-monetary gold. In accordance with general b.o.p. principles, change of ownership is the principle determining the coverage and time of recording of international transactions in goods.

Exports and imports of goods are recorded on a f.o.b./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 BPM5 recommends that the geographical allocation for exports should be based on the country of final destination and that of imports should be based on the country of origin.

Nevertheless, goods which are channelled through the euro area are recorded as extra-

euro area transactions only by that euro area Member State in which the goods enter/leave the euro area, in order to avoid double-counting or omissions in the euro area b.o.p. statistics. The other Member State(s) involved, including that in which the goods are finally received or from which the goods were originally sent, apply the "country-of-consignment" principle, i.e. record this transaction as intra-euro area trade in goods going to or coming from another euro area Member State. (The "country-of-consignment" principle in fact applies to trade between all EU Member States).

3.3 Services

The services account of the euro area b.o.p. statistics consists of the following items, which are to be recorded according to their actual delivery:

- Transportation 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 of the euro area, or vice versa, and that involve the carriage of passengers, the movement of goods (freight), rentals (charters) of carriers with crew and related supporting and auxiliary services. Excluded are passenger services provided to non-residents in the euro area by euro area carriers within the euro area economies, or vice versa (these are included under travel).
- Travel includes primarily the 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. Personal transport (only international

transportation) in connection with travel is not included in this item but under transportation.

- Other services comprise those service transactions with non-residents of the euro area which are not covered under transportation or travel, such as communication services, construction services, insurance or financial services.

3.4 Income

3.4.1 Definition and coverage of income

Income covers two types of transactions between residents and non-residents:

- (i) those involving *compensation of employees*, which is paid to non-resident workers or received from non-resident employers and
- (ii) those involving *investment income* receipts and payments on external financial assets and liabilities. Income derived from the use of tangible produced assets¹ is excluded from income and classified as appropriate under leasing or rentals, under other business services or under transportation. Income from tangible non-produced assets is, however, classified as income under “other investment income”.

3.4.2 Definition of compensation of employees

Compensation of employees comprises wages, salaries, and other benefits (in cash or in kind) earned by individuals - in economies other than the euro area - for work performed for and paid for by residents of those economies. Included are 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.

3.4.3 Definition of investment income

Investment income (property income in the SNA 93 and the ESA 95) is income derived from ownership of external financial assets and payable by residents of one economy to residents of another economy. It includes interest, dividends, remittances of branch profits, and direct investors' shares of the retained earnings of direct investment enterprises. Where separately identifiable, holding (capital) gains and losses are not classified as income on investments but as changes in the value of the investments due to market price developments. (For practical reasons, this requirement concerning holding gains and losses is often very difficult to fulfil.) Settlement flows in respect of interest rate swaps and forward rate agreements (FRAs) are not regarded as interest income, but are recorded as transactions in “financial derivatives” in the financial account.

In line with the related financial accounts, the euro area investment income account is classified by direct investment, portfolio investment and other investment components (income on reserve assets is included in other investment income). Income on direct investment and on portfolio investment is broken down further into income on equity and income on debt. In the case of portfolio investment, income on debt is subdivided into income on bonds and notes and income on money market instruments.

3.4.4 Main types of investment income

The most common types of investment income are dividends in the case of equity and interest in the case of debt.

¹ *Tangible assets cover produced and non-produced assets. Tangible non-produced assets consist of assets that occur in nature and over which ownership may be enforced and transferred, such as land and water resources.*

3.4.4.1 Dividends

Dividends represent income that is payable without a binding agreement between the creditor and the debtor. Dividends may be paid out of normal operating profits or out of realised or unrealised capital gains. In principle, redistributed capital gains should be classified as other capital transfers. In order to be able to estimate the share of dividends paid out of capital gains, separate information on the net operational profits and capital gains should be available. In practice, however, it appears to be very difficult to separate the dividends payable from operating profits and the dividends payable from capital gains. Therefore, wherever a compiler is unable to distinguish between the two, it is recommended for the compilation of the euro area b.o.p. that both the dividends paid out of normal operating profits and the dividends paid out of realised or unrealised capital gains are included under investment income.

The following borderline cases deserve attention: stock dividends, bonus shares and liquidating dividends. Distribution of earnings in the form of stock dividends 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).

General *bonus shares*, by contrast, represent the substitution of one type of equity (paid-up capital or capital stock) for another (reinvested earnings) and should thus not be recorded in the euro area b.o.p. Bonus shares reflect the transformation of reserves (which usually consist of accumulated, unremitted earnings) into voting power.

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 a return of capital contributions rather than a remittance of earnings, they should be recorded as withdrawals of capital in the financial account and should, consequently, be excluded from investment income.

Dividends are recorded as of the date on which they become due for payment.

3.4.4.2 Interest

Interest is payable in accordance with a binding agreement between the creditor and the debtor. Interest is the amount that the debtor becomes liable, under the terms of the financial instrument agreed between them, to pay to the creditor over a given period of time without reducing the amount of principal outstanding. Interest income should be recorded on an accruals basis, except for the requirements for the monthly key items. (Also see Sections 3.4.6.1 and 3.4.6.2 on the concept of recording on an accruals basis and the compilation of accrued interest on debt securities.)

3.4.5 Specific issues related to direct investment income

3.4.5.1 Reinvested earnings

Reinvested earnings appear in the context of income on equity and are defined as the direct investor's share of the total consolidated profits earned by the direct investment enterprise in the reference period covered (after allowing for tax, interest and depreciation) less dividends due for payment in the relevant period, even if these dividends relate to profits earned in earlier periods.

Reinvested earnings are to be recorded in the period in which they are earned and included in the (monthly) euro area b.o.p. statistics both (i) in the current account as imputed flows of undistributed income to the direct investor (credit) and (ii) in the financial account as

additional equity capital to the direct investment enterprise (debit), the flows being equal and of opposite sign.

The calculation of reinvested earnings should be based on:

- the *net operational profit* which may itself be 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 data to the required monthly 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).

As to the methods of estimating the net operational profit in the event of delays occurring in obtaining the definitive data from any direct collection procedure, such as a direct investment survey or balance sheet reports, the figures related to the results of enterprises for the previous (two) year(s), adjusted by a correction factor to better reflect developments in the global economy and to capture its turning points, may be used as a proxy for the results of the current year. The correction factor should preferably refer to forecasts (i) on general developments in the results of enterprises, such as those provided by certain private associations and public institutions, or (ii) on the evolution of a variable which is representative of the global trend of the economy, such as GDP.

In the case of a total absence of a recording procedure to directly collect data on the net operational profit, estimates may be derived by applying a rate of return on the direct investment equity stock data, provided that data on the stock of direct investment equity are available. Direct investment could be considered from the same angle as securities, namely from a purely investment perspective. The estimated yield should be determined

according to the direct investment enterprises' future expected income. If other relevant information is lacking, compilers might use the current yield on long-term securities as a proxy and correct it by excluding capital gains and losses from the estimated profits so as to take account (i) of the greater risk and the lower liquidity of direct investments and (ii) of possible enterprises' losses.

This method can also provide a geographical breakdown based on the geographical distribution of the stock of direct investment equity stemming from direct sources, such as foreign direct investment surveys, or from the accumulation of flows from an earlier benchmark level.

3.4.5.2 *Income on debt*

Direct investment income on debt consists of interest payable on inter-company loans granted to or by direct investors from or to associated enterprises outside the euro area. Income on non-participating preference shares is treated as interest, rather than as dividend income, and is also recorded under the euro area direct investment income on debt account.

3.4.6 *Specific issues related to portfolio investment income*

3.4.6.1 *The concept of recording interest on an accruals basis*

In line with the SNA 93 and the BPM5, interest should be recorded on an accruals basis so as to ensure that the cost of capital continually matches the provision of capital. As interest accrues, the amount of the claim must be recorded under investment income in the current account, either as a credit or as a debit, with an off-setting entry to the extent that interest is not paid - under portfolio investment, debt securities - bonds and notes or money market instruments - according to the underlying instrument, in the financial account. When the actual coupon payment occurs, this payment should not be recorded

under investment income, but should instead be recorded in the financial account as a debit or credit entry, representing a reduction in liabilities/assets.

For the b.o.p. compiler, accruing interest means that interest is recorded as earned continuously from the date of purchase/acquisition of an instrument to the date of its sale or redemption, with the appropriate amounts being attributed to each b.o.p. compilation reference period. Any estimation methods used to calculate accrued interest should be based (i) on the market value for stocks and (ii) on the prevailing interest rate in the market at the time of compiling the accrued interest ("market principle"). The prevailing interest rate at the time of issuance ("debtor principle") may be used as a pragmatic approach in the case of bonds at fixed interest rate (e.g. government bonds), if data in accordance with the market principle are difficult to obtain.

Apart from applying more global estimation methods, it is also possible to calculate accrued interest on a security-by-security basis, using information from a securities database. By way of example, this can be done by using nominal values and actual interest rates in combination with actual quotations, actual issue prices and values at maturity for each individual security.

3.4.6.2 Compilation of accrued interest on debt securities

If stocks of the outstanding amounts of domestic debt instruments held by euro area non-residents and of debt instruments issued by non-residents and held by residents are not available on a monthly basis, the monthly stocks should be built up using annual or, when available, quarterly stock data (such as those from the i.i.p.) and the monthly flows collected for b.o.p. purposes. The stock amount to be used when applying the method is the average of the stock at the beginning and that at the end of the month. To avoid the recording of capital gains/losses, the stocks should be

revalued by applying the market principle to the interest rates for the period under calculation. Any difference between the stock data at the end of the period and the stock data calculated should be regarded, as mentioned previously, as valuation changes. Valuation changes can comprise exchange rate and price adjustments as well as other adjustments due to reclassifications.

Furthermore, the results of the estimates should be improved by introducing a maturity breakdown for the stocks held by non-residents, thus enabling the compiler to apply a benchmark interest rate to each maturity. If such a breakdown is not available, it could be assumed that non-residents held debt instruments in proportion to the share of each maturity in the total outstanding amount of debt instruments. This would mean applying the same maturity distribution as in the total outstanding amount of debt instruments to the holdings of these financial instruments by non-residents.

As far as foreign debt instruments held by residents are concerned, the stock data should also be broken-down by the currency of denomination. Consequently, for each currency and for each maturity, the market principle should be taken as the benchmark. The calculation of the accrued income should be made in the currency in which the instrument is denominated.

Special attention will be given in the following sections to specific types of bonds, such as zero coupon bonds and other bonds with a more complicated structure, and to money market instruments.

Zero-coupon bonds

In the case of zero-coupon bonds and other deep-discounted bonds, the substantial difference between the issue price and the value at maturity is treated as interest. In order to filter out possible capital gains/losses, the calculation is done to identify the accruing interest, which is treated as a reinvestment in the parent instrument.

If zero-coupon bonds are traded in the secondary market, the transaction price may include a realised holding gain or loss, in addition to accrued interest. That additional change, i. e. due to valuation, is included in the entries into the financial account for the purchase and sale of the bond at market prices (the market price of these bonds includes accrued interest).

Based on the market prices, the accrued interest can be calculated separately. The discount of these bonds should be split and distributed over the compilation periods. Although the treatment of likely capital gains or losses as accrued interest could be seen as a pragmatic approach, it is recommended that account be taken of the important role of the revaluation of stocks in reconciling flows and stocks in the context of the i.i.p. and not to record the valuation changes as part of the income.

Other bonds

Bonds with more complicated structures are divided into four categories: index-linked bonds, junk bonds, floating-rate notes and convertible bonds. The most difficult issue here is to determine an adequate “benchmark” which could be used as the prevailing interest rate in the market to estimate the accrued interest, following a global approach. As a consequence, it may be necessary in some cases to use information on a security-by-security basis, rather than global data. Moreover, it may be rather difficult to record the investment income on these types of bonds on an accruals basis.

Index-linked bonds

With respect to the interest income on index-linked bonds, the accrued income derived from the indexation of the principal value cannot be measured on a cash basis. Calculations of the two parts, indexed coupon and indexation of the principal value, of the accrued income should be made by using the index to which the coupon and the principal value are linked. Due to the variety of indices, problems can appear when a global approach is followed, in particular in determining a benchmark index

which is sufficiently representative; it is feasible to estimate the accrued income properly only by using information on a security-by-security basis.

As regards index-linked bonds and riskless index notes, the following requirements are set out. Index-linked securities are instruments with coupon and/or principal payments that are linked to commodity prices, interest rates, stock exchange or other price indices.

Interest on index-linked securities should be treated as interest income. If the value of the principal is index-linked, the issue price should be recorded as principal, and any subsequent change in value due to indexation should be treated as interest income. The change in value related to indexation should be estimated and recorded as interest income over the life of the security, and the offsetting entry should be recorded under debt securities in the portfolio investment account.²

Riskless index notes are debt instruments that provide a return which is linked directly to an index over a set period of time. Stock exchange indices are the most commonly used. If, for example, the index doubles over the bond's life, the value of the investment would also double. However, if the index falls below the original level as at the time of issue, the investor is guaranteed to receive back his original stake, and this is the basis for the term “riskless”. The issuer pays no coupon interest. In effect, the investor is buying what amounts to a call option on an index, with the cost of the call being the income that the investor would have had if he had invested elsewhere. The issuer receives interest free funds for the life of the bond, but bears the upside exposure risk of the index. In the light of the conceptual framework of the BPM5, the recording of income in the case of riskless index notes

² Eurostat has decided that, in the case of index-linked bonds, two distinct treatments should be applied, depending on whether the bond is linked to a consumer price index or to a financial asset such as foreign currency or gold. In the former case, the capital uplift due to the movement of the index is to be regarded as interest. In the latter case, the capital uplift should not be regarded as interest, but as a capital gain/loss.

should not be handled like interest in the case of other index-linked securities. Arrangements relating to riskless bonds are not deemed to be indexing, because the purpose of indexing is to enhance income flows to preserve real purchasing power. Swapping risk exposures is not a form of indexing, but an embedded derivative. In this connection, the instrument should be valued and classified according to its primary function, such as a security, and no transactions in derivatives are to be recorded.

Junk bonds

As regards high-yield or junk bonds, the fact that these bonds are differentiated from other bonds solely on account of their high yield seems to make it unnecessary, in principle, to apply any special b.o.p. treatment. However, problems may arise in the following cases: first, these bonds can be traded with a significant discount on the secondary market and, second, the probability of a default is higher for junk bonds than for other bonds (defaults often take the form of arrears in interest payments). Hence, the benchmark interest rate to be used should adequately reflect the market perception of the risk of the issuer.

Floating-rate notes

Where standard floating-rate notes (FRNs) are concerned, there is a large variety of FRNs which incorporate a coupon calculation designed to tailor the product to match investors' expectations and needs for income, namely so-called structured FRNs. The most important problem is to find a market interest rate benchmark which is sufficiently representative. The lack of the necessary information about the characteristics of the various FRN issues makes it difficult to find a good benchmark, unless a security-by-security approach is taken. In some cases, however, a more global approach which distinguishes between broad categories of FRNs can also produce good results. As for indexed bonds, there are derivatives embedded in the bond.

Convertible bonds

As the market value of a convertible bond not only reflects changes in interest rates, but also

changes in the value of the embedded conversion option, a method based on the market value of the stocks and a market interest rate will not produce good results for accrued income. It is therefore proposed that calculations be made on the basis of the nominal value of the bond and the interest rate prevailing at the time of issuance. It would seem that either an instrument-by-instrument or a global approach could be taken.

With regard to the benchmark, the interest rate of the convertible bond would seem to be the most relevant. However, it could also be argued that the interest rate of a comparable bond without a conversion option should be used in order to calculate the (notional) investment income and that the result of this calculation should partially be offset under the underlying financial instrument by the difference between the notional interest income and the income actually paid or received. The entry under the underlying financial instrument would then represent the implicit payment of a premium for the conversion option. In the latter case, the same interest rate could be used as benchmark as for normal bonds, whereas the first approach would require a specific benchmark for convertible bonds.

Money market instruments

The following method for applying the accruals principle refers to those short-term debt securities which are issued (i) at discount and (ii) with an original maturity of up to one year. As no coupon payments occur, it is necessary to introduce an estimation method for the investment income earned on money market instruments. The difference between the amount paid at the time of acquisition - either the issue or the transaction price - and the amount received when the security is redeemed or sold on the secondary market represents the income and is to be recorded in the current account (with an off-setting entry in the financial account) on an accruals basis.

3.4.6.3 *Compilation of accrued interest with collective investment institutions*

Collective investment institutions (CIIs) refer to incorporated (investment companies or investment trusts) and unincorporated undertakings (mutual funds or unit trusts) that collect funds from investors by issuing shares/units. The CIIs invest these funds in financial assets (mainly marketable securities and bank deposits) and in real estate. These institutions permit small investors to spread the risks of their investments through access to a wider variety of markets and financial instruments.

While the treatment of the income of the CII as such (asset side) is covered by the BPM5 and the recommendations about the recording of money market instruments, bonds, zero-coupon bonds and other bonds on an accruals basis, the treatment of the investors' income in the CIIs (liability side) needs some clarification due to the different distribution policies of these institutions. (Asset and liability here are viewed from the CII's angle.)

All income received by the CII as result of the investments made (either from equities or debt securities) is to be attributed to the holders of the units over the period under review. In other words, it is the amount and the time of recording of the income on the asset side that determine the amount and the time of recording of the income on the liability side. Application of this method means that all income is assigned to the investors, regardless of whether it is distributed or not. The undistributed earnings must, of course, also be recorded in the financial account.

The recording of the income attributed to investors is as follows in the actual b.o.p.: a resident CII records, as a first step, (i) the entire income flow (which is attributable or owed to non-resident investors in the CII) as a debit entry under investment income (under "income/portfolio investment/income on equities", regardless of the instruments held by the CII), with an offsetting credit entry, representing the reinvestment of the capitalised income in the CII, in the portfolio

investment account. Second, (ii) when the CII pays out a dividend to the non-resident investors, this payment is not recorded under investment income, but rather as a debit entry, representing a reduction in the CII liabilities, in the financial account.

Stock data can provide the necessary information concerning (i) both the holdings of resident CII shares by non-residents and those of foreign CII shares by resident investors and (ii) the appropriate rate of return reflecting the investment income earned by the CIIs on their assets, provided that a breakdown by instrument on the CIIs assets side is available. National compilers should make a distinction between the following broad categories of assets to match the stocks with the relevant rates of return: bonds and notes, money market instruments and equities.

The rates of return should be based on the market rates prevailing at the time of compilation (market principle) and should exclude any capital or exchange gain or loss. For debt securities, the interest rate of the benchmark that is representative for each category of instruments should be used, whereas the dividend yields of the benchmarks are to be used in the case of equity securities.

Although the application of the accruals principle is required for quarterly and annual data, this estimation method should be applied with a higher frequency, ideally on a daily basis. The use of monthly stock data and rates of return is recommended.

A clear distinction is to be made between the investment income earned by the investor and the management fee charged by the CII. The latter should already be recorded separately as a credit entry under the services account, financial services, in the first step. With regard to the estimation of this fee, an average of the percentage applicable to the shareholders' investment can be estimated and must be applied to the estimated stocks of the period under review, in order to estimate the management fee.

3.4.7 Specific issues related to other investment income

3.4.7.1 Components of other investment income

Other investment income refers to income related (i) to the “other investment” account and (ii) to “reserve assets” within the financial account. This treatment is in line with the recording of investment income as a functional category in the same manner as in the financial account of the b.o.p. and in the i.i.p. As there is no separate category for income on reserve assets, it falls under other investment income.

A breakdown by instrument should allow the estimation of accrued interest for other investment income on the basis of the stocks. However, owing to the variety of instruments underlying this income component, recording on a due-for-payment basis is accepted as a proxy for the accruals principle.

3.4.7.2 Specific issues related to income on reserve assets

Income on reserve assets, including interest income on reserve holdings of bonds and notes and money market instruments, which should be compiled on an accruals basis at least on a quarterly basis, is to be recorded indistinguishably under the “other investment” item of the investment income account.

The major practical problems regarding the compilation of income on portfolio investment within reserve assets on an accruals basis may derive from the discrepancies between the concept of income in the b.o.p./i.i.p. standards and accounting rules, since in many cases national compilers collect information on reserve assets from the accounting departments of their respective NCBs.

Within the ESCB, the accounting rules imply that accrued income, apart from the interest bought/sold and not yet paid (not recorded as

income), encompasses the two following elements when NCBs buy or issue securities:

- (i) *accrued interest*: cumulated proportion of the whole nominal value of the coupon minus interest bought/sold from the date of the purchase/issuance of the security to date;
- (ii) *amortisation of premium or discount*: when securities are bought (asset side of the balance sheet) or issued and sold (liability side) above or below par value (without taking into account interest sold or bought), the difference between the price of the deal and the nominal value of securities should be amortised until redemption, and is thus considered as income. This premium/discount is updated quarterly according to the market price of securities. At end-year, the book value of securities is adjusted to reflect the market value if the market value is less than the book value; the unrealised loss is then reflected in the profit and loss account.

The combination of these two elements, especially as far as the recognition of unrealised losses is concerned, determines that unrealised losses would be recognised in the profit and loss account only if the market price of a security had moved down at the end of the year. Thus, this accounting practice diverges from the “market principle” (see Section 3.4.6.1 “The concept of recording interest on an accruals basis”) in view of the fact that it entails an asymmetric treatment: only unrealised losses are incorporated into the price of the instrument and are thus taken into account in the calculation of the accrued interest for subsequent periods. Unrealised profits, however, are not considered until the moment they are realised (either at maturity or when securities in the portfolio of an NCB are sold). As a consequence of obtaining information on accrued interest following accounting rules, the overall amount of income on reserve assets could be systematically

underestimated. It is therefore recommended also to use information from other available sources (i.e. the operations departments) in order to come closer to a valuation of the underlying financial instruments on a marked-to-market basis.

3.5 Current transfers

Transfers are offset items required to balance unilateral transactions in which one economic entity provides a real resource, such as goods or services, or a financial item, to another entity without receiving any real resource or financial item in exchange.

Current transfers of the euro area consist of all transfers that are not transfers of capital. Current transfers directly affect the level of disposable income of the euro area donor or recipient. They include those of general government, e.g. transfers relating to current international co-operation between different governments, payment of current taxes on income and wealth, etc., and other transfers, e.g. workers' remittances, insurance premiums – less service charges – and claims on non-life insurance.

3.6 Capital account

The capital account covers (i) capital transfers and (ii) the acquisition/disposal of non-produced, non-financial assets.

3.6.1 Capital transfers and sub-components

3.6.1.1 Distinction of capital transfers from current transfers

The separation of capital and current transfers within the b.o.p. has been introduced for the purpose of achieving compatibility with National Accounts statistics. For b.o.p. statistics, the sum of the current account balance and the balance on capital account corresponds to the net lending/net borrowing of the total

economy. However, the current account balance as such is viewed as an important economic indicator and the classification of transfers as current or capital has an impact on the resulting surplus or deficit on the current account. It is, therefore, vital that transfers are recorded appropriately in the b.o.p. current or capital account.

For the definition of *transfers* and *current transfers* see Section 3.5.

Capital transfers consist of:

- (i) transfers of ownership of fixed assets;
- (ii) transfers of funds linked to, or conditional upon, the acquisition or disposal of fixed assets; or
- (iii) the cancellation, without any counterpart being received in return, of liabilities by creditors.

Capital transfers may be in cash or in kind.

Capital transfers in *cash* are linked to, or conditional upon, the acquisition or disposal of a fixed asset by one or both parties to the transaction and should be recorded when the payment is due to be made.

Capital transfers in *kind* are (i) transfers of ownership of a fixed asset or (ii) the forgiveness, by mutual agreement between creditor and debtor, of the debtor's financial liability when no counterpart is received in return by the creditor.

Capital transfers involve the disposal/acquisition of assets resulting in a change in the stocks of assets of one or both parties to the transaction. They are usually large and occur infrequently, though there are exceptions, as in the case of some public development aid transactions, for instance.

In practice, the distinction between current and capital transfers is to be found in the use of the transfer by the recipient. B.o.p. compilers often encounter classification

problems in the case of debits (the recipient is a non-resident) when the use of the transfer is difficult to identify. Some examples are listed below:

- (i) public development aid/government aid to developing countries often takes the form of global funding for a public budget without any separation according to the use of the funds as operating expenditure or investment (public equipment or subsidiaries of private firms);
- (ii) inheritance tax may be regarded in two different ways: as a transfer of capital by the taxpayer or as a current receipt by the government;
- (iii) small instalments;
- (iv) the treatment of set-aside payments/subsidies in agriculture for mandatory production cut-backs.

Each case must be considered carefully by b.o.p. compilers. In case of remaining doubt a cash transfer should be classified as a current transfer and should hence appear in the current account.

There is a special difficulty relating to transfers between EU institutions and Member States, which can involve large amounts. Since the use of funds received through transfers of EU institutions (grants, subsidies, etc.) is sometimes difficult to determine, inconsistent recording may occur e.g. the EU institutions making the payment treat the transactions as current transfers and the recipients record them as capital transfers. To help consistency, the European Commission (Eurostat) provides the Member States with a tentative split of each EU fund into current and capital transfers.

3.6.1.2 The sub-component of debt forgiveness

When a creditor in a euro area Member State formally agrees - via a contractual arrangement - with a debtor country outside the euro area to forgive (extinguish) all, or part, of the

debtor's obligations, the amount forgiven is treated as a capital transfer from the creditor to the debtor. In effect, the b.o.p. statistics reflect a reduction of the liability offset by the transfer. Only cancellations based on mutual agreements representing capital transfers should be recorded in the euro area b.o.p. The writing-off of debts reflects a capital loss which should not be recorded as a transfer.

Data on general government debt forgiveness should be available from official sources or might be made available to the central bank directly by the general government/Treasury. Data on debt forgiveness by banks are sometimes more difficult to capture, although in some Member States they are available directly from the MFIs.

3.6.1.3 The sub-component of investment grants

Investment grants consist of capital transfers, in cash or in kind, made by governments to units which are not residents of the euro area, or vice versa, to finance all or part of the costs of acquiring fixed assets. The recipients are obliged to use investment grants received in cash for purposes of gross fixed capital formation, and the grants are often tied to specific investment projects, such as large construction projects. If these projects continue over a long period of time, investment grants (in cash) may be paid in instalments. Payments in instalments are classified as capital transfers, even in cases where they are recorded successively in different accounting periods.

In principle, official records should provide data on investment grants. However, these records are often held by different official bodies and are, in some cases, not easy to translate into b.o.p. items.

3.6.1.4 The sub-component of migrants' transfers

Migrants are individuals other than students, medical patients and diplomatic, military and similar personnel who move their home from one country to another and who stay in the

new country for at least one year. Migrants' transfers refer to the household and personal effects, together with the financial claims and liabilities that migrants transfer at the time they move from one country to another.

The value of the household and personal effects of migrants, together with the movable capital goods that they actually transfer, should be recorded as transactions in goods, with offsetting entries under migrants' transfers in the capital account. The distinction between migrants' transfers and workers' remittances may be difficult to make when transfers are made in cash.

Migrants' transfers are often difficult to capture statistically. B.o.p. compilers use various data sources to obtain the data or rely on surveys.

3.6.2 Acquisition/disposal of non-produced non-financial assets

Acquisitions/disposals of non-produced, non-financial assets cover the acquisition/disposal of non-produced tangible assets (land and sub-soil assets) and the acquisition/disposal of non-produced intangible assets, such as patents, copyrights, trademarks, franchises, etc., and leases or other transferable contracts. Only the purchase/sale, but not the use of such assets, is to be recorded in this category of the euro area capital account. Concerning transactions in land, an acquisition/disposal is deemed to occur between resident units, and the non-resident acquires a financial claim on a notional resident unit. Therefore, changes of ownership in land (i. e. real estate) usually are classified as financial transactions under direct investment (also see Section 3.7.1 "Direct investment/definition and coverage").

3.7 Direct investment

3.7.1 Definition and coverage

Direct investment reflects the objective of a resident entity in one economy to obtain a

lasting interest in an enterprise resident in another economy. In line with international standards (IMF/OECD), a "10% ownership criterion" is applied in order to infer the existence of a lasting interest in the case of the euro area b.o.p and i.i.p. Based on this criterion, a direct investment relationship can exist between related enterprises, regardless of whether the linkage involves a single chain or a number of chains. It can extend to a direct investment enterprise's subsidiaries, sub-subsidiaries and associates. Once the direct investment has been established, all subsequent financial flows³ between the related entities are recorded as direct investment transactions, regardless of the financial instrument used, except in the case of transactions between affiliated banks (MFIs) and other financial intermediaries where direct investment transactions are confined to those of a permanent capital nature.

Special-purpose entities (SPEs) are enterprises in the form of holding companies, base companies, regional headquarters or other types of subsidiaries, which are established for the purpose of managing foreign exchange risks, facilitating the financing of investments or otherwise engaging in financial transactions. They are considered to be direct investors and/or direct investment enterprises. However, where SPEs have the sole purpose of acting as a financial intermediary (as is the case for banks and other financial intermediaries, such as brokers), transactions recorded under direct investment are limited to those associated with permanent debt and equity (see above).

The components of direct investment transactions are equity capital, reinvested earnings and other capital associated with various inter-company debt transactions. Real estate investment including private, non-business real estate investment should be

³ Except from those related to financial derivatives between affiliates for which the Working Group on Balance of Payments and External Reserves Statistics (WG-BP&ER), in line with an IMF proposal, agreed - for practical reasons - on reporting under the functional category of financial derivatives, rather than under FDI/other capital.

recorded as well. Private non-business real estate investment relates, in particular, to holiday and other residences owned by non-residents, whether for personal use or leased to others.

Equity capital comprises equity in branches, all shares in subsidiaries and associates (with the exception of non-participating preference shares that are treated as debt securities) and other capital contributions.

Reinvested earnings consist of the offsetting entry to the direct investor's share of earnings not distributed as dividends by subsidiaries or associates and earnings of branches not remitted to the direct investor; a corresponding amount should be recorded under investment income. (See Section 3.4.5.1 "Reinvested earnings").

Other capital covers all inter-company financial transactions (borrowing and lending of funds) - including debt securities and suppliers' credits (i.e. trade credits) - between direct investors and subsidiaries, branches and associates.

3.7.2 Recording direct investment on a directional basis

Following the recommendations of the IMF and Eurostat/OECD guidelines, direct investment relationships are recorded in euro area statistics using the directional principle, implying that financial transactions between the euro area resident direct investors and the non-euro area direct investment enterprises are classified as direct investment abroad in the euro area b.o.p./i.i.p. (negative or positive, depending on the direction of the flow). Symmetrically, the financial transactions between resident direct investment enterprises and non-euro area direct investors are classified as direct investment in the reporting economy in the euro area.

An exception relates to direct investment flows/positions between companies of the same group which do not however have any direct ownership link to each other. In this

case, it is recommended that the "asset/liability principle" be applied, i.e. that the transactions/positions be allocated according to the accounting conventions of the parties involved, in line with recommendations by the OECD and the IMF.

In order to apply the directional principle correctly, it is essential to determine the status of the euro area resident enterprise (i.e. either as a direct investor or as a direct investment enterprise) in relation to its counterparty in each case (likewise for holdings). However, the identities of the parties involved and their positions relative to a group hierarchy, which may change over time, are not always directly available from some collection systems; thus compliance with the definition may cause problems in practice. The application of the directional principle is particularly difficult in the case of the following activities:

- (i) *reverse loans* with either zero or less than 10% cross participation. Owing to the practical difficulties involved in recognising them as reverse flows, these loans are often classified according to the asset/liability principle, with the result that all assets are recorded as direct investment abroad and all liabilities as direct investment in the reporting economy, regardless of the status of the resident enterprise involved in the financing;
- (ii) *double status* enterprise - where the firm is affiliated (direct investment enterprise) to a parent company resident outside the euro area and is, at the same time, itself a direct investor in other affiliates resident outside the euro area.

Comprehensive registers to determine the relationship of the euro area resident company vis-à-vis each direct investment-related non-euro area resident enterprise are useful. However, since creating and maintaining such comprehensive registers so as to work in a fully automated way is costly, most compilers identify the status of companies by using a combination of:

- (i) an *individual selection procedure*, which consists in requesting additional information on the status of the resident company vis-à-vis the non-resident counterparty from the reporting agents for all cross-border flows (and similarly for stocks) above a certain threshold; and
- (ii) information from *registers*, by carrying out cross-checks as far as possible.

The *threshold* aims to ensure that the selection of enterprises is representative. In principle, this threshold is applied to holdings and transactions according to two main selection criteria:

- (i) the *importance of the reporting company*: the identity of the non-resident counterparty must be provided for all reported cross-border flows/holdings of the most significant resident direct investors/direct investment enterprises;
- (ii) the *amount of transactions/holdings*: in this case, the obligation to identify the non-resident counterparty is restricted to all cross-border flows exceeding the amount of the threshold.

This combined approach, using registers and individual information from reporting agents, allows a correct classification of flows (and stocks) exceeding the threshold according to the directional principle and can be applied by most euro area countries. It produces reliable results in accordance with the approved methodology, thereby increasing the coherence and compatibility of the euro area b.o.p./i.i.p. statistics.

However, asymmetries at the euro area level can still appear owing to the impossibility of defining a common threshold in terms of an absolute value. In this respect, information on direct investment relationships obtained via the method described above may be used to develop less costly comprehensive registers, which could progressively be used to improve classification.

3.7.3 *Special issues related to stocks*

3.7.3.1 *Valuation criteria*

With regard to the valuation of direct investment stocks, the internationally recommended approach is to use market prices. However, owing to practical difficulties, compilers are currently using book values based on the volume of own funds of the companies involved.

The criteria for the valuation of direct investment stocks in the contribution to the euro area i.i.p. are (a) the stock exchange price for listed companies, (b) for non-listed companies a valuation based on their own funds (i.e. book values), using a common definition comprising the following accounting items: (i) paid-up capital (excluding own shares and including share premium accounts); (ii) all types of reserves (including investment grants when accounting guidelines consider them company reserves); and (iii) non-distributed profits net of losses (including results for the current year).

The possibility of publishing in parallel direct investment stocks for the euro area as memorandum items on the basis of other criteria (i.e. marked-to-market or based entirely on book values) is under consideration.

3.7.3.2 *Issues related to the accumulation of flows*

In cases, in particular, where the real stocks resulting from surveys are not available within a reasonable time horizon, compilers use accumulated flows to supplement the outcome of the latest available surveys. However, the use of accumulated flows for the estimation of direct investment stocks poses several problems. Even if reinvested earnings are captured in transactions and the directional principle is applied to the direct investment flows, significant discrepancies can arise between real stocks data and the estimates

obtained by means of the accumulation of flows, owing to different valuation schemes. Therefore, the unadjusted accumulation of flows is not regarded as a useful method for the estimation of direct investment stocks data within the euro area. Only in cases where (i) the basic benchmark stocks data are available (ii) occasional surveys are developed and (iii) a reconciliation exercise between stocks and flows is carried out, should accumulated flows be used to obtain more frequent and/or initial estimated data.

3.8 Portfolio investment

3.8.1 Definition and coverage

The euro area portfolio investment account includes (i) equity securities and (ii) debt securities in the form of bonds and notes and money market instruments, except for those falling into the category of either direct investment or reserve assets. Financial derivatives are excluded from portfolio investment and shown in a separate category of the financial account and the i.i.p. (see Section 3.9 “Financial derivatives”), in line with recent IMF recommendations.

The *equity securities* item covers all instruments representing claims on the residual value of incorporated enterprises after the claims of all creditors have been met. Shares, stocks, preferred stock or shares, participation, or similar documents usually denote ownership of equity. Transactions/holdings of shares of collective investment institutions, e.g. investment funds, are also included.

Bonds and notes are securities issued with an initial maturity of more than one year which usually give the holder (i) the unconditional right to a fixed monetary income or contractually determined variable monetary income (payment of interest being independent of the earnings of the debtor) and (ii) the unconditional right to a fixed sum in repayment of principal on a specified date or dates. Transactions and holdings in securities issued with a maturity of more than one year are

always classified as bonds and notes in the euro area b.o.p./i.i.p., even though their residual maturity at the time of the investment may be one year or less.

Unlike *bonds and notes*, money market instruments are securities 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 is dependent upon the interest rate of the instrument relative to the market interest rate and the time remaining to maturity. Examples of such instruments are Treasury bills, commercial and financial paper and bankers’ acceptances.

Collateralised loans and other relevant transactions/holdings related to repurchase agreements involving debt securities are recorded in the euro area other investment account.

The recording of portfolio investment transactions in the euro area b.o.p. takes place when the 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 interest, 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 are required in the quarterly b.o.p. financial account and in the i.i.p. (see Section 3.4.6 “Specific issues related to portfolio investment income”); in the monthly b.o.p. items the same treatment is recommended (but not required), in line with the income account.

3.8.2 Geographical allocation principle for change of ownership

With regard to *portfolio investment* instruments, whether these are considered to be external depends only on the residence of the issuer in

the case of assets and on that of the beneficiary/holder of the securities in the case of liabilities, regardless of the type of instrument, the currency of denomination or the location of the market on which the securities are issued.

Different institutional features of the financial markets impinge on the ability of the compiler to allocate the flows/stocks in euro area liabilities (and in debits to the related income account) solely according to the creditor principle. Given the participation of various financial intermediaries in international transactions and the presence of an active secondary market for many existing liabilities, the euro area resident issuer (and the b.o.p. compiler) may not be aware of the final destination of the outward income flow or of the residency of the ultimate beneficiaries/holders of securities issued by euro area residents. This is particularly likely when flows occur through international financial centres or clearing houses. Therefore, for portfolio investment, the recording of liabilities (and the related income debits) in many cases in practice follows one variation of the transactor principle, i.e. the first known counterparty. It may be possible, periodically, to reassess the disposition of the euro area's portfolio liabilities by using counterparty data from creditor countries. The IMF's Co-ordinated Portfolio Investment Survey could play a valuable role in this respect.

On the assets side (and for related income credits), the application of the debtor principle should prove more straightforward, as the resident holder should know the identity and country of residence of the debtor (issuer).

3.8.3 Specific types of debt securities

The following debt instruments have certain specific characteristics which have a bearing on how they are recorded.

Note issuance facilities

A note issued under a note issuance facility (NIF; usually a medium-term arrangement of

five to seven years) is a short-term instrument (e.g. three to six months) issued by a borrower in his own name under a contractual commitment with a bank or group of banks either to underwrite the notes and purchase any unsold notes at particular borrowing or rollover dates or to provide stand-by credits. The facility is a form of revolving credit, and the paper issued is often referred to as a Euronote or a promissory note. If the borrower is a bank, the paper is, in effect, a certificate of deposit. (At times, a facility is arranged to issue short-term notes without an underwriting commitment, but usually there is a separate stand-by credit commitment. Notes issued without an underwriting commitment are referred to as Euro commercial paper.)

For the purpose of b.o.p. recording, the creation of NIFs does not require entries in the financial account because the NIFs are contingent. When notes are issued and sold under an NIF, the transaction is recorded in such a way that the sale is entered as a liability for the borrower and as an asset for the buyer (the bank or other investor). Repayments are entered accordingly. Any fees associated with the creation and operation of NIFs or bank placements of notes with other investors are entered as financial services in the current account. As recommended for other debt securities, discounts or premiums on the notes purchased by banks or other investors (apart from the fees paid by the latter to banks) are treated as interest income or negative interest income, respectively, at the time of purchase.

Perpetual bonds

Perpetual bonds are bonds that never mature. This means that such a bond theoretically provides the holder with an infinite stream of income payments. In a number of countries, perpetual bonds are classified as second-tier equity in the balance sheets of the issuing enterprises. Nevertheless, as the income payable on these bonds is normally independent of the earnings of the issuing enterprise, perpetual bonds are classified as bonds and notes, rather than as equity, in the b.o.p. and i.i.p.

Collateralised mortgage obligations/asset-backed securities

Collateralised mortgage obligations and other asset-backed securities are instruments that relate specifically to an asset or a group of assets held by the issuing enterprise. Banks may issue securities based on mortgage loans they grant to households. The income that banks earn from lending activities is used to pay interest on the securities and the mortgages are used as collateral for the securities. The holder of the asset-backed security does not own the asset backing the security; the collateral provided with the security is contingent. Securities based on mortgage obligations are favoured by lending institutions, as it is possible with such securities to match the maturity of an enterprise's assets (its mortgages) with the maturity of its liabilities (the securities). There are other types of asset-backed securities that enable the issuing enterprise to have access to cash before the related assets mature.

3.8.4 Borderline cases

It is not always easy to distinguish portfolio investment from the other categories of the financial account and the i.i.p. In particular, the distinction between portfolio investment and other investment is less clear-cut than in the case of direct investment, financial derivatives and reserve assets. According to the BPM5, the classification of portfolio investment should be based on the criterion of tradability, i.e. all instruments which are traded or tradable in organised and other financial markets are, in principle, considered as portfolio investment, unless they are recorded as direct investment (see Section 3.7.1), financial derivatives (see Section 3.9.1) or reserve assets (see Section 3.11.1). This definition includes those instruments structured in a form identical to instruments of a negotiable nature, even though they may not actually be traded in organised (secondary) markets and may be placed directly with investors through - publicly announced - private offerings and held to maturity.

As stated above, there are borderline cases between portfolio and other investment. The agreed treatment of these borderline cases within euro area b.o.p./i.i.p. statistics is presented below:

Depository receipts should be recorded according to the underlying instrument and classified as domestic or foreign securities according to the country of residence of the issuer of the depository receipt.

Investments in *mutual funds* and investment trusts should be recorded as equity under portfolio investment.

Negotiable certificates of deposit

Negotiable certificates of deposit are in principle classified as portfolio investment/debt securities - according to their original maturity, they are classified either as bonds and notes (maturity in excess of one year) or as money market instruments (maturity of one year or less). A small minority of certificates of deposit are known to be non-negotiable and, where identified, should be classified as other investment/currency and deposits rather than as money market instruments.

Participating shares

Participating shares are regarded as normal equity and recorded under portfolio investment if they account for less than 10% of the shares of an enterprise and are, therefore, not to be classified as direct investment.

Preference shares

Preference shares are classified under portfolio investment, as equity securities if the shares are participating and as debt securities if the shares are non-participating. If it is not possible to distinguish between types of preference share (i.e. participating or non-participating), all shares should be recorded as equity securities.

Private placements

Two types of private placements can be distinguished. Publicly announced private placements are tradable as from the time of issue and should, therefore, be recorded in

portfolio investment. Privately arranged private placements are placements of securities which are not publicly announced at the time of issue and should be recorded under other investment unless or until they become tradable.⁴

Tradable loans (i.e. "Schuldscheine")

"Schuldscheine" are classified as debt instruments as they are negotiable and a type of promissory note. Although the instrument demonstrates the characteristics of both a loan and a security, the BPM5 (paragraph 415) clearly states in its definition of "loans" that the document or instrument which evidences a loan should be non-negotiable. Owing to their tradable nature, "Schuldscheine" are therefore precluded from classification as loans under other investment, and should be classified as debt securities under portfolio investment.

3.8.5 Special issues related to stocks

3.8.5.1 Valuation proposals

Market values should be applied as far as possible in the case of equity and debt securities, on both the assets and the liabilities side, since the i.i.p. must show the economic value of the securities and not the value of redemption. The relevant prices are those prevailing at the end of the reference period to which the reporting relates.

The market prices of both equity and debt securities listed in organised markets or readily tradable are easy to identify as they are the quotation prices. The equity of enterprises listed on a stock exchange should be valued using the price prevailing on the main stock exchange concerned at the close of business on the last day of the period. Equities not quoted on stock exchanges or not regularly traded should be estimated by using either prices of comparable quoted shares or theoretical prices derived from the enterprises' net asset values. A quoted traded market price, again at the close of business on the last day of the period, should be used for the market value of listed debt securities. 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 unpriced 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, closing mid-market exchange rates prevailing at the end of the period should be applied to the instruments denominated in foreign currency in order to convert them into euro.

3.8.5.2 Issues related to the accumulation of flows

Both price and exchange rate adjustments are necessary for the accumulation of portfolio investment flows to be a good proxy for marked-to-market stocks and, therefore, to be compatible with direct recorded portfolio stock data.

The *perpetual inventory* model is the most common method used to derive *price adjustments*. This model requires a benchmark estimate of the stock data. Such an estimate can be obtained from an occasional collection of stock data. Alternatively a point in time when the stock position of the instrument is known or assumed to be nil can also be used as the base. The model calculates the value of a stock at the end of a period as the value of the stock at the beginning of the period, plus the impact of transaction and non-transaction-related changes in the value of the stock during the period. Calculations should initially be made in the currencies in which the instruments are denominated and converted, by using prevailing exchange rates, to the base currency.

More precise estimates could be obtained by making the required adjustments on a *security-*

⁴ In practice, the distinction between public and private placements may be difficult to make without a security-by-security system.

by-security basis, although much more detailed information would be necessary in order to take factors such as bonus issues or write-offs into account. Adjustments should also be carried out whenever an issue matures, if detailed information is available. The availability of ISIN codes for all securities would be very helpful for this approach. Otherwise, market prices and/or indices could be used to estimate the broad effect that these changes in volume may have on the stock outstanding.

Special care is needed in cumulating transactions when exchange rates vary during the period. *Exchange rate adjustments* should be applied for securities data analysed by currency. The actual exchange rates of the transaction and the closing mid-market exchange rates at the end of the period should provide the valid reference necessary to derive exchange rate adjustments. The average exchange rate for the reference period could be used as a proxy for the actual exchange rate at which the transaction was executed, where this is not available or where data are reported in aggregate.

3.9 Financial derivatives

3.9.1 Definition and coverage

Financial derivatives are financial instruments that are linked to a specific financial instrument, indicator or commodity, and through which specific financial risks can be traded in financial markets in their own right. Transactions in financial derivatives are treated as separate transactions, rather than as integral parts of the value of underlying transactions to which they may be linked. The transactions and positions recorded under the item “financial derivatives” in the euro area b.o.p. and i.i.p. are those in options, futures, swaps, forward foreign exchange contracts and credit derivatives. For practical reasons relating to measurement, embedded derivatives are not separately distinguished from the underlying instruments to which they are linked.

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. financial account are recorded on a net basis. By contrast, financial derivative asset and liability positions in the i.i.p. should be recorded on a gross basis.

The recording of transactions in financial items takes place when both creditor and debtor enter the claim and liability, respectively, in their books.

A further important point is to distinguish which flows/stocks associated with financial derivatives are properly recorded in the financial derivatives account in the b.o.p./i.i.p. and which should be recorded elsewhere (e.g. under other investment)⁵.

The following sections will introduce the main types of financial derivatives and present practical issues related to their recording in the b.o.p. and i.i.p.

3.9.2 Futures

3.9.2.1 General characteristics of futures

A futures contract is a form of forward contract in that it conveys the obligation to purchase or sell a specified quantity of an asset at a set price on a fixed future date. The most important characteristics of a futures contract are that the terms of the contract are standardised, that trading must be conducted upon, and regulated by, a centralised exchange, and that futures are subject to regular margining. The contracts usually state the quantity to be delivered, and they are normally traded in a cycle of predetermined delivery dates (e.g. March, June, September and December). The trading of futures contracts takes the form of “open outcry” in trading pits

⁵ In this context, it is worth noting that in money and banking statistics repayable margin payments are considered to be deposits only where they are paid to or received by an MFI.

or via automated trading systems, with price movements being expressed in “ticks”; one tick represents 0.01% of the nominal value of the trading unit (e.g. 0.01% of a US cent, or 0.0001% of a US dollar).

Exchanges use the services of a clearing house to match and settle all transactions between members. Futures contracts are marked-to-market daily, which involves the buyer/seller paying/receiving the difference between the rate at the close of business of the day and the rate on the previous day. In order to operate on an exchange, a trader must have a margin account, into which the trader must pay initial margins (repayable) and variation margins (non-repayable) when they are required.

The *initial margin* requires each party to a contract to deposit a fixed sum with the clearing house as soon as the contract is executed. This amount is set at a level which the exchange considers sufficient to cover the anticipated scale of daily price movements and is used to ensure that each counterparty can meet its potential obligations in the event of losses. While the initial margin can be a cash payment, it is often met by posting collateral. The initial margin is returned to the depositors once the contract is closed out.

The *variation margin* reflects the actual profit or loss realised on the contract from a daily marked-to-market valuation and is used, over the life of the contract, to fund the effective transfer of the asset from one counterparty to the other. Owing to the fact that the transfers to and from both counterparties’ accounts take place daily, the contract starts at a risk neutral position each day. Some exchanges, however, choose to retain this daily variation margin until the end of the contract, rather than passing it on each day. In many cases the margining position of each counterparty is calculated on a net basis (netting purchased and sold contracts) by the clearing house. In practice, there might be only one margining account, which makes it more difficult to separate initial margin and variation margin payments.

In all futures deals, the clearing house itself becomes a legal counterparty to the contract. Hence, the creditworthiness of any counterparty is not a factor in exchange-traded contracts, as the clearing house will settle all accounts should one counterparty default. When establishing a futures contract, a counterparty will have to pay commission to a broker for carrying out a transaction, as well as to the clearing house itself.

There are two main ways of liquidating a futures contract. One is to take up an offsetting futures position prior to the value date in order to net off the existing obligation on the clearing house’s books. The other is to allow the contract to expire, at which time the buyer can sometimes take physical delivery of the commodity or instrument (where such exist) or choose to accept the cash equivalent. In the most active and developed markets, such as short-term interest rate futures markets, usually only cash settlement is authorised (e.g. three-month contracts on the LIFFE, MATIF, or DTB exchanges). However, long-term contracts (e.g. ten-year contracts) may involve delivery of the securities.

3.9.2.2 *Practical treatment of futures in the b.o.p./i.i.p.*

At the start of a futures contract, no transaction is recorded under financial derivatives in the b.o.p. The futures-style variation margin payments that are made during the life of a contract with a non-resident counterparty are non-repayable in nature and should be recorded as transactions in financial derivatives. As is the case for exchange-traded options with futures-style margining (see Section 3.9.3.1 below), the initial margin payments, which are repayable, should be recorded as transactions in the other investment account.

In principle, the market values of futures contracts should be recorded as financial derivative assets and liabilities in the i.i.p. In practice, however, the market values of futures

with daily margining, as mentioned earlier, are close to zero at the end of each day, and it is not necessarily cost effective to collect them. The outstanding amounts of initial margins paid are recorded as assets in the other investment account and the outstanding amounts of initial margins received are recorded as liabilities in the other investment account.

More specifically, the recording of futures should be as follows:

Flows

(i) Non-repayable margins: futures-style variation margin payments:

- amounts paid or received during the period are recorded under financial derivatives;
- the inflow (credit) of cash is regarded as a decrease in assets and the outflow (debit) of cash is regarded as a decrease in liabilities.

(ii) Repayable margins: initial margin payments:

- amounts paid or received during the period are recorded under loans/currency and deposits in the other investment account;
- the inflow (credit) of cash is regarded as a decrease in assets or increase in liabilities and the outflow (debit) of cash is regarded as a increase in assets or decrease in liabilities.

Stocks

(i) Assets:

- the sum of contracts with a positive market value at the end of the period is recorded in the financial derivatives account;
- the outstanding amount of initial margins paid is recorded in the other investment account.

(ii) Liabilities:

- the sum of contracts with a negative market value at the end of the period is recorded in the financial derivatives account;
- the outstanding amount of initial margins received is recorded in the other investment account.

3.9.3 Options

3.9.3.1 General characteristics of options

An option is an instrument that gives the purchaser the right, but not the obligation, to buy/sell a specified amount of a particular financial instrument, or commodity from/to the writer (seller) of the option within a given period, or at some specific future time, at a specified price. Options can be either exchange-traded or over-the-counter (OTC) instruments. Exchange-traded options are packaged in fixed quantities and have a fixed range of dates. Options can be margined options-style (where there is an exchange of the initial premium, and daily variation margins may be covered by collateral rather than cash) or futures-style (where there is no initial premium and variation margins are settled in cash). OTC options, by contrast, are tailor-made to meet the customer's requirements, and are therefore less suitable for trading on secondary markets.

At the inception of the contract, the purchaser of the option usually pays a premium to the seller. At maturity, the holder (buyer) of the option has the right, but not the obligation, to exercise the option. If the right is not exercised, the option expires and is worthless (the loss incurred by the buyer is equal to the premium paid).

If the option is exercised on the due date ("European style"; or within the specified range of dates, i.e. "American style"), then a net payment (representing the difference between

the market price and the contractually agreed strike price) is usually made by the writer to the option holder. However, in some cases, instead of a net payment, a delivery of the underlying instrument or commodity takes place.

The percentage of the contracts reaching maturity (i.e. contracts which are not closed out prior to the expiry date), and the percentage of those that end with the delivery of the underlying instrument, vary considerably from market to market.

Different types of margin payments are made in the exchange-traded markets. The margin is a measure of risk to an institution that is counterparty to a contract. Margining takes two forms; an initial margin, to cover potential future adverse price movements, and a variation margin, to cover actual past price movements since the previous variation margin settlement. The initial margin is held as a deposit (or by posting collateral) for the duration of the contract which is returned when the contract expires. Variation margining is carried out either options-style or futures-style. The choice depends on the type of instrument and the practice applied by the exchange concerned. For example, equity options are often margined options-style, while interest rate options are usually margined futures-style.

In options-style margining, the purchaser of the option pays a premium to the seller and the writer posts an initial margin to the clearing house. Daily variation margin payments are made to the buyer only in proportion to the net liquidation value, since the clearing house covers itself against potential future price changes in favour of the writer. The buyer's margin account can be fully realised only when the deal is closed out or the option exercised.

With futures-style variation margining, there is no premium and this is reflected in the price that the contract is quoted at; options that are margined futures-style can be regarded as similar to futures, except that the downside risk for the buyer is capped. Both the buyer

and the seller are required to deposit initial margins. The daily variation margin payment is usually collected by the clearing house from one party – and simultaneously paid to the other party – and provides the means for effecting a change in ownership.

3.9.3.2 *Practical treatment of options with options-style margining options in the b.o.p./i.i.p.*

OTC options and exchange-traded options with options-style margining involve a payment of the premium up front. The full premium should be recorded under financial derivatives as the acquisition of a financial asset by the buyer, and as the incurrence of a liability by the seller. At the close of the contract, the net payments that reflect the difference between the underlying market price and the strike price should also be recorded under financial derivatives, regardless of whether the underlying instrument is delivered or not.

Any actual delivery of the underlying instrument should be treated as a separate entry in the financial account, and the transaction should be recorded at the prevailing market price. Both the premium at the start of the contract and net payments at the close of the contract are non-repayable to the payer (buyer or seller).

Initial margin payments, options-style variation margin payments or other collateral-type payments related to option contracts should be recorded as transactions under the other investment account, in currency and deposits. In principle, these are all repayable to the payer and should not therefore be regarded as transactions in financial derivatives. If a repayable margin is made in the form of securities or other non-cash assets, there will be no transaction recorded in the b.o.p., since no change of ownership takes place.

The market values of the option contracts at the end of the reference period should be recorded in the i.i.p. Purchased options are regarded as financial derivative assets and

written options are regarded as financial derivative liabilities. The outstanding amounts of initial margins paid are recorded as assets in the other investment account and the outstanding amounts of initial margins received are recorded as liabilities in the other investment account.

More specifically, the recording of options with options-style margining (including OTC options) should be as follows:

Flows

(i) *Full premium and net payments at the close of the contract* (difference between the underlying market price and the strike price):

- amounts paid or received are recorded under financial derivatives;
- the purchase of an option (debit) is regarded as an increase in assets and the sale of an option (credit) is regarded as an increase in liabilities.

(ii) *Repayable margins* (exchange-traded options): initial margin payments (writer only) or options-style variation margin payments:

- net amounts paid or received during the period are recorded under loans/ currency and deposits in the other investment account;
- the inflow (credit) of cash is regarded as a decrease in assets for the buyer of an option or an increase in liabilities for the writer of an option and the outflow (debit) of cash is regarded as an increase in assets for the buyer of an option or a decrease in liabilities for the writer of an option.

Stocks

(i) Assets:

- the market value of the purchased options at the end of the period is

recorded in the financial derivatives account;

- the outstanding amount of initial margins paid is recorded in the other investment account.

(ii) Liabilities:

- the market value of the written options at the end of the period is recorded in the financial derivatives account;
- the outstanding amount of initial margins received is recorded in the other investment account.

3.9.3.3 *Practical treatment of futures-style options in the b.o.p./i.i.p.*

In the case of exchange-traded options with futures-style margining, payment of the premium does not take place at the start of the contract, and there is thus no transaction in financial derivatives at the start of the contract. Initial margin payments, which are repayable to the payer, should be recorded as transactions in the other investment account. The futures-style variation margin payments that are made during the life of the contract (usually daily) are non-repayable in nature and should be recorded as transactions in financial derivatives.

In principle, the market values of exchange-traded options should be recorded as financial derivative assets and liabilities in the i.i.p. In practice, however, the market values of exchange-traded options with frequent margining are close to zero at the end of each day. (The market value of a futures-style margined contract can be argued to be equivalent to any unsettled variation margin payments, although this may be difficult, in practice, to report for many institutions. However, as the figures are relatively small, the collection of such data is of limited value.) The outstanding amounts of initial margins paid are recorded as assets in the other investment account, and the outstanding amounts of initial

margins received are recorded as liabilities in the other investment account.

More specifically, the recording of futures-style options should be as follows:

Flows

(i) *Non-repayable margins*: futures-style variation margin payments:

- amounts paid or received are recorded under financial derivatives;
- the inflow (credit) of cash is regarded as a decrease in assets and the outflow (debit) of cash is regarded as a decrease in liabilities.

(ii) *Repayable margins*: initial margin payments:

- amounts paid or received during the period are recorded under loans/currency and deposits in the other investment account;
- the inflow (credit) of cash is regarded as a decrease in assets or an increase in liabilities and the outflow (debit) of cash is regarded as an increase in assets or decrease in liabilities.

Stocks

(i) Assets:

- the market value of the purchased options at the end of the period is recorded in the financial derivatives account;
- the outstanding amount of initial margins paid is recorded in the other investment account.

(ii) Liabilities:

- the market value of the written options at the end of the period is recorded in the financial derivatives account;

- the outstanding amount of initial margins received is recorded in the other investment account.

3.9.4 Swaps, forwards and forward rate agreements

3.9.4.1 General characteristics of swaps, forwards and forward rate agreements

Swaps are contractual agreements between two parties who agree to exchange sets of cash flows. Contracts are negotiated by the counterparties themselves and, in principle, the payment arrangements can be tailored to the wishes of the counterparties. However, standard conventions are followed in the most active swap markets, thus helping the b.o.p. compiler to set out instructions for reporting. In many markets, such as the interest rate swap market, the principal is not exchanged at the start of the contract. Nonetheless, in the case of cross-currency interest rate swaps, for instance, the principal is sometimes exchanged at the start of the contract. Interest payments are usually carried out on a net basis. Swaps are mainly OTC contracts, but exchange-traded contracts may also exist.

A *forward contract* is an agreement between two parties to purchase/sell something at a predetermined price at a later date. Forwards are always OTC contracts (by definition, a future is a forward that is traded on an exchange). Forward rate agreements (FRAs) are pure interest rate forward contracts. While the instruments pose the same problems, differing market practices create unique practical issues. For example, most FRAs are settled via a net cash payment at the end of the contract, whereas forward foreign exchange deals usually result in the delivery of the underlying instrument.

Swaps and forwards almost invariably go to maturity. The only way to offset a position is to enter into a new contract reversing the original, although it is rare for contracts to be formally closed out. Swaps, forwards and FRAs

are instruments the value of which can switch from positive to negative and vice versa throughout the life of the contract.

3.9.4.2 *Practical treatment of swaps, forwards and forward rate agreements in the b.o.p./i.i.p.*

Net payments related to swaps (including net interest) and forwards are recorded as transactions under financial derivatives. Depending upon the contract specifications, net payments relating to swaps can be made during the life of the contract or only when it reaches maturity. If principal is exchanged in a swap (especially in the case of cross-currency swaps), the possible difference between the two legs revalued in the base currency should be recorded under financial derivatives. Transactions relating to forward contracts invariably occur at expiry. Collateral payments are only rarely made from one counterparty to another, but when such cash payments do occur they should be recorded in the other investment account.

For forward foreign exchange contracts it is recommended that the difference between the amount paid on the contract date and the amount that would be paid at the spot rate prevailing at settlement should be allocated to transactions in financial derivatives. In settlement data collection systems in which amounts paid are reported it is, however, difficult or impossible to identify and separate the market price component. A survey data collection system is more practical, but the relatively heavy burden upon the respondents has to be judged according to local circumstances.

The market values of swap and forward contracts should be recorded in the i.i.p. Although the contract is usually negotiated so that it has zero marked-to-market value at inception, a contract will gain value for one party and become a liability for the other as market values change. The value of swap and forward contracts is derived from the difference between the agreed contract price

and the prevailing market price, or the expected market price, which is discounted accordingly. Hence the relationship between the agreed contract price and the prevailing market price is a crucial element in the valuation of swap and forward contracts. If the agreed contract price and the prevailing market price are the same, the contract has no value. If the contract price and the prevailing market price differ, the derivatives contract does have a value, which can switch to being positive or negative during the life of the contract.

More specifically, the recording of swaps, forwards and FRAs should be as follows:

Flows

Swaps and FRAs (net payments during the period or at the close of the contract) and forwards (the difference between the agreed contract price and the market price at the close of the contract):

- amounts paid or received during the period are recorded under financial derivatives;
- the inflow (credit) of cash is regarded as a decrease in assets or increase in liabilities and the outflow (debit) of cash is regarded as an increase in assets or decrease in liabilities.

Stocks

- (i) Assets:
 - the sum of contracts with a positive market value at the end of the period.
- (ii) Liabilities:
 - the sum of contracts with a negative market value at the end of the period.

3.9.5 *Criteria for the geographical breakdown*

With regard to the geographical allocation of financial derivative transactions and positions,

the following cases have to be distinguished:

- (i) For *financial derivatives traded in specifically organised markets* (e.g. futures and options, except OTC paper), information on the residency of the ultimate investor is not usually 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 counterpart is determined solely by the central clearer. Therefore, as a practical solution, the country in which the clearing house or the market is located should determine the geographical allocation of assets and liabilities associated with such financial derivatives.
- (ii) *Non-negotiable OTC financial derivatives* (e.g. most types of swaps and FRAs) are in principle not traded in organised markets, since they are designed to meet the specific needs of the parties involved. In the case of these kinds of contracts, the counterpart and its actual location can be identified.
- (iii) *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 for financial instruments in the portfolio investment account, meaning that only the first known counterpart to which the financial derivative was initially sold might be determined.

3.10 Other investment

3.10.1 Definition and coverage

The other investment item is a residual category that includes all financial transactions not covered under direct investment, portfolio investment, financial derivatives or reserve assets (see also Section 3.8.4 “Borderline cases” for portfolio investment). Other investment can be further subdivided into (i) trade credits, (ii) loans/currency and deposits and (iii) other assets/other liabilities. It also encompasses the offsetting entries for accrued income on instruments classified under other investment.

Trade credits consist of claims or liabilities arising from the direct extension of credit relating to transactions in goods and services and advance payments for work in progress (or to be undertaken) associated with such transactions. There are two types of trade credit assets: (i) prepayments on imports and (ii) trade credit extended on exports. Assets represented by prepayments on imports are extinguished upon delivery of the goods or services and assets represented by trade credit on exports are extinguished by actual payment (post-payment). Trade credit liabilities arise from the pre-payment of exports or trade credit received on imports. Delivery of exports extinguishes the former and actual payment (post-payment) extinguishes the latter.

Loans/currency and deposits comprise transactions in the following financial instruments: loans, i.e. those financial assets created through the direct lending of funds by a creditor (lender) to a debtor (borrower) through an arrangement in which the lender either receives no security evidencing the transaction or receives an effectively non-negotiable document or instrument; deposits; repo-type operations (see Section 3.10.2 “Repurchase agreements, bond lending and other related instruments”) and currency (notes and coins which are in circulation and commonly used to make payments). Included are, inter alia, loans to finance trade, other loans and advances

(including mortgages). In addition financial leases are covered.

Other assets/other liabilities covers all items other than trade credits, loans and currency and deposits. Examples are: capital subscriptions of the participating Member States to international non-monetary organisations, changes in insurance technical reserves, offsets in respect of unsettled securities transactions.

Compared with BPM5 standard components, the other investment presentation of the euro area b.o.p./i.i.p. is simplified by (i) not requiring any distinction between loans and deposits on each side of the b.o.p./i.i.p., and (ii) the removal of the maturity breakdown for quarterly/annual b.o.p. and i.i.p. statistics. There is also a change in the presentation of the breakdown (i.e. sector as first priority) which is compatible, but not identical, with the BPM5 where instruments have priority. For the monthly key items, a split between short-term and long-term flows in the banking sector is required.

3.10.2 Repurchase agreements, bond lending and other related instruments

The statistical treatment of repo-type transactions is a complex issue where standards at the global level are still the subject of debate. Within in the euro area, the following consensus treatment has been agreed.

3.10.2.1 Definition of repurchase agreements

Under a repurchase agreement (repo) the holder of a bond sells the bond for cash but agrees to repurchase the bond, or an equivalent security, at a fixed price on a fixed date. There is a formal contract between the two parties, which sets out the legal standing of the transaction. In London and elsewhere, this is the PSA/ISMA Global Master Repurchase Agreement. The contract allows for margining,

marking to market, collateral substitution and manufactured dividends.

If a coupon is paid during the life of the repo it is passed on to the original holder (lender) of the securities.

Under a repo agreement, 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 repo agreements 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, i.e. the recommendations outlined in this section do not apply to them.

3.10.2.2 Definition of sell/buy-back transactions

Like repurchase agreements, sell/buy-back transactions are often a way of raising or lending short-term capital which is secured against securities, sold or purchased. In contrast to repurchase agreements, the transaction is structured in two parts, a spot deal and a forward deal, which are, however, executed simultaneously. As for repurchase agreements the original holder of the securities received benefit of a coupon payment made during the duration of the transaction, but the method of passing it is different. The main difference between repurchase agreements and sell/buy-back transactions revolves around the settlement systems required for the two types of transactions. Repurchase agreements can be considered a technical evolution of sell/buy-back transactions. Under a sell/buy-back transaction, there is an obligation to return the securities.

3.10.2.3 Definition of bond lending

Bond lending either involves the lending of securities (collateralised by cash or marketable paper) 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 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.

3.10.2.4 Recording of repurchase agreements, bond lending and other related instruments

The treatment recommended by the ECB is based on the notion of transfer of “economic” or “beneficial” ownership as distinct from transfer of “legal” ownership. All repo-type operations, i.e. “genuine” repurchase agreements, sell/buy-back operations and bond lending (in the case of the latter, only if cash collateral is involved), 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, within the euro area resident sector that carries out the operation. 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.

As regards other features of repo-type transactions: (i) fees associated with securities-lending operations should be recorded as

financial services, instead of as investment income in the b.o.p., and (ii) repayable (option-style) variation margins provided to cover the value of the securities placed as collateral should be recorded as deposits within the other investment account.

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 to 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). The harmonised rules are described in detail in Section 3.10.3.1.

All operations described in Section 3.10.3.1 are settled via TARGET. Therefore, the treatment of the required offsetting entries, as required by the double-entry structure of the b.o.p., follows the agreed treatment of changes or positions in TARGET balances as described in Section 3.10.3.2.

3.10.3.1 Harmonised treatment of intra-ESCB operation

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

- *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”.
- *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 as 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 not yet fully applying the accruals principle should record coupon payments under “current

account/investment income on portfolio investment”.

3.10.3.2 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 positions/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 EU 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. Accordingly, the net positions and changes in the TARGET balances of the Eurosystem 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.

3.10.4 Recording of MFIs’ transactions in loans and deposits

In the euro area b.o.p., “other investment” of the MFI sector (excluding the Eurosystem) has proved to be a difficult item, in particular with regard to the compilation of the geographical

breakdown of these flows. A common method to derive extra-euro area b.o.p. flows from MFIs' balance sheet stocks must be applied in those cases where these flows cannot be directly obtained from the b.o.p. collection system in place. This procedure consists of (i) converting the stocks at the beginning of the monthly reporting period and those at the end of period into original currencies by applying the mid-point foreign exchange rate corresponding to the currency proportion of the stock as at the beginning of the quarter and (ii) converting the differences in these stocks into euro by using the average exchange rate of the month.

3.10.5 Special issues related to stocks

3.10.5.1 Valuation proposals

In the case of the other investment holdings, the discrepancies between the market value and the nominal or book value can be considered to be rather smaller than for other financial instruments, except in cases where there have been large write-downs or valuations are based on secondary market quotations. For these reasons, book values are accepted as the valuation criteria for other investment stocks, except for loans that are negotiable at a discount where market value should be applied.

Valuation problems for applying the proper end-of-period exchange rates may arise if the currency composition of the underlying other investment instruments is not well known. This is the case, in particular, for special financing instruments, such as multi-currency loans, where the borrower can instantaneously change the optional currency, at his own convenience, for the drawdown, repayment and restatement throughout the duration of the loan. Consequently, movements in these loans can occur in several currencies. In these cases, it is recommended to translate each movement in the loan, irrespective of its currency, into the currency in which the loan was initially extended by using the exchange rate prevailing at the date of the movement. The amount in

the basic currency should then be converted into euro at the closing mid-market exchange rate prevailing at the end of the period. The result may be a fairly accurate approach to the real valuation, except when strong fluctuations occur in the value of the currencies in question.

A similar effect occurs when the borrower arranges exchange rate hedges or swaps on the principal with a non-resident. Borrowers often receive a loan in one currency and then swap or sell the amount obtained against the equivalent amount in another currency. Since it is not easy to obtain information about the exchange rate involved in the swap, the same valuation problems may arise as those described for multi-currency loans.

3.10.5.2 Issues related to the accumulation of flows

The *unadjusted* accumulation of flows can lead to unrealistic stock estimates for other investment since stock data valuation changes caused by exchange rate fluctuations can be significant, especially if (i) the relevant exchange rates are volatile, (ii) the turnover of the assets is high and (iii) the net movement in the stock is low. Therefore, exchange rate adjustments using the actual exchange rates at the time of the transaction and closing mid-market exchange rates at the end of the period are strongly recommended where other investment stocks are derived on the basis of accumulated flows. If the actual exchange rate cannot be applied on a transaction-by-transaction basis, the average exchange rate of the period may be used as a proxy.

Further difficulties may arise in the case of multi-currency loans if the loan operation is linked to an additional swap operation. In line with the valuation proposals for stocks, the most feasible solution would be to translate each of these loan movements into the basic currency in which the loan was initially extended. Exchange rate adjustments may here be calculated by converting transactions into euro at the average exchange rate in the period.

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 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 (see also the ECB publication entitled "Statistical treatment of the Eurosystem's international reserves", October 2000, <http://euroweb/website/pub/pdf/statintreserves.pdf>).

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) refer to highly liquid, marketable and creditworthy foreign (i.e. non-euro) currency-denominated claims on non-residents of the euro area - plus gold, Special Drawing Rights (SDRs) and the Reserve Positions in the IMF of the participating NCBs. This definition expressly excludes foreign-currency claims on residents of the euro area, and euro claims on non-residents of the euro area, from being considered to be 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 the Treasury 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.

The off-setting entries for accrued interest on reserve assets should be recorded within the relevant reserve assets items.

Reserve assets data are compiled on the basis of the information provided by the accounting or operation departments of the NCBs forming part of the Eurosystem and of the ECB.

3.11.2 Concept of gross reserves

Against the background of the Asian crisis, the concept of usable reserves has gained importance. This concept supplements data on the gross reserves with information about commitments relating to reserves, i.e. the so-called reserve-related liabilities⁶, 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. (The only exception relates to the sub-category of financial derivatives, which are recorded on a net basis; see Section 3.11.8).

3.11.3 Valuation principles

In principle, the valuation of reserve assets is based on market prices by using (i) the prevailing market prices at the time when the transaction takes place for transactions and (ii) the closing mid-market prices at the end of the appropriate period for positions. Gold should be valued at the closing market price (gold fixing usually quoted in terms of US dollars per fine troy ounce) prevailing at the end of the reference period.

However, since the information for the compilation of reserve assets statistics is obtained directly from accounting statements, information on marked-to-market values may not be available each month.

⁶ This concept has been developed by the IMF in the context of the Special Data Dissemination Standard.

Accordingly, the following practical rules for the valuation of euro area reserves may provide a proxy for a market valuation of international reserves:

- (i) taking the stocks of each instrument in the original currency as disclosed in accounting statements on the basis of marked-to-market valuation on a quarterly basis only; and
- (ii) converting these stocks into euro using the mid-point foreign exchange rate of the last day of the reporting period (i.e. on a monthly basis).

Such a procedure complies with international statistical standards.

3.11.4 Specific issues related to gold

With regard to *outright purchases and sales of gold*, in line with BPM5 recommendations, 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 collateral would involve any recording in the b.o.p. or the i.i.p., i.e. holdings of monetary gold would remain unchanged. Only the foreign exchange cash delivered in gold swaps/repos would be recorded under

reserve assets (sub-item “foreign exchange/currency and deposits” matched by an entry in “other investment/monetary authorities/liabilities”).

3.11.5 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 these accounts 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 not give rise to any entry in the b.o.p., although changes in the stock of SDRs would be reflected in the i.i.p., by means of entries in the other adjustments column, thus permitting a reconciliation between flows and stocks of 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)⁷ should be treated statistically as deposits, and should thus be allocated to the sub-item “foreign exchange/currency and deposits”.

3.11.6 Specific issues related to securities

Only foreign currency-denominated securities issued by non-residents of the euro area can be included in the category of reserve assets. The accruals principle should be applied for all types of securities under reserve assets, including zero coupon bonds (see Section 3.4.7.2 “Specific issues related to income on reserve assets”). Securities lending would not give rise to any entry under securities; only in the event of cash exchanges, would transactions be treated as collateralised loans.

3.11.7 Specific issues related to currency and deposits

Only foreign currency-denominated deposits placed with credit institutions located outside the euro area can be considered to belong to the category of reserve assets. This category indistinguishably includes holdings of transactions in foreign currency notes and coins, in line with the treatment proposed in the IMF’s operational guidelines. It should be noted that foreign currency-denominated deposits placed with branches and/or subsidiaries of euro area resident MFIs which are located outside the euro area are considered to be reserve assets of the euro area.

Deposits and loans should be distinguished in accordance with the economic nature of the counterpart. Transactions in which the counterpart is an NCB or any other financial institution should be treated as deposits, while they should be classified as loans in the case of all other counterparts. In this context, the term “financial institution” should be understood in a broad sense, encompassing any type of counterpart of a financial nature.

Claims on *external portfolio managers* (not necessarily included in the category of credit institutions) arising from funds sent abroad and subsequently invested in other foreign currency financial instruments should, in principle, be classified in each prescribed category. Nevertheless, should NCBs not have access to information on the final destination of these funds, they should be recorded under the sub-item “foreign exchange/currency and deposits” in the b.o.p. and the i.i.p.

Foreign currency loans to non-financial non-residents that fulfil the necessary conditions to be included in the category of reserve assets will be recorded under the sub-item “other claims” in the b.o.p. and the i.i.p.

Claims arising from reverse repurchase agreements, securities lending transactions (in the case of the latter, only if cash collateral is involved) and buy/sell—back operations should be treated as collateralised loans/deposits and are, in euro area statistics, recorded either (i) under “foreign exchange/currency and deposits” where the counterpart is a non-resident bank or (ii) under “other claims” where the counterpart is a non-resident non-bank. The treatment (i), where the counterpart is a non-resident bank, differs slightly from IMF recommendations which classify such claims as “other claims”.⁸ Securities temporarily exchanged as collateral in these types of operations would not give rise to any b.o.p./i.i.p. entry.

7 Replaced from 2000 onwards by “Poverty Reduction and Growth Facility” (PRGF).

8 Reverse repos, which do not differ substantially from normal (non-collateralised) loans/deposits, involve the substitution of one type of reserve asset (i.e. the amount of foreign currency provided) with another (i.e. a claim backed by collateral), provided that the counterpart is highly creditworthy. Therefore, when the non-resident counterpart is a credit institution (including other NCBs), the NCB lending the cash does not register any variation in the total amount of “reserve assets/currency and deposits”. Moreover, in accordance with the treatment of foreign currency loans, if the counterpart of a reverse repo transaction were neither a credit institution nor a financial intermediary/external manager, a decrease in holdings of “reserve assets/currency and deposits” and an increase in “reserve assets/other claims” would be registered in the b.o.p. reserve assets account, thus not affecting the total level of reserves.

Liquid claims arising from taken-up credit lines conceded by monetary authorities could be considered to be in the category of reserve assets, provided that the correspondent counterpart is highly creditworthy. Reciprocal currency arrangements among central banks and with the Bank for International Settlements enter into this category, as well as other financing agreements between central banks and consortia of private financial institutions.

3.11.8 Specific issues related to financial derivatives

Financial derivatives are recorded and presented as a separate item within reserve assets. All recommendations in this field are fully in line with the ESCB general recommendations on financial derivatives (see Section 3.9 “Financial derivatives”).

Both transactions and positions are recorded on a net basis (i.e. including both positive and negative positions) even though, in the case of positions, this constitutes a deviation from the gross reserve assets concept. However, the application of net recording is the only feasible way to reconcile flows and stocks related to financial derivatives transactions in/holdings of reserve assets. Moreover, liquid positions in financial derivatives settled in at least one foreign currency vis-à-vis creditworthy non-resident counterparts would be computed under reserve assets on a marked-to-market basis, i.e. including all unrealised gains and losses associated with changes in prices and foreign exchange rates. The inclusion of both positive and negative stocks under reserve assets on a net basis could result in negative positions, especially in the case of interest rate derivatives.

In line with the general treatment of positions in financial derivatives (see Section 3.9), the net marked-to-market value is recorded in the case of financial derivatives falling into the category of reserve assets. As regards OTC derivatives, each national compiler must decide whether claims arising from such financial

derivatives (for instance, swap agreements or some types of options) might be included in the category of reserve assets, which depends especially on whether such a financial instrument may be offset in the market, and whether a prevailing price for the underlying assets permits this.

3.11.8.1 Options

In the case of options margined options-style, the full premium paid (i.e. the purchase price plus the implied service charge) would be recorded under the sub-item “foreign exchange/financial derivatives” (accounting for the acquisition of a financial asset). According to the above-mentioned “net-basis” treatment, if a central bank sells an option (“option written” by the NCB), the premium received would then be symmetrically recorded under this sub-item with a negative sign (accounting for a liability). However, in the case of cash margin payments and receipts associated with options, they should be classified under the sub-item “foreign exchange/currency and deposits” in the b.o.p., provided that no real change in ownership occurs before the conclusion of the contract.

If the option is finally exercised and the underlying asset is delivered to the owner of the option, the prevailing market price of the underlying asset should be recorded under the appropriate item in the b.o.p. The difference between the market and the strike price should be recorded under the sub-item “foreign exchange/financial derivatives”, irrespective of whether it implies a payment or a receipt. This treatment would be the same for both call and put (either bought or written) options.

3.11.8.2 Futures

With regard to futures, futures-style variation margin payments should be recorded under the sub-item “foreign exchange/financial derivatives”. This is because daily variation margin payments are usually collected by the

clearing house from one party and paid to the other, accounting for an actual change in ownership. This treatment of variation margins would be consistent with market stock values near to zero at the end of each day (unrealised profits and losses during the day would in the end become realised and be transferred to/ received from the corresponding counterpart). Hence, there should be no recording of stocks of futures with daily margining.

3.11.8.3 Interest rate derivatives

As regards financial derivatives with an interest rate component (namely interest rate swaps, cross-currency swaps and forward rate agreements), the net stream of cash settlement flows associated with this component should be recorded under the sub-item "foreign exchange/financial derivatives" in the b.o.p. In addition, the difference between the two legs of a cross-currency swap, corresponding to the principal exchanged in terms of the base currency, should also be recorded under this sub-item of reserve assets.

3.11.8.4 Forward foreign exchange contracts

The difference between the amount agreed at the time of the contract and the amount that would be paid at the spot rate prevailing at settlement should be allocated to transactions in reserve assets/foreign exchange/ financial derivatives.

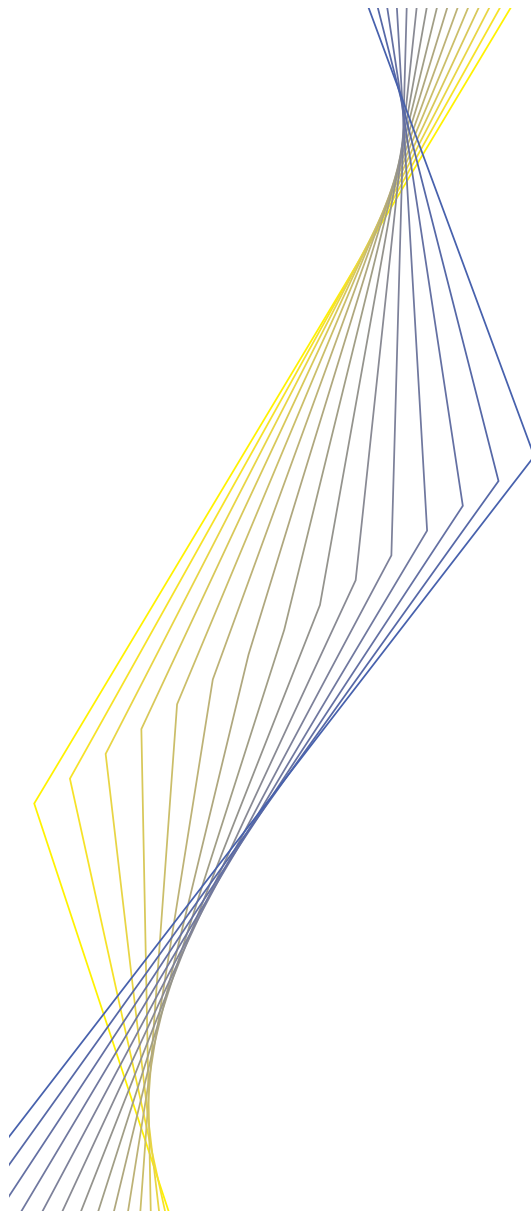
3.11.8.5 Swaps of foreign exchange against domestic currency

The statistical treatment of these transactions is equivalent to considering independent spot and forward purchases/sales of foreign exchange against domestic currency. At the moment of delivery, an increase/ decrease in foreign exchange should be reflected under the sub-item "foreign exchange/currency and deposits" in the b.o.p. The difference between the actual (agreed) and the market price of the transaction should be reflected under the sub-item "foreign exchange/financial derivatives".



EUROPEAN CENTRAL BANK

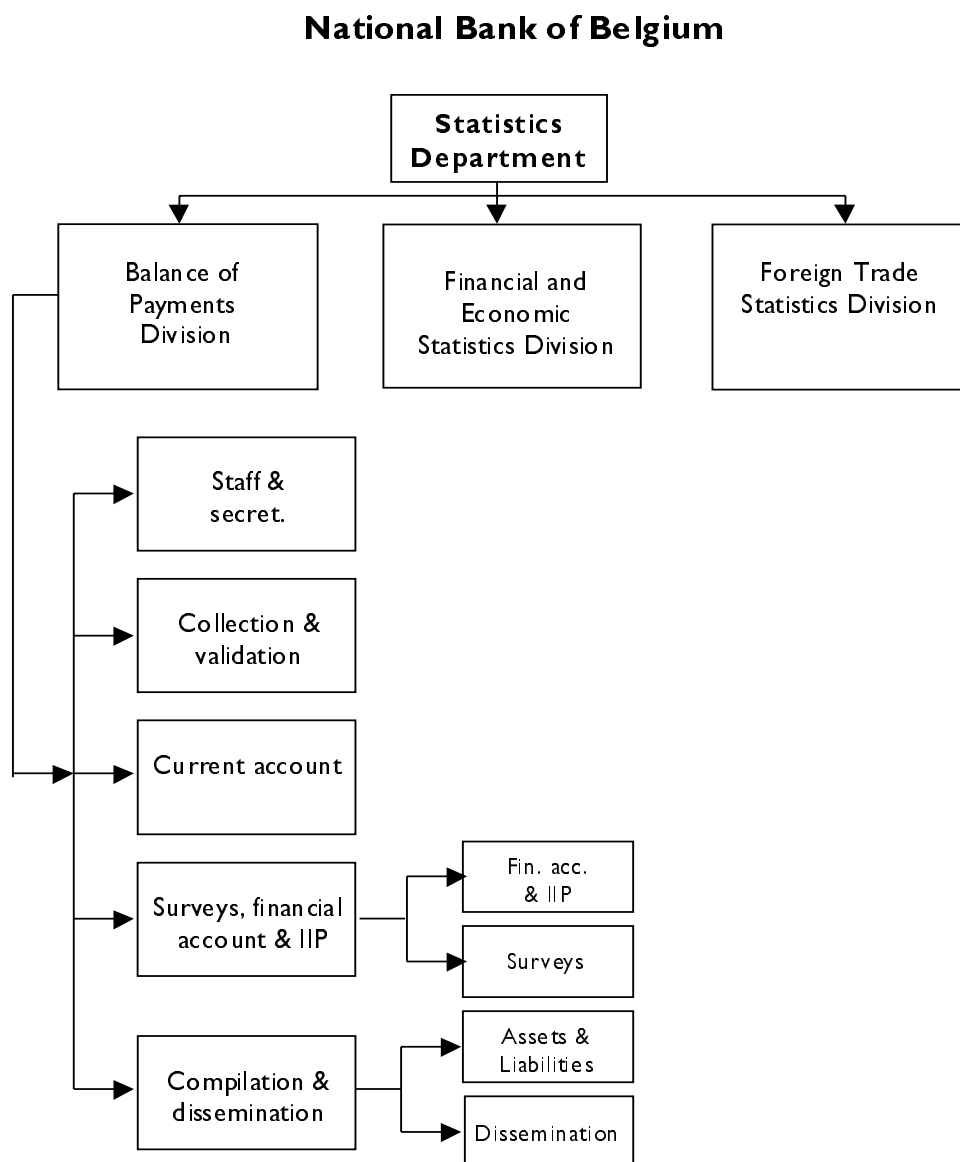
4 Country-specific details



Belgium

November 2002

I Organisation chart(s)



2 Institutional aspects

2.1 Introduction

The Belgian-Luxembourg Economic Union (BLEU) was initiated in 1921 when the official agreement confirming the monetary association between the two countries was signed. In 1944 the Belgian-Luxembourg Exchange Institute (BLEI) was set up for foreign exchange control purposes. From the very outset, the information collected in the framework of the exchange control was used as basic data to produce a joint balance of payments (b.o.p.) for the two countries. Capital movements were gradually liberalised from 1950 onwards. In 1990 the last remaining foreign exchange control, the two-tier foreign exchange market, was abolished. Consequently, the task of the BLEI became a purely statistical one.

Under the intergovernmental agreement, dated 23 November 1998, between Belgium and Luxembourg, the BLEI was in charge of the collection of data until December 2001. The *Nationale Bank van België/Banque Nationale de Belgique* (NBB/BNB) was in charge of the compilation of the BLEU b.o.p. and i.i.p., covering data until 2001, and has been responsible for the Belgian b.o.p. and i.i.p. since January 2002.

2.2 Legislative provisions

The current data collection system is defined in the law of 28 February 2002 concerning the regulation of the establishment of the balance of payments and the international investment position of Belgium. The Royal Decree necessary for its full application is dated 19 March 2002. The related adapted regulations have not yet been published by Ministerial Decree.

2.3 Internal organisation

The Balance of Payments Division of the NBB/BNB collects data from credit institutions and

enterprises and carries out data control and data processing functions. The resolution of methodological issues related to the b.o.p. of the BLEU and its compilation are among the statistical tasks performed by the NBB/BNB.

The structure of the Balance of Payments Division of the NBB/BNB reflects the new data collecting, processing and compilation system, which includes surveys on stocks (trade credits, direct investment and portfolio investment). At present, it consists of five sections which deal with:

- data collection and validation controls;
- the current account and the new capital account;
- the financial account and the international investment position;
- compilation and dissemination;
- the organisation of surveys.

In addition to these sections, a quality control unit is operational.

Some of the data on the balance sheets of companies which are collected by the Data Exchange Department are currently used for checking and validation purposes.

The Balance of Payments Division of the NBB/BNB is responsible for:

- the full b.o.p. of the BLEU, covering data until 2001;
- the current account of Belgium for the period from 1995 to 2001;
- the full b.o.p. of Belgium since January 2002;
- the i.i.p. of both the BLEU (until 2001) and Belgium; and
- the common template on international reserves defined by the IMF/BIS.

2.4 External co-operation

In 1999 the Research Department of the NBB/BNB was reorganised so as better to reflect the new environment of the b.o.p. as a result of the implementation of EMU and the introduction of the euro.

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The new structure is characterised by the priority given to the national dimension of economical analysis. As a result, the balance of payment unit has disappeared and its activities integrated in two, likewise fully reorganised units, one of which is devoted to the real accounts, while the other is devoted to the financial accounts, both including the respective rest-of-the-world component.

The Balance of Payments Division and Research Department of the NBB/BNB liaise closely with one another. The latter was responsible for compiling the b.o.p., on the basis of data collected by the BLEI, from 1947 to 1993. The Research Department is still responsible for analysing data and for producing estimates for the current year as well as short-term estimates. It carries out

comparisons with various other types of statistics, such as the national accounts, and investigates their coherence.

2.5 Users

The NBB/BNB is responsible both for reporting to international organisations and for publishing all related statistics. International organisations, such as the ECB, the International Monetary Fund (IMF), the Statistical Office of the European Communities (Eurostat), the Organisation for Economic Co-operation and Development (OECD) and the Bank for International Settlements (BIS), are provided with data on the BLEU b.o.p. and, from 2002 onwards, on the b.o.p. of Belgium.

3 Statistical system

3.1 Type of collection system

The collection system used to report statistical data for the b.o.p. is an *international transactions reporting system (ITRS)* which is based on the collection of settlements. Data concerning goods, however, are based on the foreign trade statistics compiled by the National Accounts Institute.

For some components of the current account administrative sources are used:

- income of employees – social security information;
- transactions of the European institutions; and
- insurance data from the supervisory authority for insurance companies.

In order to produce a sectoral breakdown of portfolio investment and other investment for the banking sector, b.o.p. flows are derived from the balance sheets of banks.

Furthermore, for portfolio investment, some flow data are adjusted on the basis of specific statistics from general government. In addition, for flows of direct investment, some

adjustments are made on the basis of information taken from specialised media.

Within the framework of the i.i.p., stock data are used for the banking sector and general government, as well as stock exchange information for the adjustment of prices relating to portfolio investment.

For the reserve assets component of the b.o.p., as well as for the new international reserves template and the corresponding i.i.p. components, data provided directly by the Accounting Division of the NBB/BNB are used, together with information provided directly by the operational unit in charge of the execution of transactions in these assets.

3.2 Reporting agents

- (i) *Banks*: These are banks and other financial institutions, as defined in the Second EU Banking Directive. Coverage is extended to include non-bank institutions in order to cover the Monetary Financial Institution (MFI) sector. The “Office des Chèques Postaux”, Belgium, is assimilated

to a credit institution for b.o.p. reporting purposes. Banks are required to report all external transactions above certain thresholds (see Sub-section 3.3) undertaken on behalf of their customers and for their own account. These reports are established on a daily basis and in the original currencies. Moreover, they report their assets and liabilities vis-à-vis non-resident counterparts on both a monthly and a quarterly basis, information that is integrated in balance sheet reporting since June 2002. Since 1 January 1999, data related to the currencies of countries which now form part of the euro area have been reported in euro.

- (ii) *Direct respondents*: Enterprises have to report all transactions settled through a channel other than resident credit institutions directly to the NBB/BNB. This reporting covers bank accounts abroad, netting procedures and current accounts. Some general direct respondents (GDRs) (similar to the French general direct reporting companies, or DDGs) report directly to the NBB/BNB on all transactions with non-residents. These reports are denominated either in the original currencies or, as from 1999, in euro.
- (iii) *Monetary authorities*: The NBB/BNB provides data on reserve assets and other transactions of the monetary authorities.

The NBB/BNB is authorised to organise surveys for the compilation of the b.o.p./i.i.p. At the moment, three surveys have been developed, namely:

- one on *trade credits*, which is aimed at collecting data on the claims and debts resulting from transactions in goods on a monthly basis;
- one on inward and outward foreign *direct investment*, which covers stocks and flow data on equity capital, results, dividends, loans, interest payments and commercial credits as well as some other economic

data for each direct investment relationship; and

- one on *portfolio investment* (as from 1997), which is aimed at collecting data on foreign securities held as investments either directly by enterprises or in custody by domestic custodians.

3.3 Thresholds

Exemption and justification thresholds are applied in the NBB/BNB collection system.

An exemption threshold is applied and set at €12,500 for both receipts and expenditure. Below this threshold, no information whatsoever is required.

For transactions above this exemption threshold, the economic nature of the transaction, the identity of the resident and the country of residence of the counterpart have to be supplied. In addition, for reports on outgoing payments, a written justification is required for amounts in excess of €12,500, given that this information should be readily available, as customers have to fill in a payment order for the bank. In view of the fact that written justification is far more burdensome in the case of incoming payments, because the resident receives the money before the reporting form is completed, the threshold for written justification has been raised to €625,000.

3.4 Availability of data

Separate current accounts for Belgium and Luxembourg have been established since 1995. However, for the purposes of the financial account, monthly, quarterly and annual data were only available for the BLEU until 2001.

A complete Belgian b.o.p. (monthly, quarterly and annual data) has been made available since 2002 in accordance with most of the major IMF standard components, together with a full

Table I
Reporting scheme for b.o.p. and i.i.p. data collection for Belgium

Target respondent population (e.g. MFIs, enterprises, etc.)	Name of reporting form	Contents of reporting form	Frequency of reporting	Timeliness (number of days for submission after the end of the reference period)
MFIs – banks	Daily report (répertoire)	Flows	Daily	5 working days
MFIs – banks	Assets/liabilities	Stocks by currency	Monthly	11 working days
MFIs – banks	Assets/liabilities	Stocks by currency and country	Quarterly	11 working days
MFIs – non banks	Assets/liabilities	Stocks by currency and country	Quarterly	11 working days
Enterprises	Accounts abroad	Flows and balances	Monthly	15 working days
Enterprises	Bilateral netting	Flows and balances	Monthly	15 working days
Enterprises	Multilateral netting	Flows and balances	Monthly	15 working days
Enterprises	Direct reporting companies (DDG)	Flows and balances	Monthly	15 working days
Enterprises	Trade credits survey	Stocks (assets/liabilities)	Monthly	15 working days
Banks and enterprises	FDI survey	Stocks and flows	Yearly	Deadline: 30 June
Banks and enterprises	P.I. survey (assets)	Stocks	Yearly	Deadline: 31 March

geographical breakdown. However, the geographical allocation for some estimates made at a high level of aggregation has yet to be determined.

3.5 Timeliness

The reporting banks have five working days to submit their daily reports. Direct respondents have 15 working days after the end of the reporting month to submit their reports. Some adjustments are made to cover any data missing when direct respondents are late in sending their reports. A similar procedure is followed for the banking statements. This procedure enables the NBB/BNB to respect the six-week time-lag granted

by the ECB for the submission of the monthly b.o.p. data.

3.6 Compilation frequency

With regard to publication, the b.o.p. of Belgium is currently compiled on a quarterly basis with a monthly breakdown; however, for ECB purposes only, a monthly b.o.p. is also compiled.

3.7 Data controls

Data are checked within the mainframe environment for validation purposes, as well as at the technical level, to verify their

content (adequacy, completeness, etc.) and cohesion. These controls consist in checking, inter alia, the accuracy of the identification number and in performing certain cross-checks (transaction, country and currency codes). One of the in-house cohesion controls is aimed at verifying the consistency of each individual report. Corrections are made to the individual data stored in the mainframe. This correction process is closely monitored using the following files: a file for basic data, including all accepted data; a file for correction purposes; and a historical file, which provides information on the different stages through which a record passes.

Individual controls are carried out on a transaction-by-transaction basis. These controls consist in an evaluation of a selection of individual transactions, based on ad hoc criteria for each item, the result of which may be corrections. Some plausibility analysis is also carried out for each b.o.p. component at two levels: by transaction code (time series) and by respondent (on the basis of its profile). Systematic comparisons are made within the Infocentre environment using external information, such as balance sheets (a check for the FDI survey). The foreign trade statistics, which are used in the b.o.p., are compared with the data on goods obtained from the ITRS; this is performed on a quarterly basis for about 1,100 enterprises, representing more than 60% of total import-export transactions).

3.8 Revision policy

Data revision is a continuous process. Individual records can be updated on a daily basis. These updates can be tracked in detail via historical files. Aggregated data for dissemination are currently revised as follows.

Monthly figures are produced within six weeks, in order to fulfil the requirements of the ECB. The revision process is carried out at a quarterly and an annual frequency. The revision of a year or a quarter involves the

revision of every month concerned.

Compilation and dissemination

Month	Quarter	Year
M + 6 weeks	Q + 3 M	Y + 3 M
+ 9 M	Q + 6 M	Y
+ 15 M		Y

The time periods given for reporting are as from the end of the month, quarter or year concerned.

3.9 Publication

The current national presentation of the b.o.p. is in principle, in line with the IMF Balance of Payments Manual (5th edition) or BPM5.

Publication takes place on a quarterly basis and includes monthly data.

The titles of publications produced by the NBB/BNB are listed in Sub-section 13.1.

The b.o.p.-figures are available on the NBB/BNB's website (www.nbb.be).

The main internal users of the b.o.p./i.i.p. data are the Research Department and the Statistical Department; banks, ministries, professional associations, embassies, universities and students are regular external users.

As Belgium participates in the Special Data Dissemination Standards (SDDS) system, the release data for b.o.p./i.i.p. and reserve assets are published in advance.

4 Monthly balance of payments

4.1 Availability of monthly b.o.p. data

The monthly b.o.p. data are available within the six-week time period; however, these data have a lower degree of reliability and coverage and are completed using estimates for certain missing respondents.

Monthly b.o.p. statistics (flows) are published in the quarterly bulletin on a transaction basis, together with a limited sectoral breakdown (in accordance with the BPM5).

The level of the reporting provided by banks in the field of both flow and stock data is satisfactory considering the six weeks' deadline.

Only a technical incident that prevents any data delivery initiates a significant problem in coverage when it affects a major bank. In that case, some adjustment of the statistics may be made if one of both types of data is available.

For direct reporting, the coverage within the six weeks' deadline may be problematic. For that reason, the missing data are systematically supplied on the basis of the data for the same period of the year before. This procedure is only applied to the selection of direct respondents with regard to which the transmission of data is considered compulsory. The data incorporated in this way are adjusted for outliers, especially in direct investment.

4.2 Estimation methods for monthly b.o.p. data

4.2.1 For goods

From September 2001 onwards, trade statistics are used for the "goods" component of the b.o.p. (for data since 1995). These trade statistics are not taken over as such, but are adjusted, possibly in combination with the information collected via the ITRS, in order to adapt them to BPM5. No estimates are made in the event of missing data.

Furthermore, there is no valuation of the imports on a f.o.b. basis. The value remains purely on an invoice basis. No seasonal adjustment is made.

The geographical breakdown refers to the country of the counterpart to the settlement; these data probably closely reflect the country of origin/destination. Within this framework, it is indeed possible to identify, in the same way, the transactions with the countries not yet participating in EMU.

The goods item is revised – as are all items – in accordance with the general revision calendar (see Sub-section 3.8.). B.o.p. data have been almost compliant with BPM5 standards since 1995. Owing to the data sources used at present and the related registration procedures, the b.o.p. general merchandise item is near to the concept of "general trade", because goods stored in bonded warehouses are registered as imports and vice versa for goods removed from storage in bonded warehouses.

The treatment and geographical breakdown of military goods is the same as that of other transactions on goods.

Transactions under special Community programmes (Satellite, Airbus and others) are reported via the ITRS, thus with the traditional geographical breakdown (counterpart in the transaction).

For imports, the adjustment from c.i.f. to f.o.b. will be realised in 2003 when information on Incoterms¹ in trade statistics will come available from a sample of X/M active companies.

4.2.2 For services

Financial services are included on the basis of the settlement system plus estimates for

¹ Terminology of delivery conditions (e.g.f.o.b, c.i.f)

commissions and administration fees on collective investment funds (CIIIs).

4.2.3 For investment income

The Belgian data collection system for investment income, which is based on settlements, does not provide the necessary data for the immediate breakdown between intra-euro area and extra-euro area flows. Therefore, the Belgian contribution to euro area investment income is the result of estimating

- (i) the amount of Belgium's global investment income; and
- (ii) the split between intra-euro area and extra-euro area income.

With regard to (i), global investment income flows are calculated on the basis of the i.i.p. stocks for the main items of the i.i.p. This outcome is adjusted a posteriori on a yearly basis in accordance with the national accounts. An average return is defined for the major components on a yearly basis, except for the short-term instruments where a quarterly update of the return is applied to the stock data for the previous year; this is then compared with the results of the same process for the stock data of the year before. In order to obtain monthly figures and assess cohesion through time, the annual figure is divided by 12 in accordance with a seasonal profile that is different for dividends of shares and for the other types of investment income. The result is a very rough proxy of accruals. The breakdown by sub-component is available for the main items: direct, portfolio and other investment. Reinvested earnings are estimated and have been included since September 2001 (for data since 1995).

With regard to (ii), the split between investment income on euro area assets and non-euro area assets is based on an estimate referring to the available geographical split for MFI stock data and to the last available results of the yearly portfolio investment survey for the non-MFI sector.

The revision process is limited to a first revision which takes place when the i.i.p. for the following year becomes available and to a final update in order to align the b.o.p. income components and the national accounts income components.

4.2.4 For direct investment

The procedure for estimating reinvested earnings is based on various sources available to the National Bank of Belgium, namely the structural survey and the survey of foreign direct investment, both of which are annual surveys covering a different sample of enterprises. The procedure aims to fix the rate of reinvested earnings to be applied to the total figure for direct investment.

4.2.5 For portfolio investment

The figures are based on the settlement data collected via the ITRS. These data are nevertheless adjusted for the banking sector on the basis of its assets/liabilities data, and for the general government sector on the basis of ad hoc statistics related to short and long-term securities.

Until now, interest is not accrued, whether for monthly, quarterly or annual data.

4.2.6 For financial derivatives

For financial derivatives and other investment, no specific estimates are made. The available data are taken from the ITRS, in which ad hoc transaction codes are identified in order to isolate those components. No further adjustments are made to ensure that derivatives fulfil the required methodology for options and futures.

4.2.7 For other investment

See Sub-section 4.2.5 above.

5 Investment income

5.1 Specific features of data collection

5.1.1 General

As a consequence of the way in which income is computed (see Sub-section 4.2.3), no specific bias towards the under-recording of credits is observed. Nevertheless, in the ITRS a phenomenon of under-recording does appear, owing to the lack of a breakdown, at maturity date, between income and capital.

Estimates are produced for the breakdown of portfolio investment income into that on intra-euro area assets and that on extra-euro area assets (see Sub-section 4.2.3).

By virtue of the compilation method, the data are not adjusted further or reconciled in relation to the different frequencies or stages of publication.

The geographical allocation refers initially to the country of settlement, both for the debits and the credits. The same breakdown is available for historical data. The sole exception to this allocation principle relates to the income derived from the banking sector's assets, where the debtor principle can be applied.

5.1.2 Income on direct investment

Reinvested earnings have been included since September 2001 (for data since 1995). The estimate of dividends is based on the calculation of gross dividend yields for the major partner countries applied to existing stocks of equity capital.

5.1.3 Income on portfolio investment

For both equity and bonds/notes, income is calculated on the basis of stock data (see Sub-section 4.2.3). The estimate of dividends is based on the calculation of gross dividend yields for the major partner countries applied

to existing stocks of equity capital. For debt instruments, rates by major currencies are used. For money market instruments, in the estimate of the current year data, an adjustment of the reference rates is made each quarter. Taking into account the calculation process, all instruments are treated in the same way, i.e. there is no specific treatment for different kinds of bonds (e.g. zero-coupon bonds or indexed bonds).

The result of the calculation procedure is the production of an overall estimate of portfolio income that can be considered a first proxy of income.

An estimate of the breakdown into income on intra-euro area assets and income on extra-euro area assets is made (see Sub-section 4.2.2).

Income on collective investment institutions (CIIs) is compiled on the basis of the i.i.p., in line with the procedure of other types of income (see Sub-section 4.2.3).

5.1.4 Income on other investment

For the loans and deposits components of other investment, income is computed in the same way as for direct investment and portfolio investment, i.e. on the basis of the i.i.p.-related components. These items cover assets and liabilities of both individuals and enterprises. Furthermore, certain income transactions are not registered, such as income on trade credits and the interest share in financial leasing.

Since 1999, the income on reserve assets has been based on data provided by the Accounting Division of the NBB/BNB.

5.2 Definitions

Definitions are in line with the BPM5, except for the deviations set out in Sub-section 5.3.

Since 1999 all financial derivatives have been treated as such, including those on interest rates, so that income on derivatives is no longer included in the income account. Dividends are recorded as of the date they are payable.

5.3 Deviations from agreed definitions

Income on debt between related enterprises is limited to loans and deposits, while income on trade credits is recorded as income on other investment.

A further deviation relates to income on bonds and notes between affiliates, which is recorded as portfolio investment income since the underlying transactions in the financial account cannot be recognised as direct investment transactions.

5.4 Gaps

None.

6 Capital account

6.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2). No other source of information is used.

6.2 Definition

In principle, the definition of the capital account is in accordance with the BPM5 and the harmonisation proposals made by the ECB's Working Group on Balance of Payments and External Reserves Statistics and its predecessor. The distinction between current and capital transfers is made by using different transaction codes in the collecting system, in line with the BPM5 criteria.

5.5 Intended harmonisation

For direct investment earnings, with regard to the registration of reinvested earnings, a calculation procedure will be developed in line with the ECB recommendations, referring to the all-inclusive approach, because the information needed to isolate the operating profit is not available.

With regard to income on portfolio investment, improvements will be made when the i.i.p. is computed in more detail (basic data will be broken down security-by-security). In that context, a more appropriate estimate of the income would be possible for specific individual instruments, and on a full accruals basis.

5.6 Estimation methods

The methods and data sources used to compile quarterly data are identical to those used for monthly data. The quarterly data are produced from a summary of monthly data.

6.3 Deviations from agreed definitions

None.

6.4 Gaps

The component "other capital transfers" is covered only partially and the quality of the available information needs to be permanently checked.

Moreover, the component "debt forgiveness" is poorly covered. An expansion of its coverage is under investigation.

6.5 Intended harmonisation

For debt forgiveness, potential sources are to be contacted, such as individual banks,

government or the Office du Ducroire, a public insurance company which provides payment guarantees for Belgian exporters.

7 Direct investment

7.1 Specific features of data collection

At present, direct investment in the b.o.p. is computed on the basis of the information collected via the ITRS, where specific transaction codes are used, thus also providing a breakdown between euro area assets and non-euro area assets. Furthermore, the data from the ITRS are compared with the banking statistics – in order to improve the quality of the data for the banking sector – and with balance sheet data and media information with a view to increasing coverage and quality.

Geographical allocation is based, in principle, on the country of settlement (for mergers and acquisitions, the correct country of the counterpart is identified for major cases). However, in order to identify the split between intra-euro area and extra-euro area transactions, reporting agents are requested to take the residency of the issuers into account and to report the euro area/non-euro area split for equity capital.

A yearly survey is organised on foreign direct investment abroad and in the reporting economy. Here, the debtor/creditor principle is fully applied, with the information being collected for each individual direct investment relationship. In the event of a change of ownership of a resident company from a non-resident to another non-resident direct investor being revealed by the survey, the change is recorded in the FDI stocks, but not in the corresponding b.o.p. flows.

Transactions on equity capital made without any settlement are registered directly by the b.o.p. compilers. The valuation of those transactions is based on official publications, if available (prospectus legally compulsory

when transaction is public), specialised media information and stock exchange data.

B.o.p. figures are adjusted on the basis of the direct investment survey. Any improvement made at the level of coverage of direct investment statistics will cause problems in relation to historical data. Currently no backward adjustments are planned.

As a consequence of the full application of the rule that all transactions between affiliated enterprises should be recorded under direct investment, the transactions effected by the co-ordination centres in Belgium have considerably inflated the data for direct investment.

Direct investment transactions settled through an exchange of shares are recorded at the time when the exchange of shares takes place.

Valuation of transactions settled through an exchange of shares is based on the official estimates of the market price published by the parties involved.

7.2 Definition

In principle, Belgium plans to comply with the recommendations of the BPM5 and the harmonisation proposals made by the ECB's Working Group on Balance of Payments and External Reserves Statistics and its predecessor.

The definitions of the different concepts used in direct investment statistics are in line with the BPM5 and the OECD Benchmark (threshold of 10% ownership, direct investor, direct investment enterprise, direct and indirect relationship).

All cross-border transactions in real estate are covered.

Special purpose entities are considered to be ordinary enterprises, regardless of the type of transactions in which they engage.

As a result, even inter-company transactions of financing-oriented special purpose entities are included in direct investment statistics. The transactions with related banks, such as loans and deposits, are excluded from direct investment statistics.

For equity capital, the main information is based on the related settlements. Those data are completed, in some cases, by using information from specialised newspapers or other documentary sources, or by using the direct investment survey results, in order to adjust the equity capital item for transactions carried out without any settlement.

On the basis of an ongoing evaluation of major financial flows registered as shares in portfolio investment, several of these transactions are reclassified as direct investment if they fulfil the ad hoc criteria.

Loans are included regardless of their maturity, and even cash management transactions are covered as far as possible.

Offsetting entries for reinvested earnings are included.

7.3 Deviations from agreed definitions

The allocation of FDI in the reporting economy is based on a strict assets/liabilities principle and not on the directional one. An adequate method based on the use of a reference register to reallocate the individual transactions is still being analysed.

Adequate methods of implementation are under development. Furthermore, trade credits between related enterprises and in respect of issues of bonds and notes between related enterprises are not included in direct

investment, but in other investment and portfolio investment respectively. Transactions in financial derivatives between affiliates are not included in direct investment. All transactions between related banks or between related financial institutions, except those relating to equity capital, are recorded as other investment or portfolio investment, rather than as direct investment. The direct investment survey will make it possible to adjust the trade credits item in the near future, once coverage is sufficient.

7.4 Gaps

None.

7.5 Intended harmonisation

The survey conducted covers not only direct investment flows and stocks, but also other components (earnings, reinvested earnings and distributed earnings, as well as income on debt and Foreign Affiliated Trade Statistics (FATS)). The survey is also useful for reconciliation purposes. The information obtained from the survey is expected to rectify most of the deviations and fill the gaps mentioned, with the exception of transactions in bonds between affiliates. Corrections on flows are made on the basis of the survey results, except for trade credits and bonds.

7.6 Estimation methods

The information content of the quarterly data is similar to that of the monthly data. No specific estimates are made.

8 Portfolio investment

8.1 Specific features of data collection

The source for data collection on portfolio transactions is the ITRS (settlement data). The codification used for these transactions is based on a classification by instrument, by country of issuer (Belgium, euro area or non-euro area) and by original maturity (up to one year or more than one year). The euro area/non-euro area split has been produced since mid-1998, but it is not possible to calculate this split for historical data.

The geographical allocation on the liabilities side follows the transactor principle (first counterpart of the settlement) in full. For the assets side, two types of information are available: the first counterpart, as in the case of liabilities, and the issuer in an aggregated way (euro area/non-euro area split).

For the MFI sector, flows are derived from the available stock data where the allocation is made by country of issuer (quarterly) for assets and by country of first holder for liabilities.

For the general government sub-component, data derived from an ad hoc survey on the holdings of securities issued by the central government are used to revise the original information collected via the ITRS.

An ISIN-based collection system is not possible at present (see also Sub-section 8.5).

There is no separate reporting system for the transactions settled through financial centres, custodians, etc.: they have to report within the framework of the ITRS. In Belgium, an important clearing house operates, namely Euroclear bank. A large number of transactions passes through this clearing house. When it acts as a custodian, it intervenes in the transactions as counterpart for both sides of the transaction; this should theoretically result in large flows with other countries and should have a serious impact on the geographical allocation in a number of countries as well. However, in the national presentation of the

b.o.p., without the geographical breakdown, those transactions relating to the role of Euroclear as intermediary between non-residents are neutralised.

Finally, trading in loan portfolio (securitisation of loans) is classified under portfolio investment.

8.2 Definition

In principle, Belgium plans to comply with the recommendations of the BPM5 and the harmonisation proposals made by the ECB's Working Group on Balance of Payments and External Reserves Statistics and its predecessor.

For securities, the split between domestic and foreign securities is available, with a further breakdown into euro area/non-euro area assets and liabilities.

The collection system provides a single maturity breakdown; over one year (long-term) and up to one year (short-term). For long-term securities, a distinction is made between equities and bonds; for short-term securities – money market instruments – there is no further breakdown by instrument. Only for domestic issues have separate codes been created for government and other issues.

In principle, income, commissions, charges and fees on portfolio transactions should be recorded separately in the collection system; where this is not the case, however, these items are included in the settlement amount for the portfolio transaction.

As yet no offsetting entries are made for accrued interest.

8.3 Deviations from agreed definitions

In general terms, data for portfolio investment can be considered to be reliable, although there are some areas in which there is still some progress to be made.

Another deviation is the problem encountered when applying the valuation principle to the market value: the recorded value is the payment value. Nevertheless, this should be a good proxy for the market value.

Transactions in bonds between affiliated enterprises are recorded under portfolio investment and not under direct investment (see Sub-section 7.3).

8.4 Gaps

None.

8.5 Intended harmonisation

The ISIN codes have not been used so far, as the current collection system does not allow

ISIN numbers to be included in the reports. Nevertheless, the use of ISIN codes and the integration of these in the actual collection system (in a parallel circuit) will be studied in the near future.

The codification used for portfolio transactions is based on a classification by instrument, by country of issuer (Belgium, euro area or non-euro area) and by original maturity (short-term or long-term).

8.6 Estimation methods

Some estimates based on time series analysis are made for missing data and lead to some adjustments, if necessary.

9 Financial derivatives

9.1 Specific features of data collection

With regard to financial derivatives, the NBB/BNB has modified the nomenclature and codes for derivatives in order to distinguish between the option type and others (forward, interest and currency swaps, and futures). For the former, a supplementary breakdown has been introduced in order to produce a split between assets and liabilities according to the issuer.

The geographical counterpart is the counterpart in the transaction, because the counterpart is usually the market itself in the case of organised markets.

9.2 Definitions

The definitions used for the instruments are in line with the BPM5. Nevertheless, no distinction is made by type of margin; all are included in financial derivatives.

9.3 Deviations from agreed definitions

The NBB/BNB complies with the recommendations of the BPM5 and the harmonisation proposals made by the Working Group on Balance of Payment and External Reserves (the former Task Force on Financial Flows and Stocks).

All types of margin are included in financial derivatives.

9.4 Gaps

None.

9.5 Intended harmonisation

None.

9.6 Estimation methods

None.

10 Other investment

10.1 Specific features of data collection

Information is based on the assets and liabilities data of the banking sector (to be extended to the MFI non-banks) for the MFI sector, and on the general collection system for the other sectors.

Data for trade credits are covered by a monthly survey, from which a sectoral breakdown can be obtained. The survey provides month-end information on assets and liabilities related to transactions on goods for 1,500 companies.

For the banking sector and the MFI non-bank sector (as from mid-1999) the flow data are derived from stock data (contained in their balance sheet reporting). There is an instrumental split between loans and deposits, and a sectoral breakdown is also available. The geographical breakdown can be provided, as well as a maturity split (based on the initial maturity of up to one year or more than one year). All these breakdowns are available for all periods (monthly, quarterly and annually). These breakdowns can also be supplied for historical data.

The breakdown into extra-euro area and intra-euro area b.o.p. flows is derived from the geographical breakdown available in the balance sheets of the MFIs for both assets and liabilities.

The transactions settled via TARGET are registered by the intervening MFIs in the same way as other cross-border settlements. In the organisation of the reporting procedures, the NBB/BNB, as the operator of TARGET, is considered to be a second intervening MFI. As a result, interbank transactions are registered between the NBB/BNB and the domestic MFI that intervenes for the resident counterpart, using neutral codes.

10.2 Definition

In principle, Belgium plans to comply with the recommendations of the BPM5 and the harmonisation proposals made by the ECB's Working Group on Balance of Payments and External Reserves Statistics and its predecessor.

Repo transactions are included in other investment, where they are recorded as loans. This instrument, which is used by the banking sector, is very important; it accounts for more than 60% of transactions in Belgian government issues and around 30-40% of operations settled by Euroclear. Most of these transactions are genuine repos, although sale and buy-back transactions also occur. By contrast, bond lending is not very well-developed. Trading in loan portfolios does take place, but is not yet very significant; it is treated as portfolio transactions.

Variations on short-term claims and liabilities between affiliated companies are classified under the direct investment component.

Transactions in banknotes and coins are registered in this b.o.p. only when they involve a movement on a banking account.

10.3 Deviations from agreed definitions

Trade credits between affiliated enterprises are currently recorded under the other investment and not under the direct investment item (see Sub-section 7.3).

Loans and deposits between affiliated MFIs or between affiliated other financial institutions as well as loans and deposits between MFIs and related enterprises are recorded under other investment.

10.4 Gaps

None.

10.5 Intended harmonisation

The direct investment survey will be used to record trade credits between affiliated enterprises under direct investment.

11 Reserve assets

11.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2).

11.2 Definition

The information is obtained from the Accounting Department, where no problems relating to confidentiality are encountered in providing breakdowns.

Financial derivatives are recorded on a net basis. Embedded financial derivatives are recorded together with the underlying financial instruments and are not recorded and valued separately.

All transactions in reserve assets are registered at market price and converted into

10.6 Estimation methods

Some estimates based on time series analysis are made for missing data and may lead to some adjustments, if necessary.

euro using the market exchange rates at the time of the transaction.

11.3 Deviations from agreed definitions

No significant deviations.

11.4 Gaps

Data availability does not pose a problem. The instrumental breakdown is not currently available.

11.5 Intended harmonisation

None.

12 International investment position

12.1 Specific features of data collection

The production of an i.i.p. within nine months implies that many data are of a very provisional nature. As long as items are produced by the accumulation of flows, the time available is not an obstacle. Nevertheless, with a view to including the results of stock data from ad hoc surveys, the period of nine months is too short, considering that it takes almost this long to collect the data; for direct investment stocks, for instance, a minimum of 12 months is needed to produce a first set of reliable data.

At present the following sources are used to compile the i.i.p. data:

- (i) *stocks*:
 - banking sector: portfolio investment (equities, long-term debt instruments and money market instruments) and other investment (short-term and long-term loans and deposits);
 - general government: portfolio investment (government bonds) and other investment;
 - monetary authorities (reserve assets and other assets);

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- (ii) *flows*:
- banking sector: direct investment;
 - other sectors: all items.

The coverage is currently slightly different for general government, where the stock data which are used for other investment are not fully in line with the similar flow data used in the b.o.p. The concepts are identical in both the i.i.p. and the b.o.p. financial account. As a result, the same weaknesses and gaps can be identified.

Although the IMF Co-ordinated Portfolio Investment Survey is operational in Belgium, the data provided are not yet used in the i.i.p. Considering the fact that the survey is repeated each year in Belgium, the data will be incorporated in the i.i.p., at the latest in 2004. Nevertheless, as the response time is in theory set at six months, the results of the survey will only be used in a revised version of the corresponding i.i.p.

The breakdowns by sector and by instrument are based on the data sources. With the exception of the banking sector's assets, no euro area/non-euro area breakdown is possible for stock data unless the survey results are used. Moreover, even if the survey results were used, these would cover only the assets side.

Price changes are applied to equity capital and shares, using specific stock exchange indexes for the main currencies. A reference to the country is not possible owing to the lack of reliable information at present. Different procedures are applied to quoted and unquoted shares. For real estate investment, a price adjustment is made by reference to a domestic index of real estate prices.

Exchange rate changes are calculated on the basis of the data available on foreign currencies. The conversion is calculated using the end-of-year rate by currency, so that the stocks for the previous year are estimated at current rates. The transactions are computed using the monthly average rate for the month of registration. The valuation is based on:

- the book value: banking sector (portfolio investment, where – for the trading portfolio – the book value is mostly based on the marked-to-market value of liquid assets, and other investment);
- the nominal value: general government (portfolio investment); and
- a proxy of the market value: other sectors (portfolio investment).

For the banking sector, equities are adjusted to a proxy of the market value in a similar way to the other sectors by applying a stock market index evaluation rate. For all other items, the valuation is applied to the registered accumulated flows.

There are no plans at present to produce quarterly data.

The results of the yearly FDI survey are not included in the i.i.p. Nevertheless, they may be used to make some adjustments. Further, the information included in the survey should make it possible in the near future to compile a first proxy of the reinvested earnings component.

A fully updated methodology and processing is under development, to become fully operational in 2002.

12.2 Definitions

12.2.1 General

The definitions for the i.i.p. items refer to the BPM5, as do the definitions for the respective b.o.p. items.

The reconciliation process is based either on stocks or on the accumulation of flows, depending on the item concerned.

12.2.2 Direct investment

For the b.o.p., the directional principle is not applied. Reinvested earnings are estimated on

a yearly basis (at $Y + 1$). At present, no estimation is made for the current year.

12.2.3 Portfolio investment

For discounted instruments the discounted value is usually taken into account, so that the difference in relation to the purchase price is included in the i.i.p.

12.2.4 Financial derivatives

There is no recording of financial derivatives on a gross basis. Financial derivatives are computed on the basis of accumulated flows; therefore, no valuation of market prices is carried out for the resulting stocks.

12.2.5 Other investment

See Sub-section 12.2.1.

12.2.6 Reserve assets

Stocks of reserve assets are compiled in co-operation with the Accounting Division of the NBB/BNB.

12.3 Deviations from agreed definitions

See the b.o.p. financial account.

12.4 Gaps

See the b.o.p. financial account.

12.5 Intended harmonisation

See the b.o.p. financial account.

12.6 Estimation methods

None.

13 Administration

13.1 Titles of publications

Nationale Bank van België/Banque Nationale de Belgique:
Annual Report

Statistical Bulletin (quarterly)

13.2 Contributors

This country information was drafted by the ECB's Balance of Payments Statistics and External Reserves Division and subsequently amended and agreed with Belgium. Enquiries of a general nature should be addressed to the Press Division of the ECB. Enquiries specific to Belgium should be addressed to:

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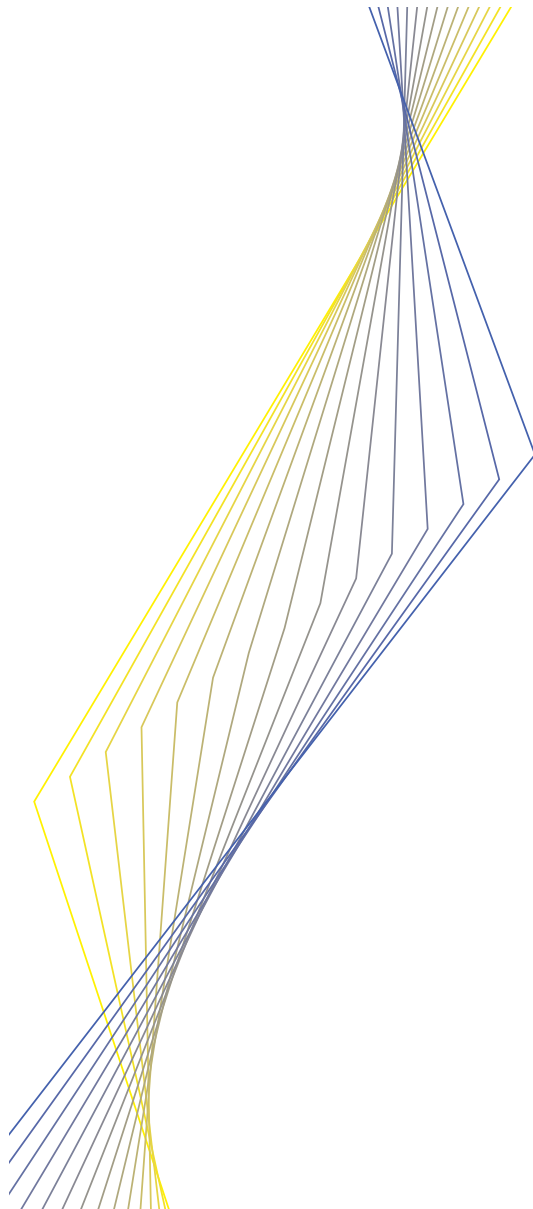
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EUROPEAN CENTRAL BANK

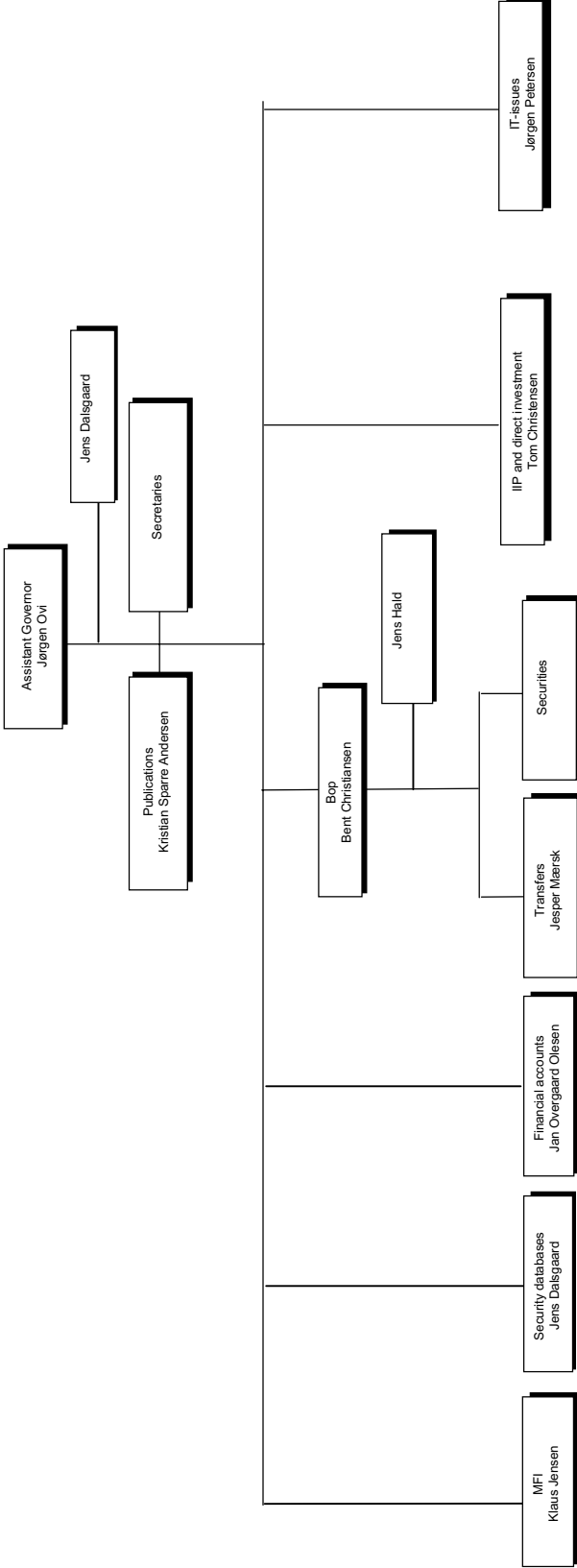


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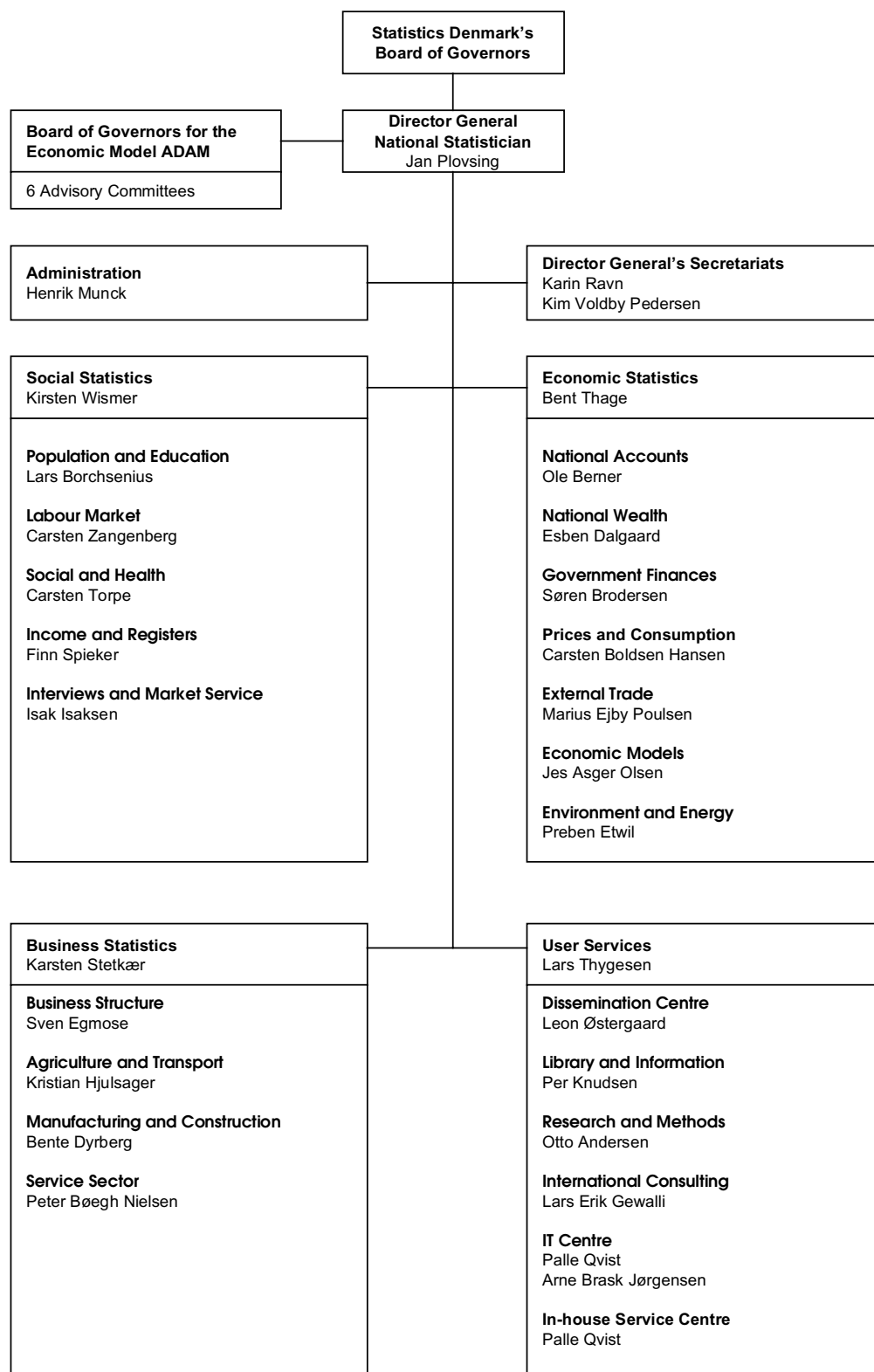
I Organisation chart(s)

**Danmarks Nationalbank
Statistics Department**



Organisation Chart

1 January 2002



2 Institutional aspects

2.1 Introduction

Responsibility for the collection and compilation of balance of payments (b.o.p.) statistics is shared between Statistics Denmark and Danmarks Nationalbank. Statistics Denmark is the official compiler of the Danish b.o.p. Danmarks Nationalbank collects all settlement data and is responsible for defining the regulations for and processing the reports on all payments to and from other countries. In addition, it collects, compiles and analyses data on the international investment position (i.i.p.), direct investment and other external assets and liabilities.

In the past, the collection and compilation of Danish b.o.p. statistics were partly determined by foreign exchange regulations. Since Denmark's accession to the European Union (EU) in 1972, there has been a gradual liberalisation of exchange controls. The exchange controls in Denmark were totally abolished in 1988.

Since the impact of external transactions on the Danish economy is considerable, monthly b.o.p. statistics are seen as an essential ingredient of general economic policy. A new b.o.p. collection and compilation system was implemented during 1998 in order to improve the quality of b.o.p. statistics and to comply with international standards.

2.2 Legislative provisions

The legislative provisions for the collection of b.o.p. statistics in Denmark are laid down in the "Executive Orders on Foreign Exchange Regulations" by the Ministry of Economic Affairs. The system in place is based on the "Executive Order on Foreign Exchange Regulations" issued on 11 July 1994. The detailed regulations, reporting forms, etc. for b.o.p. statistics are based on Danmarks Nationalbank's "Udlandsbetalinger-Indberetningsforskrifter" of October 1998.

2.3 Internal organisation

- (i) Statistics Denmark
The Balance of Payments Section of Statistics Denmark is part of the national accounts office.
- (ii) Danmarks Nationalbank
Within the Statistics Department of Danmarks Nationalbank, 25 staff members are involved in b.o.p. and i.i.p. statistics.

2.4 External co-operation

Statistics Denmark and Danmarks Nationalbank liaise with one another on the compilation of data for the current account and, in particular, the trade in goods items. For purposes of producing current account data, external trade statistics (transactions-based data compiled by Statistics Denmark), replace payments on trade in goods and the difference between the settlement date and the transaction date from settlement reporting (change in trade credits) are taken into account for the compilation of the current account. In addition there is an ongoing comparison at enterprise level between the reporting for the external trade statistics and the settlement statistics of Danmarks Nationalbank, as well as an ongoing comparison between the reporting for the national accounts and the settlement statistics. This comparison improves the compatibility of the two statistics, in general, and the settlement statistics on transactions without effective payments (setoff transactions) and on payments on merchanting, in particular.

Financial institutions are important external contacts. They are the main providers of settlement data, as well as users of b.o.p. and i.i.p. statistics. For these reasons, Danmarks Nationalbank maintains close and continuous contacts with these institutions.

At the international level, b.o.p. and i.i.p. statistics are discussed with other central banks, particularly those in the Scandinavian countries.

2.5 Users

Data on b.o.p. statistics, the i.i.p. and direct investment are sent to the European

Commission (Eurostat), the ECB, the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF). Domestically, the data are forwarded to Statistics Denmark, the Ministry of Finance and the Ministry of Economic Affairs. Data on International Banking Statistics are sent to the Bank for International Settlements (BIS).

3 Statistical system

3.1 Type of collection system

During 1998 (April and October) Danmarks Nationalbank launched a new reporting system for payment and settlement statistics. The new reporting system is a ticket-based closed system in which all transactions that change an individual bank's external position are reported.

The reporting system consists of two different collection systems. Almost all transactions concerning portfolio investment (i.e. trading as well as yield/redemption instalments) are automatically reported by the banks without their customers being contacted. These reports are made in what is called the "securities system". Recording is carried out transaction-by-transaction. The values of the transactions in securities are split into the value of the security, accrued interest, forward premium and charges, fees, commissions, etc.

All kind of transactions which change an individual bank's external position are reported in the "transfer system". Transactions are registered automatically on the basis of the bookkeeping and information is exchanged between the banks indicating the residence status of the owner of the debited account. Whenever resident customers (non-banks) are involved in the transaction, they are required to inform the bank of the purpose of payment and the country of the non-resident counterpart. This information is collected through home

banking links or via other means of communication between the bank and the customer. The purpose of payment is forwarded to Danmarks Nationalbank as a four-digit code or as a one-digit code with a supplementary text.

When Danish enterprises and households hold accounts abroad, each transaction is reported directly to Danmarks Nationalbank if the gross transactions exceed DKK 5 million (€700,000) on a quarterly basis. For holders of accounts abroad who use those accounts almost solely for collecting revenue on exports, the threshold for direct reporting might be higher. Holders of accounts abroad are asked to reply to a monthly questionnaire on these payments. In addition, there is direct reporting on transactions that are settled as net payments or without effective payment (set-off transactions). Typically, these respondents have affiliates abroad.

The main features of the reporting system are described in more detail in Danmarks Nationalbank's "Monetary Review", 2nd quarter 1999.

The MFIs' and Danmarks Nationalbank's own transactions in financial items are derived from changes in the relevant balance sheet items. This means that MFIs' and Danmarks Nationalbank's own transactions are measured net. Changes in stocks in Danmarks Nationalbank's balance sheet reflect transactions at the market prices at

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the time of the transactions. The MFIs' financial transactions are derived from stocks at market value adjusted for price changes, exchange rate changes and other changes. As a result, the flow data are in accordance with the recommendations of the ECB and International Monetary Fund (IMF).

3.2 Reporting agents

Banks report all relevant payments handled by the banking sector. Today, about 70 banks are reporting settlements on behalf of customers and for their own account.

Other residents report payments via accounts held abroad as well as setoff/netting transactions directly to Danmarks Nationalbank. For the time being, approximately 430 residents report transactions via accounts held abroad directly to Danmarks Nationalbank on a monthly basis and 150 residents report set-off/netting transactions.

3.3 Thresholds

Most payments related to securities transactions are reported in the securities system regardless of any threshold.

In the transfer system, other payments in excess of DKK 100,000 (€13,400) were reported individually until 1 October 2002, with information on the purpose of the payment, including the economic code, and the identification of the resident ordering customer/beneficiary. Payments of less than DKK 100,000 are reported on a monthly basis, without information on the purpose of the payment or customer identification. On 1 October 2002, two thresholds were introduced: an exemption threshold of DKK 100,000 and a simplification threshold of DKK 250,000.

Payments related to transactions in which the banks themselves take part are reported regardless of any threshold. These

transactions are reported in aggregate form, so that the purpose of the payment and country codes is preserved.

Transactions via accounts held abroad are reported directly to Danmarks Nationalbank by the reporting agents, regardless of any threshold.

3.4 Availability of data

Statistics Denmark and Danmarks Nationalbank compile b.o.p. data which have, since January 1997 for monthly data and as from the first quarter of 1997 for quarterly and annual data, to a large extent been in line with the harmonisation proposals agreed within the former Task Force on Financial Flows and Stocks.

3.5 Timeliness

Settlement data are published on a Thursday approximately 30 working days after the end of the reporting period. Flash data for trade in goods are released the day before. Transaction-based data are transmitted to ECB after 30 working days. They are confidential until the data on trade in goods are released.

3.6 Compilation frequency

The Danish b.o.p. is compiled on a monthly basis.

3.7 Data controls

The new reporting system facilitates several types of data control.

Validation procedures are incorporated into the electronic data collection system. If the information in a report is not valid, the bank is immediately prompted for correct information and the report is not accepted until valid and consistent information has been given.

Table 1**Reporting scheme for b.o.p. and i.i.p. data collection for Denmark**

Target respondent population (e.g. MFIs, enterprises, etc.)	Name of reporting form	Contents of reporting form	Frequency of reporting after the end of the reference period	Timeliness (number of days for submission after the end of the reference period)
All respondents	External Trade Statistics, INTRASTAT	Trade in goods (EU-trade)	Monthly	10 working days
All respondents	External Trade Statistics, EXTRASTAT	Trade in goods (non-EU-trade)	Transaction-basis	0 days (data are reported as the goods enters or leaves EU)
All respondents	The securities system (settlement statistics)	Detailed information about the security and the payment. Covers all securities trading, yields and redemption.	Payment basis – electronic reporting system	2 days
All respondents	The transfer system (settlement statistics)	Payment purpose given by a four-digit code.	Payment basis – electronic reporting system	2 days
MFIs – trade in foreign securities and loans	MFI-statistics	Balance statistics with a detailed breakdown by instrument, country etc.	Monthly	14 days
Monetary authorities	Reserve assets	Balance	Monthly	2 days
Enterprises with an account abroad	Reporting of payments via accounts abroad	Direct reporting. Schemes with a breakdown by end use of the money transferred abroad. Payment purpose given by four-digit code.	Monthly	two weeks
Enterprises with netting or sett-off payments		Direct reporting.	Monthly	two weeks
i.i.p. data				
All respondents	Questionnaire	Information on external assets and liabilities	Yearly	9 months

The next level of control concerns the interpretation of the specific information in the reports. For instance, it is investigated whether exchange rates are used correctly, whether market values are reasonable on comparison with nominal values, whether country codes for issuers of securities are used consistently and whether there are any systematic differences in the use of purpose-of-payment codes.

For transactions in which one bank represents the resident and pays or receives payments from abroad via another bank, both banks have an obligation to report. The details reported are matched to ensure reporting by the bank representing the resident, even though the external position of the bank may have remained unchanged.

The reporting system provides the basis for comparing the balance sheets of banks with reported payments. As a start, various items

are investigated, e.g. transactions in repurchase agreements and securities issued by non-residents are compared with the changes in the individual banks' accounts for repos and holdings of foreign securities. Moreover, non-residents' holdings of Danish securities issued in Denmark and registered at the Danish Securities Centre are compared with the flow statistics.

3.8 Revision policy

All revisions as from 1998 are included in the month to which they relate. For the time being, there is no revision policy in place, i.e. at present all revisions are published in the first subsequent release. However, a revision policy for settlement statistics – which is the main source of compilation – and for quarterly data on direct investment was put in place in September 2000.

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- (i) settlement statistics
 - continuous revision of the two previous months;
 - revision of the previous and current years at end of every quarter;
 - revision of all previous years once a year in September.
- (ii) direct investment (quarterly data)
 - continuous revision of the previous and the current years;
 - revision of the previous years with the third quarter.

Apart from these regular revisions, an extraordinary revision of data is carried out upon first release if significant revisions in the reported information change the overall picture of the b.o.p. items.

3.9 Publication

Danmarks Nationalbank publishes monthly b.o.p. data on a settlement basis in “Nyt” and the “Financial Statistics”.

“Nyt” is published in accordance with the above-mentioned time schedule, and contains data covering a limited period and few specifications. The publication entitled

“Financial Statistics” is the most detailed publication and covers a longer period. It is published quarterly on paper and monthly on Danmarks Nationalbank’s website. Quarterly data on foreign direct investment, broken down by country and industry, are also included in the “Financial Statistics”. These two publications have accompanying notes in English and contain a calendar of future releases.

Two other publications of Danmarks Nationalbank, the “Monetary Review” and the “Annual Report”, contain extracts of data from the “Financial Statistics”, together with b.o.p. data on a transaction basis.

Publications released by Danmarks Nationalbank are available on the Internet on the Web site of Danmarks Nationalbank at <http://www.nationalbanken.dk>.

The titles of the publications produced by Danmarks Nationalbank on b.o.p. statistics are listed in Sub-section 13.1.

Statistics Denmark publishes monthly b.o.p. data on a transaction basis in “NYT fra Danmarks Statistik”. Publications released by Statistics Denmark are available on the Internet at <http://www.dst.dk>.

4 Implementation

4.1 Monthly balance of payments

Deviations from the 5th edition of the IMF Balance of Payments Manual (BPM5) (Monetary Union harmonisation proposals) are unavoidable for the monthly b.o.p. data, as a result both of their prospective use for monetary and exchange rate policy purposes in Stage Three and of constraints related to timeliness. However, Danmarks Nationalbank has provided the European Monetary Institute (EMI)/ECB with national aggregate b.o.p. data, broken down into key items, as from the January 1997 reporting period.

A decision to forward data on a transaction basis, rather than on a settlement basis, was taken in June 1999. The rationale for forwarding data on a transaction basis is that it meets the requirements of the BPM5 and eliminates the inconsistency between monthly and quarterly data. Furthermore, these are the official Danish b.o.p. data.

Data on a settlement basis are published by Danmarks Nationalbank. These data are used as input for Statistics Denmark’s elaboration of the official b.o.p.

Statistics Denmark and Danmarks Nationalbank are able to compile a country-

by-country geographical breakdown for most b.o.p. items. Statistics Denmark assumes that it will be in a position to provide a euro area/non-euro area split for current account data and to prepare an assets/liabilities euro area/non-euro area breakdown.

The methods and sources used to produce monthly and quarterly data are the same. Therefore, the evaluation of methodology and breakdowns is discussed in the following sections.

4.2 Estimation methods for the monthly b.o.p. data

At the time monthly data are published, the coverage of respondents is close to 100%, except in the case of enterprises with accounts abroad and netting payments. The coverage of direct reporting, for which the main source is reporting from enterprises with accounts abroad, is normally around 95%.

It is inherent in a settlement system that estimation is unnecessary.

4.2.1 For goods

The only item of estimation is goods, where Statistics Denmark uses grossing-up in the Foreign Trade Statistics to estimate flash data. At the time of first publication, only 70% of all reports have been received. The estimation method is based on the use of a panel of reliable reporters and grossing-up.

After first publication, VAT statistics are used for grossing-up Foreign Trade Statistics and thereby the item goods. Grossing-up is based on a partial inclusion of positive differences between the VAT statistics and Intrastat figures.

The geographical breakdown for intra-EU trade refers to the country of consignment/destination.

No estimations are made on military goods.

Transactions under special Community programmes are not recorded in any special way. No estimations are made.

For imports, a c.i.f./f.o.b. adjustment is made by applying a rate of 3.7% to the c.i.f.-based imports of foreign trade statistics.

4.2.2 For services

Services are compiled through the settlement system. This implies that only payments above the threshold are identified.

4.2.3 For investment income

Estimation is used for retained earnings. Information on earnings is received from 1,500 groups encompassing 2,800 companies in the yearly i.i.p. survey. Earnings on direct investment are identified and dividends paid are deducted. No grossing-up is used for retained earnings.

4.2.4 For direct investment

No estimation used.

4.2.5 For portfolio investment

No estimation used.

4.2.6 For financial derivatives

No estimation used.

4.2.7 For other investment

No estimation used.

4.3 Monthly b.o.p. – implementation plan

See Table 2.

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4.4 Implementation of the BPM5

As in the case of most Member States which essentially collect b.o.p. data on cross-border settlements, the most difficult problems encountered in the implementation of the BPM5 relate to the coverage of transactions where no settlement takes place.

Most of the new conceptual recommendations made by the IMF have been implemented. Those areas where deviations may remain after the implementation of the

BPM5 are indicated in the various categories in Sub-sections 5 to 12.

4.5 Standard components – quarterly and annual

The settlement statistics for 1995 and onward have been brought into line with the recommendations of the BPM5. The official b.o.p. figures, released by Statistics Denmark, comply with the BPM5 as of 1988, with some minor exceptions.

5 Investment income

5.1 Specific features of data collection

See Sub-section 3 for a description of the data collection system.

There is an annual review of the income on portfolio and direct investment with the aim of recognising the return on direct investment included in the securities part of the settlement system.

Income from collective investment institutions is not identified. For the time being, income from collective investment institutions is assumed to be a minor issue.

5.2 Definitions

Except for the deviations mentioned below, data fulfil the requirements of the ECB. In respect of the geographical breakdown, reliable data from 1999 and onwards is planned to be available in the future.

Investment income includes reinvested earnings on direct investment and discounts/premiums on Danish debt securities registered at the Danish Securities Centre (in practice, equivalent to Danish securities quoted on the Copenhagen Stock Exchange). Data on reinvested earnings are collected annually by Danmarks Nationalbank by means of a survey of enterprises with direct investment relationships

(see Sub-section 12 on the i.i.p.). Statistics Denmark is responsible for the calculation of the discounts/premiums on the Danish debt securities referred to above.

Dividends are recorded as of the date they are paid.

5.3 Deviations from agreed definitions

Deviations are related to discounts/premiums on debt securities other than the securities mentioned in Sub-section 5.2.

Income on trade credits between affiliates is not included in income on direct investment, but in income on other investment. Income on reserve assets is not included in income on other investment, but is rather distributed according to the underlying instrument.

5.4 Gaps

See Sub-section 5.3.

5.5 Intended harmonisation

A working group made up of representatives of both Statistics Denmark and Danmarks Nationalbank is investigating the issues mentioned in the first part of Sub-section 5.3.

Table 2
Implementation of the EBC's monthly b.o.p. requirements

Denmark	Current data availability				Timetable for implementing the euro area/ non-euro area split	
	Timeliness for national data		Timeliness for geographical break-down on a country-by-country basis			
	Credits/ assets	Debits/ liabilities	Credits/ assets	Debits/ liabilities		
Current account	30 days	30 days	3 months	3 months	–	–
Goods	30 days	30 days	3 months	3 months	–	–
Services	30 days	30 days	3 months	3 months	–	–
Income	30 days	30 days	3 months	3 months	–	–
on direct investment	30 days	30 days	3 months	3 months		
on portfolio investment	30 days	30 days	3 months	3 months		
on other investment	30 days	30 days	3 months	3 months		
Current transfers	30 days	30 days	3 months	3 months		
Capital account	30 days	30 days	3 months	3 months		
Direct investment	30 days	30 days	30 days	30 days		
Equity capital	30 days	30 days	30 days	30 days		
MFIs (excluding central banks)	30 days	30 days	30 days	30 days		
Non-MFIs	30 days	30 days	30 days	30 days		
Reinvested earnings	9 months	9 months	9 months	9 months*		
MFIs (excluding central banks)	30 days	30 days	30 days	30 days		
Non-MFIs	30 days	30 days	30 days	30 days		
Other capital	30 days	30 days	30 days	30 days		
MFIs (excluding central banks)	30 days	30 days	30 days	30 days		
Non-MFIs	30 days	30 days	30 days	30 days		
Portfolio investment	30 days	30 days	30 days	30 days		
Equity securities	30 days	30 days	30 days	30 days		
Monetary authorities	30 days	30 days	30 days	30 days		
MFIs (excluding central banks)	30 days	30 days	30 days	30 days		
Non-MFIs	30 days	30 days	30 days	30 days		
Debt securities	30 days	30 days	30 days	30 days		
Bonds and notes	30 days	30 days	30 days	30 days		
Monetary authorities	30 days	30 days	30 days	30 days		
MFIs (excluding central banks)	30 days	30 days	30 days	30 days		
Non-MFIs	30 days	30 days	30 days	30 days		
Money market instruments	30 days	30 days	30 days	30 days		
Monetary authorities	30 days	30 days	30 days	30 days		
MFIs (excluding central banks)	30 days	30 days	30 days	30 days		
Non-MFIs	30 days	30 days	30 days	30 days		
Financial derivatives	30 days	30 days	30 days	30 days		
Other investment	30 days	30 days	Na	Na		
Monetary authorities	30 days	30 days	Na	Na		
General government	30 days	30 days	30 days	30 days		
MFIs	30 days	30 days	Na	Na		
long-term	30 days	30 days	Na	Na		
short-term	30 days	30 days	Na	Na		
Other sectors	30 days	30 days	30 days	30 days		
Reserve assets	2 days	2 days	Na	Na		

* Based on the i.i.p.

Income on reserve assets will be included in **5.6 Estimation methods**
income on other investment in the near future. **None.**

6 Capital account

6.1 Specific features of data collection

The overall capital account is based on settlement statistics from Danmarks Nationalbank. No breakdown is released, but information on geographical allocation and a sectoral breakdown are available in the settlement statistics.

6.2 Definitions

The definition of the capital account is in line with the BPM5. The implementation of the recommendations has been difficult, as the broad statements in the Sections 295 and 303 of the BPM5 are not very precise, and Danmarks Nationalbank also relies on the subsequent chapters, including Section 350, in which legacies, for instance, are mentioned indirectly as a capital transfer. Other sources of interpretation of the BPM5 are the report entitled "Improvement and Harmonisation of the EU/EFTA balance of payments – Report of Task Force 2 Current account" and the ECB's report on the same issue.

The basic problem of interpretation is that of separating capital transfers from current transfers. A borderline case for codification in Denmark is the treatment of legacies and gifts, where gifts above DKK 5 million (around €800,000) are recorded as capital transfers, because they are assumed mainly to affect the savings, rather than the consumption of the beneficiaries.

Of course, the obvious cases, for instance, of governmental debt forgiveness of lending to developing countries are also included.

7 Direct investment

7.1 Specific features of data collection

Danmarks Nationalbank collects data on direct investment flows and stocks from two

Estimation of migrants' transfers below the threshold has been done since 2000.

The change of residency caused by the statistical omission of the Faroes and Greenland from the economic territory of Denmark has been included as a capital transfer in July 2000.

6.3 Deviations from the agreed definitions

The present definition is that all migrants' and immigrants' transfers of deposits/loans held with Danish banks are included in the capital account.

EU transfers are compiled as current transfers. No decision has been taken on what EU transfers to include in capital transfers.

6.4 Gaps

Migrants' and immigrants' assets/liabilities other than those held with banks are not covered.

Full data on investment grants made by general government are not available.

Data for private sector debt forgiveness are not available, but are believed to be insignificant.

6.5 Intended harmonisation

Danmarks Nationalbank plans to investigate the gaps mentioned above, but this is not considered to be of very high priority.

different sources: the general settlements reporting system and a sample survey of enterprises. The survey was carried out at the end of the years 1991, 1994, 1996 and

1998. It was decided that, as from the 1998 survey, the survey should be conducted annually. In principle, the combination of these two sources leads to a good coverage and quality of direct investment data. Some items, such as reinvested earnings and trade credits between affiliated enterprises, are derived from stock data and are, therefore, only available on an annual basis.

Monthly data on reinvested earnings are included in the transaction-based b.o.p. statistics, but not, at present, in the settlement statistics.

Until data for reinvested earnings are available from the survey, data are calculated as residuals from estimates on total income on direct investment; i.e. monthly reinvested earnings are calculated as one-twelfth of total estimated direct investment income for the year minus actual dividend payments. Direct investment income is estimated on the basis of total return on direct investment in earlier years (separately for inward and outward investments).

Financial derivatives between affiliated enterprises are identified and included under financial derivatives.

In the event of a change in ownership of a resident company from a non-resident to another non-resident direct investor being revealed by the survey, the change is recorded in the FDI stocks, but not in the corresponding b.o.p. flows.

Transactions settled via an exchange of shares are recorded in the statistics at the time of exchange.

With regard to the valuation of transactions settled by an exchange of shares, an agreed price has been available in all cases so far. If no price is agreed, the market price at the time of agreement will be used.

Quarterly data are published with a detailed breakdown by sector and counterpart country.

Geographical allocation is based on the transactor principle. However, it is under

investigation to change the reporting instructions so as to take into account the residency of the actual issuers, i.e. to apply the debtor/creditor principle.

7.2 Definitions

The definitions of the different concepts used in direct investment statistics are in line with the BPM5 and the OECD benchmark (threshold of 10% ownership, direct investor, direct investment enterprise, direct and indirect relationship). All cross-border transactions in real estate are covered.

When the new collection system was implemented in October 1998, new payment codes were added which took into account the directional principle.

7.3 Deviations from agreed definitions

None.

7.4 Gaps

No detailed information is available on a monthly basis for trade credits between affiliated enterprises. Data are estimated as the difference between transactions and settlement data for all types of goods. However, data on trade credits are available annually, from the stock survey.

It is difficult for the respondents to understand and report their transactions in accordance with the new and expanded set of codes that implement the directional principle. Except from this, the recording of reverse investment (i.e. investment by the direct investment enterprise in its direct investor) is in accordance with the directional principle.

Non-response is also a problem. Danmarks Nationalbank is trying to address this using newspapers and other sources. The enterprise in question is then contacted to verify the relevant transaction.

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7.5 Intended harmonisation

Some of the larger enterprises/banks have been contacted in order to explain the directional principle to them, and a more user-friendly description of the codes has been disseminated.

7.6 Estimation methods

None.

8 Portfolio investment

8.1 Specific features of data collection

In April 1998, the first part of a new electronic settlement system, called the securities system, was launched. This system contains all securities transactions that might be relevant to the b.o.p. In principle, all transactions involving either a non-resident issuer or a non-resident counterpart/customer or a denomination in foreign currency or a non-resident clearing house or a non-resident fiscal agent are reported.

Portfolio investment is reported by the MFIs via the securities system.

Comparisons of Denmark's Nationalbank's information with settlement statistics from other sources suggests that the main part of the central bank's settlement data are reliable. Comparison of settlement data and balance sheet statistics has proved to be useful. As a result of these comparisons, errors related to single banks have been identified and eliminated. Comparison with the balance sheets for large institutional investors has also proved to be fruitful. Further controls are expected to be implemented within the next few years.

Another feature of electronic reporting is that reporting on portfolio flows is received at the settlement date, which means that extensive statistics on portfolio flows are available within only three days.

Not all information on portfolio flows comes from the settlement system. As mentioned in Sub-section 3, banking statistics are used, e.g. changes in banks' holdings of foreign securities. Some differences between banking

statistics and settlement data concerning foreign securities still exist, even though the main part has been eliminated.

8.2 Definitions

The definition of portfolio investment is in line with the BPM5. The guideline is reflected in the structure of the present economic codes and the split between bonds and money market instruments is according to initial maturity.

8.3 Deviations from agreed definitions

The quality of the country split has not been examined in depth. Treatment of securities of supranational institutions is an outstanding technical issue. The quality of the sector split is generally high. Items not allocated to any sector, however, represent a minor issue where further investigation is necessary. In cases where no sector is assigned automatically, trading is allocated to the sector to which it is most likely to belong, given the type of asset.

8.4 Gaps

The gaps in portfolio investment data are the counterparts of the gaps concerning investment income on debt securities which are mentioned in Sub-section 5.

8.5 Intended harmonisation

None.

8.6 Estimation methods

None.

9 Financial derivatives

9.1 Specific features of data collection

The payments on financial derivatives are based on settlement statistics. No breakdown is released at present, but information on geographical allocation and a sectoral breakdown are available in the settlement statistics. In addition, net settlements on swaps and FRAs could be separated from other net settlements on derivatives.

The geographical allocation of financial derivatives is based on the transactor.

9.2 Definitions

The definition of financial derivatives is in accordance with the BPM5. All payments on financial derivatives are considered as belonging to this item, regardless of whether they constitute interest-related payments or foreign exchange of principal-related payments. The codification used by Danmarks Nationalbank distinguishes between, on the one hand, swaps and FRAs, and, on the other, derivatives such as foreign exchange agreements, futures and options. However, no information providing the distinction is released.

10 Other investment

10.1 Specific features of data collection

Other investment related to the MFI sector is derived from changes in balances in the MFI statistics.

Trade credit is defined, by nature, as the difference between settlement data and transaction data. Trade credits calculated by

9.3 Deviations from agreed definitions

None.

9.4 Gaps

In theory, there are no gaps. In practice, however, significant differences have been experienced as a result of the reporting of principal for swaps. As the amounts of initial and final exchanges in relation to swaps are far larger than other payments, even if only a small number are reported incorrectly this can have a significant impact on errors and omissions. Therefore, Danmarks Nationalbank runs a dedicated check on the largest payments on derivatives, which is designed to identify individual payments not matched by an offsetting payment for the same company.

9.5 Intended harmonisation

None.

9.6 Estimation methods

Payments on financial derivatives are not estimated.

the method above are not replaced by other sources.

10.2 Definitions

The definition of other investment is in line with the BPM5, except for the deviations referred to in Sub-section 10.3.

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10.3 Deviations from agreed definitions

The flows of other investment are reported by banks for transactions between residential accounts and foreign accounts. Loans and deposits involving foreign counterparts, which are successively invested abroad without domestic roll-over are not, with a few exceptions, reported in the settlement system. Thus the settlement system focuses on the flows between residents and non-residents. Once the new banking statistics are in place, Danmarks Nationalbank will be able to take account of the change of counterpart in roll-overs of loans and deposits.

The new Monetary Financial Institution (MFI) statistics provide the maturity breakdown by long and short-term investment for the MFI sector. For the remaining sectors, no maturity breakdown is available, except for a maturity breakdown on trade credits.

11 Reserve assets

11.1 Specific features of data collection

Changes in the relevant items in the balance sheet of Danmarks Nationalbank.

11.2 Definition

At present, changes in the net external position of Danmarks Nationalbank comprise monetary gold, SDRs, the reserve position in the IMF and foreign exchange (net). In practice, all external assets of Danmarks Nationalbank are readily available to (i.e. highly liquid, marketable and creditworthy) and controlled by Danmarks Nationalbank, are claims on non-residents and are denominated in foreign currency (i.e. in currencies other than the Danish krone).

10.4 Gaps

None.

10.5 Intended harmonisation

At present, there is a discrepancy in the treatment of financial leasing between the national accounts and the settlement statistics. One issue is consistency between financial assets exported/imported for leasing and the corresponding loan, and another issue is the allocation of the financial leasing to interest and redemption. This issue is being investigated by a working group made up of representatives of both Statistics Denmark and Danmarks Nationalbank.

10.6 Estimation methods

None.

For accounting details, see Sub-section 3.1 above. Holdings of the general government are not included. Reserve assets are compiled on a gross basis, i.e. liabilities are registered under other investment.

11.3 Deviations from agreed definitions

None.

11.4 Gaps

None

11.5 Intended harmonisation

None.

12 International investment position

12.1 Special features of data collection

Danmarks Nationalbank produces yearly i.i.p. data within nine months of the year-end. The data are pure stock data based on sample surveys of enterprises, MFI statistics (which, from 2000, have replaced the former banking statistics, information on securities held in custody by banks for enterprises and households, debt securities statistics from the Danish Securities Centre showing non-residents holdings' of Danish debt securities quoted on the Copenhagen Stock Exchange and the annual accounts of central government and Danmarks Nationalbank. The sample surveys are conducted on a yearly basis and cover the private non-banking sector, local government and social security funds.

Danmarks Nationalbank produces preliminary i.i.p. statistics based on the same data sources as mentioned above, except for, basically, the sample survey of enterprises. Therefore, accumulated flows are, to some extent, used in forecasting. These statistics are produced on an annual basis and are available within three months of the year-end.

There is currently no geographical allocation in either the final or the preliminary i.i.p. statistics. However, in the final i.i.p. statistics, direct investment is broken down by country. None of the statistics are available on a quarterly basis, but, as a result of an ongoing development project, a quarterly i.i.p. with a geographical breakdown will be available in the course of the first half of 2002.

Denmark participated in the 1997 IMF Co-ordinated Portfolio Investment Survey. Danmarks Nationalbank did not provide any items other than the mandatory ones. Danmarks Nationalbank will participate in the coming IMF Co-ordinated Portfolio Investment Survey and on a regular, yearly basis.

12.2 Definitions

12.2.1 General

With minor exceptions, the concepts and definitions used are in accordance with the BPM5 and the recommendations made by the Working Group on Balance of Payments and External Reserves Statistics.

12.2.2 Direct investment

Direct investment is compiled according to the directional principle. Direct investment includes reinvested earnings. Direct investment is valued at market prices if the company is listed on a stock exchange and valued using the equity method for all other companies.

12.2.3 Portfolio investment

Portfolio investment is valued at market price.

12.2.4 Financial derivatives

Data on financial derivatives are recorded on a gross basis. Financial derivatives are valued at market price in accordance with the recommendations of the Working Group on Balance of Payments and External Reserves Statistics. Futures with daily margining are excluded from the statistics.

12.2.5 Other investment

Trade credits, loans and deposits are valued at book values, which are normally equal to their nominal values.

12.2.6 Reserve assets

Reserve assets are recorded at closing mid-market prices at the end of the appropriate

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period using the closing mid-market exchange rates prevailing at the reference date.

12.3 Deviations from agreed definitions

Mortgages are classified as debt securities because Danish mortgages are traded in an organised market.

12.4 Gaps

Small enterprises' and households' holdings of securities, which are held in custody abroad, as well as their loans and deposits with foreign-owned banks abroad are not covered by the sample survey. Non-residents' holdings of equity

securities issued by Danish enterprises which are held in custody abroad and not re-deposited in Danish banks are not covered either.

12.5 Intended harmonisation

None.

12.6 Estimation methods

Private, non-commercial real estate investment is estimated on the basis of registered payments concerning private, non-commercial real estate investment and "inflated" using a price index.

13 Administration

13.1 Titles of publications

The titles of the publications on b.o.p. statistics produced by Danmarks Nationalbank are:

"Nyt" - monthly data (settlement data only) and direct investment (quarterly) data;

"Financial Statistics" - monthly data and annual data (settlement data only);

"Monetary Review" - monthly and annual data; "Annual Reports" - annual data;

"Special Reports" - direct investment (annual);

"Nyt - Denmark's external debt" - preliminary report (annual); and

"Nyt - Denmark's external debt" (annual).

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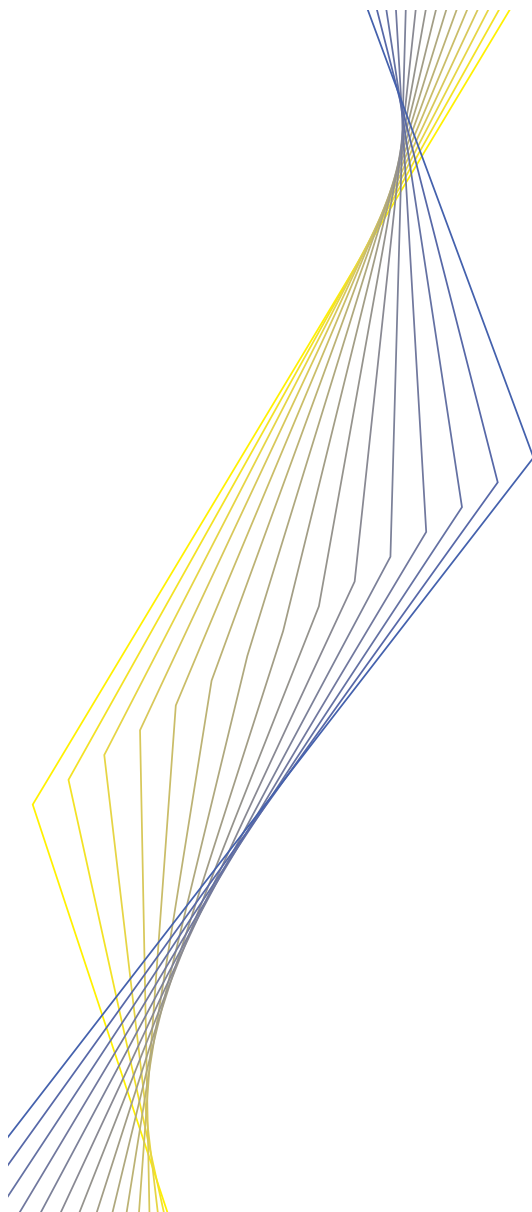
13.2 Contributors

This country information was drafted by the ECB's Balance of Payments Statistics and External Reserves Division and subsequently amended and agreed with Denmark. Enquiries of a general nature should be addressed to the Press Division of the ECB. Enquiries specific to Denmark should be addressed to:

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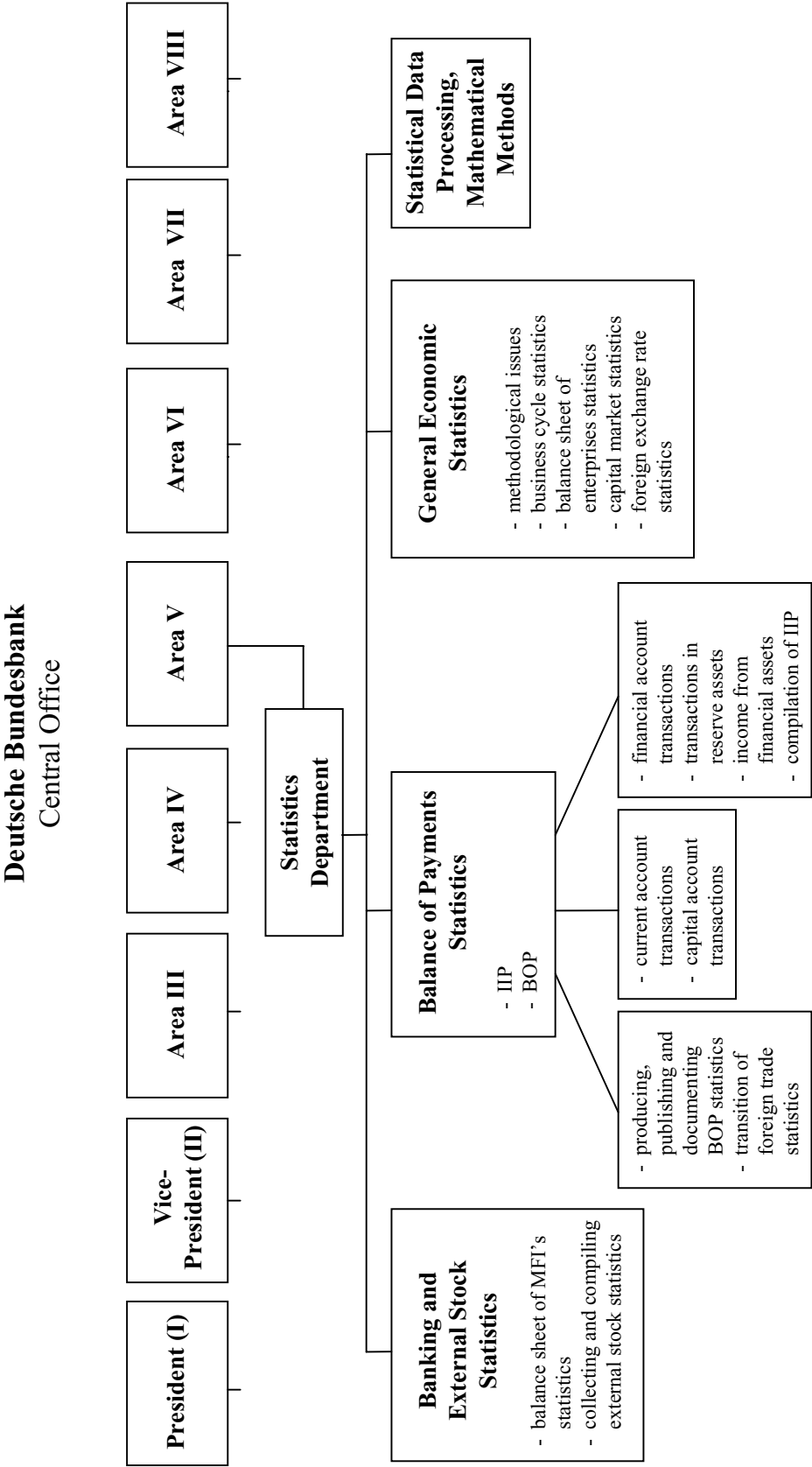
EUROPEAN CENTRAL BANK



Germany

November 2002

I Organisation chart(s)



2 Institutional aspects

2.1 Introduction

The *Deutsche Bundesbank* (named the *Bank Deutscher Länder* prior to 1957) has been responsible for drawing up the balance of payments (b.o.p.) for the Federal Republic of Germany since 1949. In the early years the reporting was linked to the foreign exchange control system in place until the end of the 1950s. The gradual relaxation of the external controls and the transition to full convertibility of the Deutsche Mark at the end of 1958, associated with a rapid rise in Germany's external transactions, necessitated the development of a consistent reporting system. Data, which had previously been derived from the foreign exchange controls and the multiplicity of individual reports existing in the mid-1950s, were replaced by a statutory system which came into force in 1961 with the Foreign Trade and Payments Act (*Außenwirtschaftsgesetz*).

2.2 Legislative provisions

The Foreign Trade and Payments Act (in particular Section 26 thereof) provides the legal framework for the collection of b.o.p. data. The Foreign Trade and Payments Regulation (*Außenwirtschaftsverordnung*) sets out the data reporting requirements in greater detail. It forms the legal basis for the core of the German data collection system for the b.o.p. It also allows the Deutsche Bundesbank to request more detailed information on direct investment stocks and on the external positions of non-banks.

The statistical compilation of foreign trade data lies within the competence of the Federal Statistical Office (*Statistisches Bundesamt*; FSO). It is based on the Act on Statistics on Cross-Border Trade in Goods (*Gesetz über die Statistik des grenzüberschreitenden Warenverkehrs*), together with the appropriate regulation for its implementation, as well as on the applicable European Union (EU) legislation

on Intra-Community Trade Statistical System (Intrastat) statistics.

2.3 Internal organisation

The Deutsche Bundesbank is responsible for several sets of statistics. The Statistics Department consists of the following four divisions: the Banking and External Stock Statistics Division; the Balance of Payments Statistics Division; the General Economic Statistics Division; and the Statistical Data Processing and Mathematical Methods Division. Apart from banks' balance sheet statistics and special statistics on the banking sector, the first of these divisions is also responsible for collecting and compiling most of the external stock statistics. The overall compilation of the international investment position (i.i.p.), however, is carried out by the Balance of Payments Statistics Division, the main task of which is the compilation of the German b.o.p. The General Economic Statistics Division deals with methodological issues relating to business cycle statistics. A variety of other statistics are also compiled by this division, namely statistics on the balance sheets of enterprises, capital market statistics and foreign exchange rate statistics insofar as the ECB has not taken over responsibilities in these fields. The calculation for the financial accounts within the framework of the national accounts are carried out by the Economics Department rather than by the Statistics Department.

The Balance of Payments Statistics Division is divided into three sections. Section one is responsible for compiling, publishing and documenting the b.o.p. statistics, as well as for all contacts with users. This section also deals with the transformation of the foreign trade statistics to the merchandise account of the b.o.p. All other current account transactions (excluding income from financial assets) are processed by section two. Financial account transactions, transactions in reserve assets, income from financial assets

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and the compilation of the i.i.p. are dealt with by section three.

There is close co-operation primarily with the Banking and External Stock Statistics Division. It is the responsibility of this particular division to collect and compile most of the stock statistics which are used by the Balance of Payments Statistics Division to compile short-term financial transactions and the i.i.p.

Regular meetings are held with representatives of the *Hauptverwaltungen* (regional main offices of the Bundesbank), which collect b.o.p. statistics forms from reporting agents and forward them – once they have been checked – to the Central Office of the Deutsche Bundesbank.

Between meetings, there is a continual exchange of information on problems of common interest. Special problems or changes to the data collection system are discussed at such meetings. This form of contact is essential to ensure a common understanding of the reporting requirements.

2.4 External co-operation

The FSO is the most important external partner of the Balance of Payments Statistics Division, both as a provider and as a user of data. The foreign trade statistics provided by the FSO are used as the basis for ascertaining transactions in goods for the German b.o.p. The FSO also provides some complementary data for estimation purposes. Information from private research institutes on workers' remittances and travel are also used, partly for cross-checking and partly for estimation purposes.

The Deutsche Bundesbank attempts to involve – to the greatest possible extent – associations of banks and other enterprises in discussions prior to important changes to the reporting requirements and procedures. This co-operation is aimed at improving the acceptance of statistical requirements, and

thus at increasing the reliability of reported data. The *Hauptverwaltungen* maintain contact with the companies within their area and are the addressees for any questions on the reporting requirements. Visits to the reporting companies may also involve representatives from the Central Office of the Deutsche Bundesbank for matters relating to special problems or technical developments.

2.5 Users

B.o.p. data are used for the ROW account in the national accounts statistics, which are produced by the FSO as far as current account transactions are concerned (whereas financial accounts statistics are covered by the Deutsche Bundesbank). Information is also exchanged continuously with the internal users of the b.o.p. and i.i.p. data, i.e. the division responsible for analysing external economic relations and the section responsible for compiling the national financial accounts.

The Federal Ministry of Economics and Technology (*Bundesministerium für Wirtschaft und Technologie*) is an important user of information on direct investment data.

Other important users are private and public research institutes and universities; banks, associations of banks and enterprises address the bulk of enquiries to the Balance of Payments Statistics Division.

B.o.p. data compiled according to the 5th edition of the International Monetary Fund (IMF) Balance of Payments Manual (BPM5) are supplied to the ECB and to international organisations, such as the European Commission (Eurostat, the Statistical Office of the European Communities), the Organisation for Economic Co-operation and Development (OECD), the IMF and the Bank for International Settlements (BIS), on a regular basis via electronic data transmission procedures. In addition to multilateral co-operation within the numerous working

groups of these international organisations, the Balance of Payments Statistics Division also maintains bilateral contacts with other

central banks in order to exchange views on special issues of common interest.

3 Statistical system

3.1 Type of collection system

The German b.o.p. data collection system is classified as an open international transactions reporting system (ITRS), although the data are collected directly from companies. Where necessary, the data gained from this general reporting framework are supplemented with data from various other sources (e.g. a household-survey to compile the debit side of the travel account) and with estimates. The entity responsible for the delivery of reports is the resident economic entity, bank or non-bank, which carries out a transaction with a non-resident and/or the resident economic entity where the change of ownership occurs. Therefore, there are only certain items (e.g. securities, travel) which banks also report on behalf of their customers. Short-term financial transactions in loans and deposits are excluded from the German ITRS; instead, they are derived from end-month stock data on the outstanding external assets and liabilities of banks and non-banks.

Data collection is decentralised. The *Hauptverwaltungen* collect reports from reporting agents, conduct initial checks on the reported data and maintain contact with respondents. Thereafter, the reports are transmitted to the Central Office of the Deutsche Bundesbank in Frankfurt, where plausibility checks are performed, using information from other sources, and estimates are made in order to fill any reporting gaps in the system.

3.2 Reporting agents

(i) *All economic agents, enterprises, banks* (see below for banks' special reporting obligations), *individuals* and *public*

authorities must report all external transactions on a monthly basis. Only outgoing payments settled by payment order through domestic bank accounts are reported when they are carried out by forwarding a copy of the payment order form to the Deutsche Bundesbank.

- (ii) Foreign assets and liabilities of resident *non-banks* are also reported on a monthly basis. The figures are used to derive the short-term financial transactions of non-banks for the b.o.p. (including trade credits). In addition, there is an annual survey on direct investment stocks.
- (iii) *Banks* have the same reporting obligations as enterprises, individuals and public authorities, but are also subject to special reporting requirements. For travel, banks must report the purchase and sale of the means of payment. Interest and dividends paid to non-residents on domestic securities (without an exemption threshold) should be reported on a monthly basis. With regard to financial transactions, banks have to report securities transactions with non-residents for their own account and on behalf of other residents on a monthly basis. The short-term cross-border financial transactions of banks are derived from their monthly balance sheets.
- (iv) *Public sector*: information on reserve assets is derived from the Deutsche Bundesbank's accounts. In addition, the government sector is subject to the regular reporting requirements described above.

Table I
Reporting scheme for b.o.p. and i.i.p. data collection for Germany

Target respondent population (e.g. MFIs, enterprises, etc.)	Name of reporting form	Contents of reporting form	Frequency of reporting	Timeliness (number of days for submission after the end of the reference period)
Non-banks	Payment order for cross-border transactions (Z 1)	Debits for, inter alia, imports, service transactions, income, capital transactions, financial transactions (excluding short-term loans and deposits), if conducted via domestic bank accounts	Simultaneously (reporting form is copy of payment order addressed to the resident bank)	-
Banks and non-banks	Payments for cross-border transactions (Z 4)	Debits and credits not covered by Z 1 for, inter alia, service transactions, income, capital transactions, financial transactions (excluding short-term loans and deposits and excluding securities transactions of banks)	Monthly	7 days
Banks	Payments for cross-border securities transactions (Z 10)	Transactions in securities with non-residents on own account and on account of customers	Monthly	5 days
Banks	debits for dividends and interest on domestic securities (Z 11)	See column to the left	Monthly	5 days
Banks	Interest on cross-border loans and deposits received or paid (Z 14/Z 15)	See column to the left	Monthly	7 days
Banks	Debits/credits travel (Z 12/Z 13)	Purchase and sale of banknotes and other means of payments from/to non-banks	Monthly	7 days
Non-banks	Claims and liabilities vis-à-vis non-residents (Z 5/ Z 5a)	Assets (stocks): - money market paper issued by non-residents; - other claims (excluding long-term securities); - trade credits. Liabilities (stocks): - liabilities excluding long-term securities and money market paper; - trade credits.	Monthly	10 days for claims and liabilities vis-à-vis non-resident banks; 20 days for claims and liabilities vis-à-vis non-resident non-banks
Banks	Monthly external position (assets and liabilities) (10 310/ 10 320)	Detailed balance sheet positions (stocks) vis-à-vis non-residents (excluding securities liabilities)	Monthly	8 days
Banks and non-banks	Residents' assets abroad (K 3)	Balance sheet of non-resident subsidiaries and associates of resident direct investors	Annually	6 months
Banks and non-banks	Non-residents' assets in the domestic territory (K 4)	Balance sheet of resident subsidiaries and associates of non-resident direct investors	Annually	6 months

3.3 Thresholds

A general exemption threshold of €12,500 (DEM 5,000 before January 2001) is applied to the transactions of all economic agents, enterprises, banks, individuals and public authorities.

For resident non-banks, any foreign assets or any liabilities exceeding €5 million in total are reported on a monthly basis.

Banks whose foreign assets or liabilities exceed EUR 10 million (the threshold will cease to apply with effect from December 2002) have to report all their stocks of foreign assets and liabilities on a monthly basis.

3.4 Availability of data

Only quarterly and annual data on major items are available for the years from 1949 to 1955. Monthly figures are available from 1956 onwards. The breakdown of the b.o.p. was extended until 1971, when it essentially took on its present form. As a result of new developments and changing needs, however, additional items were recorded and the available components were combined in a different form. From the outset, the Deutsche Bundesbank has adhered in its statistical work to the recommendations made by the IMF. The most recent changes in the presentation of the German b.o.p. were due to its adaptation to the BPM5 in

early 1995 and in January 1999 (reflecting the start of EMU).

A complete b.o.p. is available on a monthly basis and with a full geographical breakdown by country.

3.5 Timeliness

Data become available within six weeks.

3.6 Compilation frequency

The German b.o.p. is compiled on a monthly basis.

3.7 Data controls

In the first instance, the *Hauptverwaltungen* check the completeness of reports and carry out plausibility checks. If necessary, they contact the reporting agents in order to clarify any doubtful details. Comprehensive data controls are carried out by the Balance of Payments Statistics Division. All major transactions are checked individually for plausibility. Unusual fluctuations in the monthly data reported by large enterprises are monitored and the reporters are asked for an explanation. The media are used to detect possible reporting gaps. Stock and flow data are available for direct investment and can thus be matched for each individual reporting enterprise. A cross-check of aggregates on stocks and flows from the i.i.p. and the b.o.p. is performed twice a year when the i.i.p. is compiled. Alternative data sources can be used for some items to evaluate the quality of data recorded in the b.o.p. (travel, for instance), although such sources are usually only available with a long delay. Moreover, the Deutsche Bundesbank has attempted to assess the quality of German b.o.p. data by performing several bilateral comparisons with other EU countries. In the context of the national accounts statistics, b.o.p. data are subject to further plausibility checks, as the results of

the b.o.p. statistics should be compatible with other data on the general economic situation.

Finally, the reporting banks and other enterprises are inspected by the *Hauptverwaltungen* and by the public authorities responsible for ensuring the observance of regulations on external transactions (*Oberfinanzdirektionen*). The frequency of the regular examinations depends upon the size and importance of the cross-border transactions undertaken by the banks and enterprises. Special checks can be arranged if an enterprise is suspected of repeatedly or deliberately failing to meet the reporting requirements.

3.8 Revision policy

Revisions of the (provisional) monthly figures are published together with the (provisional) data for the following month. Revised annual data are published in March when revised figures for the previous three years are also given. Apart from these regular revisions, additional ad hoc revisions are undertaken quite frequently in order to take into account major corrections as a result of new information from respondents or corrections in foreign trade data by the FSO.

In some cases revisions of a more historical nature may also take place. For example if an important methodological change occurs, some recalculations of time series will be undertaken so as to avoid breaks and to ensure the comparability of data over time. These recalculations were necessary following the implementation of the BPM5 recommendations.

3.9 Publication

The first monthly b.o.p. data are published six to seven weeks after the end of the reference period. The preliminary results for the annual b.o.p. are therefore available in mid-February of the following year. A full regional breakdown is published on a quarterly basis only. The annual b.o.p., together with a regional breakdown for the

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past year and the previous three years, is published in July of the following year.

The titles of the publications produced by the Deutsche Bundesbank on b.o.p. statistics are listed in Sub-section 13.1.

All data, as well as a one-year calendar including the dates on which press releases are to be issued, are published on the Internet (<http://www.bundesbank.de>).

4 Monthly balance of payments

4.1 Availability of monthly b.o.p. data

All data for the requested monthly b.o.p. items are available as from 1995. Foreign trade is now included on an f.o.b. basis in the monthly b.o.p. dating back to 1995. A geographical breakdown for EU Member States can be provided on a country-by-country basis. The timeliness of data availability is six weeks. Also within six weeks, trade data are available for intra-euro area, intra-EU/non-euro area and third countries. Country-by-country trade in goods data are only available after a further five weeks.

cannot be made due to the lack of other sources. Adjustments based on fiscal data are made for non-responses.

Monthly data for imports are valued on an f.o.b. basis. All data are seasonally adjusted by applying a Census X-based procedure.

The geographical breakdown of data is derived from Intrastat and customs documents. Imports within the euro area are allocated according to the country-of-consignment principle. Transactions with residents of non-participating Member States can be identified separately. The provision of the intra/extra-euro area breakdown by the FSO is essential.

4.2 Estimation methods for monthly b.o.p. data

Monthly and quarterly b.o.p. data are fully consistent. They are derived from the same set of (monthly) data. No special estimation methods are carried out to meet the timeliness of the monthly b.o.p. data except for trade in goods. For trade in goods, a euro area/non-euro area split is applied by the FSO prior to the availability of a full country-by-country breakdown. For imports, the transformation of the data to the f.o.b. basis is estimated.

Data for trade in goods are compliant with BPM5 standards as far back as 1971. Time series breaks were caused by German reunification (1990) and changes in trade statistics (1988 and 1993).

Trade data are calculated on the basis of the special trade principle. However, warehouse transactions with non-residents are included.

Military goods are, in principle, included in the goods item of the b.o.p. with the same geographical breakdown.

4.2.1 For goods

The sources for data on trade in goods are the foreign trade statistics and Intrastat. Both statistics are compiled by the FSO, from which monthly transaction-based data are available.

Transactions under the special Community programmes (Satellite, Airbus and others) are recorded in the foreign trade item, and the geographical allocation is performed the same way as for the other transactions in this item. Further methodological improvements are under way (especially regarding Airbus transactions) the results of which will be made available.

In the event of data from the FSO not being available on time, meaningful estimates

As a result of the implementation of Intrastat in the foreign trade statistics compiled by the FSO as of the beginning of 1993, the information necessary for the estimation of the f.o.b. value of imported goods is no longer available. Therefore, 1992 relations have been assumed to be constant and have been applied to current figures since 1993. The ratios are broken down by mode of supply and by country.

4.2.2 For services

Financial services are included in the services item of the b.o.p. They are disseminated (separately). For further information, please see Sub-section 8.3.

4.2.3 For investment income

See Sub-section 5.6.

5 Investment income

5.1 Specific features of data collection

5.1.1 General

Part of the general reporting system (see Sub-section 3.2).

Dividends are recorded as of the date they are paid.

Methodological changes causing breaks do not occur for data from 1994 onwards; a geographical breakdown for these historical time series is available.

A bias towards the under-recording of credits in the income account can also be observed for Germany, therefore the reported data are supplemented by estimations.

4.2.4 For direct investment

See Sub-section 7.6.

4.2.5 For portfolio investment

See Sub-section 8.6.

4.2.6 For financial derivatives

There are no estimates in the field of financial derivatives.

4.2.7 For other investment

See Sub-section 10.6.

5.1.2 Income on direct investment

In the case of direct investment income, most figures are based on settlements data; reinvested earnings are derived from balance sheet information. The figures on reinvested earnings are estimated on an annual basis and allocated to months pro rata temporis. These figures are revised once a year according to the results of the annual survey on balance sheet data. Additional information is incorporated into the figures on flows, with a timelag of 15 months. In cases where the change in stock data only gives information on total reinvested earnings for a period of more than one month, the total amount is allocated pro rata temporis to each month of that period.

5.1.3 Income on portfolio investment

In the case of portfolio and other investment income, the reported settlement data are

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supplemented by estimated figures; in these areas, in particular, the increasing complexity of cross-border transactions hampers the correct compilation of income payments and increases the degree of statistical uncertainty.

For income of collective investment institutions (CIIs), all income raised as a result of investments made by the CIIs (i.e. on their assets side), regardless of the financial instrument, is attributed to the holders of the units of the CIIs. According to the SNA and the ESA, these units are treated as “shares and other equity” in the b.o.p. Therefore, the amount and the time of the recording of the income on the assets side determine the amount and the time of the recording of the income on the liabilities side. The income is assigned to the investors regardless of whether it is distributed or not.

Accrued interest is taken into account to the extent that coupon payments are reduced if the receiver has not held the security for the whole coupon period.

The geographical allocation of income on foreign securities is based on the debtor principle, i.e. allocation is according to the country of issuer. In the case of income paid to non-residents on domestic securities, debits are allocated according to the residency of the first known counterpart.

5.1.4 Income on other investment

See Sub-section 5.1.3.

In general, the interest share in leasing payments is not recorded.

Data on income on reserve assets are taken from the accounting system of the Deutsche Bundesbank.

5.2 Definitions

The definitions are, in principle, in accordance with the BPM5.

5.3 Deviations from agreed definitions

The accruals principle is not followed for all items and only with regard to the income figures. Payments for income on trade credits are reported only in very rare cases; no estimations are made.

5.4 Gaps

See Sub-sections 5.1 and 5.3.

5.5 Intended harmonisation

None.

5.6 Estimation methods

Income data are reported on a settlement basis. In cases where these data are not plausible and where there are doubts concerning the reliability of reports, estimates are made. Estimated figures are derived from stock data and information on interest rates.

Since in most cases aggregates reported to the ECB do not show large swings, but are distributed more or less evenly over time, any modelling to construct figures on an accruals basis has been postponed.

A breakdown of investment income into its sub-components (direct investment, portfolio investment and other investment income), as required for quarterly and annual figures, is also available for monthly data.

6 Capital account

6.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2).

The revenues resulting from the sale of UMTS licences are to be treated in the b.o.p. as sales of non-produced non-financial assets. According to the BPM5, these are to be recorded in the capital account. This implies that there is no impact upon the current account. The counterpart of this recording is to be found in the financial account.

6.2 Definition

In principle, the definition of the capital account is in accordance with the recommendations set out in the BPM5 and the harmonisation proposals made by the former Task Force on Financial Flows and Stocks.

7 Direct investment

7.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2). In particular, use is made of reported transactions, monthly stock statistics of affiliated companies and annual balance sheet statistics on direct investment enterprises in the reporting country and abroad.

Data from 1996 onwards are not distorted by breaks resulting from methodological changes, except in the case of securities lending between affiliated companies.

The geographical breakdown is based on the debtor/creditor principle and is also available for historical data. However, if ownership of a resident direct investment enterprise is transferred from one non-resident direct investor to another, this transfer is not always reflected in the b.o.p. figures.

6.3 Deviations from agreed definitions

None.

6.4 Gaps

It is not possible to receive any information on migrants' transfers. The acquisition/disposal of non-produced non-financial assets (patents, copyrights) cannot be separated from fees for licences, patents or copyrights in the current account. However, in cases where significant individual transactions are involved, these are shown in the capital account rather than in the current account.

6.5 Intended harmonisation

None.

Transactions settled via an exchange of shares are recorded when the exchange takes place. The valuation is based on stock exchange-quoted prices if the company is listed, and otherwise on book values.

7.2 Definition

The definition complies in principle with the recommendations set out in the BPM5 and the harmonisation proposals made by the former Task Force on Financial Flows and Stocks. Special purpose entities are regarded as direct investment enterprises. Furthermore, all cross-border transactions in real estate are covered.

Equity contributions without payment (i.e. providing real assets or financial assets) have to be reported.

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7.3 Deviations from agreed definitions

All long-term and short-term loans between affiliates are included. In some cases, however, short-term credits are treated according to the assets/liabilities principle instead of the directional principle (for example, in the case of indirect participation and double-status enterprises). Transactions in securities between affiliates are not included here, but are recorded under portfolio investment.

7.4 Gaps

None.

7.5 Intended harmonisation

None.

7.6 Estimation methods

Reinvested earnings are estimated for actual periods and, in general, to produce monthly and quarterly figures. There are no other estimations for direct investment.

8 Portfolio investment

8.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2). The main data sources are:

- (i) reports from Monetary Financial Institutions (MFIs) on transactions executed on their own behalf and on behalf of their clients, which are indistinguishable; and
- (ii) reports from other institutions on transactions executed on their own behalf which involve either the purchase or sale of securities directly from or to a foreign counterpart.

In the case of securities held by MFIs, stock data are used to provide a sectoral breakdown for flows.

Reporting agents use the securities database of the national numbering agency (*Wertpapier-Mitteilungen*) to report portfolio transactions on a security-by-security basis.

Breaks in historical time series may occur as a result of the recording of securities lending. Prior to 1999 securities lending was treated as a sale or purchase of the underlying security, with the counter-entry of claims or liabilities for the security to be returned included in other investment.

The geographical allocation of foreign securities (residents' assets) is based on the debtor principle, i.e. allocation is made according to the country of issuer. In the case of domestic securities, transactions are allocated according to the residency of the first known counterpart. The same breakdown is available for historical data.

8.2 Definition

In principle, the definition complies with the recommendations of the BPM5 and the harmonisation proposals made by the former Task Force on Financial Flows and Stocks.

Transactions related to trade in loans are included in other investment.

8.3 Deviations from agreed definitions

In general, the transaction volume, fees and commissions as well as the accrued interest are reported as a lump sum in one figure. However, it has been arranged that some entities report them separately. These figures are used as a basis for estimations to separate the accrued interest and the fees and commissions from the transaction volume.

Transactions in securities between affiliates are included.

8.4 Gaps

There is considerable difficulty in capturing portfolio investment abroad, which is carried out directly by private households via foreign banks.

8.5 Intended harmonisation

None.

8.6 Estimation methods

Portfolio investment transactions are compiled within the framework of the general

reporting system. Banking statistics are used to calculate the sectoral breakdown for MFIs' transactions in foreign securities, using the change in stocks. Large exchange rate and price effects are taken into account. Annual statistics from custodians are used for cross-checking purposes.

Some estimations are made for resident private households' monthly transactions in securities via non-resident banks, since most private persons do not report those transactions.

Cross-border coupon payments on domestic securities are reduced in cases where the non-resident holder holds the security only for part of the coupon period (and vice versa for foreign securities and domestic holders).

9 Financial derivatives

9.1 Specific features of data collection

Payments are reported in the same way as for other instruments; there is no special collection system for derivatives. The following instruments can be identified separately: futures, warrants, traded options, over-the-counter (OTC) options and interest rate swaps. Premia for options and margin payments are recorded as transactions in derivatives.

The residency of the counterparts is, in general, identified via the clearing house. OTC-traded financial derivatives are geographically allocated according to the residency of the (non-resident) counterpart.

9.2 Definitions

In principle, the definition complies with the recommendations set out in the BPM5 and the harmonisation proposals made by the former Task Force on Financial Flows and Stocks. Interest rate derivatives are recorded correctly under financial derivatives.

9.3 Deviations from agreed definitions

None.

9.4 Gaps

No sectoral breakdown is available at present.

9.5 Intended harmonisation

None.

9.6 Estimation methods

None.

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10 Other investment

10.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2). Short-term transactions are derived from changes in stocks, eliminating effects of exchange rate changes and statistical breaks.

Prior to 1999 securities lending was treated as a sale or purchase of the underlying security, with the counter-entry of claims or liabilities for the security to be returned included in other investment.

The geographical breakdown distinguishing euro area and non-euro area flows is also possible for historical data.

Stock data on trade loans are reported on a monthly basis as part of the general reporting system. The transactions relevant to the b.o.p. are derived from the changes in these stocks.

10.2 Definition

In principle, the definition complies with the recommendation set out in the BPM5.

10.3 Deviations from agreed definitions

None.

10.4 Gaps

Transactions via private accounts held abroad are difficult to capture statistically.

10.5 Intended harmonisation

None.

10.6 Estimation methods

Deposits of resident non-banks with foreign banks are estimated on the basis of BIS statistics; there are no other monthly estimates in the field of other investment.

11 Reserve assets

11.1 Specific features of data collection

Data on reserve assets are taken from the accounts of the Deutsche Bundesbank and are thus prepared by its Accounting Division.

11.2 Definition

The definition complies with the recommendations set out in the BPM5.

11.3 Deviations from agreed definitions

None.

11.4 Gaps

None.

11.5 Intended harmonisation

None.

12 International investment position

12.1 Specific features of data collection

Germany's i.i.p. is compiled mainly on the basis of several stock statistics. These are the monthly stock statistics on the external assets and liabilities of domestic MFIs and of domestic enterprises arising from financial operations and trade credits and the annual statistics on the level of foreign direct investment. These statistics allow a sectoral classification between the monetary authority, MFIs, enterprises (including individuals) and general government sectors.

These stock statistics are supplemented by data on assets and liabilities in the form of portfolio securities, which are – in general – obtained from accumulated transactions.

Since there is no direct method of determining the total portfolio amounts of foreign bonds and notes held by residents and of German bonds and notes held by non-residents, an indirect method is generally used for compiling Germany's external position. This method aggregates the net turnover recorded in the b.o.p. statistics since the founding of the Federal Republic of Germany.

To capture the asset gains or losses resulting from market price fluctuations during a reporting period, the market prices of all German and foreign securities have been used to convert the recorded transactions to nominal values and then to aggregate these nominal values to produce nominal holdings and, finally, to show them as levels valued at market prices. Exchange rate movements are also taken into account in the case of bonds denominated in foreign currency and foreign equities. In all cases, the calculation is made separately by the country of issuer. However, this method can be applied only to the total holdings compiled for all sectors as a whole; the sectoral breakdown of MFIs' holdings is compiled on the basis of their balance sheet data and a special survey conducted by the Deutsche Bundesbank.

It is not possible to allocate holding gains precisely to MFIs, enterprises and individuals, since no specific information is available on the valuation used in the balance sheets. Consequently, price fluctuations are most likely to be reflected statistically in the non-banking sector.

The globalisation of securities business has adversely affected the recording of the securities components in the b.o.p. statistics over the past few years. Transactions by private investors cannot always be compiled with the desired degree of accuracy. Since the business transacted by residents abroad is not fully reported, the foreign securities (assets) held by residents, as shown, are probably too low. However, the holdings of German securities ascribed to non-residents (liabilities) have possibly been too high over the past few years, since foreign purchases also include orders placed by residents abroad. Estimates for closing these gaps are still subject to appreciable margins of uncertainty.

12.2 Definitions

12.2.1 General

Germany's external assets and liabilities are presented according to the broad classification of the BPM5.

12.2.2 Direct investment

The starting point for compiling the levels of direct investment is balance sheet data on foreign and domestic direct investment enterprises. Investment capital is entered in the i.i.p. as book values in line with the statistics on German enterprises' international capital links. These book values are derived from the balance sheets of direct investment enterprises (subsidiaries or associates) and not from the investors'

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balance sheets. In order to make comparison easier, book values are used even in cases where participating interests have been traded on stock exchanges and market prices would therefore be available.

The Deutsche Bundesbank's statistics on international capital links are partially in line with the directional principle. On the basis of balance sheet data, these cover the equity capital which German direct investors hold in foreign direct investment enterprises; the same applies to loans granted by German shareholders and other affiliated enterprises in Germany to the foreign investment enterprises. Finally, the loans which are granted by foreign investment enterprises to the German shareholders and which are to be booked as liquidation of German external assets are surveyed. Both equity capital and the credit relationships between foreign direct investors and domestic direct investment enterprises are shown, in principle, in the same way.

Nevertheless, the way in which credit relationships are shown in the statistics on international capital links does not provide any information on the types of loan (trade or financial credits); nor does it make any distinction in terms of maturity.

Real estate

Stock data on real estate are accumulated from flows. In compliance with the guidelines set out in the BPM5, claims arising from the acquisition of real estate abroad are shown as financial assets. Accordingly, real estate held by non-residents is regarded as a domestic asset of a notional unit which is accompanied by a domestic liability to the foreign investor. Both private and commercial real estate are shown under direct investment. Real estate has been adjusted more closely to market values in the new method of calculation. Owing to gaps in the available price data and the aggregate method which must be used, however, the figures are subject to certain margins of error.

12.2.3 Portfolio investment

The definitions are in accordance with the BPM5.

(i) *Bonds and notes*

Securities, as defined here, include bonds, notes and similar paper with an original maturity of more than one year. Both paper with a fixed coupon and paper with variable rates are included. The stock data are calculated by converting the recorded b.o.p. turnover at transaction values into nominal values and aggregating these data to form nominal stocks on both the assets and the liabilities side. Using the matching market prices and exchange rates, these nominal stocks are converted to market values. In all cases, the calculation is made separately by country of issuer.

(ii) *Money market paper*

Short-term bonds, i.e. all paper with a maturity of up to one year, are recorded as money market paper. This includes mainly short-term public issues (such as Bubills) as well as commercial paper and certificates of deposit. These are recorded, both on the assets and the liabilities side, as stocks by aggregating the net transactions shown in the b.o.p. Paper denominated in foreign currency is valued at current exchange rates. In the case of foreign money market paper the stocks which have been determined in this way can be checked against data from the balance sheets of banks, special investment funds and enterprises.

(iii) *Investment fund certificates*

The stocks of investment fund certificates of foreign and domestic investment companies comprise shares of money market, securities and real estate funds, and are calculated by aggregating the transactions. Stocks denominated in foreign currency are valued on the basis of the exchange rates.

(iv) *Equities*

Holdings of equities shown under portfolio investment are calculated by aggregating the transactions. As the trend in assets held in the form of equities is determined, in particular, by market prices, the prices in the domestic and foreign stock exchanges are included on an aggregate basis when calculating holdings of equities as part of the i.i.p. In the case of foreign equities, the change in the exchange rates is additionally included in the calculation. Equities issued by German incorporated enterprises are shown separately as equities of banks and as equities of other enterprises.

12.2.4 Financial derivatives

No stock data in accordance with the BPM5 definition are available. Although it is possible to capture the transactions relatively well as genuine payments using the current reporting system, there is still no primary statistical recording of stock data. Neither the banking statistics nor other corporate statistics provide any information on asset or liability positions corresponding to valuation at market prices. Previous surveys for other purposes did not aim at differentiating between market participants according to their country of residence, which is necessary for the i.i.p. For that reason, it is not possible to give market values for financial derivatives for the time being. Capturing these data statistically is hampered, in addition, by the present accounting rules for banks and enterprises, which do not require any statement of this kind in the balance sheet.

13 Administration**13.1 Titles of publications**

Regular publications related to the b.o.p. are:

Monthly Current Account – main items, preliminary, available six to seven weeks after the reporting period: “*Pressenotiz des*

12.2.5 Other investment

The definitions are in accordance with the BPM5.

12.2.6 Reserve assets

The definitions are in accordance with the BPM5.

12.3 Deviations from agreed definitions

None.

12.4 Gaps

Portfolio investment transactions via foreign markets cannot be determined exactly (see Sub-section 12.1).

In the case of direct investment, reverse investment by companies which are direct investors as well as direct investment companies is difficult to capture.

12.5 Intended harmonisation

None.

12.6 Estimation methods

None.

Statistischen Bundesamtes über die Entwicklung des Außenhandels”;

Monthly balance of payments – main items, preliminary, available six to seven weeks after the reporting period: “*Pressenotiz der Deutschen Bundesbank*”;

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Monthly balance of payments – main items and sub-items, preliminary, available seven to eight weeks after the reporting period: “*Monatsberichte der Deutschen Bundesbank*”, “*Statistische Beihefte zu den Monatsberichten der Deutschen Bundesbank, Reihe 3, Zahlungsbilanzstatistik*” (headings and explanatory notes available in English);

Annual balance of payments – including a geographical breakdown for the previous three years, available in July of the following year: “*Zahlungsbilanz nach Regionen, Statistische Sonderveröffentlichung 11*” (also available in English in August).

13.2 Contributors

This country information was drafted by the Balance of Payments Statistics and External Reserves Division of the ECB and subsequently amended and agreed with the Deutsche Bundesbank. Enquiries of a general nature should be addressed to the Press Division of the ECB. Enquiries specific to Germany should be addressed to:

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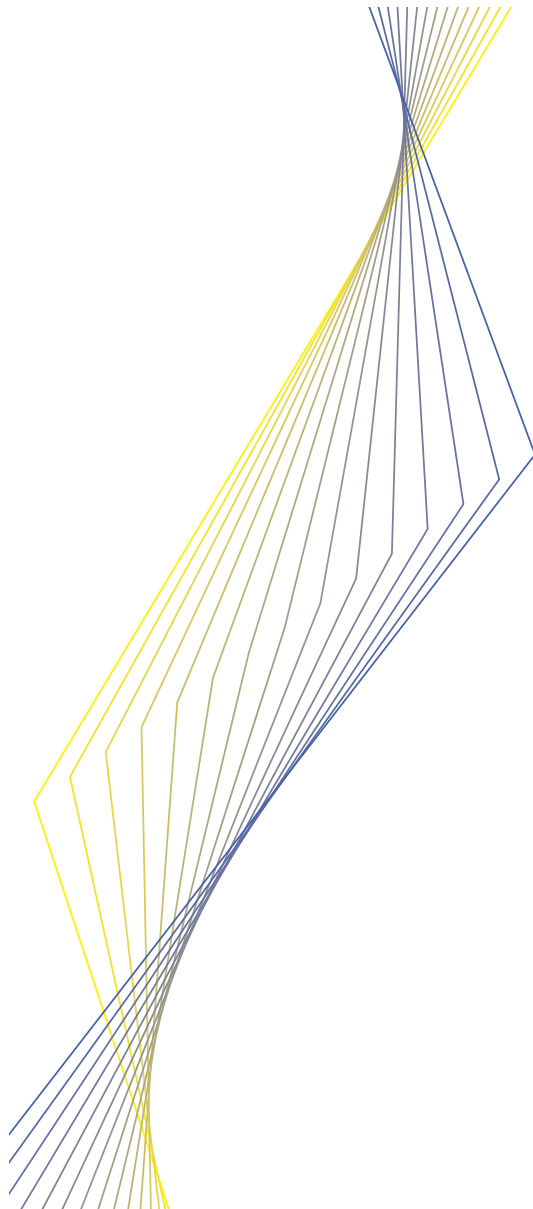
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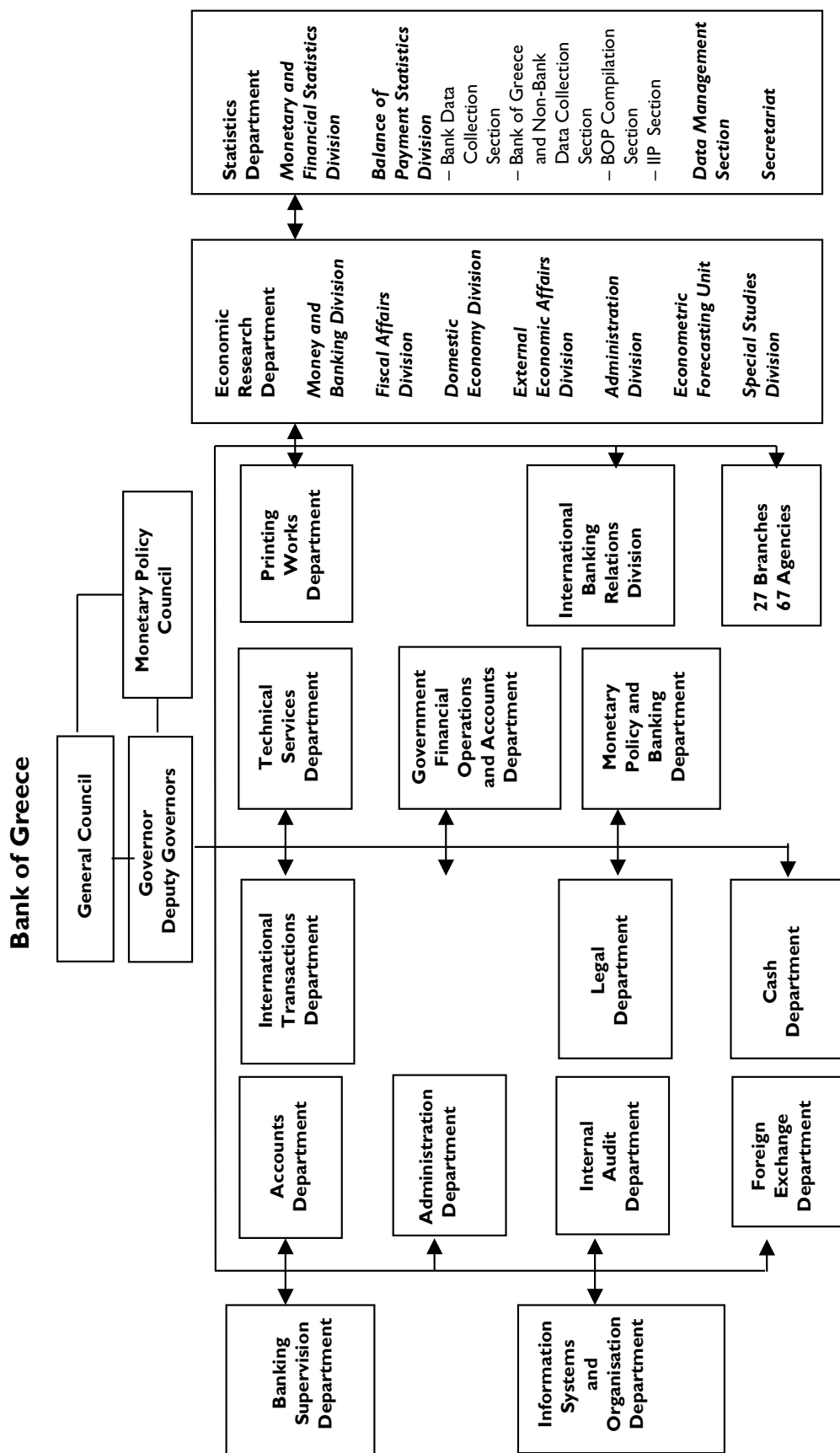
EUROPEAN CENTRAL BANK



Greece

November 2002

I Organisation chart(s)



2 Institutional aspects

2.1 Introduction

The Bank of Greece has been responsible for compiling and producing the Greek balance of payments (b.o.p.) statistics since 1929. The collection system was based on exchange controls and the monitoring of foreign exchange flows. However, the gradual liberalisation of the exchange control mechanism resulted in the system becoming increasingly ineffective in recording flows in the b.o.p., which, in turn, necessitated a change in the collection system. Short-term capital movements were liberalised in May 1994 and, in March 1995, the Bank of Greece began its search both for potential new methodologies for the compilation of its b.o.p. and for a new collection system. The Bank of Greece decided to employ a system similar to the Portuguese and Dutch systems for its new b.o.p. collection system. Monthly data derived from the new methodology and based on the conceptual framework set out in the fifth edition of the IMF Balance of Payments Manual (BPM5) were first produced in January 1999.

2.2 Legislative provisions

The legal basis for the collection and compilation of b.o.p. transactions is contained in the Statute of the Bank of Greece. This legal base has been reinforced by provisions included in the new Statutes of the Bank of Greece (Law 2609/1998, as amended by Law 2832/2000), whereby all residents are required to report transactions with non-residents to the Bank of Greece for the compilation of the b.o.p. and the assumption of assets/liabilities vis-à-vis non-residents for the compilation of the international investment position (i.i.p.).

The legislation provides for a sanctions procedure in the event of a failure to report b.o.p. transactions, as well as for the disclosure of confidential information.

2.3 Internal organisation

The field of statistics is the responsibility of the Department of Statistics established by a Decision of the General Council of the Bank of Greece (23 October 2000). This Department has two Divisions, namely the Balance of Payments Statistics Division and the Monetary and Financial Statistics Division, as well as a Databank Management Section and a Secretariat.

The Balance of Payments Statistics Division has the following four sections:

- the Bank Data Collection Section,
- the Bank of Greece and Non-Bank Data Collection Section,
- the Balance of Payments Compilation Section and
- the International Investment Position Section.

The analysis of b.o.p./i.i.p. data, econometric work, etc. is the responsibility of the Economic Research Department (External Economic Affairs Division).

The Monetary and Financial Statistics Division has three sections: the Money and Banking Section, the Capital Market and Other Financial Institutions Section and the Financial Accounts Section.

2.4 External co-operation

The Bank of Greece is the only institution involved in the production of b.o.p. statistics. The National Statistical Service of Greece (NSSG), however, supplies national accounts, trade data, the consumer price index (CPI), the gross national product (GNP), industrial production, tourist arrivals and other variables to the Bank of Greece. Trade data supplied by the NSSG have been subject to long delays, especially as regards revisions, primarily owing to difficulties with the Intra-Community Trade Statistical System (Intrastat). The Bank of Greece therefore

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compiles its own data on merchandise trade using bank settlements and data supplied directly by enterprises (oil refineries). General government external debt is also compiled (stock data) by the Bank of Greece.

2.5 Users

The Bank of Greece maintains regular contact with users, such as the NSSG, the Ministries of National Economy and of Finance, other government departments,

universities, credit rating companies, etc. Bilateral meetings are sometimes held with users to discuss specific issues. A principal user is the bank's own Economic Research Department. B.o.p. data, according to the standards components of the BPM5, are supplied to the European Central Bank (ECB), the European Commission (Statistical Office of the European Communities; Eurostat), the Organisation for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF) and the Bank for International Settlements (BIS) on a regular basis.

3 Statistical system

3.1 Type of collection system

The Greek data collection system is a closed international transactions reporting system (ITRS) based on banks' settlements reporting. Additional information not based on settlements are also collected on financial account transactions and positions and from administrative sources. Monthly MFI balance sheet data are also used to compile part of the other investment account. The system has been in place for all respondents since end-1998. Codification is undertaken by the respondents (reporting banks) and not by the Bank of Greece. The Bank of Greece codifies reporting forms submitted by direct respondents, as well as monthly supplementary data on financial account items, such as portfolio investment.

Transactions are reported on a transaction-by-transaction basis, with the exception of some items which are reported in aggregate.

Financial account transactions data derived from the ITRS are supplemented with additional information both on transactions (e.g. monthly reports by resident stockbrokers) and stock statistics (e.g. quarterly data from custodians).

Information derived from the press is used to update the transactions in direct investment and the debt/liability registers.

3.2 Reporting agents

- (i) *Banks*: these are commercial banks and other special credit institutions. They are required to report external transactions on behalf of residents and non-residents and on their own account, irrespective of whether they are acting as an intermediary between a non-resident bank or non-bank and another resident bank, or carrying out inter-bank operations affecting their external position. Resident banks must also report the opening and closing balances of their external position broken down by currency. Changes between the opening and closing positions should be equal to the net external transactions in the respective currencies. If an error is detected in earlier than the current month data, the Bank of Greece assesses the size and effect of the error in the overall data and decides whether or not to adjust the earlier data and the output. B.o.p. data which are more than six months old are considered to be definitive.
- (ii) *Direct respondents*: direct respondents report transactions with non-residents which are not settled via resident banks. In addition, the system collects data directly from resident transactors such as oil refineries, mutual funds, stockbrokers and custodians.

Table I
Reporting scheme for b.o.p. and i.i.p. data collection for Greece

Target respondent population (e.g. MFIs, enterprises, etc.)	Name of reporting form	Contents of reporting form	Frequency of reporting	Timeliness (number of days for submission after the end of the reference period)
MFIs	AEE	Exports and imports of goods	Monthly	15 days
MFIs	AES	All other transactions	Monthly	15 days
Athens stock exchange brokerage firms		Portfolio investment flows	Monthly	15 days
Custodians, mutual funds, investment companies		Portfolio investment stocks	Quarterly	1 month
Sample of resident firms	FDI form	FDI data	Annual	6 months
Sample of resident firms		Assets and liabilities	Annual	6 months

(iii) *Public sector*: various departments of the Bank of Greece provide data for the compilation of the b.o.p./i.i.p. such as official current account, general government external debt, reserve assets, etc. The Ministries of National Economy and of Finance, as well as other departments of the Bank of Greece, also provide data on general government external debt and on transactions with European Union (EU) institutions.

3.3 Thresholds

Since 1 July 2002, the Greek b.o.p. system has a reporting threshold of €12,500. However, the major proportion of low-value transactions, e.g. travel-related payments and emigrant transfers are reported in aggregate. Other transactions are reported on a transaction-by-transaction basis. For transactions of less than €100,000, information on the resident transactor is available on request, as this has to be submitted, if required, to the Bank of Greece. However, most banks submit information on the resident transactor counterpart for all transactions where this is requested. The scrutiny of such large-value external transactions constitutes the most important

quality check on the data submitted by banks acting as intermediaries.

3.4 Availability of data

In order to meet the ECB's monthly b.o.p. requirements, both in terms of coverage and timeliness, b.o.p. flow statistics are published monthly on a settlements basis. Imputations, netting-out operations for a number of transactions and the use of supplementary information provided by resident transactors are conducted on monthly b.o.p. data. Stock data are to be made available on an annual basis with a geographical breakdown. Portfolio investment stocks are available on a quarterly basis, both for assets and for liabilities.

3.5 Timeliness

The reporting agents have 15 calendar days from the end of the reporting period (month) within which to submit data to the Bank of Greece, which thus has approximately three weeks within which to process the data, check their validity and compile reports for the various users and publications.

3.6 Compilation frequency

The Greek b.o.p. is compiled on a monthly basis.

3.7 Data controls

The monthly data submitted on electronic media (diskettes or CD-ROMs) are loaded onto the RISC system (computer system used by the Bank of Greece). For each file received, the validity of the general information (bank identity, reporting period, etc.) is checked and verified by a computer programme. The data are also checked for validity and accuracy by means of plausibility checks and checks using previous months' data. A listing of all errors found is produced and the reporting bank is notified immediately. Once the necessary corrections have been processed, a second round of validation takes place and flows are compared with the change in the external position of the reporting bank. Additional comparative reports are produced and manual checking takes place, principally of the high-value transactions (more than €100,000). It is difficult, however, to verify incoming payments on behalf of customers, as the banks do not always know why the payments have been received, and the customer must in some cases be asked about the nature of such transactions. A plausibility check is fairly easy for transactions above the amount of €100,000; below this amount plausibility checking is difficult to carry out.

4 Monthly balance of payments

4.1 Availability of monthly b.o.p. data

The current national presentation of the Greek b.o.p. more or less covers the ECB's b.o.p. requirements as endorsed by the Council of the EMI.

3.8 Revision policy

The Bank of Greece does not have a strict revision policy. In principle, monthly data is revised when the quarterly data are due for publication and supplementary information is available on e.g. financial account transactions. NSSG trade data are also used for quarterly data.

3.9 Publication

The titles of the publications produced by the Bank of Greece on b.o.p. statistics are listed in Sub-section 13.1.

Data users of the Greek b.o.p./i.i.p. statistics are:

- (i) other units of the Bank of Greece, e.g. the External Economic Affairs Division, the Money and Banking Division, the Governor's and Deputy Governors' offices;
- (ii) other institutions, e.g. the Ministry of the National Economy, other Government departments, universities, banks.

The b.o.p./i.i.p. and international reserves (template) data are released under "statistics" on the website of the Bank of Greece as soon as they are released to the ECB. An advance release calendar for the above-mentioned data will also be available on the website of the Bank of Greece.

4.2 Estimation methods for the monthly b.o.p. data

4.2.1 For goods

The goods item is computed on the basis of settlements, as recorded via the ITRS; NSSG data for external trade statistics cannot be taken into account owing to the time lag in

data availability and revisions. Estimates are made by using trends and extrapolation from previous months in the case of missing respondents, but this is a procedure that is rarely used.

Data have been fully compliant with BPM5 standards since January 1999.

Supplementary information derived from oil refineries are used to compile the data for the oil account.

Transactions under special Community programmes (Satellite, Airbus and others) are very rare in the Greek b.o.p and are examined on a case-by-case basis.

Data on trade credits – assets and liabilities – are collected annually from a survey of enterprises.

The c.i.f./f.o.b. rate is calculated automatically by the ITRS using the data from the respondent banks. For checking the conversion of imports from c.i.f. to f.o.b., as derived from reporting agents' replies to questionnaires, the Bank of Greece applies a 5% rule check.

The Bank of Greece trade data are probably a cross between the special and general trade principles. The NSSG data published are on a special trade basis.

The geographical allocation of transactions is based on the country of origin. Although reporting agents are also requested to report the country of consignment, these data cannot be cross-checked with customs data of the same period, as the latter become available only some time after the settlement data. Therefore, those goods data used to compile the euro area aggregates are principally based on the country of origin.

No geographical breakdown is available in the case of military goods.

Seasonal adjustment methods are currently under study in collaboration with the ECB.

4.2.2 For services

Financial services are compiled from the ITRS data. Data from direct reporters (e.g. stockbrokers) are used for checking purposes. A frontier travel survey aimed at estimating the expenditure of non-residents in Greece and of Greek residents abroad has been commissioned by the Bank of Greece. A pilot survey has started since May 2002 and will cover all types of frontier travel. The final monthly version will be implemented as of January 2003.

4.2.3 For investment income

Flows for investment income are based on settlements data. A mixed approach is used for quarterly statistics, where stock data are also taken into account. In case that data are not available on time, estimates are made on the basis of extrapolation from previous months.

Monthly data are not reported on an accruals basis.

A breakdown of investment income into its sub-components (direct investment income, portfolio investment income and other investment income) is available on a monthly basis.

The intra/extra-euro area split of income on portfolio investment income is obtained from the use of custodian information which is actually a first known counterpart split for liabilities.

4.2.4 For direct investment

There are no monthly estimates on reinvested earnings.

4.2.5 For portfolio investment

Supplementary information on portfolio investment is obtained through the use of

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custodian statistics and other stock statistics and transactions supplied by stockbrokers and mutual funds, as well as by banks for their own account transactions.

Security-by-security data collection is only carried out for quarterly stock data and monthly data on liabilities are provided by stockbrokers.

Difficulties are encountered in the estimation of the intra/extra-euro area breakdown, especially in the case of liabilities where a geographical allocation is only available according to the first-known counterpart principle.

5 Investment income

5.1 Specific features of data collection

5.1.1 General

Investment income data are available from the ITRS.

Adjustment between annual, quarterly and monthly figures are made when more detailed data become available on a quarterly basis and in some cases annually.

The geographical allocation of investment income is usually made according to the country of settlement; in the case of portfolio investment it is made according to the residency of the issuer of the asset and of the first known counterpart in the case of liabilities. No geographical breakdown is available for historical data.

Dividends are recorded as of the date they are paid.

5.1.2 Income on direct investment

With regard to *income on equity*, the rate of return is estimated using a proxy based on

The offsetting entry for accrued interest is not currently available on a monthly basis.

4.2.6 For financial derivatives

Data on financial derivatives are obtained as real data from settlements.

4.2.7 For other investment

There are no monthly estimates in the field of other investment.

ITRS data, which are matched with changes in the MFIs' consolidated external balance sheet position, are used.

the foreign direct investment companies listed on the Athens Stock Exchange. The Bank of Greece uses annual data for reinvested earnings obtained from the annual foreign direct investment questionnaire.

5.1.3 Income on portfolio investment

The calculation of income on portfolio investment is currently available from the ITRS, while stock data are used for the intra/extra-euro area split.

There are no major problems with the recording of income for specific types of bonds.

No impact on portfolio investment income due to taxation issues can be observed.

5.1.4 Income on other investment

The Bank of Greece does not record income on trade credits. Transactions in deposits by private individuals/enterprises with foreign institutions are recorded, but the interest share in leasing payments is missing.

Income on reserve assets is recorded on an accruals basis.

5.2 Definitions

With the exception of the items given in Sub-sections 5.3 and 5.4, the Bank of Greece complies with the recommendations of the BPM5 and the harmonisation proposals made by the Working Group on Balance of Payments and External Reserves Statistics.

5.3 Deviations from agreed definitions

Interest income is not recorded on an accruals basis.

5.4 Gaps

With regard to *income on debt*, income on inter-company loans is not currently

recorded. Moreover, the Bank of Greece, in common with most compiling institutions, encounters difficulties with the recording of income on trade credits. Data on reinvested earnings are only included in the annual b.o.p after the publication of the annual statements of enterprises in May/June each year. Income on collective investment institutions (CIIs) is not fully covered.

5.5 Intended harmonisation

Estimation methods to record reinvested earnings on a monthly and quarterly basis are under investigation.

5.6 Estimation methods

None.

6 Capital account

6.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2). Data for general government transactions are available for EU budget transfers, i.e. specific information on capital transfers involving EU institutions.

A distinction between current and capital transfers is usually difficult to apply for private sector transfers when the amounts involved are not sizeable. Nevertheless, Greece is able to provide separate monthly data for the capital account, since the biggest part, capital transfers related to EU institutions, can be estimated on the basis of combined information from the European Commission (Eurostat) and the Greek Government.

6.2 Definition

In principle, the definition of the capital account is in accordance with the BPM5 and the harmonisation proposals made by the former Task Force on Financial Flows and Stocks.

6.3 Deviations from agreed definitions

Emigrants' remittances are recorded under current transfers, but the balances of their accounts held with resident MFIs are not considered to be an external liability. As a concept, this treatment is not significantly different from the "centre of economic interest" IMF residency guidelines for the following reasons:

- emigrants' accounts are usually jointly held with residents of Greece, so they

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cannot be viewed as a liability to non-residents;

- emigrants are in fact individuals who, in many cases, spend part of every year in Greece, and can thus be said to have “multiple residency” status (paragraph 72, BPM5);
- emigrants can maintain these accounts, even if they no longer live abroad and have returned to Greece and acquired the status of resident.

Historically, emigrants’ deposits held with Greek banks have been used almost entirely to finance expenditure in Greece, i.e. they

have been similar to current transfers. Thus these deposits do not have the characteristics of a short-term financial instrument. The stocks of such deposits, even in times of financial or political crisis, have not shown the sharp fluctuations common to short-term instruments.

6.4 Gaps

None.

6.5 Intended harmonisation

None.

7 Direct investment

7.1 Specific features of data collection

As regards FDI data, in the past only authorisation data (i.e. data on FDI which had been officially authorised) were collected, but the series stopped in 1992.

After compiling a register of foreign direct investment (FDI) companies, the Bank of Greece started collecting FDI data for the first time for 1995-1998, using an annual pilot questionnaire for both inward and outward FDI. Data for 1998, 1999 and 2000 have been included in the i.i.p. submitted to the ECB.

Annual questionnaires, which are based on FDI register information, are supplemented by various sources, such as flow statistics, press reports and information from Bank of Greece branches.

Difficulties in delimiting direct investment and portfolio investment have been resolved, as quarterly information can be obtained from the Athens Stock Exchange in order to reallocate transactions of 10% or more of an entity’s capital to FDI. Quarterly/annual data are adjusted accordingly.

Information on long and short-term loans between affiliates is requested in the FDI questionnaire sent to respondents.

With regard to the treatment of special purpose entities, the Bank of Greece tries to record the relationship up to the second level.

Domestic stocks acquired by non-resident investors through secondary markets can be identified, since the Athens Stock Exchange publishes confidential information on all transactions involving more than 10% of the share capital of any listed company.

Transactions settled through an exchange of shares are recorded at the time when the exchange of shares takes place.

The valuation of transactions settled through an exchange of shares is based on the price at which the transaction, i.e. the transfer of the shares of the resident holder to the non resident, is recorded. For listed companies, any transfer of shares has to be made through the electronic system of the Athens Stock Exchange.

The geographical breakdown is based on the residency of the actual issuers (i.e. debtor/creditor principle) for the assets and first known counterpart for liabilities.

7.2 Definition

For flows, the Bank of Greece complies with the 10% rule and adds 50% in order to make the compilation of foreign affiliates' trade statistics (FATS) possible.

Reporting agents were informed via the new reporting instructions that they must apply the directional principle.

Cross-border transactions in real estate are reported through the bank reporting system.

7.3 Deviations from agreed definitions

The directional principle may not be applied in all cases (i.e. reverse investment by the direct investment enterprise in its direct investor). There seem to be no other deviations under the new collection system.

8 Portfolio investment

8.1 Specific features of data collection

Flows (inward): banks and direct respondents report portfolio investment data within the context of the general b.o.p. reporting scheme. Banks generally deal on their own account (usually in Greek Government bonds and Treasury bills) and only deal in shares if a new issue takes place or if they are acting as the underwriters of the deal itself. Discussions with banks have revealed three types of transactions: transactions on own account; transactions with non-residents where the resident bank acts as the custodian; and transactions with non-residents where the resident bank does not act as the custodian. For the first two types, all the information required by the ECB, the

7.4 Gaps

Data on reinvested earnings are only included in annual b.o.p. after the publication of the annual statements of enterprises in May/June each year. Equity contributions without payment (i.e. providing real assets or financial assets) are difficult to identify; supplementary information is needed.

7.5 Intended harmonisation

The introduction of the new collection system has enabled the Bank of Greece to collect data on direct investment in accordance with the requirements of the BPM5. Estimation methods to record reinvested earnings on a monthly and quarterly basis are under investigation as the matter is being examined by an ECB task force.

7.6 Estimation methods

Quarterly estimates in the field of direct investment are based on monthly b.o.p. flow data.

IMF, etc., is known. However, in the latter case, not all the details are available, so that the Bank of Greece has to contact the resident counterpart to complete the reporting form, as necessary.

Flows (outward): for mutual funds and investment companies, all the necessary information is known for investments made through Greek banks and those for which Greek banks act as intermediaries.

Difficulties in delimiting direct investment and portfolio investment have been resolved, as quarterly information is obtained from the Athens Stock Exchange in order to reallocate transactions of more than 10% of an entity.

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Settlement data are used. Stock data are used for checking purposes. The International Securities Identification Number (ISIN) for securities is used to check the flows against stocks and to compile income flows on an accruals basis.

The geographical allocation criterion for assets is based on the country of residence of the issuer. For liabilities, it is based on the first known counterpart principle. The geographical breakdown is available on a quarterly and on an annual basis. Limited information is, however, available for historical data prior to the introduction of the new collection system.

8.2 Definition

The Bank of Greece complies with the recommendations set out in the BPM5 and the harmonisation proposals made by the former Task Force on Financial Flows and Stocks. However, the distinction between direct investment and portfolio investment is difficult to determine for reporting agents and can only be made by the Bank of Greece using the register of information on listed companies supplied by the Athens Stock Exchange and press reports.

Service charges, fees and commissions are excluded; the necessary information is obtained via the bank settlements system, as part of financial services.

Private placements are recorded in the b.o.p. Supplementary information may be needed to classify this properly.

9 Financial derivatives

9.1 Specific features of data collection

The recording of financial derivatives is based on ITRS data, but valuation is a problem that has not yet been fully resolved for over-the-counter transactions. Codes for financial

Transactions in relation to the trading of loan portfolios are included in other investment. An annual survey of non-bank enterprises is carried out for external assets and liabilities.

8.3 Deviations from agreed definitions

Interest is not accrued.

8.4 Gaps

For portfolio investment flows (outward), information is not available for investments made directly with non-residents, i.e. carried out through either a non-resident broker or a bank.

8.5 Intended harmonisation

The Bank of Greece uses ISIN codes in its system. In addition, all resident stockbrokers, mutual funds and investment companies have to submit monthly supplementary information on both inward and outward portfolio investment transactions to the Bank of Greece.

The issue of recording accrued interest for bonds and zero coupon bonds is currently under investigation and being discussed by the ECB's Working Group on Balance of Payments and External Reserves Statistics.

8.6 Estimation methods

None.

derivatives are included in the general reporting system, as well as in the annual stock survey system. Income on financial derivatives (i.e. interest rates swaps) is recorded under financial derivatives.

9.2 Definitions

See Sub-section 9.1.

9.3 Deviations from agreed definitions

See Sub-section 9.1.

9.4 Gaps

See Sub-section 9.1.

9.5 Intended harmonisation

See Sub-section 9.1.

9.6 Estimation methods

None.

10 Other investment**10.1 Specific features of data collection**

The collection system for data on loans relies on the information declared to the Bank of Greece. Data for loans issued by the general government sector are not problematic, as are data for the banks sector, which are carefully checked for consistency with money and banking statistics. Data on loans from the non-banks sector are not problematical either if the loan is made via a resident bank. However, data are more difficult to capture if the loan is made by a resident directly with non-resident bank. If the resident does not ask a resident bank to “service” these loans, the loans cannot be recorded, as the customer has not declared them. An annual survey was first launched in 1998 (data for 1996 and 1997) to record the outstanding debt liabilities of the non-banks sector and has been repeated every year since then. To this end, a questionnaire is sent to a sample population that now includes more than 1,200 resident enterprises. The quality of data seems to be high.

Trade credit data are also collected through the above-mentioned annual survey.

In line with ECB requirements, the sectoral breakdown is available on a monthly basis, as is the breakdown by maturity for the MFI sector. The breakdown by instrument is available at quarterly frequency.

10.2 Definition

In principle, the Bank of Greece complies with the recommendations set out in the BPM5 and the harmonisation proposals made by the former Task Force on Financial Flows and Stocks.

Data for trade credits are reported under other investment.

Both “genuine” repurchase agreements at a fixed price on a fixed date as well as sell/buy-back transactions are recorded. Although lending against collateral is currently more significant, repo activities are expanding; evidence points to the predominance of monthly maturities.

10.3 Deviations from agreed definitions

None.

10.4 Gaps

Deposits: there is a gap in the data for the non-banks sector (on the assets side). BIS data are used to compile the annual i.i.p.

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10.5 Intended harmonisation

Quarterly data available from the BIS are used as a proxy to cover the gap in the data for the assets of the non-banks sector.

10.6 Estimation methods

There are no quarterly estimates for the other investment account.

11 Reserve assets

11.1 Specific features of data collection

The information is obtained from the Foreign Exchange Department of the Bank of Greece. A breakdown by instrument is available on a monthly basis.

11.3 Deviations from agreed definitions

None.

11.2 Definition

The Bank of Greece complies with the recommendations set out in the BPM5 and the Eurosystem's harmonisation proposals.

11.4 Gaps

The Bank of Greece complies with the ECB Recommendations regarding reserve assets.

11.5 Intended harmonisation

None.

12 International investment position

12.1 Specific features of data collection

The collection system of the Bank of Greece is based on pure stock data stemming from annual surveys for FDI and other investment and quarterly surveys for portfolio investment (custodians, banks, etc.).

Stock statistics are compiled for all items:

- portfolio investment stock statistics are compiled on a quarterly basis using data from custodians, private banking departments of MFIs, stockbrokers, mutual funds and investment companies;
- FDI statistics are compiled once a year on the basis of an annual survey based on a register;
- loan liabilities for general government and other sectors are compiled once a year on the basis of data from the Bank of Greece and an annual survey sent out to private sector firms;
- MFIs' external assets/liabilities are compiled on the basis of data included in

the monthly bank balance sheet statistics of the Bank of Greece's Money and Banking Division;

- BIS data are used for various purposes.

The Bank of Greece has no significant problems in providing a breakdown by sector or by instrument. For the geographical breakdown, similar problems are encountered as for the flows: assets can be allocated according to the issuer, but liabilities can only be allocated according to the first known counterpart.

Timeliness problems do not seem to arise for most items, with the possible exception of FDI stocks.

Greece did not participate in the 1997 IMF Co-ordinated Portfolio Survey, as the data did not seem to be of good quality, but will submit data for the 2001 survey. Data on inward investment are of better quality and coverage than data on outward investment (timeliness: quarter plus six to eight weeks).

12.2 Definitions**12.2.1 General**

The coverage and the concept are broadly in line with the appropriate position of the quarterly/annual b.o.p. position of the financial account. The definitions are in line with the recommendations in the BPM5 and those of the Working Group on Balance of Payments and External Reserves Statistics (former Task Force on Financial Flows and Stocks).

For the reconciliation adjustment, the changes in stock positions are compared with transactions, taking into account valuation adjustments.

The valuation is based on:

- (i) market values for equity;
- (ii) nominal values for bonds and Treasury bills, since the secondary market has only just developed; and
- (iii) book values for FDI stocks; where possible market values are used for companies quoted on the stock exchange.

12.2.2 Direct investment

The directional principle is followed and reinvested earning are included.

12.2.3 Portfolio investment

See Sub-section 12.2.1.

13 Administration**13.1 Titles of publications**

Provisional Balance of Payments with Summary Report (monthly) – this is a Press Release in which the monthly figures are published, together with a report to explain

12.2.4 Financial derivatives

See Sub-section 12.2.1.

12.2.5 Other investment

See Sub-section 12.2.1.

12.2.6 Reserve assets

No major discrepancies occur when compiling reserve assets from Bank of Greece balance sheets.

Reserve assets data provided by the Foreign Exchange Department are valued at market prices.

12.3 Deviations from agreed definitions

None.

12.4 Gaps

None.

12.5 Intended harmonisation

None.

12.6 Estimation methods

None.

developments; (these data are published in €millions);

Monthly Statistical Bulletin – the data presented here are shown in a more analytical breakdown;

Chapter 4.4 Greece

Bulletin of conjunctural indicators – monthly;
Quarterly Economic Bulletin – also details
recent b.o.p. developments;
Monetary policy – bi-annual report submitted
to Parliament:
Governor’s Annual Report.
Budget statement – Annual-details recent
b.o.p. developments together with an analysis.

The monthly statistical bulletin, the bulletin
of conjunctural indicators and data under the
SDDS programme, with the press release,
are available in the website of the Bank of
Greece: bankofgreece@otenet.gr.

13.2 Contributors

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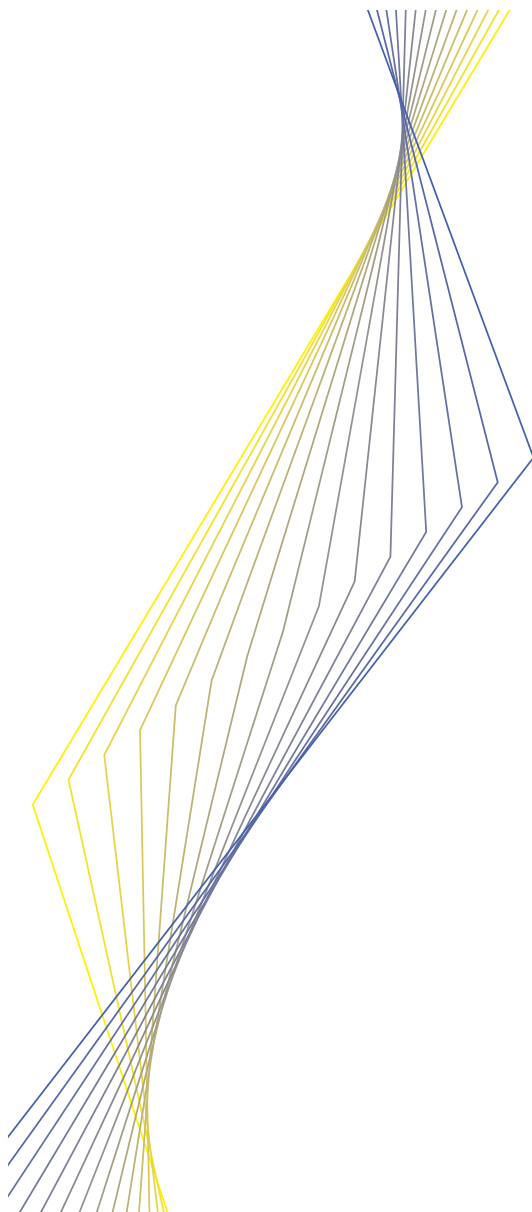
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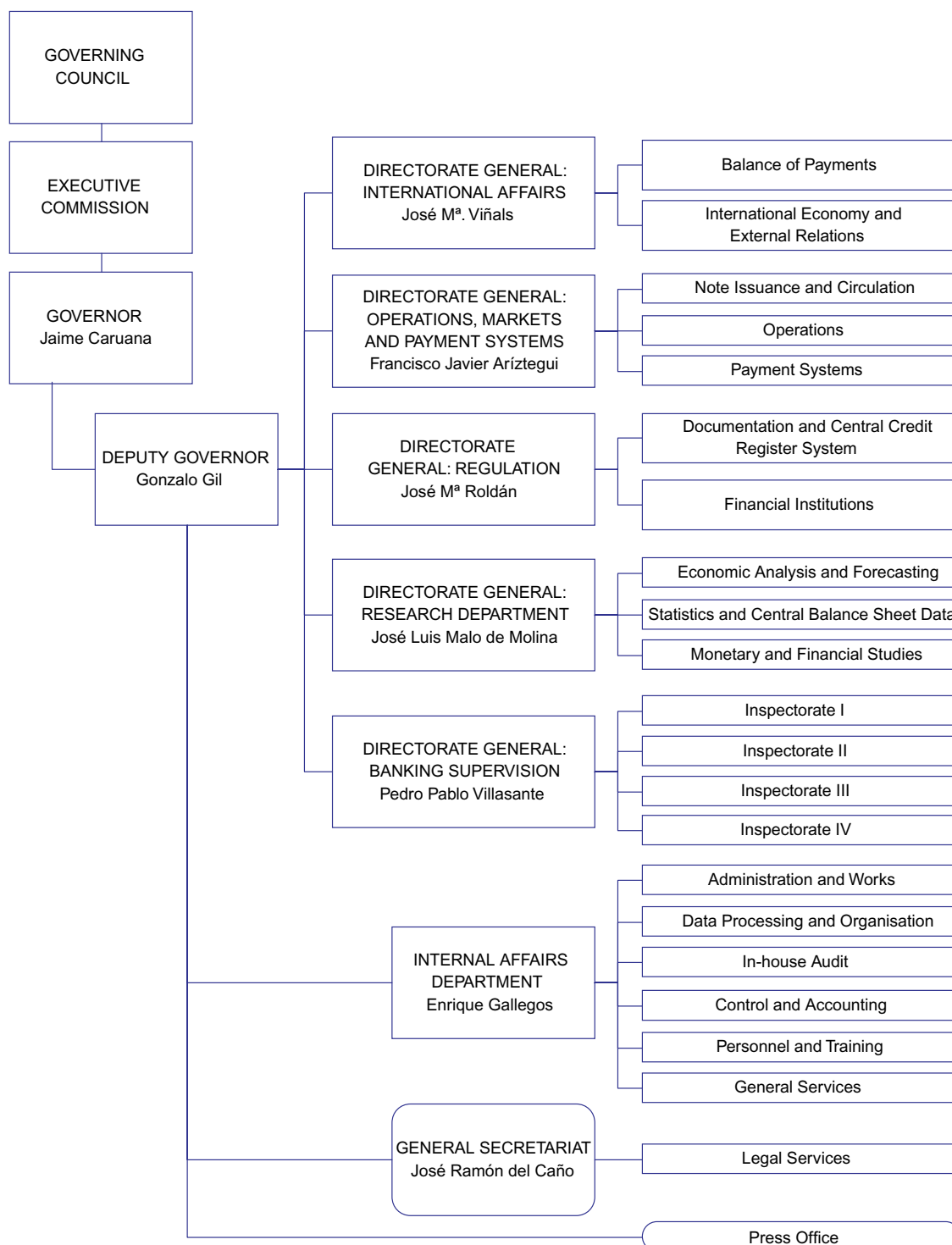
EUROPEAN CENTRAL BANK



Spain

November 2002

I Organisation chart(s)



2 Institutional aspects

2.1 Introduction

The Banco de España has been responsible for compiling the balance of payments (b.o.p.) statistics since 1991. Before then, their compilation was the responsibility of the Secretary of State for Trade at the Ministry of Economics and Finance. After the full liberalisation of cross-border economic transactions in 1992 and the publication of the new Balance of Payments Manual (5th edition) of the International Monetary Fund (IMF), the BPM5, a completely new b.o.p. data collection system was introduced in 1993.

2.2 Legislative provisions

All residents in Spain are obliged, by Royal Decree, to declare all cross-border transactions they undertake. This is for fiscal and administrative reasons as well as for statistical purposes. The Banco de España, in turn, is responsible for declaring this information to the fiscal authorities.

The Royal Decree and circulars regulate the b.o.p. reporting obligations in a uniform manner. The burden of reporting is therefore equal for banks and all direct reporters. The legal basis provides the possibility of imposing sanctions on individuals and companies which do not fulfil their obligations to report on b.o.p. transactions. The sanctions imposed are of an administrative nature and take the form of a fine. Credit institutions can also be fined by the Banco de España whenever they fail to comply with the general rules imposed by the central bank.

2.3 Internal organisation

Generally, all statistics produced by the Banco de España are compiled by the Research Department, which consists of four sections: the Economic Analysis and Forecasts Section, the Statistics and Central

Balance Sheet Office Section, the Economic Research Section and the Monetary and Financial Research Section. The Balance of Payments Section, however, is not part of the Research Department; rather, it is located in the International Affairs Department.

The Balance of Payments Section co-operates continuously with the other departments of the Banco de España. Information obtained from the Book-entry Department enables the accruals principle to be applied to the interest paid by the Treasury on registered bonds and notes. The Statistics and Central Balance Sheet Office Section, which produces data for the national accounts (financial accounts), and the Balance of Payments Section work together on a regular basis to check that the figures produced for the national accounts are reconciled with the b.o.p. figures.

2.4 External co-operation

The Balance of Payments Section consults the Government Customs Department, which provides figures for merchandise – foreign trade (intra-EU and extra-EU trade). A tape is provided on a monthly basis and adjustments to these data are carried out within the Banco de España. This is one-way traffic – the Balance of Payments Section does not provide data to the Customs Department. The trade statistics represent transaction data.

In the past, the involvement of the Ministry of Economics and Finance was primarily for exchange control reasons, whereas it is now for purely statistical purposes. The Banco de España uses some data provided by the Ministry for flow figures on direct investment.

Co-operation with the National Institute of Statistics (NIS) is continuous, since the Rest of the World (RoW) account is compiled by the Institute using b.o.p. data as a source.

The Spanish National Stock Market Commission (CNMV) provides information on companies quoted in the stock markets, which is used for flow figures on direct investment.

The Spanish Treasury provides detailed information on payments between Spanish institutions and the European Union which makes it possible to differentiate between current and capital transfers.

3 Statistical system

3.1 Type of collection system

The Banco de España introduced a new data collection system in 1993. It is described as a “semi-closed settlement system”. The general reporting system is fully closed: all changes in the external accounts of banks or non-banks are explained by the full reporting of transactions (flows). The balance of external accounts at the beginning of the period plus the transactions during the period equal the balance at the end of the period. The general reporting system is complemented by other sources:

- data on trade/goods are obtained from the Customs Department;
- data on government transactions (public transfers) are reported directly;
- the accruals principle is applied to the interest paid by the Treasury on registered bonds and notes, using information obtained from the Book-entry Department of the Banco de España.

Further sources such as the supervisory reports of Monetary Financial Institutions (MFIs) are used for checking purposes and also to:

2.5 Users

B.o.p. data according to the standard components of the BPM5 are supplied to international organisations, such as the ECB, the European Commission (Eurostat), the Organisation for Economic Co-ordination and Development (OECD), the IMF and the Bank for International Settlements (BIS), on a regular basis. Data are now transmitted to the ECB and the European Commission (Eurostat) using the GESMES/CB message format. The same applies to other organisations such as the IMF and the BIS, provided that they have agreed upon its use.

- obtain the geographical breakdown of MFIs’ other investment; and
- transform the reported net figures of the correspondent accounts of MFIs into gross figures.

The Banco de España is waiting for the establishment of the Centralised Securities Database (CSD) which will be used to produce the split between euro area and non-euro area transactions in securities. Finally, all news available via public information systems (press) and relevant for b.o.p. purposes is used to check the b.o.p. returns. The BIS database is not used at present.

The Banco de España has started a process to complement and, in due course, replace the collection system currently in place. The design of the new system has not yet been completed, but some features can already be described: information on services will probably be collected from ad-hoc surveys carried out by the Spanish Statistics Institute (INE), and information on traded securities will be collected using a new system based on indirect security-by-security reporting through custodians and financial intermediaries that is being set up under Banco de España Circular 2/2001 and is currently in the implementation phase.

3.2 Reporting agents

- (i) Deposit money institutions: these institutions are banks, savings banks and credit co-operatives. They must report the transactions with non-residents carried out both on their own account and on behalf of their customers, in accordance with Banco de España Circular 15/1992. Data submitted by this group of reporting agents should include the opening and closing balances of the accounts, the credits and debits of which are the counterpart of the reported flows. Hence the change in the resulting balance must be equal to the sum of the individually declared flows. The plausibility of the data is checked against balance sheet data.
- (ii) Other financial institutions registered with the Banco de España or the Spanish National Stock Market Commission: these institutions are specialised lending institutions, agency brokers and broker-dealers. They must declare all transactions carried out on their own account and on behalf of their customers (Circular 15/1992).
- (iii) Holders of accounts with non-resident credit institutions: these account holders must report the opening and closing balances of their accounts and all operations settled through them to the Banco de España (Circular 24/1992).
- (iv) Inter-company accounts with non-resident firms are becoming increasingly important. All transactions through these accounts must be reported directly to the Banco de España (Circular 24/1992), together with the opening and closing balances of these accounts and the transactions debited or credited through them (Circular 24/1992).
- (v) Clearing transactions with non-residents: Clearing means any operation that does not give rise to a settlement via credits or debits on a bank or inter-company

account, since it involves a receipt and a payment of the same amount with opposite signs. Residents who carry out such transactions must report them directly to the Banco de España (Circular 6/2000).

- (vi) Foreign lending and borrowing by residents other than credit institutions: Spanish residents who carry out such transactions must report the terms of the loans or private issues to the Banco de España. This also includes the relationship between the lender and the borrower (Circular 6/2000).

3.3 Thresholds

The reporting threshold for banks and direct reporters (foreign bank account holders or inter-company accounts) is not an exclusion threshold, but a simplification threshold. For banks, the amount (EUR 12,500) refers to individual transactions: only receipts and payments exceeding this amount are reported individually and the nature of the transaction specified. For direct reporters, the amount (€3 million) refers to the total transactions settled through the foreign account in any given month: if these transactions exceed €3 million, the account holders have to report them. If not, there is no obligation to report them in that particular month, and the transactions are reported in the following month (if the threshold is exceeded), or at the end of the year (if the threshold was not reached in any month). Only if the total amount of the transactions settled in the year is less than €600,000 are direct reporters not obliged to report them.

3.4 Availability of data

At the beginning of 1993 the Banco de España was aware of the requirements of the new BPM5 and it took advantage of this when preparing the new data collection system. Soon after the new data collection system

Table I
Reporting scheme for b.o.p. and i.i.p. data collection for Spain

Target respondent population (e.g. MFIs, enterprises, etc.)	Name of reporting form	Contents of reporting form	Frequency of reporting	Timeliness (number of days for submission after the end of the reference period)
Banks and other financial institutions acting on behalf of clients.	No name – electronic format	-Date -Identification of the resident. -Concept (code). -Country of the non-resident -Currency -Amount -Issuer identification (if applicable) -ISIN code (if applicable) -Some other fields for internal purposes.	- 10 days.	- 8 working days.
Residents holding accounts abroad and intercompany accounts	DD-2	-Date -Currency -Amount -Concept (description) -Country of the non-resident -Issuer identification (if applicable) -ISIN code (if applicable) -Some other fields for internal purposes.	- Monthly.	- 20 days.
Residents concluding off-setting transactions with non-residents	CP-1	-Date -Currency -Amount -Concept (description) -Name and country of the non-resident -Issuer identification (if applicable) -ISIN code (if applicable) -Some other fields for internal purposes.	- Transaction by transaction.	- 1 month.
Residents undertaking lending transactions with non-residents.	CC-1, CC-2, PE-1 PE-2, PE-3 and PE-4	-Date -Currency -Amount -Concept (description) -Name and country of the non-resident -Relationship between resident and non-resident (ID relationship) -Repayment date, interest rate. -Some other fields for internal purposes.	- Loan by loan.	- 1 month

was introduced, the Banco de España published b.o.p. figures in accordance with the requirements of the revised Manual and sent data translated into the new format to the international organisations. Data were sent to the IMF on all three accounts (including financial derivatives), from 1991 onwards.

3.5 Timeliness

At present, a complete set of data, including goods data supplied by the Customs Department, are available within nine to ten weeks. Goods data for the provision of the monthly b.o.p. within six weeks are estimated by the Banco de España (see Sub-section 4.2.1 below).

Banks and other financial institutions have to submit their data within 10 working days of the reporting period. Other residents (account holders or clearing transactors) have 20 and 30 calendar days respectively after the end of the reporting period to submit their data. In some cases reporting agents experience difficulties in meeting these deadlines. The Banco de España has ongoing contact with reporting agents as data are submitted every 10 days. The Banco de España intends to receive these data in a more automated way.

3.6 Compilation frequency

The Spanish b.o.p. is compiled on a monthly basis.

3.7 Data controls

There are three levels of checking controls which can be distinguished. First, a fairly complete set of validity and consistency checks has been defined that are executed on the data by automatic procedure. Second, controls on the aggregate data are carried out by means of macro-editing reports based on expected values. Unexpected results are checked, so that flows contributing to any suspicious figures are analysed and banks are asked to justify or correct them. Third, a set of plausibility checks is performed on the data where the aggregated data reported by the banks are compared with the data reported on the balance sheets of the banks or with other data sources.

3.8 Revision policy

In Spanish publications monthly data are revised as follows:

- when data for the current month are published, data for the preceding month are revised;
- in January (i.e. when the December data are revised), data for the previous 23 months can also be revised.

4 Monthly balance of payments

4.1 Availability of monthly b.o.p. data

The Banco de España can provide monthly euro area b.o.p. data in accordance with the requirements for the monthly b.o.p., including the euro area/non-euro area breakdown. Data for the monthly b.o.p. are available, with the exception of data on goods, within five to six weeks. Since the customs data for goods become available at a later stage, the Banco de España has to estimate preliminary data for the goods item.

Coverage of banks and other financial institutions reporting directly to the BOP Department is always 100%. Data on

There is no differentiation between monthly, quarterly and annual figures in Spanish publications.

In the context of changes in the compilation system mentioned in Sub-section 3.1 above, and given the need to harmonise revision policies across the EU, the Banco de España intends to adapt its revision policy to the new circumstances in the next years.

3.9 Publication

The titles of the publications produced by the Banco de España on b.o.p. statistics are listed in Sub-section 13.1.

B.o.p. data are used internally by other units of the Banco de España as well as by other institutions to compile statistics and to carry out studies. Mostly, b.o.p. data are used for various purposes and only in some specific cases (i.e. national accounts) do they serve a specific purpose.

The dissemination follows the Special Data Dissemination Standards (SDDS) criteria. The Spanish b.o.p. data, together with the date of their release, are available on the Internet ([HTTP://www.bde.es/infoest](http://www.bde.es/infoest)).

residents holding accounts or having off-setting transactions, which is reported with a delay, are not estimated, and the information is incorporated when it is received, so that it is reflected in the data revisions.

4.2 Estimation methods for monthly b.o.p. data

4.2.1 For goods

Except for goods and some breakdowns in other investment of MFIs, the Spanish monthly b.o.p. data are reported as flows without any estimations.

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Data on trade in goods are, in principle, derived from customs data based on transactions on an f.o.b. basis. B.o.p. compilers adjust these data further by (i) adding merchandise not crossing the frontiers, (ii) adjusting for rebates and discounts, and (iii) adding goods procured in ports (only for debits) and (iv) adjusting non-responses.

The concept of economic territory followed by the Banco de España includes the Canary Islands, Ceuta and Melilla.

Data from 1990 onwards are compliant with the BPM5 standards in force since 1993.

When data are not available on time, estimations are made, using the ARIMA model. The seasonal pattern of the settlement data is applied to the transactions. The number of revisions to be carried out depends on the Customs Department. Usually data are revised once a year.

The euro area/non-euro area split of transactions depends on the countries reported in the Intra-Community Trade Statistical System (Intrastat) or customs documents. Since the data referring to January 1998, the Banco de España has been following the principle of country of consignment. Spain applies the “special trade” principle, meaning that goods placed in bonded warehouses within the national territory of the reporting country and exports of goods previously kept in bonded warehousing are excluded from the b.o.p. statistics.

There is not special treatment for military goods. They are treated and allocated geographically as other goods.

Transactions in goods under special Community programmes (for example, the participation of a resident company CASA in Airbus) between resident companies and the projects themselves are treated as transactions between residents and non-residents, and included in the goods items where appropriate. Geographical allocation

is usually effected according to the countries participating in the project. Consequently, if all countries are euro area members, transactions are allocated intra-euro area; if there are countries that are EU Member States, but non-euro area members, they are allocated to intra-EU 15, extra-euro area. (The financial contributions of Spanish residents to such projects are included in the financial account as direct investments as the percentage of participation is usually higher than 10%).

For imports, a c.i.f./f.o.b. adjustment is carried out by applying a rate of 4.5% to the c.i.f.-based imports.

4.2.2 For services

Financial services are included in the current account. They are compiled using the general reporting system, so that most of the payments and receipts are included.

4.2.3 For investment income

The monthly flows for the investment income account are mainly based on settlement data, with the exception of the income accrued by non-resident holdings of bonds and notes registered at the Book-entry Department of the Banco de España. In the case of Spain, monthly and quarterly data are fully consistent. Thus, no forecasts are produced in this area and the accruals principle is followed in the same way as for the quarterly b.o.p.

With regard to the geographical allocation of portfolio investment income, Spain is able to break down the inflows according to the debtor principle (subject to the limitations mentioned in Sub-section 8.1 below), and is thus able to identify the actual residency of the counterpart, as is required. No final counterpart can be identified for outflows of portfolio investment income.

No estimates are made in the event of data not being available on time.

4.2.4 For direct investment

There are no monthly estimates in the field of direct investment income.

4.2.5 For portfolio investment

The collection of monthly data takes place on a security-by-security basis. Book-entries for registered general government bonds and notes are used to apply the accruals principle to income on these instruments. No modelling is used.

With regard to the estimation of the geographical breakdown, the situation is similar to that described in Sub-section 8.1 below. While the actual residency of the debtor can be identified on the assets side

(based on the first two digits of the ISIN code), the main problems of correct allocation are on the liabilities side and in the identification of the creditor's residency.

4.2.6 For financial derivatives

Only reported flows are included. No estimates are made.

4.2.7 For other investment

Banking supervision reports are used to make the euro area/non-euro area split of MFIs' flows and to translate some of the reported net flows into gross figures (see also Sub-section 3.1).

5 Investment income**5.1 Specific features of data collection****5.1.1 General**

Part of the general reporting system (see Sub-section 3.1). Neither stock statistics nor surveys are used.

Realised gains and losses are generally recorded correctly in the financial account. Income on financial derivatives (i.e. interest swaps) is included in the financial account, even for periods before January 1999.

Dividends are recorded as of the date they are paid.

Data for 1998 and 1999 are fully consistent. For previous years, the use of the International Securities Identification Number (ISIN) code is not possible, and the euro area/non-euro area split of the MFI sector in other investment and its income component is not available. For the historical data on all other components, a geographical breakdown is available on a monthly basis.

Adjustments or reconciliations between monthly, quarterly and annual figures are not necessary since no estimates are carried out for monthly data, in particular, and there should thus not be any inconsistencies.

The geographical allocation of investment income for both credits and debits is generally based on the debtor-creditor principle, except for portfolio investment income (see Sub-section 5.1.3). The main problems concern the income component of portfolio investment liabilities and the income on other investment of MFIs.

No bias towards the under-recording of credits can be seen with regard to the income account.

5.1.2 Income on direct investment

With regard to income on equity, the Banco de España does not currently include any reinvested earnings in the b.o.p. Income is registered when it is paid. No rate of return on stocks is calculated.

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Regarding income on debt, interest on inter-company loans is recorded appropriately owing to the fact that all loans are reported directly to the Banco de España, which can separately identify inter-company loans and the corresponding income transactions. This also applies to income on trade credits between affiliates.

5.1.3 Income on portfolio investment

The return on income on debt is not usually calculated on the basis of stocks (see also the remarks in Sub-section 5.1.1), except in the case of general government registered bonds and notes. Income on specific types of bonds (i.e. indexed bonds) is recorded when amounts paid or received are registered.

Accrued interest from the date of the last coupon payment to the date on which the transaction takes place is registered as part of the price of the bond and “coupon washing” distortions are eliminated by recording the income on these bonds and notes on an accruals basis.

Income related to money market instruments is not well-covered; however, the amounts are not significant in the Spanish b.o.p. Accruals are not applied to these instruments.

The impact of taxation issues on portfolio investment income are difficult to assess.

With regard to the geographical breakdown of income on portfolio investment, Spain is able to break down the inflows according to the debtor principle, based on the first two digits of the ISIN code, and thus to identify the actual residency of the counterpart. The issuer principle can consequently be applied in a way similar to the treatment of portfolio investment in the financial account. However, this principle is less efficient as a result of the absence of a Centralised Securities Database (see Sub-section 8.1 below). No final counterpart can be identified for the outflows of portfolio investment income.

5.1.4 Income on other investment

Reported flows on the share of interest in leasing payments are included under income on other investment.

Data on income on reserve assets are provided by the Foreign Department.

5.2 Definitions

Apart from the fact that it does not take into account reinvested earnings for income on equity, the Banco de España complies with the recommendations of the BPM5 and the harmonisation proposals made by the Working Group on Balance of Payments and External Reserves (the former Task Force on Financial Flows and Stocks).

5.3 Deviations from agreed definitions

See Sub-section 5.1.2 concerning the recording of reinvested earnings.

5.4 Gaps

Reinvested earnings in direct investment income. With regard to income on collective investment institutions (CIIs), Spain registers only the part of the dividends paid.

5.5 Intended harmonisation

None.

5.6 Estimation methods

Accruals are estimated only for income on Spanish general government registered bonds and notes, using the daily stock data available from the Book Entry for Public Debt Department.

6 Capital account

6.1 Specific features of data collection

A specific issue is related to the recording of the principal and return of the sales of UMTS licences which should, in principle, be reflected in the capital account. However, since these transactions are usually channelled via direct investment companies (i.e. a non-resident buys UMTS licences via its Spanish affiliate), such transactions have, so far, been recorded under direct investment.

- for transfers with the EU institutions, allocation takes place according to the agreements reached by the European Commission (Eurostat);
- for other transfers, reporting agents allocate according to the instructions given by the Banco de España.

6.3 Deviations from agreed definitions

None.

6.2 Definition

Adaptation to the new requirements was accomplished at an early stage in most areas. The following criteria for distinguishing between current and capital transfers are applied:

6.4 Gaps

None.

6.5 Intended harmonisation

None.

7 Direct investment

7.1 Specific features of data collection

This forms part of the general reporting system (see Sub-section 3.2) from which mainly settlement data are derived. Furthermore, the Banco de España uses some data provided by the Ministry of Economics and Finance to obtain flow figures on direct investment. This information allows the Banco de España to estimate foreign direct investment in Spain in the form of quoted shares (these data are not available in the settlement system, in which all investments in listed securities are reported as a lump sum). Moreover, information provided by the Ministry is used to produce the breakdown of direct investment flows by resident economic activity and for the purpose of checking other data sources. However, this issue and other methods of obtaining this breakdown are under consideration.

Historical data for 1998 are fully in line with 1999 data; there are no methodological breaks in the time series.

All inter-company loans are covered, except those short-term trade credits which are not effected via inter-company accounts. Transactions in equity contributions without payments may not always be fully covered, although there is an obligation to report this kind of transaction, whether in the form of real or of financial assets, to the Banco de España.

The geographical breakdown is based on the residency of the actual issuers on the assets side and the first known counterpart on the liabilities side.

Transactions settled through an exchange of shares are recorded at the time when the exchange of shares takes place.

The valuation of transactions settled through an exchange of shares is based on the agreed price, or on the market prices at the time of the exchange, if no price has been agreed.

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7.2 Definition

With the exception of reinvested earnings, the Banco de España complies with the recommendations of the BPM5 and the harmonisation proposals made by the Working Group on Balance of Payments and External Reserves. Special purpose entities are treated as recommended in the BPM5. Furthermore, all cross-border transactions in real estate are covered.

7.3 Deviations from agreed definitions

The main deviation is the absence of reinvested earnings. Difficulties are encountered in the identification of some transactions as direct investment such as: (i) debt securities; (ii) cross-participations of less than 10% (mostly included in portfolio investment); and (iii) foreign direct investment in Spain through the acquisition of listed shares.

8 Portfolio investment

8.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2).

All transactions in securities are reported with the ISIN code. The first two digits are used to make the euro area/non-euro area split for assets. Only in the case of “matador” bonds is the country, as indicated in these first two digits, corrected. The ISIN code is only available from 1998 onwards. Stock data are not used to calculate flows.

No ISIN Security Database is available at the national level. The Banco de España is currently awaiting the establishment of a centralised securities database which would ensure the correct allocation of assets, provided that all Member States participated, and foster further harmonisation of data.

The geographical allocation criterion follows the issuer principle on the assets side (subject

7.4 Gaps

No information is available on reinvested earnings.

7.5 Intended harmonisation

There is no intention to introduce a different collection system or a new survey on direct investment (stocks). The new system for reporting foreign investment to the Ministry of Economics and Finance could be used for compiling direct investment figures (a new Royal Decree was issued in April 1999).

7.6 Estimation methods

There are no quarterly estimates for the direct investment account.

to the limitations mentioned in the first paragraph of this Chapter), meaning that the actual residency of the counterpart can be identified. This geographical breakdown is available on a monthly basis from 1998 onwards. Liabilities are allocated according to the first known counterpart. This is also in line with the allocation of the income item for portfolio investment (see Sub-section 5.1.3, last paragraph).

On the liabilities side, payments associated with transactions via financial centres (intermediaries as well as investment funds), international custodians and lead managers are allocated to the relevant country of the financial centre, etc. The same applies to payments to international clearers (i.e. Euroclear or Clearstream) where no more detailed identification of the security holder is possible. Consequently, many transactions on the liabilities side are allocated to Luxembourg and Belgium.

Trading in loan portfolios is not captured in the portfolio account; the collateral deposits are included in the Spanish b.o.p., as other investment.

The Banco de España has noticed an increase in securitisation and the use of repurchase agreements and bond lending.

The Banco de España is developing a new reporting system on traded securities based on information from domestic custodians and other resident investors who deal directly with non-resident custodians (see Sub-section 3.1 above).

8.2 Definition

In principle, the Banco de España complies with the recommendations of the BPM5 and the harmonisation proposals made by the Working Group on Balance of Payments and External Reserves.

MFIs are required to exclude any kind of financial service (i.e. service charges, fees, and commissions) from their reporting under portfolio investment.

Money market instruments cannot be identified separately by type of instrument,

9 Financial derivatives

9.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2).

Within the Spanish b.o.p., financial derivatives capture options issued over-the-counter (OTC) or on organised markets, financial futures issued on organised markets, warrants on securities, OTC futures contracts, forward rate agreements, currency and interest rate swaps and other swaps. The treatment of financial derivatives as recommended by the BPM5 is virtually impossible to achieve in all cases.

but are reported under one heading. Income related to these instruments is not well-covered and accruals are not applied (see also Sub-section 5.1.3).

8.3 Deviations from agreed definitions

None.

8.4 Gaps

None.

8.5 Intended harmonisation

The ISIN is regarded as a possible means of improving the quality of the data. However, the correct use of the ISIN requires a centralised securities database.

8.6 Estimation methods

There are no quarterly estimates for the portfolio investment account.

Payments and receipts associated with transactions involving derivatives are reported to the Banco de España according to the different concepts for each type of instrument. The instruments are listed in the reporting instructions issued by the Banco de España to the MFIs. When payments are on a "net" basis, the MFIs are asked to report all the transactions involved, implying that the underlying payments and receipts are included in the financial derivatives account of the Spanish b.o.p.

The reporting instructions also stipulate that the reporting agents have to separate the

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margins to be included in deposits from those to be considered as financial derivatives. Although the terminology “option style” and “future style” is not used, the result should be the same.

The premium for options is recorded.

Gross data (credits and debits) are available, but they are not checked since only net data are published.

A geographical breakdown for derivatives is, in principle, available. For OTC contracts, the actual residency of the counterpart can be reported. However, if clearing houses are involved in derivatives transactions, identification of the actual residency of the counterpart is impossible. In this case, the Banco de España can only distinguish between the transactions of Spanish clearing houses and those of foreign clearing houses. There are no major problems when derivatives are reported as “net of nets”.

9.2 Definitions

The coverage of the financial derivatives item has improved in the Spanish b.o.p. Owing to the specific reporting guidelines for the reporting agents, all deviations from the BPM5 for the recording of transactions in

10 Other investment

10.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2).

As a general rule, actual flows are recorded; however, the geographical breakdown and the transformation from net figures into gross figures are based on the use of stock data. Both the maturity breakdown and the sectoral breakdown can be compiled for the monthly b.o.p.

Discrepancies between loans and deposits for MFIs may cause problems for the b.o.p.

financial derivatives should have disappeared. Nevertheless, reporting agents may still face problems in following the instructions, for instance in cases where options are executed and the underlying instrument is bought or sold.

The net stream of settlement flows associated with interest rate derivatives is recorded correctly under financial derivatives.

9.3 Deviations from agreed definitions

See Sub-section 9.2.

9.4 Gaps

As mentioned in Sub-section 9.1, the main gaps are related to the correct treatment of some transactions.

9.5 Intended harmonisation

None.

9.6 Estimation methods

There are no quarterly estimates for financial derivatives.

compiler, as does the inclusion of financial leasing under loans, instead of under trade credits. Long-term trade credits have to be reported when goods are delivered.

The geographical breakdown of MFIs' transactions is not available for periods before 1998.

Extra-euro area b.o.p. flows for the MFI sector are derived from the MFIs' balance sheets at the beginning and end of period, with an adjustment for exchange rate fluctuations.

Transactions carried out through TARGET are reported under the general reporting system. Usually the MFIs report the concept of the payments/receipts and the Banco de España reports the change in the accounts with the ECB.

10.2 Definition

In principle, the Banco de España complies with the recommendations of the BPM5 and the harmonisation proposals made by the Working Group on Balance of Payments and External Reserves Statistics.

Foreign currency notes and coins, financial leasing, repos and collateral deposits are included under other investment.

All claims and liabilities between affiliated enterprises are recorded correctly under direct investment (see Sub-section 7.1).

Sell/buy-back transactions with Spanish securities (usually maturing within a month) predominate among cross-border repo-type transactions. Conversely, lending with

collateral such as loan portfolio (also included under other investment) is less significant.

10.3 Deviations from agreed definitions

Short-term trade credits are not included and advance payments are included as payments of goods, rather than as trade credits.

10.4 Gaps

No information on short-term trade credits is provided.

10.5 Intended harmonisation

No change is planned to rectify the recording of advance payments as trade credits.

10.6 Estimation methods

There are no quarterly estimates in the field of other investment.

11 Reserve assets

11.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2).

with data from the Foreign Operations Department. In accordance with ECB recommendations financial derivatives are recorded separately and on a net basis. Gold swaps are recorded as repos.

11.2 Definition

The new presentation follows the recommendations of the BPM5 and includes: (i) financial assets that are readily available to the monetary authorities such as gold, special depository receipts and foreign exchange assets; and (ii) the changes seen in reserves, excluding changes in valuation, which are induced by exchange rate or price fluctuations.

With regard to the use of market prices, recording is carried out according to the principle laid down in the ECB recommendations. Both valuation and conversion into euro are made on the basis of the market prices and market exchange rates prevailing at the time of the transaction.

11.3 Deviations from agreed definitions

Pure transactions data broken down by instrument are available since January 2000,

None.

11.4 Gaps

Data availability is unproblematic.

11.5 Intended harmonisation

None.

12 International investment position

12.1 Specific features of data collection

The main statistical sources for the compilation of the i.i.p. are:

- (i) the MFIs' reports to the Supervision Department of the Banco de España. The credit institutions' balance sheets are used directly to obtain the stocks of their financial assets and liabilities vis-à-vis the rest of the world;
 - (ii) the Public Debt Book-Entry System for bonds and notes issued by general government in domestic currency. The Book-Entry System managed by the Banco de España provides information on the portfolio of book-entry general government debt held by non-residents;
 - (iii) the Register of external loans granted and received by resident sectors other than the credit system in the Banco de España's Balance of Payments Division. These statistics are compiled from the administrative accounting documents created to monitor both loans traded by the other resident and general government sectors with non-residents and the issuance of non-marketable securities by residents other than the credit system. The figures obtained from this source cover both loans between related (parent companies and affiliates) and non-related companies and financing obtained through Euronotes, commercial paper and other issuance programmes. Depending on the relationship between the two counterparts involved, each transaction is recorded under either direct investment, portfolio investment or other investment;
 - (iv) the Banco de España's Foreign Operations Department, for reserve assets;
- (v) b.o.p. statistics, which are used to construct the stocks when there are no reliable census statistics on a specific financial instrument, such as portfolio investment of the other resident sector;
 - (vi) the BIS, which prepares a quarterly estimate of the asset position of non-financial resident sectors with non-resident credit institutions;
 - (vii) other sources: the Banco de España has a very detailed databank on securities denominated in both Spanish pesetas and foreign currency which are issued by resident institutions, encompassing data obtained from the Book-Entry System, the National Securities Market Commission (CNMV) and numerous specialised publications.

The data collection system of the Banco de España is based on a combination of pure stock data and the accumulation of flows. The coverage is good, except in the case of reinvested earnings and financial derivatives. In some cases the accumulation of flows may produce deviations from real stocks. In particular, data are derived in one of the two following ways:

- *directly* from the sources of information available, when they provide data on stocks. Some of these stocks are not always valued in accordance with the IMF's guidelines. This has held true of practically all the series of assets and liabilities of the credit system, the data of which come from the accounting statements for each period, Some are valued at historical prices (as is, for instance, direct investment); or

- *by the accumulation of flows.* In those items for which this procedure has been used, unless indicated otherwise, the initial end-1989 stocks have been taken as the starting point. These, in turn, have normally been estimated through the accumulation of flows and corrected – where applicable – for the exchange rate valuation effect, as taken from the b.o.p. on a cash basis, which has been available since 1969, and from b.o.p. data prior to that date (available since 1959). The stocks compiled since 1990 have been obtained by adding the flows of the items of the financial account of the b.o.p., adjusted – where necessary – for exchange rate valuation, to the initial stocks. This adjustment is made by applying the nominal effective exchange rate index of the Spanish peseta against the currencies of developed countries. Moreover, these accumulated flows are corrected for changes in asset prices in those cases in which this effect has been significant.

Apart from differences due to exchange rate and asset price adjustments, the main differences between changes in i.i.p. stocks and b.o.p. flows relate to the different data sources used, especially in the following cases:

- (i) *sector allocation:*
the b.o.p. assigns new flows of resident investment abroad to those sectors which originally acquired the assets involved. However, given the current data collection system, the redistribution of assets which may subsequently take place among the resident sectors is not taken into account. This redistribution is recorded, at least in part, in the stocks of the i.i.p.;
- (ii) *assets and liabilities relating to insurance operations:*
the technical reserves of insurance companies are included in the i.i.p., but are not recorded in the b.o.p.

The Banco de España does not experience any problems with regard to providing end-of-year data within the agreed period of nine months after the end of the respective year; nor does it have any difficulty with the breakdowns by sector or maturity. Nonetheless, it is necessary to emphasise the estimated nature of some of the figures obtained. As there is no updated census of all the financial instruments in which resident agents are the financial counterparts of non-resident units, it has been necessary to compile the information required from various statistical sources, so that a reconciliation of the information supplied by all the sources has not been possible in every case. This is often due to valuation problems and, in many other cases, also to a lack of sufficient detail.

The geographical allocation is affected by the lack of a security-by-security database for the appropriate identification of the end-investor on the liabilities side and the actual country of issuer on the assets side.

Spain participated in the 1997 IMF Coordinated Portfolio Investment Survey. The data were produced by the Ministry of Economics and Finance, which has been conducting a similar survey since 1992 and intends to continue to do so on an annual basis. In addition to the mandatory requirements, Spain submitted data on foreign investment in securities issued by Spanish residents, which were based on information from custodians and end-investors.

Apart from b.o.p. flows, the new collection system for traded securities (see Sub-section 3.1 above) will also provide information on stocks.

12.2 Definitions

12.2.1 General

The definitions correspond, in general, to those in the BPM5. The valuation criteria are

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essentially in line with the BPM5. The exceptions relate to cases where data are based on the accumulation of flows.

In the case of financial institutions, the general valuation criteria provide for:

- assets representing claims on persons or over property to be valued at cost; however, there are certain exceptions:
- assets purchased at a discount, except for marketable securities, have to be recorded at their redemption value. The difference between the amount recorded and the price paid has to be recorded in a balancing account until the assets disappear from the balance sheet. In the case of liabilities issued at a discount (whether securities or other assets), the difference between the redemption value and the amount received when the obligation to a third party is generated is treated in the same way as for assets other than securities issued at a discount;
- securities included in trading portfolios are valued at market prices;
- variable-yield securities not included in trading portfolios have to be valued at cost, adjusted – where applicable – for legally established write-downs or restatements;
- fixed-income securities not included in trading portfolios initially have to be recorded at cost, after the deduction – where applicable – of accrued interest, which has to be recorded temporarily in sundry accounts;
- balances representing payment obligations to be recorded at their redemption value. In the case of liabilities issued at a discount (securities or others), the difference between the redemption value and the amount received when the obligation to a third party is generated is treated in the

same way as for assets other than securities issued at a discount.

At present, no reconciliation adjustment is made between stocks and transactions.

12.2.2 Direct investment

(i) *Spanish investment abroad (residents' financial assets)*

The information under this heading effectively coincides with the provisions of the BPM5. The data on the stocks of the credit system are taken directly from its accounting statements, and those of other resident sectors are obtained, in the case of equity capital, by the accumulation of flows and corrected for exchange rate valuation effects. Other capital data for other resident sectors are obtained from the Register of external loans mentioned in Sub-section 12.1 (iii) above.

(ii) *Foreign investment in Spain (residents' liabilities)*

The information under the heading of equity capital is an approximation to the concept of the BPM5. In principle, as far as shares are concerned, this caption encompasses all shares issued by resident companies which are neither listed nor in the process of listed on the stock exchange and only an estimation of direct investment through listed shares. Therefore, it includes part of portfolio investment through unlisted shares, but that part is of minor importance.

In the case of equity capital, stocks are obtained directly from the balance sheets of the MFIs and, for the rest of resident sectors, by accumulating flows and, given that the majority of these investments are denominated in the national currency, no exchange rate correction is made. Other capital stocks are obtained from the Register of loans mentioned in Sub-section 12.1 (iii) above.

12.2.3 Portfolio investment

- (i) *Spanish investment abroad (residents' financial assets)*

The various instruments included under this heading coincide with those indicated in the BPM5. The credit system data are obtained directly from the respective balance sheets, while those of other resident sectors are obtained through the accumulation of flows which are corrected for exchange rate valuation effects.

- (ii) *Foreign investment in Spain (residents' liabilities)*

The series on equity capital does not fully coincide with the concept of the BPM5, since only an estimation of direct investment in listed shares issued by residents is deducted, as required, from portfolio investment and recorded under direct investment. Furthermore, it excludes part of portfolio investment through unlisted shares, but that part is of minor importance.

The stocks relating to shares issued by the credit system and other resident sectors are obtained through the accumulation of b.o.p. flows. A price correction is applied to the stocks, so as to approximate their value to market prices.

The stocks of fixed income securities in Spanish pesetas are obtained from the following sources: those issued by general government are obtained from the Banco de España's Book-Entry System and are valued at market prices, including accrued interest, while those issued by the credit system and by other resident sectors are obtained through the accumulation of b.o.p. flows.

12.2.4 Financial derivatives

The Spanish i.i.p. does not include data on financial derivatives.

12.2.5 Other investment

This heading includes the various investments indicated in the BPM5.

- (i) *Spanish investment abroad (residents' financial assets)*

Loans from the credit system to non-residents are obtained directly from the balance sheets of credit institutions, while those from other resident sectors are obtained from the Register of loans mentioned in Sub-section 12.1 (iii) above. The data on deposits between credit institutions are taken from the balance sheets of the credit institutions themselves. Those of other resident sectors, up to and including 1993 data, were obtained from the BIS and, thereafter, by adding b.o.p. flows to those initial 1993 stocks, with deposits denominated in foreign currency being corrected for exchange rate valuation effects.

- (ii) *Foreign investment in Spain (residents' liabilities)*

With regard to the statistical sources, the loans received by general government and other resident sectors are obtained directly from the Register of loans mentioned in Sub-section 12.1 (iii) above. The information on deposits and repos is taken from the accounting statements of resident credit institutions.

12.2.6 Reserve assets

As agreed in the report by the Working Group on Balance of Payments and External Reserves Statistics, positions in reserve assets are recorded at the closing mid-market prices at the end of the appropriate period, using the closing mid-market exchange rates prevailing at the reference date. Gold is recorded at the closing market price.

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12.3 Deviations from agreed definitions

Reinvested earnings are not currently included.

its liabilities (except in the case of loans received from abroad). Another important difficulty is the application of the market price principle in accordance with the BPM5.

12.4 Gaps

The main information gaps with regard to the availability of data on stocks are to be found in the non-financial private sector. It is necessary to make estimates of this sector's financial assets (except in the case of its loans and part of its deposits abroad) and of

12.5 Intended harmonisation

None.

12.6 Estimation methods

See Sub-section 12.4.

13 Administration

13.1 Titles of publications

Banco de España's "Boletín Estadístico" (monthly)

Banco de España's "Boletín Económico" (monthly)

The Spanish Balance of Payments (annual)

Banco de España's Annual Report

a general nature should be addressed to the Press Division of the ECB. Enquiries specific to Spain should be addressed to:

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13.2 Contributors

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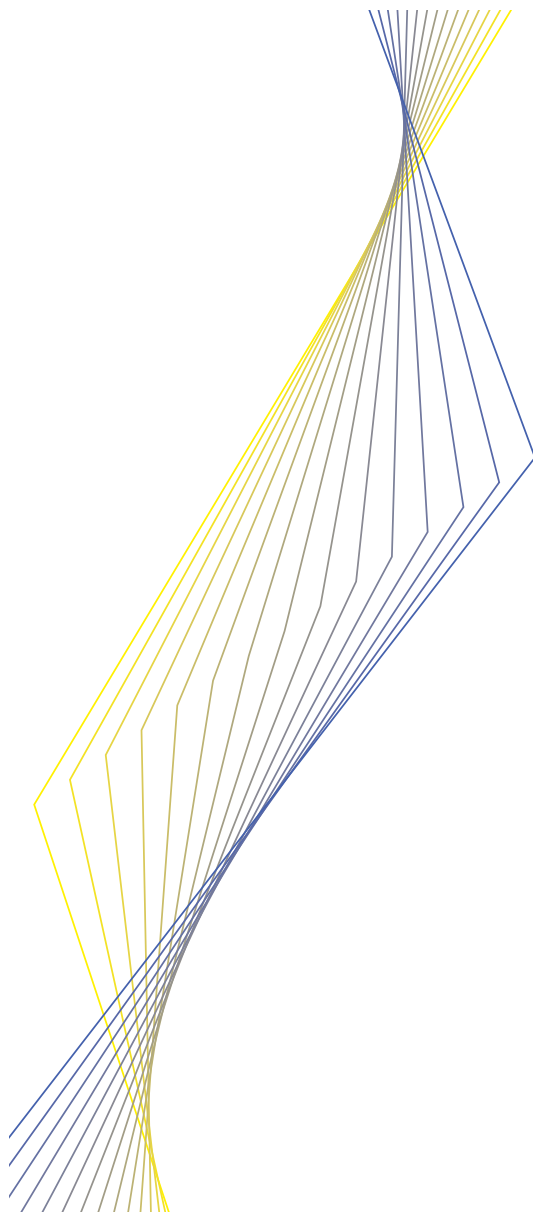
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EUROPEAN CENTRAL BANK

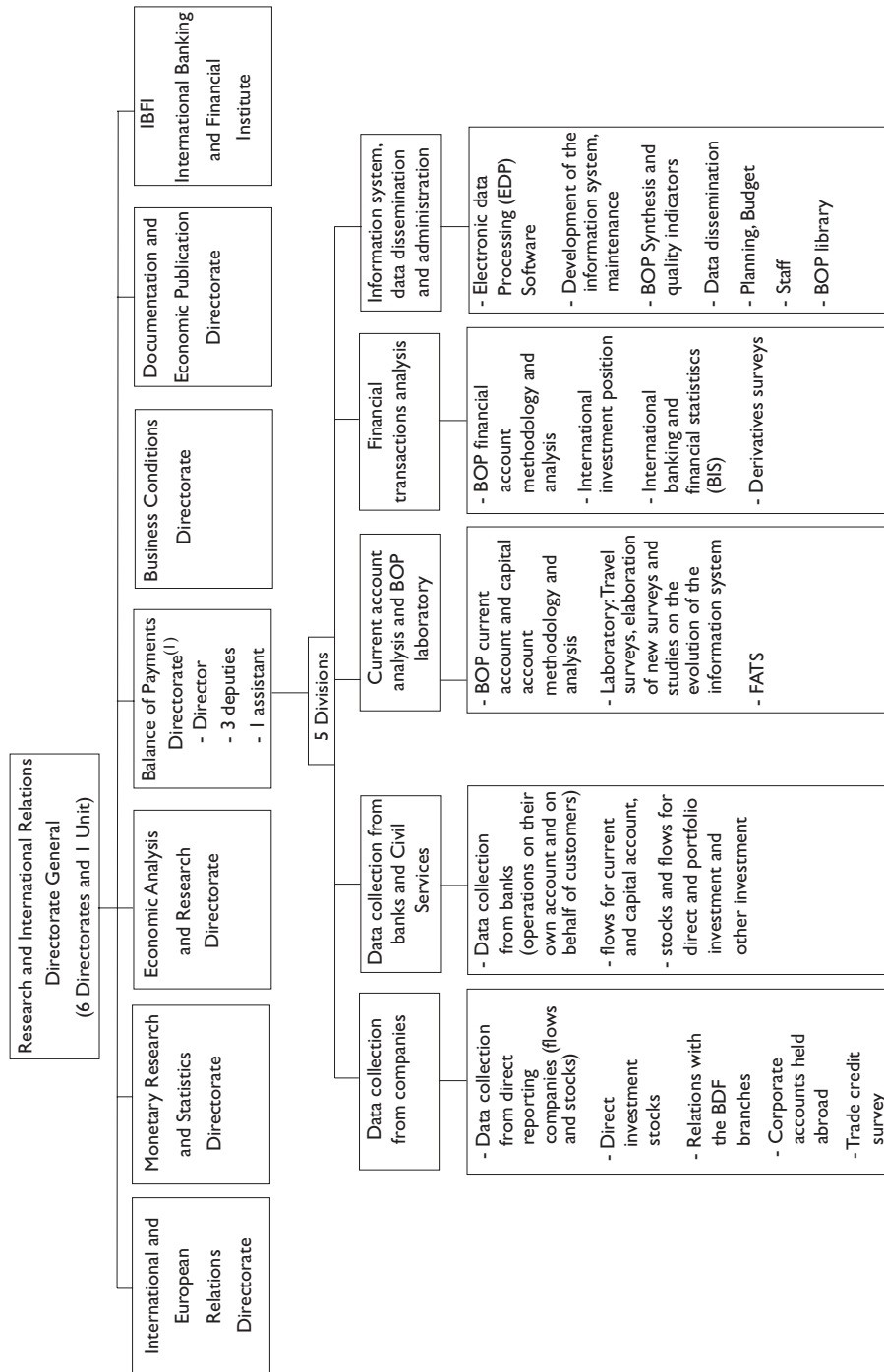


France

November 2002

I Organisation chart(s)

BANQUE DE FRANCE



(1) At the Banque de France, the BoP Directorate is responsible for the compilation of figures, analyses, research and forecasts relating to all items of the Balance of payments, the International Investment Position and the International Banking or other BIS related Statistics.

2 Institutional aspects

2.1 Introduction

The *Banque de France* has been responsible for compiling the French balance of payments (b.o.p.) statistics on behalf of the Ministry of Finance since 1959 (Decree No. 59-1438, 21 December 1959). The role of the Banque de France was confirmed in Article 16 of Act No. 93-980 of 4 August 1993, as amended by Act No. 98-357 of 12 May 1998. Decree No. 89-938, dated 29 December 1989, abolished the remaining exchange controls and introduced a few changes to the reporting system. The system combines banking settlement reports, surveys and direct reporting to the Banque de France.

2.2 Legislative provisions

The legal basis for the compilation of the b.o.p. is provided in two legal texts (Act No. 93-980, dated 4 August 1993, on the Banque de France Statute and Decree No. 89-938, as amended on 16 December 1992), which set out the statistical obligation for residents to report their cross-border payments and their international assets and liabilities to the Banque de France.

2.3 Internal organisation

At the Banque de France, statistics are compiled by the Directorate General Economics and International Relations. B.o.p. statistics are compiled by the Balance of Payments Directorate within this Directorate General. The Balance of Payments Directorate is also responsible for compiling

the international investment position (i.i.p.), conducting external forecasts and various economic studies and providing the Bank for International Settlements (BIS) with Euro-money statistics and other financial data.

2.4 External co-operation

Use is made of various external information sources in order to compile the b.o.p. The INSEE (French national institute of economic and statistical information) provides the company register SIREN (system of identification code numbers for French firms), while FININFO (a commercial firm specialised in providing data on securities) provides the securities descriptions and the quotation records. Data on trade are obtained from the Customs Administration. Moreover, data originating from the Banking Commission are used for the analysis of external banking flows and stocks.

2.5 Users

Information systems have been developed to provide international organisations, such as the ECB, the International Monetary Fund (IMF), the European Commission (Eurostat), the Organisation for Economic Co-operation and Development (OECD) and the Bank for International Settlements (BIS), with data on France's b.o.p. in an efficient manner. The GESMES-CB message is used for b.o.p. data dissemination to the ECB, the European Commission (Eurostat) and to other organisations such as the IMF and the BIS which have agreed upon its use.

3 Statistical system

3.1 Type of collection system

The b.o.p. collection system is a "semi-open system". Reporting on transactions between residents and non-residents is based on the

settlements of resident banks and of direct reporting companies. Transactions carried out by companies via an account abroad are reported directly to the central bank.

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Stock statistics are used to compile:

- (i) for portfolio investment:
changes in foreign securities held by banks and money market mutual funds;
- (ii) for other investment:
general government and monetary authorities' financial flows. These are obtained from changes in stocks, adjusted for changes in exchange rates. This calculation is also used for banking sector flows (loans and deposits) and for trade credits of resident firms.

The following data sources are used in addition to the returns of the actual b.o.p./i.i.p. statistics:

- (i) The securities database managed by the Balance of Payments Directorate is used for two main purposes:
 - checking the portfolio data provided by banks;
 - producing the breakdowns required within the b.o.p. and i.i.p. (breakdown between French and foreign securities, geographical breakdown of foreign securities, breakdown by instrument (equity, bond, money market instrument), breakdown by issuing sector for French securities and those needed for analytical purposes (breakdowns between currencies, etc.)).
- (ii) The database on resident firms (name, main shareholders, accounting data) managed by the Banque de France (Companies Directorate within the General Secretariat) is used for the stocks of foreign direct investment in France (identification of resident firms with foreign investors, accounting data).
- (iii) BAFI is the database on financial agents. It is used to check the amount of the foreign securities portfolio held (and reported) by banks as well as foreign direct investment in resident banks (identification of resident banks in which foreign companies have holdings, accounting data).

It is also used for checking the amounts given in the monthly and quarterly b.o.p. reporting of the banking sector's claims and liabilities vis-à-vis non-residents.

Further information is taken from:

- (i) press releases, for checking transactions in direct investment and in portfolio investment;
- (ii) returns from firms, helping to explain the flows on direct investment (mainly on equity capital: new investment and disinvestment);
- (iii) Clearstream and Euroclear, for general government bonds or "OAT" stocks deposited with Clearstream and Euroclear (annual data);
- (iv) the National Statistical Institute (INSEE), the Customs Administration and the Ministry of Transport, for other transportation in the transportation services item.

Moreover, it is planned to use data collected in co-operation with the *Direction du Tourisme* (i.e. a household survey and an inbound frontier survey) for the compilation of the travel services item once the euro banknotes and coins are introduced.

3.2 Reporting agents

- (i) *MFI sector*: these are resident credit institutions and other financial institutions (e.g. money market funds) as defined in Community law.
 - *Banking sector*: historically, the banking sector has been central to the reporting system. Although residents are no longer required to make transfers abroad via a resident bank, a large part of all operations is still channelled via the domestic banking sector. All operations which are carried out between residents and non-residents through the books of a bank on its own account and on the account of other sectors must be reported whenever individual transactions are above the exemption

Table I
Reporting scheme for b.o.p. and i.i.p. data collection for France

Target respondent population (e.g. MFIs, enterprises, etc.)	Name of reporting form	Contents of reporting form	Frequency of reporting	Timeliness (number of days for submission after the end of the reference period)
Direct reporting enterprises	Statement E83	Short-term claims and liabilities	Monthly	25 working days
Direct reporting enterprises	CRS/C80: Statistical record of payment	Economic settlements: amount of payment, debit or credit, country code, currency of settlement and economic code	Monthly	25 working days
MFIs	Statement R20 R21	Foreign currency sales and purchases	Monthly	10 working days
MFIs	Record of payment C01/C02	Amount of the payment; debit or credit; country code; economic code (allows the identification of the nature of the transaction, e.g. trade, services, income, direct investment equity capital portfolio investment, issues of French securities, other investment, other sectors, short-term loans); currency of settlement and neutral code (except for portfolio) if the resident involved is a direct reporting company	Monthly	10 working days
MFIs	Monthly Statement on securities R30	Portfolio flows (debits and credits). Compilation on a security-by-security basis, with the provision of the ISIN code. Distinction between flows on issues, secondary market flows and reimbursements	Monthly	10 working days
MFIs and enterprises, including insurance companies	Annual survey on French direct investment abroad	Survey includes data on: <ul style="list-style-type: none"> - Foreign affiliates' equity capital (book values); - Percentage of the affiliate equity capital held by the French direct investor; - Profits or losses; - Dividends; - Affiliates' turnover 	Annually	240 calendar days
No specific inquiry (use of existing databases)	Stocks of foreign direct investment in France	Contents of the database: <ul style="list-style-type: none"> - equity capital of French affiliates of foreign companies (book values); - percentage of the equity capital held by the foreign direct investor; - profits or losses; dividends 	Annually	300 calendar days
MFIs	Annual survey on portfolio stocks E26/28	Compilation on a security-by-security basis, with the provision of the ISIN code: <ul style="list-style-type: none"> - French securities held by non-residents in securities accounts opened with resident banks; - French securities issued on international markets and held by residents in securities accounts opened with resident banks; - foreign securities held by residents in securities accounts opened with resident banks 	Annually	75 calendar days
MFIs (sample)	Quarterly survey on portfolio stocks held on their own account E24	Compilation on a security-by-security basis, with the provision of the ISIN code: <ul style="list-style-type: none"> - French securities issued by residents on international markets and held by resident banks; - Foreign securities held by resident banks 	Quarterly	30 calendar days
Enterprises (sample) including insurance companies	Stocks on external assets and liabilities (portfolio excluded) E90	External assets: <ul style="list-style-type: none"> - on affiliates; - on non affiliates. External liabilities: <ul style="list-style-type: none"> - on affiliates; - on non-affiliates 	Annually	75 calendar days
Enterprises (sample)	Statement E84	Stocks of trade credit	Monthly	15 working days
MFIs (special b.o.p. reports on external assets and liabilities)	E10/E11	External assets and liabilities, detailed by counterpart, currency, with a distinction between long-term and short-term	Monthly	M + 20 (15 working days)
	E20/E21	Ditto, but with a country breakdown	Quarterly	M + 30 calendar days

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threshold from January 2002. All transactions are given an individual economic code, except for most transactions concerning direct reporting agents (see paragraph (iv) below). The reports use the CRP (standard record of payment), which provides details of the nature, country, amount and currency of the transaction, as well as the identification number of the company (SIREN) and the identification number of the bank involved. For the data on deposit liabilities and lending vis-à-vis non-residents, the credit institutions report their outstanding amounts by counterpart and currency, with a distinction between long-term and short-term on both a monthly and a quarterly basis. A country breakdown is mandatory for all the banks each quarter, and is declared on a voluntary basis each month. Banks report on transactions in securities on their own account and on behalf of their customers. The use of the ISIN code and of a securities data base ensures a high level of reliability of the instrumental, geographical and issuer sector breakdown for securities issued by residents and non-residents.

- *Money market funds*: a monthly return provides balance sheet information which is used for the compilation of the monetary and credit aggregates and for b.o.p. reporting purposes (other investment of MFI).
- (ii) *Monetary authorities*: the Banque de France (Foreign Exchange Directorate within the Directorate General Operations) provides the Balance of Payments Directorate with data on reserve assets. Its own external assets and liabilities, moreover, are reported under other investment of the monetary authorities in the b.o.p. TARGET transactions are indirectly reported by the Accounting Department, via stock reports.
- (iii) *General government*: this includes, first, the Treasury with the centralisation of its own flows with non-residents

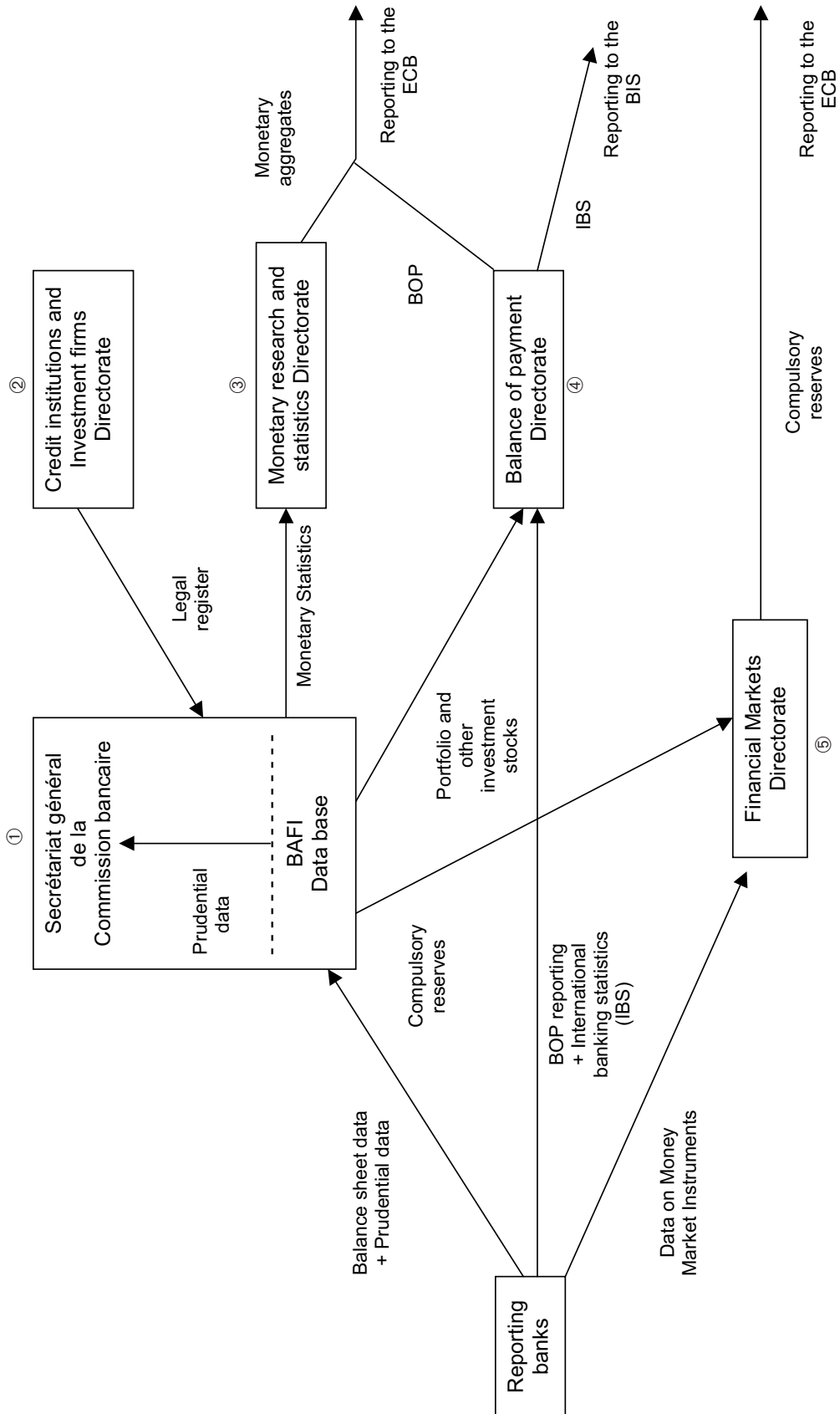
(accounts held with the Treasury by the Zone Franc countries, accounts held by some international entities, such as the European Commission, and operations conducted by French embassies and other general government units abroad). It also includes flows of other state agencies such as the Post Office.

- (iv) *Companies*: companies report either directly or through the Banking sector, depending on the amount of transactions (general direct reporting companies) or the use of foreign accounts abroad (partial direct reporting companies).

Direct reporting companies (DRCs) report directly to the Banque de France on transactions and positions with non-residents. There are nearly 2,500 DRCs covering around 50% of the b.o.p. volume of the current account credits and debits. They are divided into “general” and “partial” direct reporting companies, comprising 850 and 1600 firms respectively.

General direct reporting companies (DDGs) are companies or groups of companies with debits and credits in current account cross-border transactions exceeding a certain threshold in a given year (see Sub-section 3.3). DDGs report all cross-border transactions to the Banque de France, including flows via foreign accounts and netting, except for portfolio investment cash management and capital revenue when these transactions are conducted through resident banks. Instead, these types of transactions are reported by the domestic banks involved in the particular transactions. However, if these transactions are carried out directly via foreign accounts abroad, they remain under the responsibility of the DDG concerned, as it is the only entity aware of the transaction. At the request of the companies themselves there is no threshold for the items to be reported. The reports give details of the currency, amount, economic nature and geographical breakdown of the transactions. To avoid duplication, international payments carried

COLLECTION OF STATISTICAL DATA FROM BANKS AT THE BANQUE DE FRANCE



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out via a domestic bank are given a special – neutral – code by the bank. Reporting is “closed”, i.e. reconciled with positions, and takes place on a monthly basis.

Partial direct reporting companies (DDPs) are entities which hold accounts abroad or participate in an international netting through which payments are made or received. These companies are subject to direct reporting requirements when the monthly total of incoming and outgoing payments through the accounts exceeds the agreed threshold (see Sub-section 3.3). The reports of DDPs are similar to those of DDGs, but they only cover flows via their foreign accounts and changes of positions within these accounts. Other transactions between DDPs and non-residents are reported by the resident banking sector.

For DDGs and DDPs, banks report cash transfers between DDGs’ and DDPs’ domestic and external accounts using a neutral code. These transfers are also reported by DDGs and DDPs using a code which specifies the nature of the settlement.

- (v) *Customs*: the Customs Administration (Ministry of Finance) forwards data to the Banque de France, which serve as a basis for the compilation of the import and export account. It should be noted that the compilation of the “extra” part of transactions requires import flows to be broken down by country of origin and by country of consignment, to avoid double counting when aggregating the data of Member States (e.g.: an import from the United States (country of origin), arriving in Rotterdam (country of consignment)).

3.3 Thresholds

- (i) An exemption threshold of EUR 12,500 has been implemented since January 2002, applying to all the transactions passing through the banking system. Transactions below this threshold are no

longer reported and are estimated by statistical means.

- (ii) Companies or groups of companies with combined debits and credits in current account cross-border transactions exceeding an annual threshold of €150 million or, in the case of insurance companies, €40 million as of January 1992, are known as DDGs.
- (iii) Partial direct reporting companies (DDPs) are subject to direct reporting requirements when the monthly total of incoming and outgoing payments for goods and services through their accounts held abroad exceeds €15,000.

3.4 Availability of data

A nearly complete b.o.p. with a geographical and sectoral breakdown should be available on a monthly basis in the near future. However, for other investments of the banking sector, the monthly geographical breakdown by “intra” and “extra” flows is partly based on a statistical treatment. The monthly breakdown is estimated using the last known figures. BAFI, the database on financial agents, could also be used, but would only make it possible to identify the breakdown between residents of euro area Member States and non-euro area residents. The banks provide the Balance of Payments Directorate with a complete geographical breakdown of their own assets and liabilities on a quarterly basis only, although major banks provide it on a monthly basis.

3.5 Timeliness

B.o.p. data are available 35 days after the end of the month of reference for ECB requirements and national purposes. The Banque de France is currently improving data timeliness, by means of an information campaign directed at banks and companies (late respondents are targeted as a priority to obtain the best information available for ECB requirements 35 days after the end of

the month of reference). Improvements in timeliness are also expected as a result of the increase in electronic data transmission.

3.6 Compilation frequency

France's b.o.p. is compiled on a monthly basis.

3.7 Data controls

Checking procedures are aimed at obtaining the highest reliability/cost ratio. With the exception of built-in computerised controls (data processing errors, anomalies or inconsistencies), there are systematic quality checks (plausibility, economic nature, codification, etc.). These checks are carried out, among other things, through a comparison between previous reports (i.e. previous month, quarter, half year, year, etc.) and current ones. These checks may be based on prior knowledge of the sector of the firm concerned, newspaper articles, contacts with the reporting banks and firms, or purely on staff expertise. Checks are also carried out using information obtained from BAFI, the database on financial agents managed by the Banking Supervision Commission.

Reporting by general direct reporting companies (DDGs) is checked for consistency with reports by banks. Each individual transaction reported by each direct reporting company (DRC) with an economic codification is matched to the reports made by banks on these individual transactions, using the identification code number (SIREN) of the concerned DRC which appears on the banks' reports. The banks' reports on DRCs are only used for comparison with the DRC reports; they are given a neutral b.o.p. code and they are not taken into account in the calculation of the b.o.p.

Partial direct reporting companies (DDPs) only report transactions carried out via accounts held abroad to the Banque de France. Cash transfers from an account held in France to an account held abroad must

also be reported. Such cash transfers are also used to detect new DDPs. Since such transfers involve a domestic bank, these should be matched with the reports of the domestic banks. In addition, if the cash transfers are added to the transactions directly settled abroad, this sum should equal the difference between the opening and closing balances of the accounts abroad. Checks are carried out on a currency-by-currency basis.

Macroeconomic controls concern the general consistency of the whole b.o.p. Particular attention is paid to:

- closely monitoring the errors and omissions item and any major area likely to be the cause of errors and omissions;
- the difference between goods settlements and customs data;
- consistency between investment income and the i.i.p.

The feedback from the ECB (the euro area b.o.p. and the contributions of individual Member States), allowing an analysis on a time series basis of the contribution of the French b.o.p. to the euro area b.o.p., is also an essential source for data controls.

3.8 Revision policy

The first estimate made for key ECB items is revised on a quarterly and an annual basis. Should the need arise, data concerning previous years are also revised once a year. The revised figures are published in France's "Balance of Payments Annual Report".

Historical data are revised whenever a fundamental methodological change is implemented.

3.9 Dissemination

Users of b.o.p./i.i.p. data are: (i) other units within the Banque de France, such as the Directorate Monetary Research and Statistics

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as well as the market operators, (ii) other French administrative bodies such as general government, including the Ministry of Finance (Treasury) and the National Statistical Institute (INSEE), (iii) international organisations such as the IMF, the OECD, the World Trade Organisation (WTO), etc. and (iv) universities and journalists.

As of January 2002, a joint communiqué from the Ministry of Finance and the Banque de France provides figures similar to those sent to the ECB, updated with published trade figures. Moreover, the Banque de France publishes the same monthly figures concerning b.o.p. data in "The Banque de France Bulletin". A b.o.p. on a quarterly basis is published 75 days after the end of the quarter on the Internet. A geographical breakdown of the external assets and liabilities of the resident banking sector is available and is published on a quarterly basis. The annual b.o.p. is published jointly by the

Banque de France and the Ministry of Finance. This Annual Report includes the complete b.o.p., the i.i.p., historical data, current account data broken down by main partners' countries and direct investment flows broken down by country and by sector.

The report also includes a few notes on the methodologies used. The titles of the publications produced by the Banque de France on b.o.p. statistics are listed in Sub-section 13.1 below.

Recent data are available on the Internet, on the Web site of the Ministry of Finance and on the Web site of the Banque de France (www.banque-france.fr). The release timetable for b.o.p. figures is published by INSEE on behalf of the Ministry of Finance.

The French data are also submitted by electronic means to external databases (i.e. the BIS).

4 Monthly balance of payments

4.1 Availability of monthly b.o.p. data

The Banque de France has provided monthly b.o.p. data in the format requested with effect from January 1997. For the period from January 1994 to December 1996, the Banque de France has also provided detailed monthly data, the origin/consignment breakdown of which differs from subsequent data, however. As from 1999, data are available within a six-week workable time limit.

The average coverage of respondents for MKI purposes varies between reports from the MFI sector, for which coverage is at least 95% or more, and reports from companies in the context of direct reporting, where up to 30% may be subject to estimates.

4.2 Estimation methods for monthly b.o.p. data

4.2.1 For the current account in general

The Banque de France primarily uses the data already reported and checked in its own databases and supplements them with estimates, notably for goods, as these data are not sufficient and further refinement is needed.

The procedure followed by the section in charge of providing estimates consists of three steps to obtain merchandise data and the other monthly b.o.p. data of the current account, including investment income.

The first step provides estimates using two models, X-12 ARIMA and TRAMOSEATS, which provide seasonal adjustment as well as short-term forecasting. X-12 ARIMA produces short-term forecasts for four b.o.p.

items, namely goods, services, income and current transfers. The model also forecasts the travel item. TRAMOSEATS provides estimates for each series within the current account (40 series) and for each key item. The respective credits and debits are given for each forecast. The analysis refers to monthly series (as from January 1990) of current account statistics between France and the rest of the world.

In a second step the settlements already recorded in the b.o.p. database are examined. Owing to the reduction in the reporting deadline, most sub-items within the services account (travel, for instance), current transfers and capital account are almost complete 35 days after the deadline for the monthly reporting.

In the third step the “economist expert” compares the results given by TRAMOSEATS and X-12 ARIMA with the settlements already recorded in the b.o.p. database. The expert makes the final choice. The last step relies far more on the economic insight of the forecaster, notably concerning the current economic situation. The estimates of investment income are also based on the last known data for portfolio investment stocks, and take into account the trend indicated by the portfolio investment flows.

The seasonally adjusted values are available for nearly all the current account sub-items, using the results of the TRAMOSEATS model. For external trade, the seasonally adjusted values are supplied by the Customs Division of the Ministry of Economic Affairs and Finance.

All monthly transactions reported to the Banque de France are compiled with a geographical breakdown. For the time being, the “intra/extra” split is obtained from:

- (i) an intra/extra split average calculated in debit and credit on historical series (five years);
- (ii) the geographical allocation observed on the settlements already recorded in the

b.o.p. database (except for external trade).

4.2.2 For goods

Owing to the shortening of publishing time, external trade data are generally available on time. However, when the customs data are not available on time, the estimations made by the BOP Department are given by country of origin and consignment as is required to avoid double-counting.

Furthermore, it must be noted that the Banque de France applies the “special trade” principle.

External trade includes military goods. The geographical breakdown between intra-EU and extra-EU is made on the basis of data from the Customs Administration.

For transactions under special Community programmes, the value of the transactions on satellites relates to the cost of the launching. When the satellite belongs to an individual country, the geographical allocation is made using the country of the owner. When the satellite belongs to several EU Members States or to a European organisation it is recorded as a “non-allocated” intra-Euro 12 or intra-EU 15 transaction. The recording of AIRBUS transactions is different, depending to whether the assembly is made in France or in Germany (Hamburg). In the first case, they are regarded as external trade, i.e. recorded under “goods” and, in the second case, as “other merchandise”, i.e. recorded under “services”.

The c.i.f./f.o.b. rate is calculated once a year by the Customs Administration on the basis of a survey conducted in co-operation with companies. For imports, the calculation is made using the c.i.f. contracts; for exports, the calculation is made using f.o.b. contracts. The c.i.f./f.o.b. adjustment vis-à-vis the Euro 11 and Euro 12 is the sum of the adjustment relating to each of the Member States. The Customs Administration provides

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additional information related to the nature of transactions and the means of transport in view of adapting commodity trade data to the b.o.p. concepts.

4.2.3 For services

The methodology used to estimate services is analysed in Sub-section 4.2.1. However, it is important to note that the estimation is made item by item (including financial services), and that the b.o.p. items are then calculated by aggregating the different components.

4.2.4 For investment income

Further to the general remarks in Sub-section 4.2.1, some specific features of the estimation of investment income should be mentioned in the following paragraphs.

At present, monthly data on interest are recorded when the interest is payable (the "due to be paid" principle) and are thus not available on an accruals basis.

Monthly data on investment income are the results of a bottom-up approach stemming from the addition of the sub-components (direct investment income, portfolio investment income and other investment income) calculated previously. Hence, a breakdown into sub-components (direct investment income, portfolio investment and other investment income) is available for monthly data as well.

All monthly transactions reported to the Banque de France are compiled with a geographical breakdown. For the time being, the intra/extra split of portfolio investment income is obtained for monthly b.o.p. data from:

- (i) an intra/extra split average calculated in debit and credit on historical series
- (ii) the geographical allocation observed on the settlements already recorded in the b.o.p. database.

4.2.5 For direct investment

Monthly estimates of direct investment are based on transactions already recorded, plus data taken from the press, plus staff expertise.

4.2.6 For portfolio investment

Monthly estimates of transactions in portfolio investment are essentially based on transactions already recorded on a security-by-security basis, plus data taken from the press (new issues of French bonds) or directly from the issuers (new issues by residents on international markets), plus staff expertise. No modelling takes place.

4.2.7 For financial derivatives

Estimates of financial derivatives are based on transactions already recorded, plus staff expertise.

4.2.8 For other investment

Estimates of:

- (i) Monetary Financial Institutions: estimates for the detailed geographical breakdown; except for the data provided by money market funds and banks which report a country breakdown of outstanding amounts on a monthly basis (E12/E13);
- (ii) other sectors: based on transactions already recorded, plus staff expertise;
- (iii) general government and monetary authorities: effective data are already available (no need for estimates).

5 Investment income

5.1 Specific features of data collection

5.1.1 General

This forms part of the general reporting system (see Sub-section 3.1).

A few years ago the Banque de France developed a statistical model which makes it possible to check the investment income item by using stocks and representative interest rates for each type of security (bonds, shares, Treasury bills, etc.) and loans. The estimates also derive from the flows of transactions recorded between the dates of two positions. The results obtained with this model are compared with the settlements data sent by reporting agents. So far, it is merely used for checking and the results are not included in the b.o.p. Nevertheless, the Balance of Payments Directorate plans to use stocks to implement the accruals principle. At present, this principle is only applied when obtaining the interest actually included in financial flows relating to bond dealing. In the latter case, the Banque de France favours a global approach, as opposed to a security-by-security method. From a practical point of view, if stocks are used, it will be necessary to obtain a regular valuation of stocks marked-to-market.

Dividends are recorded as of the date they are paid.

Income on collective investment institutions (CIIs) is recorded in line with the method approved by Sub-group I (i.e. attributing all income resulting from investments made by the CIIs to the holders of the CIIs' equity capital in the reporting period).

5.1.2 Income on direct investment

With regard to income on equity, reinvested earnings (the difference between profits and dividends in a given year) are calculated and taken into account. Data on reinvested

earnings included in the French b.o.p. pass through three successive stages: forecast, estimation and finalisation. Moreover, revisions are made to forecasts and estimated data as the information becomes available, until the final version is produced. The recording as well as the estimates and forecasts deal separately with profits and dividends.

Final flows of reinvested earnings are collected by the Balance of Payments Directorate through its annual surveys of French direct investment stocks abroad and foreign direct investment stocks in France. Until final data are available, two methods are used successively in order to determine reinvested earnings: estimates (for more distant periods) and forecasts (for the current period). They are sometimes used simultaneously on profits and dividends, depending to the information available.

Forecasts depend on global hypothesis and concern both profits and dividends:

- (i) dividends: b.o.p. flows are extrapolated under an hypothesis of stability of the policy of the distribution of dividends;
- (ii) profits: macroeconomic forecasts of profits in France and abroad are applied to the last known results of the firms covered by the two stock surveys.

With regard to income on debt, i.e. on inter-company loans, the interest on long-term loans, short-term loans, advances, deposits and cash transactions is recorded in the b.o.p., but under one economic code only, according to the general economic nomenclature of the French b.o.p. Currently, it is impossible to break down income on loans into income on inter-company loans and income on non-affiliated company loans.

5.1.3 Income on portfolio investment

Where income on debt is concerned, the Banque de France does not record portfolio

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income on an accruals basis, except for the interest actually included in financial flows concerning bond dealing.

The geographical allocation of portfolio investment income credits is made according to the issuer for the majority of transactions above EUR 1 million (and by country of settlement for the other transactions). If the country which appears on the record of payment sent by reporting agents (transactions higher than EUR 1 million) is not the country of issue, corrections are made whenever the securities involved in the transaction can be identified (by virtue of the ISIN code). Where portfolio investment income debits are concerned, the Banque de France cannot identify the residency of the final counterpart.

5.1.4 Income on other investment

The interest on long-term loans, short-term loans, advances, deposits and cash transactions is recorded in the b.o.p., but under one economic code only, according to the general economic nomenclature of the French b.o.p. Currently it is impossible to break down income on loans into income on inter-company loans and income on non-affiliated company loans (see also Sub-section 5.1.2).

Income on trade credits granted by the resident banking sector and income on deposits made by private individuals/enterprises with foreign financial institutions are recorded under specific economic codes on a cash basis.

The interest share in leasing payments is included in the service items.

6 Capital account

6.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2). With regard to the

Income on reserve assets is recorded on a cash basis. Data are obtained from the Banque de France's accounting system.

5.2 Definitions

Except in the case of recording income on inter-company loans, the Banque de France complies with the recommendations of the BPM5 and the harmonisation proposals made by the Working Group on Balance of Payment and External Reserves (the former Task Force on Financial Flows and Stocks).

5.3 Deviations from agreed definitions

See Sub-section 5.1.2, last paragraph, on the recording of inter-company loans. The accruals principle is not applied to interest.

5.4 Gaps

None.

5.5 Intended harmonisation

Full implementation of the accruals principle for interest payments when common principles have been decided.

5.6 Estimation methods

For quarterly data (timeliness: Q + 75 days), actual data are available and estimates are not needed. Accruals are not as yet estimated.

distinction between current and capital transfers, the Banque de France applies the criteria recommended by the BPM5. Thus, the capital account item covers transfers of

fixed assets, on the one hand, and debt forgiveness, on the other. Most data are provided by the general government sector and the monetary financial institution (MFI) sector. They have to fill in a record of payment for this type of transaction, which is identified by a specific economic code. Some subsidies received from EU institutions are recorded (as investment grants) under the capital account, namely those from the European Regional Development Fund (ERDF) and European Agricultural Guidance and Guarantee Fund (EAGGF). All other subsidies are recorded under current transfers (general government item). Data on the acquisition/disposal of non-produced non-financial assets has been included in the capital account with effect from January 1996.

6.2 Definition

The French definition of the capital account is in accordance with the BPM5 and the harmonisation proposals made by the

Working Group on Balance of Payments and External Reserves (the former Task Force on Financial Flows and Stocks).

6.3 Deviations from agreed definitions

None.

6.4 Gaps

Information on investment grants is available on a monthly basis through ratios; the Eurostat proposal for these ratios provides relatively good proxies. Migrants' transfers are partially reported by banks. For European transfers and for the split between current transfers and capital transfers, the definition is close to that proposed by Eurostat.

6.5 Intended harmonisation

None.

7 Direct investment

7.1 Specific features of data collection

Information is available in reports produced by the banks (for their own direct investment flows and for flows concerning resident firms, with the exception of DDGs) and from DDGs. All respondents have to report direct investment and portfolio investment flows separately.

The main source of information is the standard record of payment (CRP). Moreover, other sources are used to supplement the information provided by the CRP, but they are never used as such to compile the b.o.p. On the one hand, more detailed information than that conveyed by the CRP is sometimes transmitted by firms, or by the banks on account of their clients (i.e. the name and address of the non-resident counterpart and the total amount of the operation when the whole settlement

is not made at once). This additional information is provided with legal forms called reports of investment, and only concerns direct investment flows in equity capital. On the other hand, the press is also used to anticipate new operations on equity capital.

The collection system draws mainly upon settlement data, except in the case of reinvested earnings (see Sub-section 5.1.2) and in the case of equity contributions without payment.

Equity contribution without payment is included, if identified, in the form either of real or of financial assets. In the event that domestic stocks acquired by non-resident investors through secondary markets are singled out, they are reallocated from portfolio investment to direct investment, where relevant. In practice, however, this

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kind of flow is only identified when huge amounts relating to a single company are involved.

A geographical breakdown is also available based on the first country of destination of the flows for French direct investment abroad and on the first country of origin of the flows for foreign direct investment in France.

Should a change of ownership of a resident company from a non-resident to another non-resident direct investor be evidenced by the survey, the change would be recorded in the FDI stocks, but usually not in the corresponding b.o.p. flows.

Transactions settled via an exchange of shares are recorded when this exchange takes place. The evaluation of such transactions is equal to the market price of the resident shares concerned.

7.2 Definition

According to the recommendations of the BPM5, the French b.o.p. uses the criterion of 10% or more ownership of the equity of an enterprise to define a direct investment relationship. Moreover, in accordance with the IMF and the OECD Benchmark definitions, all inter-company financial flows have to be recorded under the direct investment item as soon as a direct investment relationship has been established. As a consequence, the notion of direct investment includes all operations concerning equity capital, reinvested earnings and other operations (long-term and short-term loans, deposits, etc.). Furthermore, all cross-border transactions in real estate are covered.

8 Portfolio Investment

8.1 Specific features of data collection

Securities transactions between residents and non-residents are reported on a security-by-

7.3 Deviations from agreed definitions

France only applies the directional principle to record long-term loans between affiliated enterprises. For all other transactions, France uses the assets/liabilities principle.

France is not in a position to record inter-company trade credits in the direct investment item. Indeed, the trade-credit survey carried out by the Banque de France does not identify separately trade credits extended to/received from affiliated and non-affiliated enterprises. They are all in the other investment item.

Furthermore, inter-company flows on securities (equities below the threshold of 10% and all flows on bonds subscribed by affiliates) are recorded under the portfolio investment item.

7.4 Gaps

None.

7.5 Intended harmonisation

The introduction of the directional principle for the recording of all direct investment flows is difficult and different methods are under consideration at the Banque de France.

7.6 Estimation methods

The Banque de France does not use estimates, except in the case of reinvested earnings in the current year and – in some cases – in the previous year (see Sub-section 5.1.2).

security basis, using the ISIN code or a generic code built on the structure of the ISIN code in the case of some short-term money market instruments, for which ISIN

codes are not available. The respondents have to report direct and portfolio investment transactions (with the 10% threshold) separately. For each security, the securities database contains the ISIN code, which makes it possible to access the database and to check the flows reported by the respondents on a security-by-security basis. Moreover, all b.o.p. breakdowns are made using the securities database which contains all the elements necessary for b.o.p. treatment (nature of the instrument; country of residence of the issuer, which allows the breakdown between French and foreign securities; sector of the resident issuer etc.) as well as other data (quotation, currency of issue, date of issue and reimbursement for most debt securities, market of issue: domestic or international, etc.). Banks have full responsibility for reporting securities transactions directly on their own account and indirectly on behalf of their clients. These flows are compiled in the b.o.p. using a Monthly Securities Statement. The Monthly Securities Statement is drawn up on a security-by-security basis, using the ISIN code. Apart from the sectoral breakdown (see below), all the data necessary to elaborate the portfolio flows are obtained from this statement.

The banks report flows on French and foreign securities separately, but this breakdown is checked against the securities database maintained by the Banque de France.

The Monthly Securities Statements on French and foreign securities are broken down by issues, secondary market and repayments.

The geographical breakdown of foreign securities by country of residence of the issuer is also effected via the securities database as well as the breakdown by instrument (equity, bond, etc.). On the contrary, the monthly statement provides the country counterpart of the transactions for the liability side. Indeed, the geographical allocation criteria are the debtor principle for assets and the transactor principle (first known counterpart) for liabilities.

For French securities, the sectoral breakdown of the flows is made on a monthly basis using the securities database, which indicates the issuing sector for each security.

For foreign securities – irrespective of the periodicity (month, quarter or year) – the sectoral breakdown between the resident holders (Monetary Financial Institutions and other sectors) is made through changes in banking balance sheets and reports from monetary mutual funds.

Transactions associated with repurchase agreements and bond lending are not recorded as portfolio investment flows, as is required by international recommendations. If these transactions are made against “cash”, they are recorded under the other investment item.

In addition, the press and declarations from the resident enterprises are used to check the reports by banks on new issues by French residents on the international markets.

No difference is made in recording practice with regard to the nature of the non-resident counterpart (financial centre, lead manager, etc.), the country of residence of the non-resident counterpart with which the security is negotiated, the currency of payment and the place of payment.

The Banque de France would expect significant benefits to be derived from the setting-up of a centralised database:

- (i) cost effectiveness at the national and at the European level;
- (ii) fully harmonised data for the treatment of portfolio investment (i.e. no difference in the classification of bonds and money market instruments for a given security; fully harmonised country of residence of the issuer and, as a consequence, a fully harmonised breakdown into euro area and non-euro area securities).

8.2 Definition

All securities, irrespective of their nature (equity, debt instrument, etc.), are covered by recording, except for securities which cannot be traded without the agreement of the issuer.

The flows have to be reported at the time of the payment and not when the transactions take place.

8.3 Deviations from agreed definitions

None, except for flows of affiliates' securities. Service charges, fees and commissions are included in portfolio investment flows when French or foreign securities are bought by non-residents; they are excluded when

French or foreign securities are sold by non-residents. Off-setting entries for investment income are not recorded.

8.4 Gaps

No monthly or quarterly gaps.

8.5 Intended harmonisation

Full implementation of the accruals principle for interest payments.

8.6 Estimation methods

There are no quarterly estimates for the portfolio investment account.

9 Financial derivatives

9.1 Specific features of data collection

Flows of derivatives are recorded from monthly records of payments, regardless of the resident sector involved. The compilation system does not allow any sectoral distinctions. Flows of interest swaps, premiums on options, futures and margins are compiled. At present it is not possible to distinguish between option-style and future-style derivatives.

Gross data (debits and credits) are, in principle, available; swaps – including interest rate swaps – are recorded on a gross basis and netted afterwards. There is no recording of premiums on the exercise date.

The geographical allocation criteria depend on the individual instrument:

- (i) premiums: first known counterpart country in the case of French counterparts and country of residence of the issuer in the case of foreign counterparts (similar to the portfolio account). Investigations do not go beyond

the clearing house. For example, a premium negotiated in London with the London International Financial Futures Exchange (LIFFE) is deemed to have been "issued" by the LIFFE (country: United Kingdom);

- (ii) margins: the transactor principle;
- (iii) interest on swaps: see (i) above.

9.2 Definitions

The Banque de France complies with the recommendations of the BPM5 and the harmonisation proposals of the Working Group on Balance of Payments and External Reserves Statistics. Financial derivatives are recorded under a specific item. The net stream of settlement flows associated with interest rate derivatives is recorded under financial derivatives.

9.3 Deviations from agreed definitions

None.

9.4 Gaps

None.

9.5 Intended harmonisation

None.

10 Other investment**10.1 Specific features of data collection**

Part of the general reporting system (see Sub-section 3.2).

The Banque de France uses actual flows, recorded using CRPs, except for banks. Both a sectoral and an instrumental breakdown are available. The maturity breakdown is made on the basis of the initial maturity (up to one year and more than one year), except for stand-by credits, for which the breakdown is based on the maturity of the drawing.

Trade credits are recorded on a monthly basis.

Historical data prior to 1996 are distorted owing to a methodological change in the recording of money market instruments, which were transferred from the other investment item to the portfolio investment item.

Flows for the MFI sector are derived as adjusted changes from special b.o.p. stock reports which are consistent with MFIs' balance sheet data at the beginning and end of the reference period.

Data on transactions which were carried out through TARGET are transmitted by the Accounting Department and are only used for the global calculation of "other investment/monetary authorities". Since December 2000, flows with other ESCB countries have been recorded on a net basis and the net figure is recorded as an asset or a liability vis-à-vis the ECB, depending of the sign.

9.6 Estimation methods

Monthly estimates are based on transactions already recorded, plus staff expertise.

10.2 Definition

In principle, the Banque de France complies with the recommendations of the BPM5 and the harmonisation proposals made by the Working Group on Balance of Payments and External Reserves.

All short-term flows between affiliates except trade credits are recorded under direct investment (see the BPM5) and not under other investment. Foreign currency banknotes and coins are included.

Bond lending and repos are included provided that there is a monetary counterpart; otherwise there is no record in the French b.o.p. at all. Genuine repurchase agreements conducted at a fixed price on a fixed date predominate, but only marginally. Compared with lending against collateral, repo activities play a far more significant role. Repo activities usually mature within a month.

10.3 Deviations from agreed definitions

Commercial credits (trade credits) between affiliates are not identified separately and are included under other investment. There is no deviation from the recommended treatment of repo activities. The recording of financial leasing is not compliant with the BPM5 in all cases.

10.4 Gaps

None.

10.5 Intended harmonisation

None.

10.6 Estimation methods

There are no quarterly estimates for the other investment account.

11 Reserve assets

11.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2).

11.2 Definition

The new presentation follows the recommendations made in the BPM5. Since January 1999, data on France's reserves have been compiled in accordance with the IMF Template on International Reserves and foreign currency liquidity.

An instrumental breakdown is available on a monthly basis. In accordance with the ECB recommendations financial derivatives are recorded separately and on a net basis. Gold swaps are recorded as repos.

With regard to the use of market prices, recording is in line with the principle laid

down in the ECB recommendations. The calculation of flows for the b.o.p. is based on the valuation of changes in currencies at average exchange rates recorded in the period (average of daily exchange rates). This proxy was accepted by the Working Group for the harmonised calculation of b.o.p. flows.

11.3 Deviations from agreed definitions

None.

11.4 Gaps

None.

11.5 Intended harmonisation

None.

12 International investment position

12.1 Specific features of data collection

The collection system of the Banque de France is based on pure stock data stemming from surveys. The following data sources are taken into account:

- (i) direct investment: surveys of resident firms;
- (ii) portfolio investment: surveys of resident banks (own portfolio and portfolio held on the account of their clients) and, for the collection of money market instruments, of a very limited number of firms; data from Clearstream and Euroclear are also used. It should be

noted that the liabilities vis-à-vis non-residents on bonds issued by French residents on international markets are calculated by subtracting the amount held by residents (reported by the resident banks) from the total amount issued (available in the bond database managed by the Banque de France);

- (iii) derivatives: mostly banks balance sheets;
- (iv) other investment:
 - monetary authorities and general government sector: reporting from the entities included in these categories;
 - MFIs: banks balance sheets and reports from the monetary mutual funds;
 - other sectors: surveys of firms plus data

from the BIS to calculate the households' external assets.

While the sectoral breakdown can be provided without any problem, the availability of a geographical breakdown differs among items:

- (i) direct investment: available for equity capital and reinvested earnings, but not for all loans;
- (ii) portfolio investment: available for assets, but not for liabilities (possible improvement as a result of the use of the IMF Co-ordinated Portfolio Investment Survey);
- (iii) other investment: the sectoral breakdown is fully available;
- (iv) derivatives: only intra-euro area/extra-euro area breakdown is available.

Due to the delays required for the availability of final stocks, estimates are calculated six months after the end of the reference period, except in the case of trade credits, the MFIs' positions and reserves for which stocks are available earlier.

France participated in the 1997 IMF Co-ordinated Portfolio Investment Survey and will participate in the next exercise by providing data based on stock surveys, primarily from custodians.

I.i.p. data are used as inputs for the elaboration of the Rest of the World account in the National Accounts.

12.2 Definitions

12.2.1 General

The coverage and the concept are in line with the financial account of the quarterly/annual b.o.p. flows. Exceptions relate to the portfolio position of non-banks, where only securities held in custody with resident banks are compiled, together with the information from Clearstream or Euroclear.

The reconciliation exercise works as follows:

Previous stock (revalued at new prices)
 + flows for the year (revalued)
 + other adjustments (difference not accounted for by price changes)
 = new stock

The following valuation principles are applied:

- (i) direct investment: for equity capital, book values; market values both for listed and unlisted shares are also available on a global basis, but not by country or by firm;
- (ii) portfolio investment: market value;
- (iii) other investment: book values (which are supposed to be equal to the market values in this case).

12.2.2 Direct investment

As for flows, the notion of direct investment includes all operations relating to equity capital, reinvested earnings and other operations (long-term and short-term loans, deposits, etc.).

For French direct investment abroad, data on equity capital and reinvested earnings are collected once a year, mostly by Banque de France branches, which gather information on companies located within their respective area. The direct investor has to indicate to the Banque de France the name of the company located abroad, the percentage of its stake and the accounting data necessary for the outstanding amount to be calculated.

For inward foreign direct investment stocks in France, the compilation is made in two stages: first, direct investment enterprises are identified by using data from different sources, namely a commercial data provider, the database of the Banking Commission, the database on companies managed by the Banque de France at the Enterprises Directorate and data collected through the compilation of b.o.p. flows; second, stock data on direct investment enterprises are compiled from accounting data provided by the aforementioned sources.

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In both cases, stocks of equity capital are valued on the basis of the book value. Then, estimations are made in order to value the stock at market value. A full geographical breakdown is available for the book values.

As far as other operations are concerned, the stocks are collected directly from enterprises via an annual survey. No complete geographical allocation is available for these operations.

12.2.3 Portfolio investment

For portfolio investment stocks, the resident banks report on their own portfolio and on the portfolio they hold in securities' accounts for the account of their clients.

The reports are made on a security-by-security basis with the indication of the ISIN code. Thanks to the ISIN code and the security database, it is possible to identify the instrument, the sector of the issuer, the country of residence of the issuer, the currency of issue, etc.

Stocks are valued at market prices.

On the assets side, geographical allocation is effected according to the debtor principle (country of residence of the issuer). On the liabilities side, no geographical allocation is available.

On both the assets side and the liabilities side, a sectoral breakdown is available.

Moreover, resident banks send additional information on temporary sales or purchases of securities, so that the impact of these operations on stocks can be corrected. As a consequence, the reconciliation between flows and stocks is ensured.

12.2.4 Financial derivatives

Data are recorded on a gross basis (assets/liabilities). Valuation at market prices is required for options and futures, but not for swaps, forwards, and other derivatives

(derived from off-balance sheets).

12.2.5 Other investment

See Sub-section 12.1.

12.2.6 Reserve assets

Quarterly positions are valued in line with the bookkeeping practice of revaluing reserve assets on a monthly basis. This means that amounts relating to revaluation are included in reported positions and market prices are used. The same applies for gold.

No major discrepancies are encountered when compiling reserve assets from accounting balance sheets, apart from the fact that foreign exchange deposits with local banks are treated as official reserves.

The adjustment of data from accounting systems to produce data consistent with the b.o.p./i.i.p. methodology is carried out by means of quarterly consistency checks based on expertise and analysis.

12.3 Deviations from agreed definitions

None.

12.4 Gaps

There is no sectoral breakdown for financial derivatives and no geographical allocation for the liabilities side of portfolio investment stocks.

12.5 Intended harmonisation

None.

12.6 Estimation methods

None.

13 Administration

13.1 Titles of publications

“Rapport adressé à M. le Président de la République et au Parlement” (annual).

“Bulletin de la Banque de France” (monthly).

“La balance des paiements et la position extérieure de la France (y compris les annexes) (Exercice 19..)” (d) (annual).

“Rapport du Conseil national du crédit et du titre (Exercice 19..)” (annual).

“Les balances des paiements nationales en Union Monétaire” (National Balances of Payments in Monetary Union) (“Bulletin de la Banque de France”, monthly, July 1998 edition).

13.2 Contributors

This country information was drafted by the ECB’s Balance of Payments Statistics and External Reserves Division and subsequently amended and agreed with France. Enquiries of a general nature should be addressed to the Press Division of the ECB. Enquiries specific to France should be addressed to:

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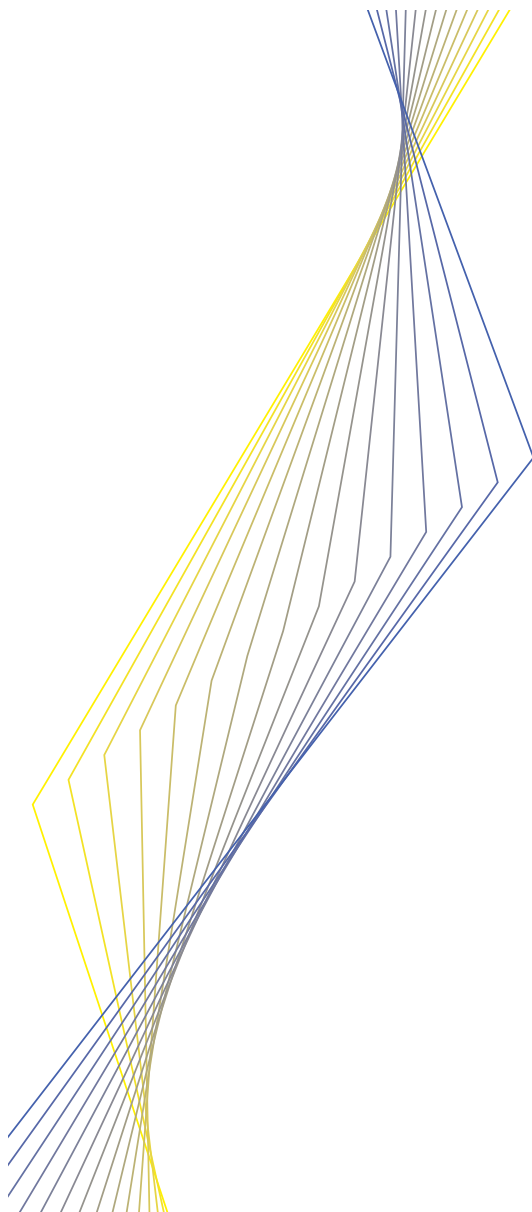
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Chapter 4.6 France



EUROPEAN CENTRAL BANK

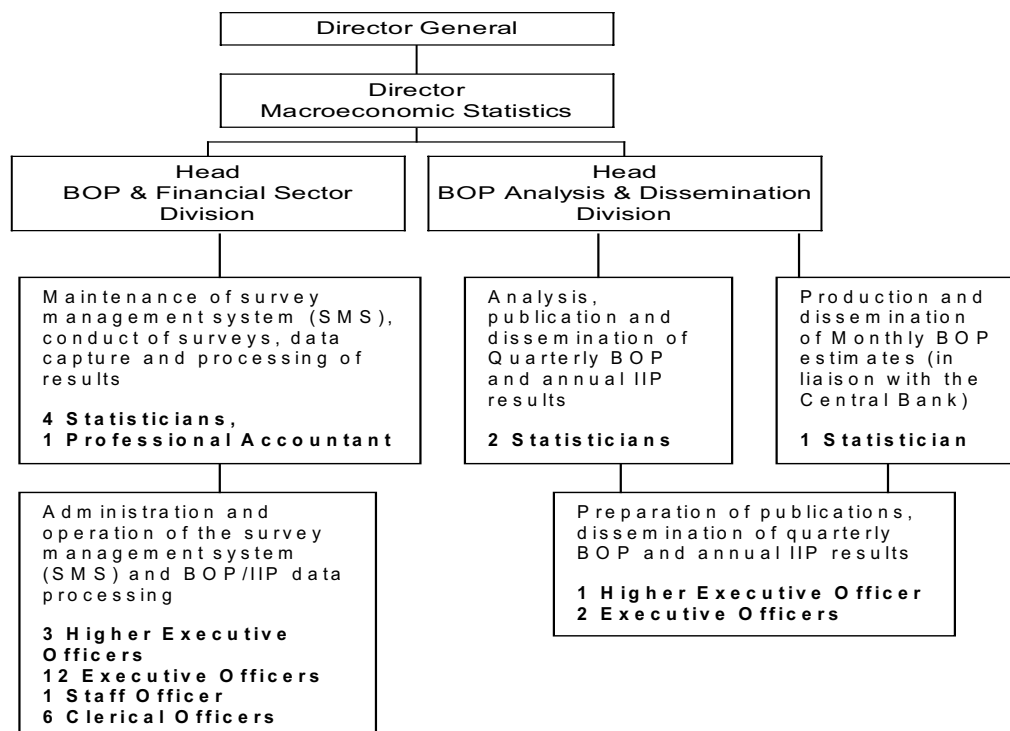


Ireland

November 2002

I Organisation (charts)

CSO Organisation (BOP/IIP Compilation)



Staff Resources (*)			
Grade	BOP & FS DIV.	BOPA & D Div.	TOTAL
Senior Statistician	1	1	2
Statistician	4	3	7
Prof. Accountant	1	-	1
Higher Executive Officer	3	1	4
Executive Officer	12	2	14
Staff Officer	1	-	1
Clerical Officers	6	-	6
TOTAL	28	7	35

* in full-time equivalents

2 Institutional aspects

2.1 Introduction

The Central Statistics Office (CSO) is the national office responsible for compiling and publishing official balance of payments (b.o.p.) statistics for Ireland.

Quarterly b.o.p. data compilation in Ireland is based on statistical surveys, combined with administrative data, and is closely integrated in the CSO with the compilation of the national accounts. Responsibility for compilation of monthly b.o.p. estimates has recently been assumed by the CSO. There is very close ongoing liaison with the Central Bank of Ireland, which formerly compiled these estimates and which provides much of the basic information for their preparation to the CSO.

An extensive overhaul of the quarterly b.o.p. data collection and compilation systems, which commenced in 1996, was largely completed in early 2000 with a view to meeting the agreed b.o.p. and international investment position (i.i.p.) data requirements. Further enhancements are being made as required on an ongoing basis and the recent implementation in 2001 of a new integrated computer processing system will facilitate many of the improvements envisaged.

2.2 Legislative provisions

Apart from national legislation relating to the CSO and the Central Bank of Ireland (see below), the provisions of Council Regulation (EC) No. 2533/98 of 23 November 1998 and ECB Guideline (ECB/2000/4) of 11 May 2000 apply to the compilation and dissemination of b.o.p. and i.i.p. statistics. The non-binding ECB Recommendation (ECB/2000/5) of 11 May 2000 on b.o.p. and i.i.p. statistical reporting also applies to the CSO as an official non-central bank compiler.

(i) CSO

B.o.p. data are collected by the CSO under the Statistics (Balance of Payments) Order of 2001 (Statutory Instrument No. 542 of 2001; Presentation No. 10863) issued under the Statistics Act of 1993 (Number 21 of 1993), which makes the provision of data for the purpose of compiling b.o.p. statistics compulsory.

The Ministerial Order for the b.o.p. specifies in broad terms the kind of information which is required and allows for the collection of data by various means, both from b.o.p. transactors and from agents conducting transactions of relevance to the b.o.p. on behalf of customers. It essentially provides for a comprehensive b.o.p. data collection system, including the acquisition of information on the transactions and activities of entities acting on behalf of clients.

In addition, the European Communities (Statistics) Regulations, 1999 (Statutory Instrument No. 177 of 1999; Presentation No. 7396) were introduced in June 1999 in order to permit the CSO to meet obligations under Council Regulation (EC) No. 2533/98 of 23 November 1998.

(ii) Central Bank of Ireland

The legal authority for all statistics collected, compiled and published by the Central Bank of Ireland, including those relating to the b.o.p., is derived from legislation relating to the Bank (Central Bank Acts of 1942, 1971, 1989 and 1997).

2.3 Internal organisation

(i) General

A formal written agreement between the Central Bank of Ireland and the CSO was completed and signed by the Governor of the Central Bank of Ireland

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and the Director General of the CSO in February 2002. It covers the interactions between the two organisations concerning b.o.p./i.i.p. matters in considerable detail. Both institutions have close formal and informal working relationships as regards the general compilation and interpretation of b.o.p. results and in relation to interactions with the ECB. A Statistical Liaison Committee comprising representatives from both institutions has existed since 1995. Its purpose is to enable the discussion of items relevant to both institutions, not only in terms of the b.o.p., but also in relation to the relevant aspects of the national accounts and the financial accounts.

The Central Bank of Ireland provides valuable assistance to the CSO in a number of areas connected to b.o.p. and i.i.p. compilation. These include close liaison between the Bank and the CSO in checking the consistency of quarterly b.o.p. data with banking statistics data, the supply of monthly banking statistics and reserve assets data as well as the data on transactions of collective investment institutions which are used as inputs in compiling monthly b.o.p. estimates. In addition, the Bank provides the CSO with information which facilitates the CSO's maintenance of its enterprise register, particularly for enterprises engaged in internationally traded financial services, including those operating in the International Financial Services Centre (IFSC).¹ The Bank also liaises closely with the CSO on b.o.p./i.i.p.-related matters at an international level (i.e. concerning the ECB, Eurostat, IMF, etc.). It also attends relevant international b.o.p. meetings.

(ii) CSO

B.o.p. and i.i.p. compilation in the CSO is now the joint responsibility of two divisions within the Directorate Macroeconomic Statistics. In January 2002, the original Balance of Payments

Division was reorganised into two separate but closely co-operating divisions, namely the Balance of Payments and Financial Sector (BOP&FS) Division and the Balance of Payments Analysis and Dissemination (BOPA&D) Division. The BOP&FS Division is responsible for data collection and processing. This involves the maintenance of the survey management system (or SMS which concerns register maintenance and survey administration), the conduct of the surveys, data capture and processing for quarterly b.o.p. and annual i.i.p. compilation. The BOPA&D Division is responsible for the analysis, publication and dissemination of the quarterly results internally, nationally and internationally; it also produces the monthly b.o.p. estimates required by the ECB. The total number of staff (full-time equivalents) is 35. Of these, 28 are in the BOP&FS Division and 7 in the BOPA&D Division. In all, 12 staff are responsible for the managerial, administrative and technical aspects of the b.o.p. system, as well as for developmental aspects. The remaining 23 staff are principally involved in the ongoing issue and receipt of survey forms, data processing, routine respondent contacts and the preparation of results for internal examination, national publication and transmission to international organisations. Further improvements are being made on an ongoing basis and the new system is essentially capable of meeting the national and international b.o.p. and i.i.p. data requirements.

A new integrated computer processing system was installed in 2001 to deal with

¹ *The International Financial Services Centre (IFSC) in Dublin was established under specific legislation in 1987 with a view to creating a significant international financial services industry for Ireland. Tax advantages are available to companies located in the IFSC and the types of activities which qualified under the licensing and certification process include fund management, insurance, treasury management, banking and asset financing, as well as securities trading and brokerage. This licensing and certification process has been discontinued for new stand-alone projects since 1 January 2000, but still applies to "additional" projects under existing licences.*

all aspects of b.o.p./i.i.p. compilation, i.e. survey management, data collection, capture and processing, results generation and dissemination. This system uses relational database technology and will form part of the future CSO-wide integrated IT processing facility.

(iii) *Central Bank of Ireland*

The Bank does not have a b.o.p. department or section. The equivalent of two full-time staff members are involved in b.o.p.-related tasks, mainly comprising the compilation of data required by the CSO, the provision of the Bank's own b.o.p. estimates and forecasts, and the treatment of aspects of b.o.p. development in consultation with the CSO.

2.4 External co-operation

(i) *CSO*

The CSO maintains close contact on an ongoing basis with a number of government departments (e.g. Finance, Agriculture and Food, Marine, Defence, Foreign Affairs) and their agencies, as well as with the Central Bank of Ireland, to obtain information necessary for the compilation of the b.o.p. These contacts serve a variety of purposes covering, for example, consultation for information on statistical policy changes introduced by the CSO, requests for information of a quantitative (i.e. transactions, positions, etc.) or qualitative (i.e. for statistical register needs) nature.

The CSO consulted the relevant regulatory authorities prior to the introduction of its new data collection system covering financial services enterprises in 1998. The Central Bank of Ireland was consulted with regard to the inclusion of credit institutions and collective investment schemes over which it has direct regulatory control; the Department of Enterprise, Trade and

Employment with regard to insurance and reinsurance companies; and the Department of the *Taoiseach* (the Prime Minister) concerning IFSC coverage in general.

The support of all these authorities, together with that of the relevant industry associations, was very helpful with respect to the CSO's programme to achieve a substantial improvement in the coverage of financial services enterprises in its statistical data collection system. This sector had not previously been specifically targeted for direct data collection. Formerly, the inclusion of financial services enterprises in the national accounts and b.o.p. statistics was effected on the basis of administrative data obtained from the relevant authorities. Under this arrangement, the impact of IFSC enterprises on the Irish economy (national accounts and b.o.p.) had formerly been estimated on a net basis from indirect information (on tax revenue, local salaries and local services revenue).

(ii) *Central Bank of Ireland*

As described in the introduction, the Bank liaises closely with the CSO on the compilation of monthly b.o.p. estimates, providing much of the information required for the b.o.p. financial account. It also assists in the quality checking of b.o.p. information and supplies national data on reserve assets and foreign currency liquidity to the ECB.

2.5 Users

(i) *CSO*

Apart from the publication of its quarterly b.o.p. release, the CSO provides further details and analyses to a number of specialist users. The CSO supplies b.o.p. data to the Department of Finance and to the Department of Enterprise, Trade and Employment. As a result of its role in monitoring Ireland's

Table I
Reporting scheme for b.o.p. and i.i.p. data collection for Ireland

Target respondent population (e.g. MFIs, enterprises, etc.)	Name of reporting form	Contents of reporting form	Frequency of reporting	Timeliness (number of days for submission after the end of the reference period)
Manufacturing and non-financial service enterprises	BOP10	Exports and imports of business services with geographical detail	Quarterly (annually for small companies)	20 working days
Manufacturing and non-financial service enterprises	BOP40	Positions and transactions in financial assets and liabilities and associated income flows. Geographical detail	Quarterly (annually for small companies)	20 working days
IFSC collective investment institutions	BOP41	Positions, transactions in financial assets and liabilities and associated income flows. Geographical detail	Quarterly (annually for small companies)	20 working days
IFSC non-life insurance and reinsurance enterprises	BOP42	Position, transactions in financial assets and liabilities and associated income flows. Geographical detail	Quarterly (annually for small companies)	20 working days
IFSC life insurance and reinsurance enterprises	BOP43	Position, transactions in financial assets and liabilities and associated income flows. Geographical detail	Quarterly (annually for small companies)	20 working days
IFSC stand-alone treasury enterprises	BOP44	Position, transactions in financial assets and liabilities and associated income flows. Geographical detail	Quarterly (annually for small companies)	20 working days
IFSC credit institutions (MFIs), asset finance companies, securities trading companies, agency and captive treasury companies. Service providers (administration, management, custodial, trustee, brokerage and other service companies) also complete this form	BOP45	Position, transactions in financial assets and liabilities and associated income flows. Geographical detail	Quarterly (annually for small companies)	20 working days
Non-IFSC investment managers and brokers acting on behalf of resident and non-resident clients	BOP46	Position, transactions in financial assets and liabilities and associated income flows. Geographical detail	Quarterly (annually for small companies)	20 working days
Non-IFSC credit institutions (MFIs)	BOP50	Position, transactions in financial assets and liabilities and associated income flows. Geographical detail	Quarterly (annually for small companies)	20 working days
Central-Bank of Ireland	BOPCB	Position, transactions in financial assets and liabilities and associated income flows. Geographical detail	Quarterly	Data supplied automatically
Department of Finance (National Treasury Management Agency – NTMA)	BOPNTMA	Position, transactions in financial assets and liabilities and associated income flows. Geographical detail	Quarterly	Data supplied automatically
Other government departments	Not numbered	Current account flows (services, income, transfers)	Quarterly	Data supplied automatically
Internal CSO-sourced data	Not numbered	Merchandise flows; tourism flows; Geographical detail	Quarterly	Data supplied automatically
Miscellaneous items	Not numbered	Cross border workers earnings	Annual	Data supplied regularly

economic performance, the Department of Finance is interested in all aspects of the b.o.p. The main focus of the Department of Enterprise, Trade and Employment is on industrial development in the manufacturing and services sectors. This Department and the Industrial Development Authority (IDA), an agency operating under its aegis and involved in attracting foreign direct investment to Ireland, are particularly interested in the direct investment aspects of the b.o.p., as well as in the data on merchandise and services. Data are also supplied to stockbrokers, analysts in the field of economic and social research as well as to universities. The National Accounts

Division also uses b.o.p. results internally within the CSO.

The CSO supplies data to international organisations such as the ECB, the European Commission (Eurostat), the IMF and the OECD.

(ii) *Central Bank of Ireland*

The b.o.p. estimates and forecasts that are prepared by the Bank are based largely on official b.o.p. data published by the CSO. They do, however, take account of more recent information collected from the banking sector, government departments and the National Treasury Management Agency (NTMA).

3 Statistical system

3.1 Type of collection system

As mentioned above, the quarterly b.o.p. compilation system is based on surveys and administrative data and is closely integrated with the compilation of the “rest of the world” (ROW) account in the national accounts. The monthly estimates now being prepared by the CSO are based largely on a modelling approach for the current account elements, while the portfolio and other investment elements of the financial account are based primarily on statistical and regulatory data collected by the Central Bank of Ireland from banks and from collective investment institutions. Data on transactions of the monetary authority sector are also provided by the Bank.

In the latter part of the 1990s, the CSO undertook an extensive restructuring of the b.o.p. quarterly data collection and compilation system. The resulting system is essentially now in line with the requirements of both the IMF Balance of Payments Manual (5th edition), or BPM5, (including i.i.p. data), and the ECB.

A number of the existing surveys were redesigned and the new versions of the forms

were introduced in 1997. Others were discontinued or in some cases replaced by essentially very much expanded versions of the originals. In addition, a totally new survey system was introduced at the start of 1998 for IFSC and non-IFSC financial services enterprises. This required a major expansion of the coverage and capability of the b.o.p. company survey management system (SMS or register/registry system).

The statutory quarterly collection system for financial services enterprises requires transaction data on services, income and transfers. Transaction and position data (along with the reconciliation items) are required for assets and liabilities. The transaction details (i.e. services and income items and instrument breakdowns) necessary to meet BPM5 requirements are obtained – see Sub-section 3.2 on reporting agents for a description of CSO data requirements – from non-IFSC credit institutions. Sectoral and geographical details are also provided. In order to reduce the reporting burden, companies having lower levels of activity report on the same basis annually.

Manufacturing and non-financial services companies are required to supply b.o.p.

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current, capital and financial account data on a transactions basis each quarter, along with quarterly stocks. Geographical and sectoral information is also collected. Smaller companies report all this information annually.

Information on merchandise trade and travel statistics are obtained from the relevant compiling divisions within the CSO. Administrative data from government departments (or their agencies) and from the Central Bank of Ireland are also used.

Apart from data obtained from direct collection, internal CSO or external administrative sources, ancillary support information to assist with the compilation of results is also used. This largely consists of: Irish Stock Exchange listings; Reuters market information concerning equities and bonds, currency exchange and interest rates; Central Bank of Ireland statistics; and industry association or any other relevant statistical information. Qualitative information useful for statistical register purposes is obtained from the CSO Central Business Register and from other sources. In addition, information from Department of Finance, Central Bank of Ireland and Companies Registration Office (CRO) sources is used in the maintenance of the b.o.p. financial services enterprises section of the register. Individual company data from the internal CSO trade statistics database, along with any useful information from newspapers, periodicals, etc., are used as inputs into the statistical register system. Securities databases are not used, as the portfolio investment data are compiled on an end-investor, aggregate basis.

3.2 Reporting agents

(i) CSO

A. Companies. The type of survey form issued to a company depends upon the type of company. A short description of b.o.p. surveys follows.

I. *Manufacturing and non-financial services companies*

Survey of foreign assets and liabilities – quarterly and annual (BOP40):

This survey requests data quarterly on foreign assets and liabilities (flows, stocks and reconciliation items) as well as on related income transactions from companies incorporated in Ireland and Irish branches of foreign companies. It is designed to summarise all the foreign transactions of the resident parts of Irish groups, Irish companies and Irish branches. All foreign assets and liabilities have to be reported, including investment in overseas companies by any part of a group, Irish company or Irish branch which is resident in Ireland. Sectoral and geographical detail are also required. Smaller companies report on the same basis annually.

Respondents: the BOP40 is completed by Irish companies and Irish branches of foreign companies which are engaged in manufacturing or the supply of non-financial services and which have foreign assets or liabilities.

Survey of international trade in services and royalties – quarterly and annual (BOPI0):

This survey requests information on transactions with non-residents concerning the sale/purchase of services (including royalties, copyrights, licences, etc.). Geographical detail is requested. The information obtained identifies the outright purchase/sale of copyrights, patents, licences, etc. Smaller companies report on the same basis annually.

Respondents: manufacturing and non-financial services companies.

II. *IFSC and non-IFSC financial services companies*

Quarterly surveys of IFSC enterprises, which were introduced in 1998, are very comprehensive and designed to collect information relevant to b.o.p./i.i.p. compilation and for wider national accounts

purposes. The surveys are customised on the basis of the main types of IFSC activity, namely: (a) collective investment schemes (including money market funds which now are identified separately for MFI statistical purposes); (b) insurance (distinguishing between life and non-life enterprises) and reinsurance; (c) stand-alone treasury activity; and (d) banking, asset financing, securities trading, and agency and captive treasury activities. The larger companies are required to return the information each quarter, while the smaller ones make annual returns. Administration and management companies as well as custodians and trustee companies are also included; the principal b.o.p. interest in these latter “service provider” companies concerns transactions in service fees, although full b.o.p./i.i.p. details are required. The system is designed to ensure complete coverage of all IFSC activity over the full year.

From a b.o.p./i.i.p. point of view, the information required is essentially the same for all the surveys and covers services, income flows, assets and liabilities and the reconciliation of positions and flows along with the necessary geographical detail. The various surveys are:

- *survey of collective investment schemes* – quarterly and annual (BOP41);
- *survey of IFSC non-life insurance/reinsurance* – quarterly and annual (BOP42);
- *survey of IFSC life insurance/reinsurance* – quarterly and annual (BOP43);
- *survey of IFSC stand-alone treasury* – quarterly and annual (BOP44); and
- *survey of IFSC banks, asset finance and securities trading companies, agency and captive treasury companies and other related financial services companies* – quarterly and annual (BOP45).

Respondents: IFSC administrative or management companies that provide financial services to collective investment schemes, captive investment (including insurance/reinsurance) companies and agency and captive treasury companies. Stand-alone companies (e.g. banks, treasury companies) are also covered.

The data collection requirements for non-IFSC entities are designed to meet the needs of both the b.o.p. and the national accounts. As a result, the demands on Irish resident investment managers were expanded in 1998 to cover both assets and liabilities, with a breakdown between resident and non-resident investments (see the description of the BOP30 survey below). In addition, the activities of life and general insurance companies and credit institutions are covered by the collection system. The aim is to achieve complete coverage. As for IFSC operations, the larger companies are required to return the information each quarter, while the smaller companies make annual returns. Financial services companies which provide other types of services and which conduct transactions relevant to the b.o.p. will, depending on materiality, be incorporated into the system as it develops. At present, the activities of these companies, in aggregate, are insignificant from a b.o.p. perspective. The specific data collection arrangements are described below.

Survey of portfolio investment by Irish investment managers – quarterly and annual (BOP30):

This survey is addressed to investment managers resident in Ireland and requests information on own account and client account investments in Irish and foreign securities by resident and non-resident investors. Geographical detail and sectoral information are requested. The form is also addressed to stockbrokers to obtain data relevant to the b.o.p. It is hoped that the information returned will result in a better coverage of the household sector.

Respondents: non-IFSC Irish resident portfolio investment managers and stockbrokers.

Survey of insurance companies – quarterly and Annual (BOP46):

Information similar to that required from IFSC insurance companies is required for all three accounts of the b.o.p. Quarterly (and, for smaller companies, annual) position data as well as data needed to reconcile flows and

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positions are required. Geographical detail is also required.

Respondents: all non-IFSC insurance companies incorporated in Ireland as well as Irish branches of foreign companies.

CSO data requirements for credit institutions – quarterly and annual (BOP50):

As from the start of 2001 and following prior CSO consultation (supported by the Central Bank of Ireland) with the Irish Banking Federation (IBF) and its members, a full b.o.p./i.i.p. reporting system for banks (MFIs) replaced the earlier three-year interim arrangement.

The information required quarterly covers the non-resident services and income flows of these MFIs, as well as non-resident assets and liabilities transactions and positions and the reconciliation of positions and flows by reporting valuation and other changes. Direct, portfolio, financial derivatives and other investment categories are identified separately. Geographical detail is also supplied. The smaller MFIs report on the same basis annually.

Respondents: Irish resident non-IFSC credit institutions (MFIs), including Irish branches and subsidiaries of foreign companies.

B. Government sector. Information is provided by the various government departments, e.g. the Department of Agriculture and Food (Common Agricultural Policy data), the Department of Finance (amounts received from the Structural and Cohesion Funds of the EU and own contributions to the EU, as well as listings of IFSC licensed companies for b.o.p. register purposes), the Department of Social, Community and Family Affairs (data on pension payments abroad), the Department of Defence (data on military assistance to UN peace-keeping) and the Department of Foreign Affairs (foreign embassies in Ireland and Irish embassies abroad).

C. Other sections of the CSO. Foreign merchandise trade data (collected via Intrastat and the customs authorities) are provided by the Trade Statistics Division of the CSO. The BOP Division adjusts these data on a b.o.p. merchandise basis (see Sub-section 4.2 below). Data on tourism and travel are provided by the Tourism and Transport Section of the CSO in Cork, which conducts passenger and country-of-residence surveys of travellers.

D. Official sector. As described above, the Central Bank of Ireland provides data on official external reserves as well as data on the Bank's portfolio and other investment assets and liabilities (including TARGET transactions and positions). The NTMA provides data on the Irish Government's holdings of foreign assets and on the bulk of the non-resident part of the national debt; data on certain portfolio debt of the Government are provided by the Central Bank of Ireland.

(ii) *Central Bank of Ireland*

A. Credit institutions. All credit institutions, including IFSC banks, are required to report to the Central Bank of Ireland on a monthly "Resident Offices Return" (a balance sheet return with resident and non-resident columns for assets and liabilities). This reporting takes place within the framework of bank statistics reporting, rather than reporting for b.o.p. purposes.

B. Government sector. The various central government departments and the NTMA also supply information similar to that supplied to the CSO.

C. Collective investment institutions. These institutions are required to report to the Central Bank of Ireland each month on the purchase and redemption of units in the relevant schemes as well as on their net asset values.

3.3 Thresholds

There is no general simplification threshold for reporting, but – for financial services companies – materiality criteria are applied to determine the frequency (quarterly or annual) of the returns required.

3.4 Availability of data (quarterly/ annual b.o.p.)

The current and capital account items are available on a BPM5 basis and with geographical detail.

Within the financial account, a functional breakdown for investment into direct, portfolio, financial derivatives and other investment, as specified by the ECB, is available. A geographical breakdown is available, in addition to the required sectoral breakdown.

3.5 Timeliness

Forms are generally issued within a week of the end of the reference quarter or year and reporting agents have one calendar month to respond. While many reporting agents are good respondents, a number are not. The speed and quality of response of the latter have caused ongoing problems. Matters have gradually improved, however, following ongoing efforts within the CSO to address these difficulties on three fronts. First, unreasonable reporting burdens are being reduced or eliminated wherever possible (e.g. by designing more user-friendly forms and instructions and by reducing the reporting frequency for less active companies). Second, a more vigorous follow up has been introduced, using telephone, e-mail and written contact prior to and after the reporting deadline, and the number of company visits has been increased (but this policy, while being very worthwhile, is extremely resource demanding). Third, the CSO has implemented its policy of legal enforcement in cases of seriously late

response or non-response. It is encouraging that notification of the initiation of legal proceedings against sub-standard respondents tends to result in the required information being returned. Bringing about further improvement in response is an ongoing, but resource-consuming task.

3.6 Compilation frequency

Official Irish b.o.p. results (with geographical detail) are currently published on a quarterly/annual basis only. Broad unofficial estimates of the monthly items are now being compiled by the CSO and supplied to the ECB via the Central Bank of Ireland. There are no plans to introduce a full monthly b.o.p. collection system to cover all the items required. A modelling approach is being used for many of the current account items and it is intended to improve this technique where possible. Some data on official transfers are collected monthly. As regards the financial account, much of the portfolio and other investment data is compiled from banking and collective investment information collected monthly by the Central Bank of Ireland. The Bank also provides the b.o.p. data on external reserves, along with other own account transactions with non-residents. Monthly data on direct investment are not collected and estimates are based on recent and anticipated movements. The CSO intends to use published information on mergers and acquisitions as a means of improving the direct investment estimates and will also examine the feasibility of using the proposed “common form” for multinational companies.

3.7 Data controls

A new integrated computer processing system using Sybase relational database technology was introduced in 2001. As a result, a standard processing approach now applies to all surveys and administrative data. The new system is designed to streamline the entire operation and provides a more powerful pre-publication analysis tool than

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was formerly available from the combination of software applications used (i.e. MS Access, Excel and SAS). It was necessary at the initial implementation phase to operate the new system and the existing system in parallel for one quarter to ensure compatibility of the results. SQL and SAS software are also being used to query and extract data from the Sybase database for further analysis and compilation.

On receipt in the CSO, all returns in paper form are manually checked for obvious reporting errors by the person responsible for each particular company. If no errors are apparent, the data are manually keyed into the Sybase database and undergo various automated consistency and plausibility data checks. Where data are returned in electronic form, they are imported through a bulk loading process into the database and are subjected to a similar checking procedure. If the data fail the more important checks, the CSO contacts the company concerned to query the data and make any corrections necessary. Estimates are made for partial or complete non-responses using either automated or manual imputation procedures. This facility is largely applied only to non-returning smaller companies surveyed, as the larger companies are pursued until the data are supplied. If this is unsuccessful, estimates are made. Once verified and further processed as necessary, the data from all surveys are summarised. The various results output tables required are then individually transferred into an Excel spreadsheet from which the hard-copy publication tables or electronic data transmission messages in GESMES/CB format are produced. Prior to publication, some further manual checking is also carried out on the consistency of the b.o.p. results with information available elsewhere, e.g. financial trade data, production statistics and profits data. More in-depth data quality checks are conducted annually against data available to the National Accounts Division.

Apart from this general checking, the Data Consistency Unit of the CSO carries out checks on the consistency of data returned

by individual large manufacturing and non-financial services companies to various divisions within the CSO including the BOP Division. The Data Consistency Unit liaises on an ongoing basis with these divisions and with any company concerned to determine the reasons for any significant discrepancy or inconsistency. In an ongoing effort to improve data quality the Data Consistency Unit operates a programme of company visits and liaison so that the CSO becomes aware as early as possible of any material change in companies' operational, accounting or reporting practices affecting the data returned. BOP personnel often participate in these visits and also make visits independently as and when specific b.o.p. problems need to be resolved. As regards financial enterprises, the quality analyses undertaken by the CSO involve comparison of its results with aggregate data available from other sources. These include: representative associations for insurance companies, pension funds, collective investment institutions (CIIIs), government departments, etc. In addition, there is close contact between the CSO and the Central Bank of Ireland in relation to the comparability of money and banking statistics and b.o.p./i.i.p. statistics for MFIs and other financial intermediaries (OFIs). The extent of this contact has increased following the transfer of responsibility for production of the monthly b.o.p. estimates from the Bank to the CSO in early 2002 and given the Bank's major data input.

3.8 Revision policy

The CSO's general revision policy for quarterly data is to incorporate changes when the data for the calendar year are being produced, i.e. the following spring/summer. However, the policy is flexible and significant changes to previously published figures are incorporated on a quarterly basis. In addition, and in the interest of publication consistency, smaller revisions are included in cases where data sourced from and published by other divisions of the CSO also appear as separate items in the b.o.p. release.

In the case of monthly b.o.p. estimates provided by the CSO, revisions are made mainly on a quarterly basis. The monthly estimates are subject to significant historical revisions each quarter when the official quarterly b.o.p. data are published.

The CSO also intends to make users, including the ECB, aware of the reasons for significant revisions to earlier data. When major methodological changes are contemplated, the CSO tends to make users aware of their introduction in advance and describes the methodology involved in the relevant national publications and in communications with the international organisations concerned.

The ECB's revision policy is being implemented as far as possible.

3.9 Publication

Official b.o.p. data are collected and published by the CSO on a quarterly basis, with a

4 Monthly balance of payments

4.1 Availability of monthly b.o.p. data

In contrast with other euro area countries, the CSO does not operate a monthly b.o.p. data collection system in Ireland. Official b.o.p. data are collected and compiled on a quarterly basis only through surveys and administrative data. These data have a timeliness of the order of three months, compared with the six-week requirement for monthly b.o.p. estimates.

For monthly b.o.p. current account items, broad unofficial estimates, including a euro area/non-euro area geographical split, are provided by the CSO in close consultation and co-operation with the Central Bank of Ireland. The CSO uses a range of methods to estimate monthly flows within the required time frame. For a few components (e.g. transfers), monthly data are available.

current time-lag of approximately three months. The data are published in hard copy and are also available on the CSO databank and on the internet. Users are made aware of the expected ("no later than") date of publication four months beforehand in the CSO's monthly advance publication calendar, which covers a four-month period (under the IMF Bulletin Board arrangements). Regular users are notified each Thursday of the date of the CSO's releases and publications due in the following week.

The Central Bank of Ireland provides its own early independent estimates and analysis of b.o.p. flows to the public as part of its quarterly review of monetary and financial market developments.

The titles of the publications produced by the CSO and the Central Bank of Ireland on the b.o.p. are listed in Sub-section 13.1.

The remaining data are based on a modelling approach which relies largely on proxies and forecasts of quarterly data interpolated into monthly frequency. It also incorporates a system of indicators based on other published CSO data series. All of the estimates are provided to the ECB within six weeks of the reference month. Both current estimates and historical data are subject to substantial revision each time official quarterly b.o.p. results are published.

The CSO intends to explore how to improve this modelling technique where possible.

As regards the financial account, much of the data required for the portfolio and other investment accounts are available from the Central Bank of Ireland and other administrative sources. The Bank provides monthly data on the MFI sector (including

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money market funds), with the requisite geographic breakdown, based on money and banking returns. Data on the transactions of the monetary authority with non-residents, including changes in reserve assets, are compiled by the Bank from internal accounting information. Data for the government sector are provided monthly by the NTMA with full geographic and instrument breakdowns. The Bank also provides data on changes in non-resident holdings of government bonds, based on monthly reports from Euroclear. Data on issues, redemptions and changes in net asset value of collective investment undertakings are collected monthly, at aggregate level, by the Central Bank of Ireland. The Bank provides these data to CSO, with tentative estimates of the geographic and instrument composition of the flows. It is intended to examine possibilities for improving the quality of these estimates over time, in consultation with CSO. Flows through these collective investment undertakings constitute by far the largest component of portfolio investment in the *Other sectors* category in Ireland's b.o.p. statement.

The monthly statement also includes some estimates for those entities (e.g. institutional investors) where monthly data are not available. These estimates are based on interpolation of the quarterly series.

Major progress was made during 2001 by the Central Bank of Ireland in improving the timeliness of the data on collective investment undertakings – a measure that has greatly assisted in improving the quality of portfolio investment data, both monthly and quarterly.

The CSO intends to use published information on mergers and acquisitions as a means of improving the direct investment estimates and it also intends to explore the use of the proposed “common form” for multinational companies.

Beyond this, there are currently no other plans to extend the data collection arrangements further, mainly because of the

burden this would place on b.o.p. respondents and because of resource constraints concerning the collection and compilation of b.o.p. statistics generally.

In line with ECB requirements, virtually all of the monthly series are subdivided into flows between countries participating in the euro area and extra-euro area flows. This is based essentially on the corresponding split in the quarterly data supplied by the CSO to the ECB and Eurostat (except for the merchandise trade item, for which the geographical split is more directly available).

4.2 Estimation methods for monthly b.o.p. data

A summary of the estimation methods used is given in the table below. These are subject to review in the context of any changes which may be implemented in the CSO's b.o.p. collection system generally.

4.2.1 For the current account

4.2.1.1 For goods

The CSO publishes a monthly series relating to merchandise trade, with exports and imports recorded on an f.o.b. and c.i.f. basis respectively. For the purposes of compiling monthly b.o.p. estimates on schedule, the data are brought up to date by projecting the official monthly series forward. Account is then taken of any further material information available on specific transactions reported in the media or elsewhere. The resulting exports and imports estimates are then further adjusted to a BOP conceptual basis using factors derived from the quarterly data.

The official merchandise trade data are compiled from Intrastat and customs (i.e. extra-EU) data, the latter being compiled on a “general trade” basis. For national publication of quarterly b.o.p. results, country allocation is currently carried out on the basis of the “country of origin” principle for

imports and the “country of destination” principle for exports. The same country allocation principle is currently followed when compiling data to be sent to the ECB and other international organisations. Later in 2002, however, the CSO intends to implement the European Commission (Eurostat) recommendations on country allocation, i.e. “country of origin” (for imports from non-EU countries), “country of consignment” (for imports from EU countries) and “country of destination” for all exports. In addition, the CSO intends implementing the forthcoming recommendations of the BOP Working Party of the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) concerning the conversion of c.i.f. imports to an f.o.b. basis. Pending the introduction of a more up-to-date methodology, the CSO is currently providing quarterly b.o.p. merchandise exports and imports on an f.o.b. basis using traditional adjustment factors. Apart from these possible future changes, the CSO’s BOP Division currently makes further adjustments to the published official foreign trade statistics for Ireland in order to align them more closely with b.o.p. concepts. These adjustments take account of the application of the “change in ownership” principle as well as valuation adjustments arising from traders’ accountancy practices. The official merchandise trade results are published both seasonally adjusted and unadjusted by the CSO. There are no immediate plans, however, to introduce seasonally adjusted b.o.p. merchandise trade data.

No specific treatment is applied to military goods; the treatment and the geographical breakdown are the same as for other merchandise.

Special Community programme transactions (Satellite, Airbus, etc.) do not appear to exist for Ireland.

Pending the implementation of the recommendations of the Eurostat Technical Group on Transport, the CSO is applying a

“traditional” single adjustment factor to c.i.f. imports from all countries.

4.2.2.2 For services

Monthly *travel* estimates are based on the application of trends observed in monthly inward and outward passenger movements and associated expenditures in Ireland and abroad. Monthly *transport* estimates are based on movements in *merchandise* trade, the freight adjustment from the c.i.f. to f.o.b. conversion of the valuation of imports being added. Apart from *computer services*, which is extrapolated on the basis of a time series approach, other business services exports can be estimated from the monthly merchandise exports series with which they are quite well correlated. Business services imports largely relate to the activities of multinational manufacturing companies operating in Ireland and can be again linked to *merchandise* exports. Geographical allocation is made on the basis of the quarterly pattern observed. The remaining services items combined are estimated on the basis of the relativities observed in the earlier quarterly data.

4.2.2.3 For factor incomes

Direct investment income debits are highly correlated with *merchandise* exports and are estimated from the projected monthly trade series. Portfolio and other investment income credits and debits are estimated by applying market yields to estimated stocks derived from opening (start of year) positions adjusted for quarterly and monthly flows. Geographical allocation is made on the basis of the quarterly pattern observed. The smaller income items (e.g. direct investment income credit) are estimated by interpolation of quarterly data.

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4.2.2.4 For current international transfers

The CSO obtains monthly information on the principal current EU transfer receipts (credits) from the Department of Agriculture

and Food and from the Department of Finance. The budget contribution to the EU is the main debit item and it is obtained directly from the Department of Finance on a monthly basis. Small residual components

Box

The compilation of monthly balance of payments estimates

B.o.p. item	Source	Comments
1 B.o.p. current account		
1.1 Merchandise trade	CSO	Published official monthly foreign trade data are available within a period of around two months. These data are not adjusted for b.o.p. purposes. They are updated using a time series modelling approach, but adjusted further where necessary on the basis of current knowledge of market transactions. The resulting estimates are adjusted further in line with a b.o.p. conceptual basis using quarterly relationships.
1.2 Services	CSO	Monthly passenger movements by air and sea are used as an indicator for the <i>travel</i> item. <i>Transport</i> estimates are projected forward using the <i>merchandise</i> trade projections as a proxy series. <i>Computer services</i> credit estimates are based on projection of the same item on a monthly basis. On the business services debit side, estimation is based mainly on relating services imports to activity in the multinational sector i.e. estimates are projected forward on the basis of monthly merchandise exports. Any remaining items are interpolated from the quarterly data.
1.3 Factor income flows	CSO	The output of the multinational sector is used as an indicator for profit outflows. Direct investment income debits are estimated on the basis of the projected merchandise exports with which they are highly correlated. Portfolio and other investment income flows are estimated by applying average monthly market yields to estimated stocks. Other sub-components of factor income flows are based on the interpolation of trends from quarterly data.
1.4 Current transfers	CSO	Monthly data are based on figures supplied to the CSO by the relevant bodies (mainly government departments).
2 B.o.p. capital account		
2.1 EU capital transfers	CSO	See the note on current transfers.
2.2 Acquisition/disposal of non-produced, non-financial assets	CSO	This refers mainly to the acquisition or disposal of intangible assets (patents, copyrights, trademarks, etc.). The amounts involved are generally insignificant according to the results of the CSO's BOP10 Services Survey. However, large transactions occur occasionally, thus making this item difficult to estimate.
2.3 Migrants' transfers	CSO	Monthly estimates are based on a broad interpolation of CSO quarterly figures.
3 B.o.p. financial account		
3.1 Direct investment (abroad and in the reporting economy)	CSO	Monthly estimates are based on an interpolation of the CSO quarterly data series and account is taken of media reports of major transactions. Some limited information on inward direct investment of the MFI sector are supplied by the Central Bank of Ireland from money and banking returns.

B.o.p. item	Source	Comments
3.2 Portfolio investment – inward and outward	CSO/Central Bank of Ireland	Data for the MFI sector including money market funds are based on money and banking statistics collected by the Central Bank of Ireland. Monetary authority data are available from the Financial Control Department of the Bank. Government sector data are based on monthly returns made by the NTMA and on data provided by EUROCLEAR to the Bank. Information on collective investment institutions is estimated by the Central Bank of Ireland on the basis of data it collects monthly from these entities. Remaining items are based on an interpolation of the quarterly data series.
3.3 Other investment (inflows and outflows)	CSO/Central Bank of Ireland	Monthly estimates are available on movements in the external assets and liabilities of the MFI sector from money and banking statistics. Comprehensive monthly data are available for the monetary authorities sector. Monthly data are available on government external borrowing and on government deposits abroad from the NTMA and also from Central Bank of Ireland sources. All other estimates within other investment are based on an interpolation of trends from quarterly b.o.p. data.
3.4 Reserve assets	Central Bank of Ireland	Monthly data are available from the Central Bank of Ireland in line with ECB requirements for consistent reporting of Eurosystem reserve assets.

of the credit and debit items are estimated on the basis of recent trends in the quarterly b.o.p. data relating to these items.

4.2.2 For the capital account

The bulk of transactions on the b.o.p. capital account consists of EU transfers. As noted above, these are collected directly from recipient bodies, mainly government departments. The data are all classified as extra-euro area transactions in line with general ECB recommendations on this matter.

4.2.3 For the financial account

In the b.o.p. financial account, data pertaining to the government and MFI sectors and to developments in the official external reserves are available on a monthly basis from government and from (Central Bank of Ireland) banking and external reserves statistics respectively. Monthly data are also available from the Bank for money market funds operating within the IFSC. All these

data are collected with the required intra/extra-euro area geographical split. By contrast, broad estimates have to be made with respect to all other items and these are based largely on an interpolation of official quarterly b.o.p. results (including the intra/extra-euro area split).

4.2.4 For direct and portfolio investment

Data concerning direct investment flows are collected by means of surveys on a quarterly basis only and monthly estimates are based on these data as well as on information published in various media. Some limited data are however provided by the Central Bank of Ireland on direct investment inflows of the MFI sector, from money and banking data.

Estimates of portfolio investment flows for the MFI sector are derived from money and banking statistics, while monetary authority data are available directly from the Central Bank of Ireland. Data for the government sector are based on monthly returns from the NTMA and from Bank information while

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data for collective investment institutions are based largely on data collected and compiled by the Central Bank of Ireland. The remaining components of portfolio investment are estimated by interpolating the quarterly series.

4.2.5 For financial derivatives

Monthly data on financial derivatives are not collected. Given the diversity and complexity of transactions inherent in this particular b.o.p. data category, there is no basis upon which to make reasonable estimates on a monthly basis.

4.2.6 For other investment

Other investment flows for the MFI sector are based on money and banking balance sheet information collected by the Central Bank of Ireland. Flows are derived by the Bank on the basis of stock changes adjusted for exchange rate movements. These estimates incorporate information available to the Bank for those money market funds which are categorised as MFIs. Data for the monetary authorities sector are compiled directly by the Central Bank of Ireland and supplied to the CSO. Government sector data on external borrowing and deposits are supplied monthly by the NTMA. Data in respect of other items are based on an interpolation of trends from the quarterly statistics.

5 Investment income

5.1 Specific features of data collection

5.1.1 General

The CSO's survey system, as well as its data collection from administrative sources (Central Bank of Ireland, NTMA), requires investment income to be reported on an accruals basis. The survey forms and the requests to official sources are designed to collect financial account position and transaction data as well as income flows on a BPM5 basis. Direct investment income, portfolio investment income and other investment income are identified, as are the necessary BPM5 breakdowns of these items. Geographical detail is requested on the basis of the debtor/creditor principle, but only going back to 1998. Sectoral detail is also available.

5.1.2 Income on direct investment

Direct investment income comprises income on equity and income on debt. For statistical compilation purposes, direct investment income on equity is defined as the direct

investor's share of the combination of operating surplus and investment income earned by the direct investment enterprise. Income arising from realised or unrealised capital and exchange gains/losses is excluded, as is any profit (or loss) arising from abnormal circumstances. Data are collected by means of the CSO's quarterly survey system to reflect this definition, i.e. the profit/loss (for b.o.p. purposes) of the direct investment enterprise is its profit/loss after tax and minority interest deductions and excluding capital and exchange gains/losses, any abnormal write-off of bad debt, revaluation gains/losses and gains/losses from extraordinary items. This income is subdivided into two elements: (i) dividends and distributed branch profits and (ii) reinvested earnings and undistributed branch profits. Dividends are recorded when due for payment, which in most cases reflects the timing of the actual payment. This also applies for remittances of branch profits.

Direct investment income on debt relates to dividends on preference shares and interest on inter-affiliate trade credit, loans, bonds and notes and money market instruments.

Preference share dividends are recorded when due for payment and interest is recorded on an accruals basis, the interest unpaid/not yet received being recorded in the financial account.

Geographical detail is required on the basis of the debtor/creditor principle. In the case of an Irish-owned foreign direct investment enterprise, the country attribution is determined by the location of the entity if it is a branch, or by the country of incorporation if it is a subsidiary or an associate company. Factor income outflows in the case of a foreign direct investment enterprise located in Ireland are attributed to the country of residence of the immediate direct investor (which, in the case of a company, is the country of incorporation).

5.1.3 Income on portfolio investment

Portfolio investment income for bonds and notes and money market instruments is separately requested from survey respondents (including CIIIs) and administrative sources on a “time-shifted” accruals basis (i.e. from their accounts). Consultation is ongoing within the BOP and National Accounts Divisions of the CSO regarding the possibility of adopting a full accruals approach, i.e. the application of market rates to marked-to-market position valuations (essentially the so-called “creditor principle”). Changes have not been made, pending the outcome of international discussions (in particular, within the ECB and Eurostat) on the matter, and the “debtor” approach is still applied. In addition, positions and movements in outstanding interest are currently collected to facilitate the correct inclusion in the financial account of any interest unpaid or not received. Geographical detail is collected and the country allocation is required on the basis of the debtor/creditor principle, as for financial account transactions. Income credits can therefore be broken down according to the euro area/

non-euro area assets/liabilities split. A sectoral breakdown is also available.

The detailed information from the CSO’s survey system allows the attribution of all the income earned by CIIIs to the portfolio investors (unit holders). The offset for the undistributed income is included as appropriate in the financial account. The relevant service fees charged to the CIIIs are also attributed to the investors and are recorded under services in the b.o.p.

5.1.4 Income on other investment

Interest flows on loans, deposits, leases, trade credits, etc. between non-affiliated entities are requested from survey respondents and administrative sources on an accruals basis. Income on reserve assets is also included under other investment income and recorded on an accruals basis. Information on positions and movements in outstanding interest is also collected. Geographical allocation is required on the basis of the residency of the creditor/debtor. In the case of syndicated loans, however, the country allocation is based on the residency of the lead bank whenever the residencies of all participating lenders are not known. Sectoral detail is also available.

5.2 Definitions

Except for the deviation mentioned in Sub-section 5.3, data are in line with the recommendations of the BPM5 and the harmonisation proposals made by the ECB’s Working Group on Balance of Payments and External Reserves.

5.3 Deviations from agreed definitions

The only known deviation concerns the application of the “debtor principle” (i.e. time-shifted accruals) in determining portfolio investment income flows, rather than the “creditor principle” (i.e. full accruals) required by the BPM5 (whereby

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market rates are applied to marked-to-market positions).

5.4 Gaps

None.

5.5 Intended harmonisation

As indicated above, the CSO is awaiting the outcome of the international debate concerning the calculation of income accruals.

6 Capital account

6.1 Specific features of data collection

General government capital transfers are already available on a BPM5 basis and are almost totally accounted for by transfers from/to the EU institutions. These EU capital transfers are compiled from data obtained from Irish government departments and are compatible with the tables produced by Eurostat.

Data relating to the outright purchase of licences, copyrights, patents, etc. are distinguished in the BOPI0 ("Survey on services") form. Generally, such transactions are relatively infrequent, but when they do occur, the payments involved can occasionally be quite substantial.

6.2 Definition

The recommended split between current and capital transfers was introduced by the CSO some years ago and is based on the recommendations of the European Commission (Eurostat) BOP Working Party. Only items qualifying as current transfers are included in the current account of the b.o.p.

Debt forgiveness is thought to be insignificant. The amounts involved in the

5.6 Estimation methods

As the income information is collected quarterly and annually from surveys and through the use of administrative sources, full estimation is not required. However, where partial or complete non-response occurs for individual respondents, some data need to be estimated or imputed from other respondents' data or from the non-respondent's earlier data, trended forward as appropriate.

acquisition/disposal of non-produced, non-financial assets, as collected in the expanded version of the BOPI0 services survey, were relatively insignificant.

6.3 Deviations from agreed definitions

None.

6.4 Gaps

Data sources for migrants' transfers continue to be a major problem, as only estimates based on the former exchange control data are available, and these are completely out of date.

6.5 Intended harmonisation

The European Commission (Eurostat) information provided in the national tables on EU current and capital transfers vis-à-vis the Member States is a useful means of verifying data compiled on a national basis and facilitates greater harmonisation.

Investigations to date on how to make better estimates for migrants' transfers, which are thought to be relatively small, but nevertheless significant in terms of both

inward and outward flows, have not proved successful as yet. However, the CSO hopes that further consultation with the revenue authorities will initiate a process whereby

suitable b.o.p. data can be compiled from their records in the future, but the implementation of the necessary systems may take some time.

7 Direct investment

7.1 Specific features of data collection

As indicated above, direct investment data are essentially collected by means of surveys (see Sub-section 3.2). These surveys request data on direct investment positions, flows and valuation changes, along with factor income information (see Sub-section 5.1.2 for details concerning direct investment income). The information provided identifies equity investment and inter-affiliate transactions/positions with regard to loans, trade credits, bonds/notes, money market instruments and financial derivatives. Geographical information is also collected and a sectoral breakdown is available. The surveys are conducted each quarter for the larger enterprises and annually for smaller enterprises.

The geographical breakdown is based on the residency of the actual issuers (i.e. the debtor/creditor principle). In the case of transactions settled through an exchange of shares, respondents are advised to report the transactions at the time they are entered in the enterprises' books. This may be a short period before the actual exchange of paper occurs. If there is no price agreed between the parties (i.e. one share of company A equals one share of company B), the share price of the acquired company is used to value the transaction if the shares of this company are quoted. If not, then the valuation of the transaction would be based on the net asset value of the acquired company.

7.2 Definition

The CSO applies the "10% rule" to determine whether ownership of the

ordinary shares or voting power in an incorporated enterprise or the equivalent in an unincorporated entity is such that a direct investment relationship exists. In line with the international requirements for fully consolidated direct investment statistics, the application of the rule covers transactions with any affiliated entities in the corporate structure which are part of the direct investment relationship. In the case of transactions between financial intermediary affiliates (including credit institutions), direct investment is limited to those transactions associated with permanent debt and equity investment. The directional principle for recording direct investment has been adopted (but the data are collected in a way that also permits classification according to assets and liabilities if required). Reinvested earnings are recorded as part of direct investment and can be separately identified. Inter-company transactions in financial derivatives between affiliated entities are treated as direct investment, except where such transactions are between affiliated financial intermediaries.

7.3 Deviations from agreed definitions

For the CSO b.o.p. surveys, there are no deviations from the agreed definition of direct investment.

7.4 Gaps

Investment by Irish resident households in foreign residential property has been increasing in recent years, but – because of the lack of a reliable data source – this is not being reflected in the b.o.p./i.i.p. results currently produced.

7.5 Intended harmonisation

The compilation system is, in principle, compliant with the BPM5. In practice, the information for enterprises appears to be provided as required and hence no further harmonisation appears to be necessary. However, as regards households, the CSO is seeking suitable data sources at estate agent level and from the revenue authorities.

7.6 Estimation methods

As direct investment information is collected quarterly and annually by survey, full estimation is not required. However, where partial or complete non-response occurs for individual respondents, some data need to be estimated or imputed from other respondents' data or from the non-respondent's earlier data, trended forward as appropriate.

8 Portfolio investment

8.1 Specific features of data collection

Inward and outward portfolio investment data are collected from a combination of surveys and administrative data (see Sub-section 3.2), the latter relating to (a) non-resident investment in Irish government securities and (b) investment in foreign securities (non-reserve assets) by the Central Bank of Ireland. Position, transaction and reconciliation data are collected as described above and geographical detail is provided. Inter-company transactions between affiliated entities are treated as direct investment, except where such transactions are between affiliated financial intermediaries.

The CSO's collection/compilation system is an end-investor/aggregate security approach which does not rely on security databases. Information on the various types of long-term and short-term securities is collected to meet the requirements of the BPM5. Geographical allocation is requested on the basis of the debtor/creditor principle. Few difficulties have been reported by respondents in relation to the application of the country-of-issuer principle for assets; for liabilities, the country of creditor is available in many cases, but some difficulties are evident in relation to acquisitions on behalf of non-residents by intermediaries. In this regard, the Central Bank of Ireland has assisted the CSO by obtaining supplementary aggregate data from resident banks on foreign investors' acquisitions/disposals of

securities issued by the Irish Government and held through nominee bank accounts. A major proportion of outward and inward portfolio investment is accounted for by IFSC enterprises such as CILs, special purpose investment companies (SPICs – for which only outward investment is portfolio in nature), credit institutions, insurance companies, etc. These entities' activities are covered by the survey system. Apart from the IFSC, most of the remainder of inward portfolio investment is accounted for by non-resident uptake of government securities (the data being obtained from the NTMA and the Bank) and by non-resident small shareholdings in Irish public limited companies. On the outward portfolio investment side, most of the "non-IFSC" investment is made by institutional investors which are also surveyed and are understood to account for the bulk of household foreign investment.

8.2 Definition

The definition of portfolio investment used in Ireland essentially complies with the recommendations in the BPM5. Service charges, fees and commissions, where separately identifiable, are reported by respondents under the services item; otherwise they are included as part of the value of transactions. Positions and transactions are requested from respondents at market valuation on a "clean price" basis,

i.e. exclusive of accrued income. As already indicated, amounts of accrued interest outstanding as well as interest movements are both identified separately in the survey forms. The clean-price values of positions and transactions are then converted into a market valuation inclusive of accrued interest.

8.3 Deviations from agreed definitions

None.

8.4 Gaps

Resident households' internet transactions in foreign securities are not currently being captured adequately.

8.5 Intended harmonisation

As part of its b.o.p./i.i.p. statistical harmonisation, the CSO participated in the IMF's Co-ordinated Portfolio Investment Benchmark Survey (December 1997 and December 2001). To facilitate the compilation of the relevant data, all companies surveyed were required to supply the data on the basis of the BPM5 concepts and definitions. To ensure adequate coverage in the IMF Survey, and in the new collection/

compilation system generally, IFSC companies and other financial services companies were included as from end-1997/start-1998.

Harmonisation is required in relation to the determination of the correct country of creditor allocation for portfolio investment liabilities. Additional information is obtained periodically by the Central Bank of Ireland from intermediary financial institutions acting on behalf of non-resident investors that enables the identification of the residencies of the holders of Irish Government bonds. On the assets side, it will be difficult to obtain appropriate data sources to close the potential gaps in coverage of households' internet transactions in securities. It is likely that data exchange involving counterpart compilers may be the only realistic means of addressing this issue.

8.6 Estimation methods

As portfolio investment information is collected quarterly and annually by survey, full estimation is not required. However, where partial or complete non-response occurs for individual respondents, some data need to be estimated or imputed from other respondents' data or from the non-respondent's earlier data, trended forward as appropriate.

9 Financial derivatives

9.1 Specific features of data collection

As indicated in Sub-section 3.2, information on financial derivatives is collected using surveys and, in the case of government debt, administrative NTMA data. These surveys cover all sectors, but most of the derivatives activity involves the financial institutions. Separate data are sought on swaps (cross currency and interest rate), exchange-traded futures and options, over-the-counter (OTC) options and forward contracts. Owing to difficulties experienced by respondents, positions in some cases are only available on

a net (asset/liability) basis. Transactions are requested on a net basis, as required by the ECB. Geographical breakdowns are available based, for the most part, on the country of residence of the counterpart which, in the case of exchange-traded contracts, is the country in which the exchange is located. Inter-company transactions between affiliated entities are treated as direct investment, except where such transactions are between affiliated financial intermediaries.

At present, while an increasing number of respondents seem to be able to provide the

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information required, some respondents are still reporting major difficulties in doing so. The difficulties generally concern: reporting on a market value basis (nominal values frequently appear in returns); reporting asset and liability positions separately; and distinguishing variation margin payments from initial margins.

9.2 Definitions

The definition of financial derivatives used is that given in the IMF's publication "Financial Derivatives: A Supplement to the Fifth Edition of the Balance of Payments Manual". The valuation of positions and transactions at market value is requested. Net interest streams for interest arising from interest rate derivatives and cross-currency interest rate swaps are recorded under derivatives and not under factor income. In the case of exchange-traded contracts, respondents are requested to distinguish between initial margin payments and variation margin payments and to record the former under other investment and the latter under financial derivatives.

10 Other investment

10.1 Specific features of data collection

Other investment data are collected from a combination of surveys and administrative data (see Sub-section 3.2), the latter relating to (a) Irish government borrowing from foreign lenders and (b) foreign assets and liabilities of the Central Bank of Ireland under the TARGET arrangements as well as its currency and deposit transactions. Position, transaction and reconciliation data are collected as described above and geographical detail is provided.

Long and short-term claims and liabilities vis-à-vis non-resident affiliates are treated as direct investment, except where such transactions are between affiliated financial intermediaries and do not involve permanent debt.

9.3 Deviations from agreed definitions

None.

9.4 Gaps

With regard to flows, some respondents experience difficulty in distinguishing initial margins from variation margins, while others have difficulty reporting market values (as opposed to nominal values). The situation is improving through ongoing contact between the CSO and its respondents, but market valuation continues to present problems.

9.5 Intended harmonisation

The flow data for derivatives follow the agreed harmonisation principles.

9.6 Estimation methods

No estimation methods are used, as the data are reported quarterly.

The b.o.p. transactions of the MFI sector are compiled from information directly provided by these institutions to the CSO. As indicated above, MFIs operating from the IFSC supply both quarterly transaction and position data (as well as information on valuation changes) via the BOP45 Survey. Money market funds operating in the IFSC and classified as MFIs report within the BOP41 Survey (of collective investment institutions). The information relating to these entities is included under the MFI category in the results. Up to the end of 2000, non-IFSC MFIs provided end-quarter position data to the CSO. Their transactions were estimated as the difference between the opening and closing positions, but adjusted for valuation changes using currency analyses of the positions. From the start of 2001, full reporting by non-IFSC MFIs

commenced, with flow and position data being supplied directly to the CSO. IFSC MFIs account for over three-quarters of all MFI other investment assets vis-à-vis non-residents.

Transactions in trade credits are captured implicitly under other assets/liabilities in the returns. Revisions do not generally arise as “full” reporting is not required retrospectively.

10.2 Definition

The CSO has adopted the BPM5 definitions, with necessary modifications, as approved by the ECB. Repurchase agreements and bond lending transactions are recorded as required by the ECB. Financial leases are recorded under other investment and the income flows are recorded in the current account.

10.3 Deviations from agreed definitions

None.

11 Reserve assets

11.1 Specific features of data collection

Reserve assets are covered by the general reporting system (see Sub-section 3.2).

11.2 Definition

The definition followed is that endorsed by the ECB’s Statistics Committee in December 1998, namely foreign currency claims on non-euro area residents as well as monetary gold, special drawing rights and the reserve position within the IMF.

Reserve assets are recorded at market prices. An instrument breakdown is available for b.o.p. purposes, in line with ECB requirements. While there are no financial

10.4 Gaps

There are no known gaps of any significance.

10.5 Intended harmonisation

Insofar as is known, the results are compiled on a harmonised basis.

10.6 Estimation methods

As the information is provided on a quarterly basis, the results are compiled from these returns. Some imputation is necessary for the few instances of late response, while quarterly estimation is necessary for those companies subjected to annual reporting because of their low activity volume.

derivatives transactions in reserve assets at present, their recording on a net basis – as recommended by the ECB – is supported by the Bank.

11.3 Deviations from agreed definitions

None.

11.4 Gaps

None.

11.5 Intended harmonisation

The agreed harmonisation principles apply.

12 International investment position

12.1 Specific features of data collection

As indicated in Sub-section 3.2, since the beginning of 1998 the CSO has been operating an integrated b.o.p./i.i.p. survey collection system. Positions, transactions and reconciliation items are collected from financial services enterprises each quarter and from enterprises in other sectors each year. The collection system is designed to meet the detailed requirements of the ECB and the IMF and follows, to the extent possible, the recommendations of the BPM5 (as modified in particular instances to meet the harmonisation requirements of the ECB). Geographical detail is requested on the country of residency of the debtor for assets and that of the creditor for liabilities. Some difficulties are encountered by respondents in relation to identifying the country of the creditor for portfolio investment securities issued by residents of Ireland in all cases.

The CSO first participated in the IMF's December 1997 Co-ordinated Portfolio Investment Benchmark Survey and supplied the results for the "mandatory items" (i.e. asset positions for equities and long-term debt instruments). It participated again in a repeat of the IMF project in December 2001.

The CSO supplies the i.i.p. results for Ireland to the ECB within the specified nine-month deadline.

12.2 Definitions

12.2.1 General

The definitions used follow the BPM5 recommendations and the ECB's harmonisation recommendations.

12.2.2 Direct investment

The definitions used follow the BPM5 recommendations and the ECB's harmonisation recommendations.

12.2.3 Portfolio investment

The definitions used follow the BPM5 recommendations and the ECB's harmonisation recommendations.

12.2.4 Financial derivatives

The definitions used follow the BPM5 recommendations and the ECB's harmonisation recommendations.

12.2.5 Other investment

The definitions used follow the BPM5 recommendations and the ECB's harmonisation recommendations.

12.2.6 Reserve assets

The definitions used follow the BPM5 recommendations and the ECB's harmonisation recommendations.

12.3 Deviations from agreed definitions

In general, there are no deviations from the agreed definitions.

12.4 Gaps

In the case of financial derivatives, it is not possible – owing to difficulties experienced by respondents – to isolate completely positions for assets and liabilities, and only net positions are available in some cases.

12.5 Intended harmonisation

In the case of financial derivatives, continuing efforts are needed, particularly at the respondent level, to provide position data on a gross basis and to report separately both initial margins (under other investment) and variation margins (under financial derivatives).

12.6 Estimation methods

Generally, respondents can provide position information as required and in many cases more easily than flow data. Consequently, estimation techniques are only required for non-response imputation.

13 Administration

13.1 Titles of publications

(i) CSO

Balance of International Payments
(quarterly)
Statistical Bulletin (quarterly)
Economic Series (monthly – selected
b.o.p. items)
National Income and Expenditure
(annual)
Statistical Yearbook for Ireland
CSO Eirestat Databank (quarterly
updating)
CSO website: www.cso.ie

the Press Division of the ECB. Enquiries specific to Ireland should be addressed to:

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(ii) Central Bank of Ireland

Quarterly Bulletin
Annual Report

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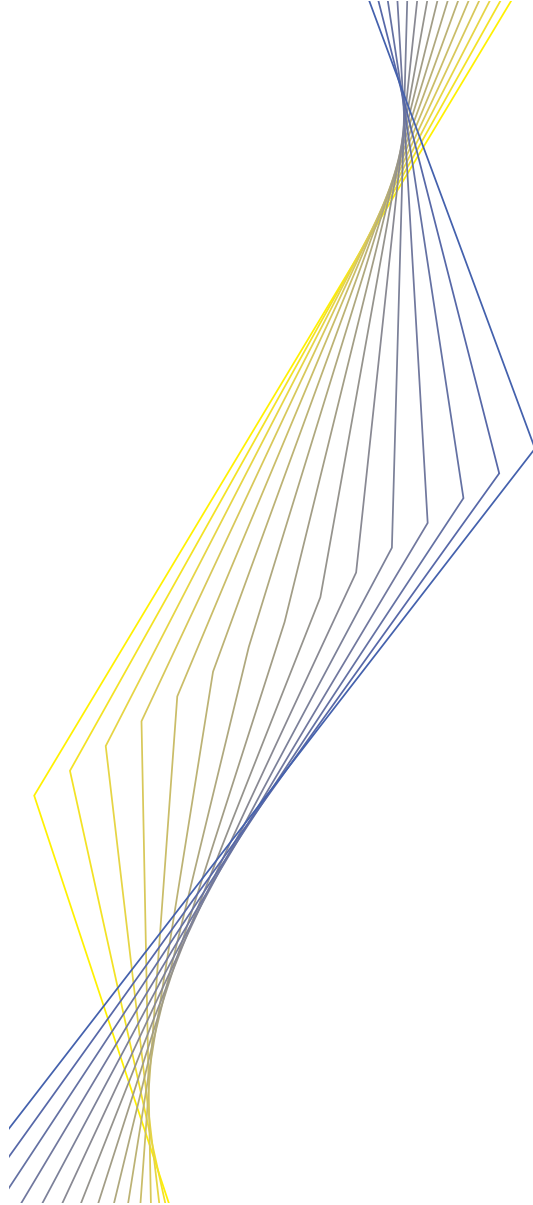
13.2 Contributors

This country information was drafted by the ECB's Balance of Payments Statistics and External Reserves Division and subsequently amended and agreed with Ireland. Enquiries of a general nature should be addressed to

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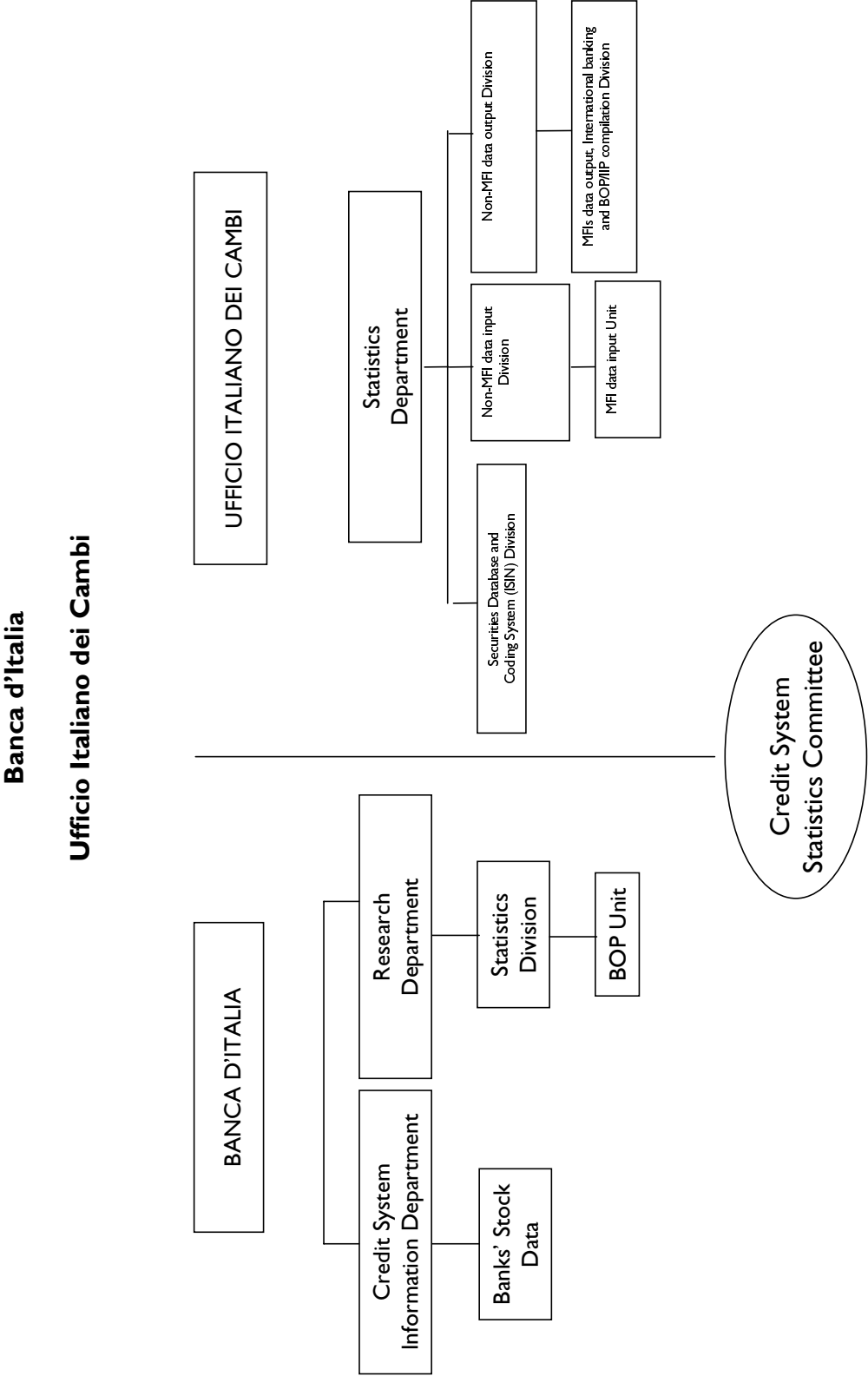
EUROPEAN CENTRAL BANK



Italy

November 2002

I Organisation chart(s)



2 Institutional aspects

2.1 Introduction

The *Banca d'Italia* and the *Ufficio italiano dei cambi* (UIC) are responsible for the balance of payments (b.o.p.) and international investment position (i.i.p.) statistics. The UIC, which has been an instrumental entity of the Banca d'Italia since 1998, collects information for the compilation of b.o.p. and i.i.p. statistics. Both institutions publish data on b.o.p. and i.i.p. statistics. The information is derived from the data on cross-border transactions collected by the UIC and sample surveys for certain services which are also collected by the UIC. Other sources include the international trade statistics collected by the *Istituto nazionale di statistica* (Istat).

2.2 Legislative provisions

The Exchange Reform Law, which came into force in October 1988, reorganised Italy's statistical system over the following two years and enabled the country to make the transition from a system in which residents were prohibited from transacting with non-residents (except for expressly authorised transactions) to one in which residents could freely carry out foreign transactions. Residents continued to be obliged to settle through the domestic banking system. The Ministerial Decree of April 1990 meant that operators no longer had to "channel" foreign transactions through resident banks, but were completely free to deal with foreign banks (e.g. to open deposit and current accounts abroad) or to export payment instruments, securities, etc. As a consequence of these laws, it became clear that a new collection system for b.o.p. data was needed. In May 1990 the old data collection system was integrated into a new system and, from then onwards, all residents were required to supply statistical documentation on foreign transactions either directly or through the domestic banking system. The directive put forward by the Interministerial Committee for Credit and Savings in October 1995

authorised the collection by the UIC of data on assets and liabilities of non-bank operators above a certain threshold.

Legislative Decree No. 319/98, which modified the institutional position of the UIC, confirmed its powers to collect data for the purposes of b.o.p. compilation. The compilation of International trade data lies within the competence of Istat.

2.3 Internal organisation

At the Banca d'Italia responsibility for the b.o.p. is vested in the Balance of Payments Unit of the Statistics Division, which also carries out analyses of b.o.p. developments. The Statistics Division is also responsible for money and banking statistics and for financial account statistics. In accordance with the Guideline on the Statistical reporting requirements of the European Central Bank in the field of balance of payments, international reserves template and international investment position statistics (ECB/2000/4) of May 2000, data are made available by the UIC to the ECB, for the production of the euro area b.o.p., and to the Banca d'Italia. The Banca d'Italia and the UIC are required to "monitor the quality and reliability" of statistical information.

At the UIC various divisions in the Statistics Department are involved in the production of the b.o.p. and i.i.p. The management team comprises a division involved in the coding system (International Securities Identification Number or ISIN) and in the security database management; two units (division/unit) dealing with non-bank and MFI data input; a division involved in non-banks' data output and another division dealing with MFIs' data output, the international banking system and b.o.p./i.i.p. compilation.

2.4 External co-operation

Close links both at the executive and at the operational level exist between Istat, the Banca d'Italia and the UIC. Data are exchanged mutually and there is a permanent committee for co-ordination at the highest level between Istat and the Banca d'Italia.

2.5 Users

B.o.p. data are used as input in the national accounts statistics produced by Istat.

Data are also supplied to the Ministry of the Economy and Finance; to private and public research institutes and universities; and to international organisations such as the ECB, the European Commission (Eurostat), the Organisation for Economic Co-operation and Development (OECD), the Bank for International Settlements (BIS) and the International Monetary Fund (IMF).

3 Statistical system

3.1 Type of collection system

The Italian b.o.p. collection system is, in principle, an open settlement system integrated with surveys, and organised around reporting banks and non-banks. Banks are required to report transactions performed for their own account and for the accounts of their customers (the reports are transmitted within the framework of the "*Matrice valutaria*" or MV). Non-banks are required to report their own cross-border transactions, directly or through the resident banks (the reports are transmitted within the framework of the "*Comunicazione valutaria statistica*" or CVS).

For some items, sample surveys are conducted by the UIC:

- since 1996 a survey of travellers has been in place to compile the travel service account;
- since 1998 an enterprise survey has been used to measure international transportation services;
- since 1998 a survey on portfolio investment and direct investment stocks has been carried out; some of the questions are dedicated to the collection of data on reinvested earnings.

The survey on travellers is carried out at Italy's main border points (around 60 road and rail crossings, international airports and seaports). Fieldwork consists of two procedures carried out at the same time: counting (around 1,500,000 annual operations) and interviewing of randomly selected resident and non-resident international travellers (150,000 annual face-to-face interviews on the basis of a structured questionnaire). Counting allows the dimension of the reference population to be estimated; the objective of interviewing is the collection of detailed information on travellers' expenditure. The survey is conducted continuously and produces monthly results (provisional data at T + 35 days). See Eurostat B-5, TG "Travel" Report, February 2000, paragraph 3.3.1.1. for further details.

The survey on international transportation services identifies the cost structure of international transportation by addressing a sample of operators and requesting information broken down by mode of transport, country of origin/destination, type of goods and type of transport device. The sample is layered. The layers are defined by the mode of transport, the head office nationality, the class of turnover, the geographical location and the type of transport operator. The survey also provides an estimate of the freight insurance costs.

The survey on portfolio investment assets and direct investment assets/liabilities involves banks and other financial institutions, insurance companies, companies listed on the Italian stock exchange and a sample of other enterprises. Financial institutions report both on their behalf and as custodians on behalf of the investors. The sample is layered. The layers are defined by the class of turnover, the economic sector and the geographical area.

Istat supplies trade data on goods which is based on c.i.f.-f.o.b. valuation; the conversion to f.o.b. is made on the basis of the data on international transport and insurance services, as derived from the survey on international transport. Istat also provides data on repairs of goods, goods for processing, non-monetary gold and export data on goods procured in ports; import data are taken from returns submitted to the UIC.

The Government reports to Istat on public current and capital transfers.

Istat's annual survey on the balance sheets and profit-and-loss accounts of Italian insurance companies is used for the estimate of the insurance service charge coefficients.

Data on compensation of employees are partially estimated on the basis of OECD data on international wage taxation.

Flow figures are collected directly for all b.o.p. items, with the exception of the financial flows of monetary authorities, which are derived from the change in stocks. For the non-banks, the reporting on foreign transactions related to financial instruments is done on a security-by-security basis. The respondents indicate the ISIN code of the securities in the statistical reporting form entitled "*Comunicazione valutaria statistica*" (CVS) for the flows, and in the data entry provided by the UIC for the stock survey.

3.2 Reporting agents

- (i) The *Monetary Financial Institution (MFI) sector*: banks and monetary authorities report to the UIC. They are involved in standard reporting. They have to report stock data on their claims and liabilities vis-à-vis residents and non-residents by type of asset/liability, currency, maturity and debtor/creditor country. Assets in securities are reported on a security-by-security basis. Banks have also to report data on their foreign transactions and on those of their customers (flow data) with a breakdown by type of operation, currency, country and type of account used for settlement (nostro/vostro account, TARGET and so on).
- (ii) The *non-banking sector*: international transactions have to be reported either directly to the UIC or through resident banks if settlement takes place in this way. Data are broken down on the CVS forms mainly by nature of operation, country and currency, and by variables used to classify operators (type of operator, type of enterprise, branch of economical activity, last financial year's turnover, number of employees in enterprise, etc.). The system also collects gross transactions settled through clearing. The Italian law enforces anonymity, which means that it is impossible to identify the resident transactor after the data have been collected and checked.
- (iii) The *official sector*: the Accounting Department of the Banca d'Italia reports on the external monetary position of the official sector on a monthly basis. The Ministry of the Economy and Finance reports public transfers.
- (iv) *Customs and the Intra-Community Trade Statistical System (Intrastat)*: for goods, reports are made to Istat, which then calculates the data (on a c.i.f.-f.o.b. basis). The UIC subsequently estimates goods data on a f.o.b.-f.o.b. basis.

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3.3 Thresholds

The collection of stock data on the assets and liabilities of non-bank operators exceeding a threshold of €250,000 by the UIC was authorised by the Interministerial Committee for Credit and Savings in October 1995.

As of January 2002, an exemption threshold of €12,500 is applied to the banking source (Matrix system) and to the non-banking source (CVS system).

3.4 Availability of data

A complete b.o.p. with a full geographical breakdown is available on a monthly basis.

3.5 Timeliness

Banks are requested to submit Matrix system data within 12 working days after the end of the reporting month, whereas the CVS data are submitted within 25 days after the end of the reporting month. The outcome of the survey on international transportation is available 30 working days after the end of the reference year. The results of the questionnaire on tourism are available about one month after the end of the reference month.

3.6 Compilation frequency

The Italian b.o.p. is compiled on a monthly basis.

3.7 Data controls

The procedure for handling and processing the raw data contained in the 1,000,000 records received each month by Matrix system and in the 4,000,000 records received by the CVS was upgraded by the introduction of an advanced information processing system. A specific software tool called UIC-Maestro was distributed to the reporting

entities. This data entry system combines simplicity with numerous checking functions (including diagnostic checks) which are designed to classify and input data and to reduce the potential for error. The most important banks also use a diagnostic software, provided by the UIC, which carries out checks similar to those provided by UIC-Maestro.

Controls are also exercised on the data in the system environment used for the collection of statistics (known as Matrix and Eleuteria). Some routine data checks are carried out on the integrity of the data, as well as some more complicated checks which take into account comparisons of flows and stocks. If inconsistencies are detected in the data, the Data Processing Division contacts the reporting agent, either by telephone or by means of a standard form on which details of the inconsistency are given and broken down by type of transaction.

3.8 Revision policy

The provisional data are published about 30 working days after the end of the reference period. Revised data are published about 100 days after the end of the reference period. Further revisions to the data for each year are disseminated five months after the end of the reference year. The data on the merchandise item for each year are revised further and finally about 13 months after the end of the reference year. Italy is ready to comply with new revision policies agreed upon at the international level.

3.9 Publication

As of the first months of 1999 the Italian b.o.p. statistics are published in a new format that is entirely in line with the standard components of the 5th edition of the IMF Balance of Payments Manual (BPM5).

Provisional flow data are provided in a UIC monthly press communiqué that is released

Table I
Reporting scheme for b.o.p. and i.i.p. data collection for Italy

Target respondent population (e.g. MFIs, enterprises, etc.)	Name of reporting form	Contents of reporting form	Frequency of reporting	Timeliness (number of days for submission after the end of the reference period)
MFIs	Matrix	Flows/stocks	Monthly	12 working days
MFIs	Survey on PI	Stocks PI (assets)	Annually	180 days
MFIs	Survey on DI	Stocks DI	Annually	180 days
MFIs (custodians)	Survey on PI – other sectors	Stocks PI (assets)	Annually	180 days
OFIs	CVS	Flows	Monthly	25 days
OFIs	Surveys	Stocks	Annually	180 days
Enterprises	CVS	Flows	Monthly	25 days
Enterprises	Survey on transportation	Flows	Annually	30 days
Enterprises	Survey on reinv. earnings	Flows	Annually	180 days
Enterprises	Survey on PI	Stocks (assets)	Annually	180 days
Enterprises	Survey on DI	Stocks	Annually	180 days
Households	CVS	Flows	Monthly	25 days
Households	Survey on travel	Flows	Monthly	30 days
General Government	Survey	Flows	Monthly	12 working days
Monetary Authorities	Matrix	Flows/stocks	Monthly	12 working days

about six weeks after the end of the reference period (coverage: goods, total services, total income, current transfers, total capital account, direct investment, portfolio investment, other investment, derivatives, reserve assets). More detailed and updated flow data become available around three months after the end of the reference month and are published in a monthly supplementary annex to the Banca d'Italia Statistical Bulletin and in the monthly UIC Statistical Bulletin.

The supplementary annex to Banca d'Italia Statistical Bulletin includes time series data, broken down according to the main items of the IMF/ECB classification for the b.o.p. The UIC Statistical Bulletin mainly reports cross-section data referring to a single month, with a detailed geographical breakdown. The coverage of the UIC Statistical Bulletin is greater than that of the press communiqué (greater detail for merchandise: general merchandise, goods for processing, repair of goods, goods procured in ports by carriers, non-monetary gold; services: all the IMF standard components; income: compensation of employees and capital income; current transfers: private sector and general

government; capital account: capital transfers and acquisition/disposal of non-produced, non financial assets; financial account: resident sector and financial instrument/assets/liabilities breakdown). Six summary tables with time series of flow data are also reported in the UIC Statistical Bulletin.

Provisional semi-annual stock data on the i.i.p. are published about 130 days after the end of the reference period in a UIC monthly press communiqué (coverage: assets and liabilities for direct investment, portfolio investment, broken down further into equities and debts, other investment derivatives and assets for official reserves). The data are subsequently published in the UIC Statistical Bulletin (a breakdown by resident institutional sector is also available). The data are revised about six months after the first release, with the publication of the new period. They are revised further about 12 months after the first release.

Annual data (b.o.p. flows and the end-of-year i.i.p.) are published in the Banca d'Italia annual report five months after the end of the year.

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The titles of the publications on b.o.p. statistics produced by the UIC and the Banca d'Italia are listed in Sub-section 13.1.

The publications are available in electronic form on the Internet at the Web sites www.bancaditalia.it and www.uic.it.

The release dates for the UIC monthly press communiqué and for the supplementary annex to the Banca d'Italia Statistical Bulletin are published in advance for the next six months.

4 Monthly balance of payments

4.1 Availability of monthly b.o.p. data

Italy provides monthly b.o.p. data within the agreed deadline of 30 working days following the end of the reference month. In principle, the monthly b.o.p. data conform to the standards set out in the BPM5.

The aggregate data are available within the above-mentioned deadline. The need for estimates relates to 5% of the total amount. However, the major need for estimates relates to the breakdown, mainly in the financial account.

4.2 Estimation methods for monthly b.o.p. data

4.2.1 For goods

Istat compiles the International Trade Statistics (ITS) by collecting customs documents for extra-EU trade statistics and referring to the Intrastat collection system for the intra-EU statistics. While the ITS are the source for the goods key item, transaction-based data are also available from foreign transaction reports – CVS forms – collected by the UIC. Using the CVS data, ITS data are adjusted by the b.o.p. compilers for the following items:

(i) imports

- purchasing abroad of non-imported goods;
- purchasing in Italy of non-resident goods;

- settlement of goods temporarily imported for processing but transformed into definitive imports;
- settlement of other temporary imports transformed into definitive imports;
- re-importation of goods processed abroad for the account of residents;
- goods procured in ports by carriers;
- (ii) exports
 - selling in Italy of non-exported goods;
 - selling abroad of non-imported goods;
 - settlement of goods temporarily exported for processing but transformed into definitive exports;
 - settlement of other temporary exports transformed into definitive imports;
 - re-exportation of goods processed in Italy for the account of non-residents.

Intra-EU trade statistics are compiled following the country-of-consignment principle, while the country-of-origin principle applies to extra-EU data. When Intrastat statistics become available – generally within eight weeks since the end of the reference month – the provisional intra-EU trade figure is revised. A further revision is carried out as soon as definitive data for the whole reference year become available.

ITS show a detailed geographical breakdown from which it is possible to recover data referring to the transactions of the non-participating Member States.

However, Intrastat data are not available within 30 working days, as required for monthly b.o.p. data. As a result, a provisional intra-EU trade figure is estimated using a forecasting technique relying on a seasonal autoregressive model.

Goods imports enter the b.o.p. on a f.o.b. basis. Estimates for transport and freight insurance are available from a sample survey conducted by the UIC. The sample survey on international transport costs aims to estimate average unit costs of merchandise transport, providing merchandise and geographical breakdowns. Such costs are multiplied by corresponding volumes of imports and exports in order to obtain absolute transportation costs. The estimated absolute transportation costs for imports can be used to transform c.i.f. values into f.o.b. values, partly because the sample survey supplies data on insurance costs; in the case of road and rail transport (imports), it is possible to distinguish costs relating to transport within Italian territory, within third countries and within countries of origin.

Such c.i.f.-f.o.b. ratios may vary from month to month, because of changes in the International Trade Statistics geographical and mode-of-transport breakdowns, and may vary from year to year as sample average unit costs are updated. The ratio for 1999 vis-à-vis extra-Euro 11 was 6.25% and, for 2000, it was 6.03%. For the 2001, the ratio vis-à-vis extra-Euro 12 was 5.85%.

The goods item is compiled by applying the special trade principle.

Since January 1999 data have been compiled according to the standards set out in the BPM5. In addition, time series dating back to 1988 have been estimated to ensure consistency with such standards.

Transactions in military goods are reported; because of confidentiality rules, they are reported in some cases (for example, warships and tanks) without giving information about the merchandise category (a residual code is used), although the geographical breakdown is applied correctly.

For transactions carried out under the so-called “Community programmes” (Satellite, Airbus and others), movements of goods are reported and the geographical breakdown is made on the basis of the physical movements of the goods making up the programme.

4.2.2 For services

Data are mainly derived from the settlements system.

Transportation services are derived from the survey on international transport. Freight services are calculated in line with the c.i.f.-f.o.b. conversion: average transport unit costs × volume of imports/exports × resident/non-resident market share.

Travel services are derived from the survey on international tourism. The survey provides a detailed breakdown by the purpose of travel, according to the supplementary items indicated in the BPM5.

Insurance services: service charge coefficients for life and other insurance services are estimated only on the credit side, using information on Italian insurance companies. The estimated coefficients are also applied to the debit side. For life and other insurance business (with the exception of freight insurance), estimated service charge coefficients are applied to premiums collected through the settlements system. For freight insurance, the service charge coefficients are applied to the premiums estimated in line with the c.i.f.-f.o.b. conversion method (average insurance costs × value of exported/imported goods × R/NR insurers’ market shares – as derived from the “Survey on International Transport” and from the

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customs' declarations/INTRASTAT data). For all the types of insurance services, the methodology includes the estimation of the premium supplements, and an offsetting entry is made in the current account income).

4.2.3 For investment income

Investment income flows are mostly compiled from settlement data. The only exception is debt securities income stemming from portfolio investment, to which the accruals principle has been applied since January 1999. The investment income item relies mostly on the settlement data collected from the respondents and no forecast is normally performed except for estimating missing data when providing the provisional monthly b.o.p. data. The approach adopted for compiling the item is mixed, insofar as debt securities income is estimated on the basis of the underlying stocks, while the other sub-components are compiled according to the actual transactions reported. For the only sub-component for which the accruals principle is applied, the estimation is carried out on a monthly basis.

With reference to portfolio investment income, the geographical split is performed by applying the same method as that used for splitting portfolio assets and liabilities in the financial account. When providing the first provisional monthly b.o.p. data, missing data are estimated by taking into account the output of both a time trend regression and an autoregressive model for departures from the trend. As soon as missing data become available – generally eight to ten weeks after the reference month – a revision of the monthly b.o.p. data is performed. Further revisions may occur when data for the whole reference year become available.

4.2.4 For direct investment

The compilation of the direct investment item is mainly based on the collection of settlement data from both the banking sector

and other respondents. An estimate for reinvested earnings is included. In order to meet the deadline of 30 working days for the monthly b.o.p. data, estimates are carried out to take missing data into account. As soon as the data become available, a revision is carried out.

4.2.5 For portfolio investment

Portfolio investment is compiled by collecting data from both the banking sector and other respondents. However, in order to meet the deadline for the monthly b.o.p. data, an estimate for missing data is carried out. The estimate is based on the output of an autoregressive model and is revised soon after further information becomes available, generally eight to ten weeks after the reference month. Nevertheless, as some differences between provisional and final data have been emphasised, Italy is refining the above-mentioned procedure to reduce the discrepancies. The geographical split between intra and extra-euro area data has not posed any difficulties.

Accrued interest is estimated on a monthly basis.

4.2.6 For financial derivatives

An estimate for the financial derivatives key item is performed only when providing the first provisional figures for the monthly b.o.p. data. The estimation technique for missing data relies on a model combining both a time-trend regression and an autoregression for departures from the trend.

4.2.7 For other investment

An estimate for the other investment item is performed only when providing the first provisional figures for the monthly b.o.p. The estimation technique for missing data relies on a model combining both a time-trend regression and an autoregression for departures from trend.

5 Investment income

5.1 Specific features of data collection

5.1.1 General

Dividends are recorded as of the date they are paid. Income on bonds and notes and on money market instruments is compiled on the basis of the accruals principle, so that stock statistics are used. No relevant difficulties have so far been encountered in applying such a methodology. Moreover, reinvested earnings related to direct investment are also surveyed on an annual basis. Adjustments are made to estimate monthly figures.

The reconciliation between estimates for providing the first provisional monthly b.o.p. data and the outcome is ensured as final data replace provisional estimates once available.

The geographical allocation is performed in different ways for credits and debits. The former are broken down according to the debtor principle, the latter according to the residency of the first known counterpart. So far, the geographical breakdown of the item has not entailed any relevant difficulties.

Some under-recording is possible in the income account credits. It is thought to be mainly related to the investment income sub-item. A more extensive application of the accruals principle to the estimation of the whole sub-item is likely to reduce the bias and a testing exercise will be carried out in the near future.

5.1.2 Income on direct investment

Data derived from settlements are integrated with estimates on reinvested earnings.

Current data on reinvested earnings are estimated using a statistical model based on the results of the foreign direct investment (FDI) survey. Revisions are performed once final data become available.

By way of example, in the 2001 direct investment stock survey, the respondents have supplied:

- data on net operating profits; and
- dividends paid for the years 2000 and 2001.

Since the available time series is very short, the estimation procedure for recent years has been based on the assumption that a simple relation exists between the total amount of the monthly direct investment income and direct investment stock data. Improvements to the procedure are envisaged as the time series becomes longer.

Income on inter-company loans is not currently recorded, but its compilation in the future is planned. Consequently, Italy intends to set up a necessary estimation procedure. After implementation, a testing exercise will be necessary before data can be made available.

5.1.3 Income on portfolio investment

Stock data are not employed as a basis for estimating income from collective investment institutes (CIIs); settlement data are used instead.

In the future, the use of stock statistics is envisaged for checking the quality of the settlement data.

The UIC and the Banca d'Italia are not currently able to draw relevant conclusions on the impact of taxation issues on portfolio investment income.

5.1.4 Income on other investment

Interest on loans between non-affiliated enterprises is compiled on the basis of settlement data.

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Income on trade credits as well as interest shares in leasing payments are not currently recorded. Furthermore, CVS forms provide for the compilation of data on deposits by private individuals/enterprises with foreign financial institutions.

Income on reserve assets is compiled on an accrual basis using stock data from the accounting system.

5.2 Definitions

Definitions are consistent with those outlined in the BPM5.

5.3 Deviations from agreed definitions

Income on inter-company loans is not currently recorded as direct investment income (see Sub section 5.1.2).

5.4 Gaps

Income on trade credits as well as interest shares in leasing payments are not currently

recorded. Italy intends to set up a necessary estimation procedure. After implementation, a testing exercise will be necessary before data can be made available. Its compilation is thus planned in the future.

5.5 Intended harmonisation

The extension of the accruals principle to the whole investment income account will be implemented.

5.6 Estimation methods

Accruals on portfolio investment assets, i.e. on bonds and notes, are estimated by the UIC on the basis of stocks resulting from the 2000 benchmark survey onwards. For the other items, cumulated flows are used. Additional information on, inter alia, interest rates, coupon maturities and interest calculation methods, is then taken from the security-by-security database. For index-linked bonds, the UIC estimates accrued interest on the basis of an average of current interest rates.

6 Capital account

6.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2).

6.2 Definition

The capital account includes capital transfers and the acquisition/disposal of non-produced non-financial assets, as defined in the BPM5.

In particular, capital transfers consist of: (i) migrants' transfers in cash or transfers resulting in a change in the foreign net position of resident banks; (ii) debt forgiveness; and (iii) all transfers of cash linked to such investment.

Any transfer in kind that determines a change of ownership of fixed assets (machinery and equipment) is considered as capital. Other transfers in kind are classified as current.

Regarding data sources, the main sources of data on private transfers (current and capital) are the reports from the banking and the non-banking sectors. For government transfers (current and capital), information is mainly derived from Istat statistics on data of the Ministry of the Economy and Finance. Pensions paid by the Italian pension scheme to non-residents and taxes paid to the Italian Government by non-residents are mainly derived from the banking and non-banking sectors' reports. Data on debt forgiveness are recorded in the Italian b.o.p. Banks' debt

forgiveness is derived from the banking reports. Government debt forgiveness is estimated using data of the Ministry of the Economy and Finance.

The source of data on capital transfers with EU institutions are the quarterly Istat statistics, as based on data of the Ministry of the Economy and Finance, disaggregated on a monthly basis by the UIC. The distinction between current and capital transfers is consistent with the European Commission (Eurostat – the Statistical Office of the European Communities) proposal for EUI transfers approved in March 1997. In particular, capital transfers with the EU include: (i) contributions under the EAGGF (European Agriculture Guarantee and Guidance Fund) – “Guidance” section (credits); and (ii) investment

contributions from the Regional Development Funds (credits).

6.3 Deviations from agreed definitions

None.

6.4 Gaps

None.

6.5 Intended harmonisation

No harmonisation necessary.

7 Direct investment

7.1 Specific features of data collection

Italy collects data on inward and outward direct investment flows and stocks through the general reporting system. Information from the survey on direct investment is used for estimating reinvested earnings. A geographical breakdown is available, based on the residency of the actual issuers (i.e. debtor/creditor principle).

In the event that a change of ownership of a resident company from a non-resident to another non-resident direct investor is revealed by the survey, the change is recorded in the FDI stocks, but not in the corresponding b.o.p. flows.

Transactions settled through an exchange of shares are recorded at the time when the exchange takes place.

The valuation of transactions settled by an exchange of shares is based – in cases where no price is agreed between the parties involved – on book values.

Owing to significant changes in the statistical collection system, the revision of historical data requires estimation.

7.2 Definition

Italy complies with the recommendations of the BPM5 and the harmonisation proposals made by the Working Group on Balance of Payments and External Reserves (the former Task Force on Financial Flows and Stocks).

Transactions between affiliates are recorded under direct investment. All short-term transactions between direct investors and affiliates are included in direct investment. Long and short-term trade credits between direct investors and affiliates are included in direct investment. Special purpose entities are included in direct investment. Equity contributions in terms of real or financial assets and not implying any actual payment are included in direct investment. Furthermore, all cross-border transactions in real estate are covered.

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7.3 Deviations from agreed definitions

None.

7.4 Gaps

None.

7.5 Intended harmonisation

No harmonisation is necessary.

7.6 Estimation methods

An estimation for reinvested earnings is made on the basis of data on profit and loss accounts derived from the survey on FDI.

8 Portfolio investment

8.1 Specific features of data collection

Italy collects data on portfolio investment flows through the general reporting system. The ISIN securities database is available. A geographical breakdown is available at any frequency. Geographical allocation is made according to the debtor principle on the assets side; for liabilities, only the residency of the first known counterpart is available. Therefore non-euro area assets data are available according to the issuer principle.

Owing to changes in the definition, the revision of historical data on portfolio investment requires estimation; stock data will not be used to provide flows. The breakdown of assets into intra and extra-euro area is possible for historical data.

8.2 Definition

Italy complies with the recommendations of the BPM5 and the harmonisation proposals made by the former Task Force on Financial Flows and Stocks.

Service charges, fees and commissions are not included in portfolio investment. Adjustments for accrued interest are made monthly.

8.3 Deviations from agreed definitions

None.

8.4 Gaps

None.

8.5 Intended harmonisation

No harmonisation is necessary.

8.6 Estimation methods

No estimation is necessary.

9 Financial derivatives

9.1 Specific features of data collection

Italy collects data on: (i) daily margins for derivatives; (ii) premiums earned/paid for derivatives; and (iii) net payments at the close of the derivatives operation. All these data are collected through the general reporting system. The residency of the counterpart is, on the assets side, the country of residence of the issuer or the country where the market is located; for exchange traded derivatives, the country corresponds to the country in which the clearing house is located. On the liabilities side, the residency of the counterpart is the country of settlement. Breakdowns by sector and by country are available on a monthly basis. No instrumental breakdown is available. Data on a gross basis are available. Initial margin payments are recorded under other investment. Daily margin payments are recorded as financial derivatives. For daily margins no breakdown is available between options-style and futures-style transactions.

10 Other investment

10.1 Specific features of data collection

Italy collects data on MFIs' and other sectors' flows through the general reporting system. For monetary authorities, flows are derived as a change in stocks. Breakdowns by sector, instrument and maturity are available on a monthly basis. Geographical allocation is based on the transactor principle.

For trade credits, the time of recording is the date on which settlements are reported to the UIC, in the case of prepayments. For post-payments, a distinction is needed between short-term and medium/long-term trade credits. Since the former are only recorded by the settlement system ex post,

9.2 Definitions

Italy complies with the definition agreed upon at the "11th meeting of the IMF Committee on Balance of Payments Statistics" and set out in the ECB recommendations.

9.3 Deviations from agreed definitions

In the settlement system it is not possible to record derivatives transactions in the event of delivery of the underlying asset.

9.4 Gaps

(See above.)

9.5 Intended harmonisation

No harmonisation is planned.

9.6 Estimation methods

No estimation is necessary.

they have to be estimated; this occurs in two stages: (i) a forecast of the total amount of goods to be exported/imported in the following 12 months; and (ii) an estimate of the post-payments share for each month and for each leg, based on the average share observed in the previous two years. The time of recording is derived from the time distribution of trade credits recorded in the previous two years. For medium/long-term trade credits, the time of recording of post-payments is, in principle, the date on which imports/exports occur, as reported to the UIC. Estimates are made to correct incomplete data.

For data before January 1999, MFIs' flows were estimated from changes in the underlying

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stocks with adjustments for exchange rate valuation, and the geographical breakdown is estimated on the basis of stock data.

The data collection system for transactions settled through TARGET has changed since October 2000. One of the most important characteristics of the new system is that transactions carried out through TARGET are identified separately. Consistency checks between transactions, as reported by banks, and settlements, as reported in TARGET accounts, are feasible. In addition, partial omissions in reporting of original transactions by resident MFIs are more difficult. Previously, transactions settled through TARGET were lumped together with other transactions settled indirectly.

The new data collection system gives greater attention to the geographical allocation of flows. In most cases, the banks settle their own or their customers' transactions directly through TARGET. In the new data collection system they have to report information on both the counterpart and the settlement country. This procedure makes it easier to check and compare the reported geographical breakdown with that derived from the change in the TARGET positions.

10.2 Definition

Italy complies with the recommendations of the BPM5 and the harmonisation proposals

11 Reserve assets

11.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2).

11.2 Definition

Italy complies with the recommendations of the BPM5 and with the national definition of

made by the Working Group on Balance of Payments and External Reserves (the former Task Force on Financial Flows and Stocks).

Foreign currency notes, coins, bond lending, repos and financial leasing are included under other investment. Bond lending and repos are considered as collateralised loans; the latter are much more significant than the former. Among repos, "genuine" repos are predominant.

10.3 Deviations from agreed definitions

None.

10.4 Gaps

None.

10.5 Intended harmonisation

No harmonisation is necessary.

10.6 Estimation methods

Trade credits and life insurance premia are partially estimated.

reserve assets approved by the Governing Council in March 1999.

The instrumental breakdown is available on a monthly basis; financial derivatives are recorded on a net basis. Reserve asset flows are derived from the change in end-of-month stock data. Balances denominated in foreign currencies are expressed in the currency of denomination. Therefore, reserve assets are

recorded at the market price at the time of the transaction and converted into euro at the relevant monthly average foreign exchange rate.

11.4 Gaps

None.

11.3 Deviations from agreed definitions

None.

11.5 Intended harmonisation

No harmonisation is necessary.

12 International investment position

12.1 Specific features of data collection

The collection system is based on monthly reporting of pure stocks for monetary authorities and for MFIs' assets and liabilities. For other sectors, stocks are calculated by cumulating flows to a benchmark, taking into account the change in valuation owing to exchange rates and market price movements. For portfolio investment assets, the data are based on the Portfolio Survey, while the benchmark for other items is the 1988 stock data. The UIC currently conducts a survey of direct and portfolio stocks on a yearly basis. It collects information on stocks and on reinvested earning flows.

Owing to the collection and calculation method, the nine-month timeliness does not pose a problem; the i.i.p. is also published on a semi-annual basis.

Close co-operation and integration with the Financial Account Unit guarantees that the coverage and concept of the financial accounts and the i.i.p. are in line with regard to the external position.

12.2 Definitions

12.2.1 General

The definitions comply with the BPM5.

For direct investment, the directional principle is followed and reinvested earnings are included.

For portfolio investment, the valuation of the issuance of money market instruments is based on the discounted price.

Data for financial derivatives recorded on a gross basis are available; no valuation at market prices is available.

For monetary authorities, flows are derived from changes in stocks; the revaluation/devaluation of monetary gold and price adjustments are also available; exchange rate adjustments are calculated.

For MFIs, both stock and flow data are available; prices, foreign exchange and other adjustments are derived.

For all other sectors, stock data are based on the accumulation of flows.

Valuation is carried out on the basis of the market price for listed securities and on the basis of book value in all other cases.

12.2.2 Direct investment

The resident operator is asked to specify the percentage of equity capital held after the transaction. If the owned share is greater than 10%, then investment is treated as "direct". In this case, all the transactions between investor and enterprise are treated as direct investment, according to the directional principle. The non-equity-linked participations are also considered as direct investment. Reinvested earnings are included.

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12.2.3 Portfolio investment

This includes equity securities, debt securities and money market instruments that are not included under direct investment and reserve assets. Money market instruments are evaluated at the discounted price.

12.2.4 Financial derivatives

The item complies both with the definition agreed upon at the 11th meeting of the IMF Committee on Balance of Payments Statistics and with the ECB recommendations. Data on a gross basis are available. No valuation at market prices is carried out.

12.2.5 Other investment

This item covers all the assets/liabilities not recorded as direct investment, portfolio investment or reserve assets. The item includes trade credits, loans, and currency and deposits.

12.2.6 Reserve assets

This item complies with the national definition of reserve assets approved by the Governing Council in March 1999 and to be applied from 1999 onwards. Reserves include claims in foreign currencies on non-residents of the euro area, monetary gold, SDRs and the IMF reserve position.

End-of-month and end-year stock data on reserve assets are valued at the middle market prices prevailing at the end of the period. Gold is valued at the end-of-period market price (the fixing at 3 p.m., loco

London). Conversion into euro is performed using the middle market exchange rates prevailing at the end of the period.

There are no reconciliation problems with regard to the stocks of reserves owing to revaluation practices. At present monthly flows of reserve assets are derived from changes in end-month stock data (reported stock data are calculated using a "flow-oriented" procedure). Monthly revaluation time series are available. Moreover, balances denominated in foreign currencies are expressed in the currency of denomination. As a consequence, prices and foreign exchange rate adjustments can be calculated.

The criterion used by accountants for the valuation of gold stocks is different from that applied in the Italian b.o.p. In the case of the latter, monetary gold is revalued monthly, using the market price (fixing at 3.00 p.m., loco London).

12.3 Deviations from agreed definitions

None.

12.4 Gaps

None.

12.5 Intended harmonisation

No harmonisation is needed.

12.6 Estimation methods

No estimation is performed.

13 Administration

13.1 Titles of publications

Statistical Bulletins:

Banca d'Italia – *Supplemento al Bollettino Statistico, Indicatori monetari e finanziari, Bilancia dei pagamenti: Orange series* – (monthly)

Ufficio italiano cambi – *Bollettino Statistico, statistiche analitiche valutarie* (monthly)

Other publications

Banca d'Italia – Annual Report (end-May)

Banca d'Italia – Economic Bulletin (published twice a year: end-February and end-October)

Banca d'Italia – The Manual of Italy's Balance of Payments: Statistical Sources and Compilation Methods – September 1996

13.2 Contributors

This country information was drafted by the ECB's Balance of Payments Statistics and External Reserves Division and subsequently amended and agreed with Italy. Enquiries of

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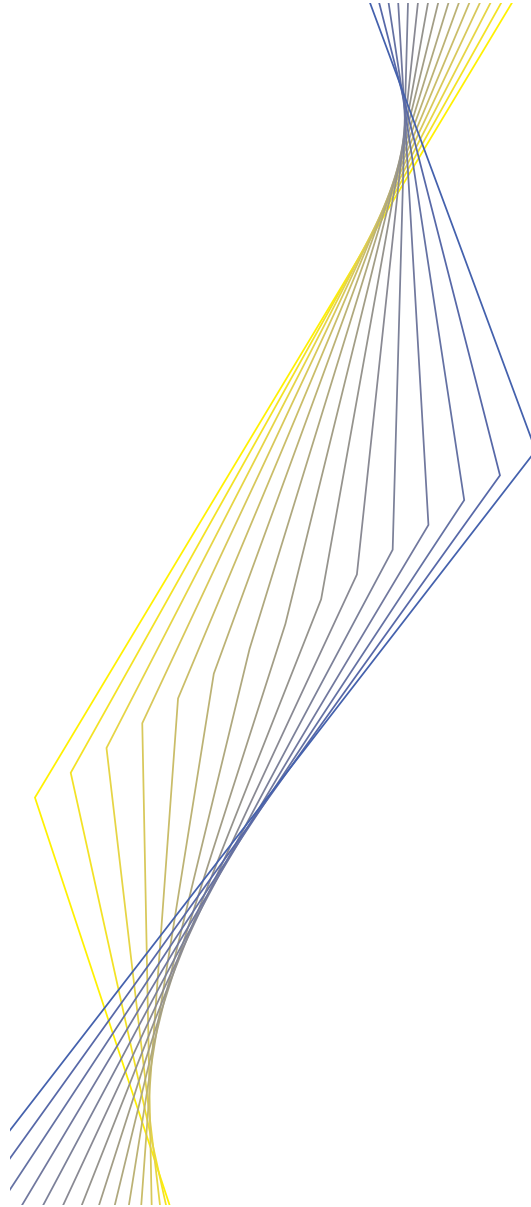
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EUROPEAN CENTRAL BANK

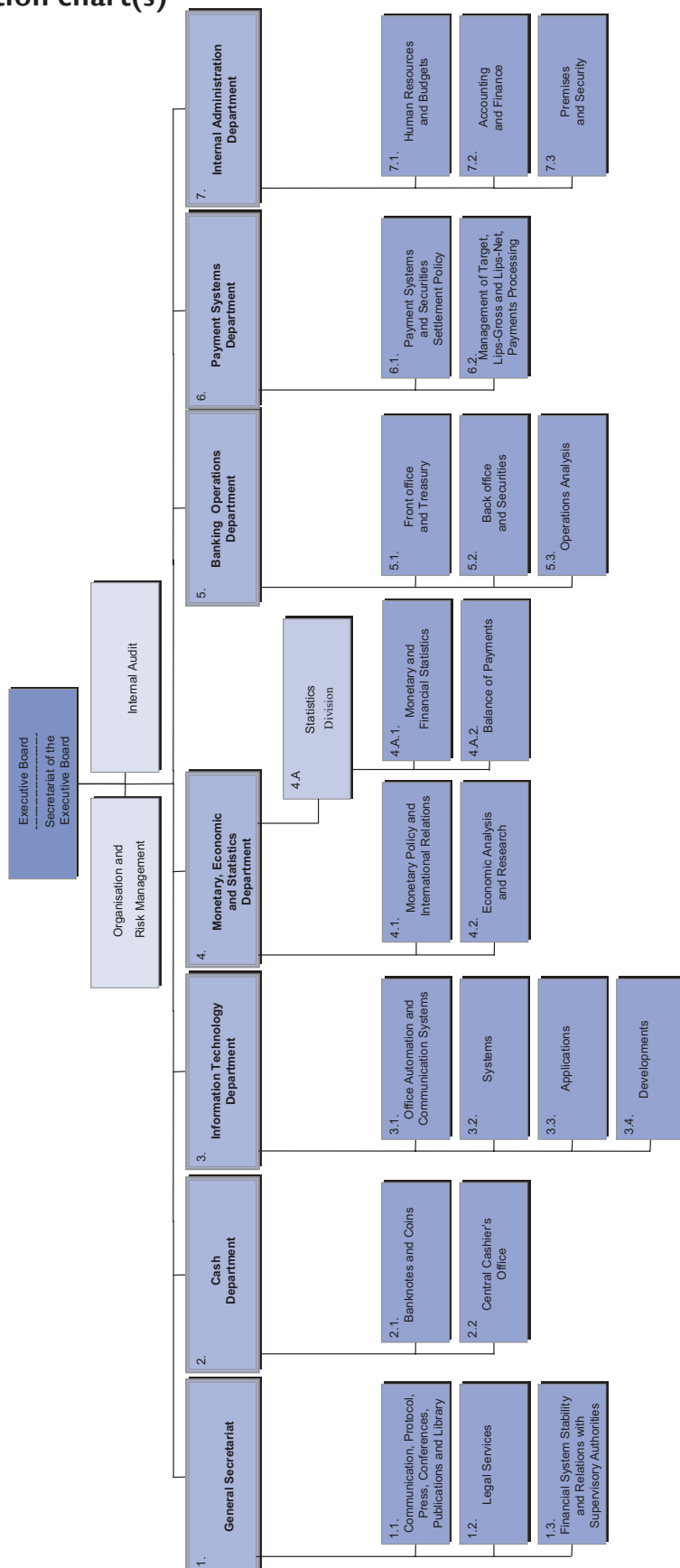


Luxembourg

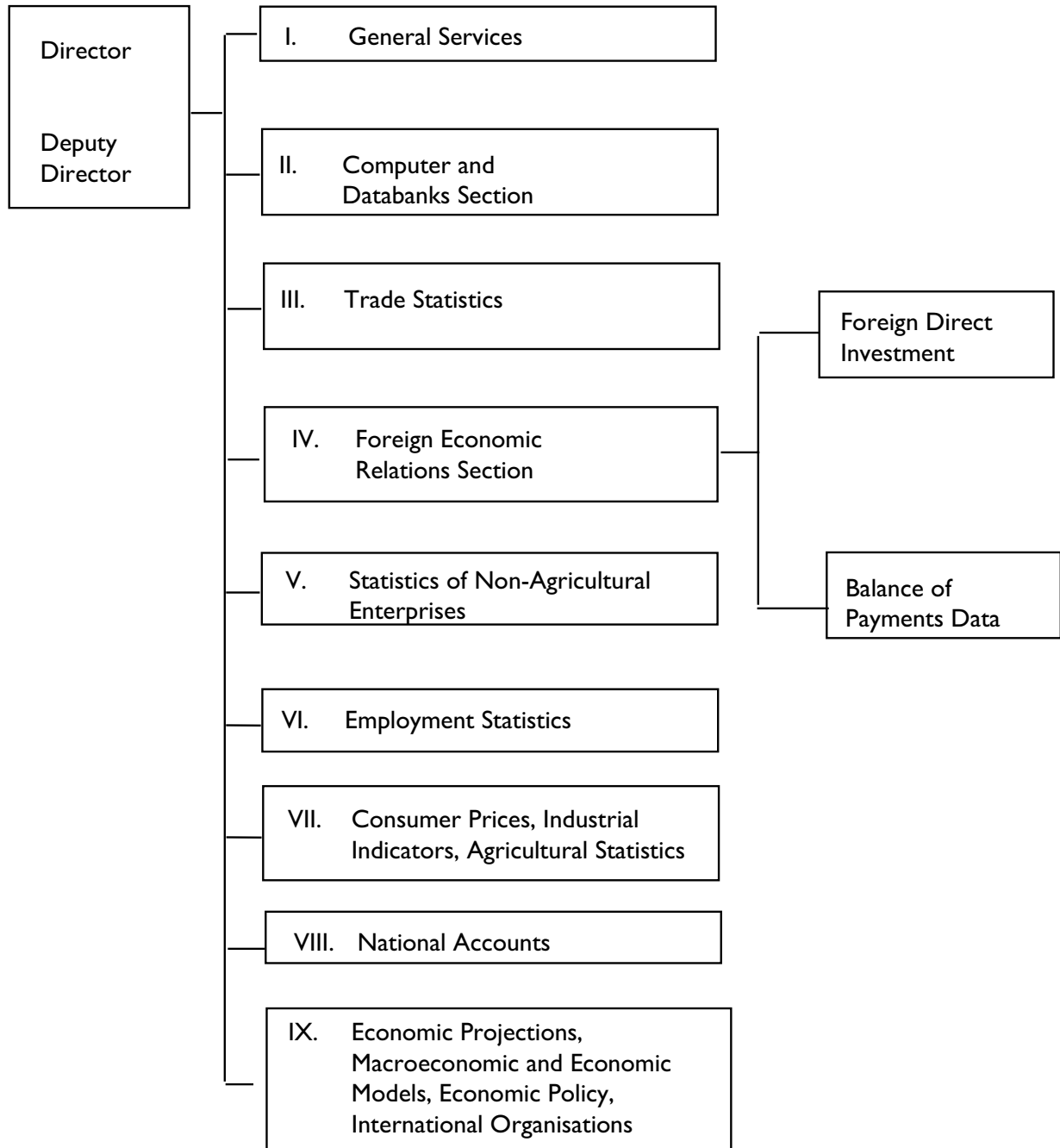
November 2002

I Organisation chart(s)

Organisation chart of the Banque centrale du Luxembourg 2002



STATEC



2 Institutional aspects

2.1 Introduction

Until 31 December 2001, information on external payments in Luxembourg was collected by the *Institut belgo-luxembourgeois du change* (IBLC), which received data mainly from credit institutions. These data served to establish balance of payments (b.o.p.) statistics for the Belgian-Luxembourg Economic Union (BLEU). At the beginning of Stage Three of Economic and Monetary Union, the Governments of Luxembourg and Belgium took the decision to terminate the activities of the IBLC on 1 January 2002. From that date onwards, Belgium and Luxembourg have established separate b.o.p. accounts.

2.2 Legislative provisions

The regulations currently in force are the Grand-Ducal Decree of 10 November 1944 (as amended), which relates to exchange controls, the Grand-Ducal Execution Regulation of 19 July 1997, which relates to foreign payments and the b.o.p., and the Ministerial Decree of 13 November 1998, which relates to the publication of the IBLC rules to be applied by the reporting agents.

In 2000, some changes were made to the above-mentioned Grand-Ducal Decree. Under the law, dated 28 June 2000, modifying the Grand-Ducal Decree of 10 November 1944 (as amended), the *Banque centrale du Luxembourg* (BcL) and the *Service Central de la Statistique et des Etudes économiques* (STATEC) are jointly responsible for establishing the b.o.p. The elaboration of a data collection system, including the associated methodology, concepts and definitions, has been established by common agreement.

The BcL is responsible for establishing the financial account and Luxembourg's international investment position (i.i.p.), as well as for the evaluation of the investment

income statement. The BcL is also in charge of the information system for data management. STATEC is responsible for establishing the capital account and the current account (with the exception of the investment income item), as well as for the survey on foreign direct investment positions.

The following table summarises the allocation of responsibilities between the two institutions:

Area of responsibility	Institution in charge
Current account minus income on investments	STATEC
Income on investment	BcL
Capital account	STATEC
Financial account	BcL
Foreign direct investment survey	STATEC
International investment position	BcL

STATEC and the BcL have decided that relations with the reporting agents belonging to the financial sector are the responsibility of the BcL, whereas all remaining reporting agents are the responsibility of STATEC.

2.3 Internal organisation

(i) BcL

The Statistics Division of the BcL is in charge of establishing statistical data in the area of the b.o.p. and the financial accounts as well as money and banking statistics. The Balance of Payments Section of the Statistics Division has developed the infrastructure necessary to compile the Luxembourg b.o.p. and i.i.p. for data collected as from 1 January 2002. The section has also communicated the new reporting requirements to the reporting agents of the financial sector and maintains contacts with them. It is also in charge of compiling those components of the b.o.p. for which the BcL is responsible (see shared responsibility with STATEC).

(ii) STATEC

STATEC is responsible for centralising all statistical information and for co-

ordinating Luxembourg's statistical system. STATEC is represented in the main decision-making bodies at the level of the European Commission (Eurostat).

STATEC comprises eight sections, one of which – the Foreign Economic Relations (Statistics) Section – was responsible from 1995 to 2001 for compiling foreign direct investment stock data and the b.o.p. current account of Luxembourg.

Since 1 January 2002, this section has been in charge of compiling those components of the b.o.p. for which STATEC is responsible (see shared responsibility with BcL) and establishes and maintains contacts with reporting agents of the non-financial sector.

3 Statistical system

3.1 Type of collection system

The present system is based on the principles of the IBLC system. The collection system used to report statistical data for the b.o.p. is an “*international transactions reporting system (ITRS) of the open type*”, which is based on the collection of settlements. Credit institutions have to inform the BcL of foreign payments made on behalf of their customers as well as those realised for their own account. Residents who make external transactions which are settled without resorting to resident credit institutions must declare these transactions either to the BcL or to STATEC, depending on the sector involved.

The compilers also make use of different other sources. For some components of the current account, administrative sources are used:

- compensation of employees (social security information);
- transactions with European institutions;
- insurance data from the supervisory authority for insurance companies.

2.4 External co-operation

See Sub-sections 2.3 and 2.5.

2.5 Users

The national compilers – the BcL and STATEC – are responsible both for reporting to international organisations and for publishing all related statistics. The BcL mainly reports to the ECB, the International Monetary Fund (IMF), and the Bank for International Settlements (BIS). STATEC liaises with EUROSTAT, the Organisation for Economic Co-operation and Development (OECD) and the UN Division for Statistics.

The flows of the MFI sector relating to portfolio investment and other investment, are derived from the balance sheets of MFIs.

Furthermore, for portfolio investment, some flow data are adjusted on the basis of specific statistics from general government. In addition, for flows of direct investment, some adjustments are made on the basis of information taken from specialised media.

Within the framework of the i.i.p., stock data are used for the banking sector and general government, as well as stock exchange information for the adjustment of prices relating to portfolio investment.

For the reserve assets component of the b.o.p., as well as for the new international reserves template and the corresponding i.i.p. components, data provided directly by the Accounting Section of the BcL are used.

Very generally, the collection system can be summarised as a four-pillar system comprising:

- direct reporting;
- administrative sources;

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- other statistical sources (e.g. trade, travel, MFI balance sheet statistics); and
- settlements information for all transactions not covered by the first three sources.

For the time being, this four-pillar approach seems to be the optimal combination in order to reach best quality for statistics and lowest burden for respondents.

3.2 Reporting agents

- Banks:** These are banks and other financial institutions, as defined in the Second EU Banking Directive. Coverage is extended to include non-bank institutions so as to cover the Monetary Financial Institution (MFI) sector. The “Comptes Chèques Postaux” of Luxembourg (CCPL), is assimilated to a financial institution for b.o.p. reporting purposes. Banks are required to report external transactions undertaken on behalf of their customers and for their own account (also see Sub-section 3.3). These reports are of the “open” type and are established on a daily basis and in the original currencies.
- Direct respondents:** Enterprises have to report all external transactions settled through a channel other than resident credit institutions directly to the BcL or STATEC. This reporting covers bank accounts abroad, netting procedures and current accounts. General direct respondents (GDRs) report directly to the BcL or STATEC on all transactions with non-residents. These reports are denominated either in the original currencies or in euro.
- Monetary authorities:** The BcL provides data on reserve assets and other transactions of the monetary authorities.

Within the framework of the relevant legislation, the BcL and STATEC are authorised to organise *surveys* for the compilation of the b.o.p./i.i.p. At the moment,

two surveys are being carried out, namely one on *trade credits* and one on *foreign direct investment* (inwards and outwards), which cover stock and flow data on equity capital, results, dividends, loans, interest payments and commercial credits, as well as some other economic data on each direct investment relationship.

3.3 Thresholds

Exemption and justification thresholds are applied in the Luxembourg collection system.

An exemption threshold of €12,500 is applied to both inpayments and outpayments. Below this threshold, no reporting is required for transactions by third parties settled through banks. For transactions above this exemption threshold, the identification of the resident transactor, the economic nature, the currency and the amount of the transaction, as well as the country of residence of the counterpart have to be reported. For reports on outgoing payments, written justification is required for amounts in excess of €12,500, given that this information should be readily available as customers have to fill in a payment order for the bank. In view of the fact that written justification is far more burdensome in the case of incoming payments, the threshold for written justification is €625,000.

3.4 Availability of data

Monthly, quarterly and annual data for Luxembourg are available from January 2002 onwards.

A complete Luxembourg b.o.p. (quarterly and annual data) will include most of the major IMF standard components.

3.5 Timeliness

The reporting banks have to submit their daily reports within five working days. Direct

Table 1
Reporting scheme for b.o.p. and i.i.p. data collection for Luxembourg

Target respondent population (e.g. MFIs, enterprises, etc.)	Name of reporting form	Contents of reporting form	Frequency of reporting	Timeliness (number of days for submission after the end of the reference period)
MFIs – banks	Daily report (répertoire)	Flows	Daily	5 working days
Enterprises	Accounts abroad	Flows and balances	Monthly	15 working days
	Bilateral netting	Flows and balances	Monthly	15 working days
	Multilateral netting	Flows and balances	Monthly	15 working days
	DDG	Flows and balances	Monthly	15 working days
	Trade credits survey	Stocks (assets/liabilities)	Quarterly	15 working days
Banks and enterprises	FDI survey	Stocks	Yearly	Deadline: 30 June

respondents have 15 working days after the end of the reference month to submit their reports. Some adjustments are made to cover any missing data whenever direct respondents are late in sending their reports. A similar procedure is followed for the banking statements. This procedure enables the BcL to respect the six-week timelag granted by the ECB for the submission of the data on monthly b.o.p.

3.6 Compilation frequency

A monthly b.o.p. is compiled for ECB purposes only. Publication will start on monthly basis in 2003.

3.7 Data controls

Data are checked within the workstation for validation purposes, as well as at the technical level to verify their content (adequacy, completeness, etc.) and cohesion. These controls consist of checking, inter alia, the accuracy of the identification number and of certain cross-checks (transaction, country and currency codes). One of the in-house cohesion controls is aimed at verifying the consistency of each individual report.

Corrections are made to the individual data stored on the server. This correction process is closely monitored using the following files: a file for basic data, including all accepted data; a file for correction purposes; and a historical file, which provides information on the different stages through which a record passes.

Individual controls are carried out on a transaction-by-transaction basis. These controls consist of an evaluation of a selection of individual transactions, based on ad hoc criteria for each item, the result of which may be corrections. Plausibility analyses are also carried out for each b.o.p. component at two levels: by transaction code (time series) and by respondent (on the basis of its profile).

3.8 Revision policy

Data revision is a continuous process. Individual records can be updated on a daily basis. These updates can be tracked in detail via historical files. Aggregated data for dissemination are currently revised as follows.

Monthly figures are produced within six weeks, in order to fulfil the requirements of

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the ECB. The revision process is carried out at quarterly and annual frequency. The revision of a year or a quarter involves the revision of every month concerned.

Month	Quarter	Year
M + 6 weeks	Q + 3 M Q + 6 M	Y + 3 M Y + 9 M Y + 15 M

The time periods given for reporting are as from the end of the month, quarter or year concerned.

3.9 Publication

The current national presentation of the Luxembourg b.o.p. is, in principle, in line with the fifth edition of the IMF Balance of Payments Manual (BPM5).

4 Monthly balance of payments

4.1 Availability of monthly b.o.p. data

The monthly b.o.p. data are available within the six-week time period; however, these data have a lower degree of reliability and coverage and are completed using estimates for certain missing respondents.

The level of the reporting provided by banks in the field of flow data is satisfactory considering the six-week deadline.

4.2 Estimation methods for monthly b.o.p. data

4.2.1 For goods

Trade statistics are used for the “goods” component of the b.o.p. These trade statistics are not taken over as such, but are adjusted in order to adapt them to BPM5. Missing data are estimated and imports are valued on an f.o.b. basis. There is no seasonal adjustment.

Publication was initiated on a quarterly basis in 2002.

The figures for the Luxembourg b.o.p. will be available on the BcL and STATEC websites (www.bcl.lu and www.statec.lu respectively).

The main users of the b.o.p./i.i.p. data are the BcL’s Economic Research Section, STATEC’s National Accounts Division, STATEC’s “service de conjoncture”, international organisations, banks, ministries, professional associations, embassies, researchers and students.

As from 2003, Luxembourg will participate in the Special Data Dissemination Standards (SDDS) system; until then, the release dates for data on the b.o.p./i.i.p. and reserve assets will be published in advance.

4.2.2 For services

Financial services are included on the basis of the settlement system plus estimates for commissions and administration fees on collective investment institutions (CIIs) assigned to non resident investors.

For travel, the main sources are surveys, other statistics and administrative sources.

The other services items are mainly covered by settlement data, other statistics and administrative sources.

4.2.3 For investment income

The procedure for estimating reinvested earnings is mainly based on the survey of foreign direct investment, which is an annual survey. The procedure aims at fixing the rate of reinvested earnings to be applied to the total direct investment figure.

Income on portfolio and other investment results from the same method as follows:

- detailed monthly stock positions for banks and CIIIs, broken down by country and instrument, are estimated. These estimates are based on monthly, quarterly and yearly sources;
- monthly benchmark yields, broken down by country and instrument, are applied to the detailed stocks for the estimation of income.

The treatment of investors' income in the resident CIIIs differs from this principle. The total income of CIIIs (i.e. all income, including that of residents) is attributed to the investors. The geographical breakdown is based on the trading country and on an estimation for the part traded in Luxembourg to non-resident investors.

The income of the government and the central bank is available from administrative sources.

The income of other sectors, except for that of CIIIs, is provided by the ITRS.

4.2.4 For direct investment

See Sub-section 7.1.

5 Investment income

5.1 Specific features of data collection

5.1.1 General

The reporting system is based on a sectoral approach in order to focus on the main entities involved in b.o.p. income. These entities are the resident banks and CIIIs for which monthly stocks are available. Specific sources for government, the BcL and other residents complete the data collection system for income.

5.1.2 Income on direct investment

Reinvested earnings are included. The estimate of dividends is based on the calculation of gross dividend yields for the

4.2.5 For portfolio investment

The figures are based on the settlement data collected via the ITRS and received via direct reporting agents.

4.2.6 For financial derivatives

For financial derivatives and other investment, no specific estimates are made. The available data are taken from the ITRS, in which ad hoc transaction codes are identified in order to isolate those components. No further adjustments are made to ensure that derivatives fulfil the required methodology for options and futures.

4.2.7 For other investment

The figures are based on the settlement data collected via the ITRS and MFI balance sheets. The ITRS provides data on the MFI sector and other sectors (excluding the central bank and the government) as a whole. The allocation between both sectors is obtained according to MFI balance sheets.

major partner countries, as applied to existing stocks of equity capital.

5.1.3 Income on portfolio investment

Income is calculated on the basis of stock data, together with benchmark yields on a monthly basis (see Sub-section 4.2.3). Taking into account the calculation process, all instruments are treated in the same way, i.e. there is no specific treatment for different types of bonds (e.g. zero-coupon bonds or indexed bonds).

Income on resident CIIIs is compiled on the basis of stock data. The total income of CIIIs is attributed to the investors (see Sub-section 4.2.3).

The geographical breakdown on the credit side is mainly made according to the residency of the issuer. On the debit side, flows are allocated to the trading country of the securities. An exception is made for resident holders other than CII in the other sectors, for which the geographical breakdown is done accordingly to the country of payment.

5.1.4 Income on other investment

For the loan and deposit components of other investment, income is computed in the same way as for portfolio investment. Furthermore, certain income transactions are not registered, such as the share of interest in financial leasing.

5.2 Definitions

Definitions are in line with the BPM5, except for the deviations set out in Sub-section 5.3. All financial derivatives are treated as such, including those on interest

6 Capital account

6.1 Specific features of data collection

Data collection forms part of the general reporting system (see Sub-section 3.2). For public transfers, extensive use is made of administrative sources.

6.2 Definition

The definition of the capital account is in line with the BPM5 and the harmonisation proposals made by the ECB's Working Group on Balance of Payments and External Reserves Statistics and its predecessor. The distinction between current and capital transfers is made by using different

rates. Dividends are recorded as of the date they are payable.

5.3 Deviations from agreed definitions

A deviation relates to income on bonds and notes between affiliates, which is recorded as portfolio investment income since the underlying transactions in the financial account cannot be recognised as direct investment transactions.

5.4 Gaps

None.

5.5 Intended harmonisation

None.

5.6 Estimation methods

See Sub-section 4.2.3.

transaction codes in the collecting system, in line with the BPM5 criteria.

6.3 Deviations from agreed definitions

None.

6.4 Gaps

None.

6.5 Intended harmonisation

None.

7 Direct investment

7.1 Specific features of data collection

At present, direct investment in the b.o.p. is computed on the basis of the information collected via the ITRS, where specific transaction codes are used, thus also providing a split between euro area assets and non-euro area assets. Furthermore, the data from the ITRS are compared with the banking statistics – in order to improve the quality of the data for the banking sector – and with balance sheet data and media information with a view to increasing coverage and quality.

Geographical allocation is based, in principle, on the country of settlement. However, in order to identify the split between intra-euro area and extra-euro area transactions, reporting agents are requested to take the residency of the actual issuers into account.

A yearly survey is organised on foreign direct investment abroad and in the reporting economy. Here, the debtor/creditor principle is fully applied, with the information being collected for each individual direct investment relationship. In the event of a change of ownership of a resident company from a non-resident to another non-resident direct investor being revealed by the survey, the change is recorded in the FDI stocks, but not in the corresponding b.o.p. flows.

Transactions on equity capital made without any settlement are registered directly by the b.o.p. compilers. The valuation of those transactions is based on official publications, if available (a prospectus is a statutory requirement when a transaction is public), specialised media information and stock exchange data.

Direct investment transactions settled through an exchange of shares are recorded at the time when the exchange of shares takes place.

Valuation of transactions settled through an exchange of shares is based on the official

estimates of the market price published by the parties involved.

7.2 Definition

In principle, Luxembourg plans to comply with the recommendations of the BPM5 and the harmonisation proposals made by the ECB's Working Group on Balance of Payments and External Reserves Statistics and its predecessor.

The definitions of the different concepts used in direct investment statistics are in line with the BPM5 and the OECD benchmark (threshold of 10% ownership, direct investor, direct investment enterprise, direct and indirect relationship).

Cross-border transactions in real estate are covered.

Special purpose entities (SPEs) are considered to be ordinary enterprises, regardless of the type of transactions in which they engage.

As a result, even inter-company transactions of financing-oriented SPEs are included in direct investment flows. The transactions with related banks, such as loans and deposits, are excluded from direct investment statistics.

For equity capital, the main information is based on the related settlements. Those data are completed, in some cases, by using information from specialised newspapers or other documentary sources, or by using the direct investment survey results, in order to adjust the equity capital and inter-company loans item for transactions carried out without any settlement.

Loans are included regardless of their maturity, and even cash management transactions are covered as far as possible.

Offsetting entries for reinvested earnings are included.

7.3 Deviations from agreed definitions

Furthermore, trade credits between related enterprises and credits in respect of issues of bonds and notes between related enterprises are not included in direct investment, but rather in other investment and portfolio investment respectively. Transactions in financial derivatives between affiliates are not included in direct investment. The direct investment survey will make it possible to adjust the trade credits item in the near future, once coverage is sufficient.

7.4 Gaps

None.

8 Portfolio investment

8.1 Specific features of data collection

The source for data collection on portfolio transactions is the ITRS (settlement data). The codification used for these transactions is based on a classification by instrument, by country of issuer (Luxembourg, euro area or non-euro area) and by maturity (up to one year or more than one year). The euro area/non-euro area split has been produced since mid-1998, but it is not possible to calculate this split for data prior to January 2002.

The geographical allocation on the liabilities side follows the transactor principle (first counterpart of the settlement) in full. For the assets side, two types of information are available: the first counterpart, as in the case of liabilities, and the issuer in an aggregated way (euro area/non-euro area split).

For the MFI sector, flows are derived from the available stock data where the allocation is made by country of issuer for assets.

7.5 Intended harmonisation

The survey conducted covers not only direct investment flows and stocks, but also other components (earnings, reinvested earnings and distributed earnings as well as income on debt and Foreign Affiliated Trade Statistics (FATS)). The survey is also useful for reconciliation purposes. The information obtained from the survey is expected to rectify most of the deviations and fill the gaps mentioned, with the exception of transactions in bonds between affiliates. Corrections of flows are made on the basis of the survey results, except in the case of bonds.

7.6 Estimation methods

The information content of the quarterly data is similar to that of the monthly data. No specific estimates are made.

For the general government sub-component, data are obtained from the Treasury Administration.

There is no separate reporting system for transactions settled through financial centres, custodians, etc.: they have to be reported within the framework of the ITRS. Within Luxembourg, one important clearing house operates, namely Clearstream. A large number of transactions pass through that clearing house. When Clearstream acts as custodian, it intervenes in the transactions as counterpart for both sides of the transaction involved; this should theoretically result in large flows with other countries and should have a serious impact on the geographical allocation in a number of countries as well. However, in the national presentation of the b.o.p., without the geographical breakdown, those transactions relating to the role of Clearstream as intermediary between non-residents are neutralised.

Finally, trading in loan portfolio (securitisation of loans) is classified under portfolio investment.

8.2 Definition

In principle, Luxembourg plans to comply with the recommendations of the BPM5 and the harmonisation proposals made by the ECB's Working Group on Balance of Payments and External Reserves Statistics and its predecessor and to the final report of the Task Force on Portfolio Investment Collection Systems.

For securities, the split between domestic and foreign securities is available, with a further breakdown into euro area/non-euro area assets and liabilities.

The collection system provides a single maturity breakdown; over one year (long-term) and up to one year (short-term). For long-term securities, a distinction is made between equities and bonds; for short-term securities – money market instruments – there is no further breakdown by instrument. Only for domestic issues have separate codes been created for government and other issues.

In principle, income, commissions, charges and fees on portfolio transactions should be recorded separately in the collection system; where this is not the case, however, these items are included in the settlement amount for the portfolio transaction.

9 Financial derivatives

9.1 Specific features of data collection

With regard to financial derivatives, Luxembourg has modified the nomenclature and codes for derivatives in order to distinguish between option-type derivatives and others (forward, interest and currency swaps, and futures). For the former, a supplementary breakdown has been

8.3 Deviations from agreed definitions

In general terms, data on portfolio investment can be considered to be reliable, although there are some areas in which there is still some progress to be made.

As yet no offsetting entries are made for accrued interest.

Transactions in bonds between affiliated enterprises are recorded under portfolio investment and not under direct investment (see Sub-section 7.3).

Another deviation is the problem encountered when applying the valuation principle to the market value: the recorded value is the payment value. Nevertheless, this should be a good proxy for the market value.

8.4 Gaps

None.

8.5 Intended harmonisation

None.

8.6 Estimation methods

Some estimates based on time series analysis are made for missing data and lead to some adjustments, if necessary.

introduced in order to produce a split between assets and liabilities according to the issuer.

The geographical counterpart is the counterpart in the transaction, because the counterpart is usually the market itself in the case of organised markets.

9.2 Definitions

The definitions used for the instruments are in line with the BPM5. Nevertheless, no distinction is made by type of margin; all are included in financial derivatives.

9.3 Deviations from agreed definitions

The BcL and STATEC comply with the recommendations of the BPM5 and the harmonisation proposals made by the Working Group on Balance of Payment and External Reserves Statistics and its predecessor.

10 Other investment

10.1 Specific features of data collection

Information on the MFI sector is based on the assets and liabilities data of the banking sector (to be extended to non-bank MFIs), and on the general collection system for the other sectors.

Data on trade credits are covered by a quarterly survey, from which a sectoral breakdown can be obtained. The survey provides end-quarter information on assets and liabilities related to transactions on goods and services for selected companies.

For the MFI sector, the flow data are derived from stock data (contained in their balance sheet reporting). There is an instrumental split between loans and deposits, and a sectoral breakdown is also available. The geographical breakdown can be provided, as well as a maturity split (based on the initial maturity of up to one year or more than one year). All these breakdowns are available for all periods (monthly, quarterly and annually).

The breakdown into extra-euro area and intra-euro area bop flows is derived from the geographical breakdown available in the balance sheets of the MFIs for both assets and liabilities.

All types of margins are included in financial derivatives.

9.4 Gaps

None.

9.5 Intended harmonisation

None.

9.6 Estimation methods

None.

Transactions settled via TARGET are registered by the intervening MFIs in the same way as other cross-border settlements. In the organisation of the reporting procedures, the BcL, as the operator of TARGET, is considered to be a second intervening MFI. As a result, interbank transactions are registered between the BcL and the domestic MFI that intervenes for the resident counterpart, using neutral codes.

10.2 Definition

In principle, Luxembourg plans to comply with the recommendations of the BPM5 and the harmonisation proposals made by the ECB's Working Group on Balance of Payments and External Reserves Statistics and its predecessor.

Repo transactions are included in other investment, where they are recorded as loans. This instrument, which is used by the banking sector, is very important; most of these transactions are genuine repos, although sale and buy-back transactions also occur. By contrast, bond lending is not very well-developed. Trading in loan portfolios

does take place, but is not yet very significant; it is treated as portfolio transactions.

Variations on short-term claims and liabilities between affiliated companies are classified under the direct investment component.

10.3 Deviations from agreed definitions

Trade credits between related enterprises are included in other investment.

10.4 Gaps

None.

10.5 Intended harmonisation

The direct investment survey will be used to record trade credits between affiliated enterprises under direct investment.

10.6 Estimation methods

Some estimates based on time series analysis are made for missing data and may lead to some adjustments, if necessary.

11 Reserve assets

11.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2).

11.2 Definition

The information is obtained from the Accounting Department, where no problems relating to confidentiality are encountered in providing breakdowns.

Financial derivatives are recorded on a net basis. Embedded financial derivatives are recorded together with the underlying financial instruments and are not recorded and valued separately.

All transactions in reserve assets are registered at market prices and converted

into euro using the market exchange rates at the time of the transaction.

11.3 Deviations from agreed definitions

No significant deviations.

11.4 Gaps

Data availability does not pose a problem. The instrumental breakdown is not currently available.

11.5 Intended harmonisation

None.

12 International investment position

12.1 Specific features of data collection

Luxembourg will produce its first i.i.p. in 2003. The production of an i.i.p. within nine months implies that many data will be of a

provisional nature. With a view to including the results of stock data from ad hoc surveys, the period of nine months is too short, considering that it takes almost this long to collect the data; for direct investment stocks,

for instance, a minimum of 12 months is needed to produce a first set of reliable data. A fully updated methodology and processing is under development, to become fully operational in 2003.

The following sources will be used to compile the i.i.p. data:

- (i) *stocks*:
 - banking sector: portfolio investment (equities, long-term debt instruments and money market instruments) and other investment (short-term and long-term loans and deposits);
 - general government: portfolio investment (government bonds) and other investment;
 - monetary authorities (reserve assets and other assets);
- (ii) *flows*:
 - banking sector: direct investment;
 - other sectors: all items.

The breakdowns by sector and by instrument will be based on the data sources. With the exception of the banking sector's assets, no euro area/non-euro area breakdown is possible for stock data unless the survey results are used.

There are no plans at present to produce quarterly data.

12.2 Definitions

12.2.1 General

The definitions for the i.i.p. items refer to the BPM5, as do the definitions for the respective b.o.p. items.

The reconciliation process will be based either on stocks or on the accumulation of flows, depending on the item concerned.

12.2.2 Direct investment

The directional principle will be applied.

12.2.3 Portfolio investment

See Sub-section 12.2.1.

12.2.4 Financial derivatives

Financial derivatives will be computed on the basis of accumulated flows; therefore, no valuation of market prices will be carried out for the resulting stocks.

12.2.5 Other investment

See Sub-section 12.2.1.

12.2.6 Reserve assets

Stocks of reserve assets will be compiled in co-operation with the Accounting Section of the BcL.

12.3 Deviations from agreed definitions

See the b.o.p. financial account.

12.4 Gaps

See the b.o.p. financial account.

12.5 Intended harmonisation

See the b.o.p. financial account.

12.6 Estimation methods

None.

13 Administration

13.1 Titles of publications

Banque centrale du Luxembourg:
Annual report
Bulletin (quarterly)

STATEC:
Bulletin
“*Note de conjoncture*” (quarterly)
“*Annuaire statistique*” (annual)
Website: www.statec.lu

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13.2 Contributors

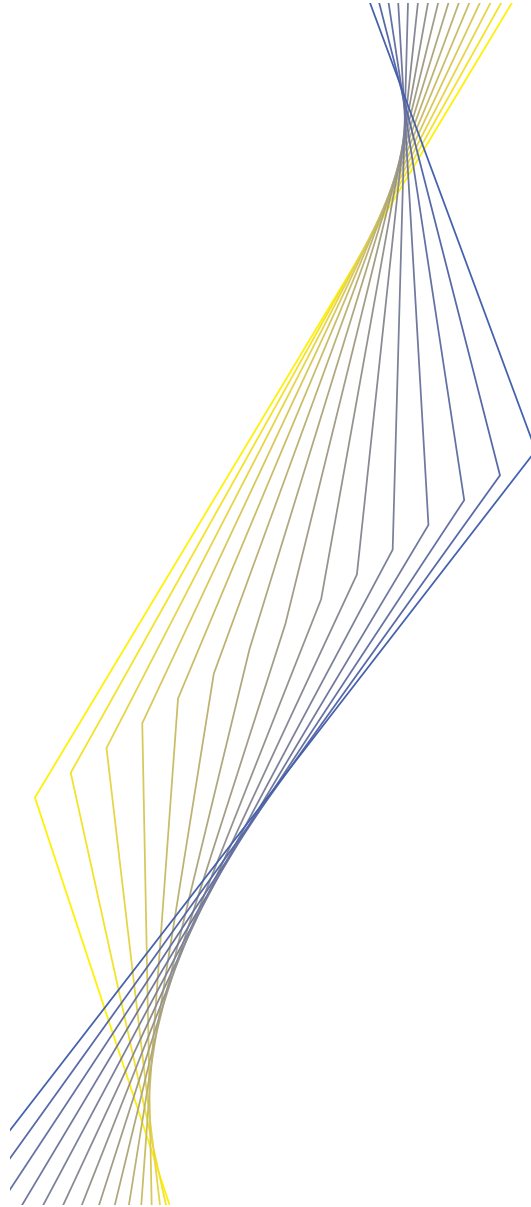
This country information was set up by the ECB's Balance of Payments Statistics and External Reserves Division and subsequently amended and agreed with Luxembourg. Enquiries of a general nature should be addressed to the Press Division of the ECB. Enquiries specific to Luxembourg should be addressed to:

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Chapter 4.9 Luxembourg



EUROPEAN CENTRAL BANK

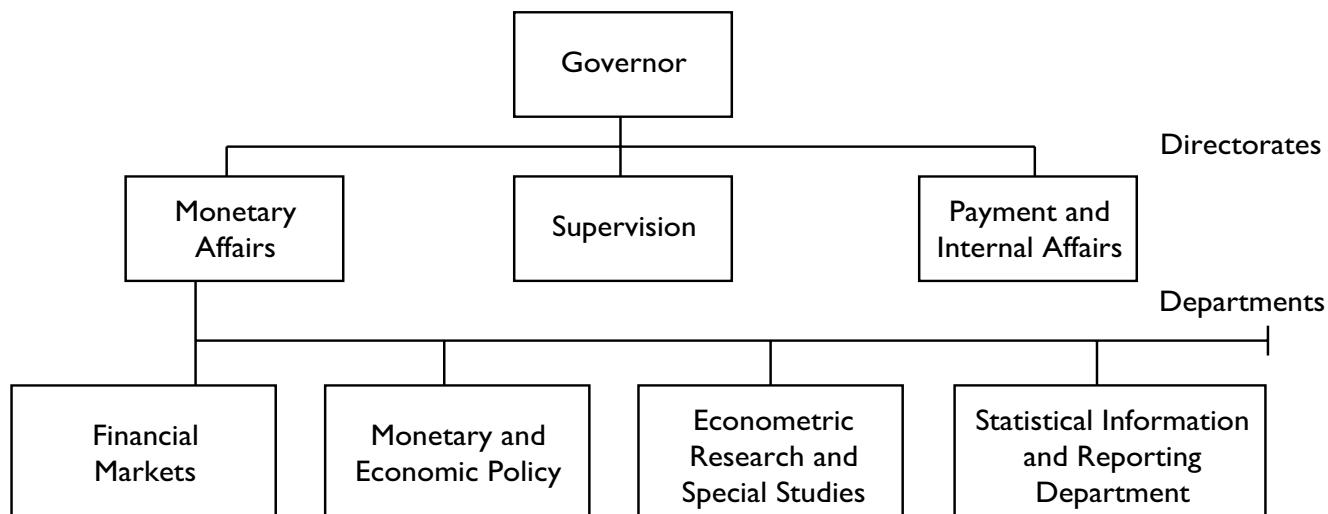


The Netherlands

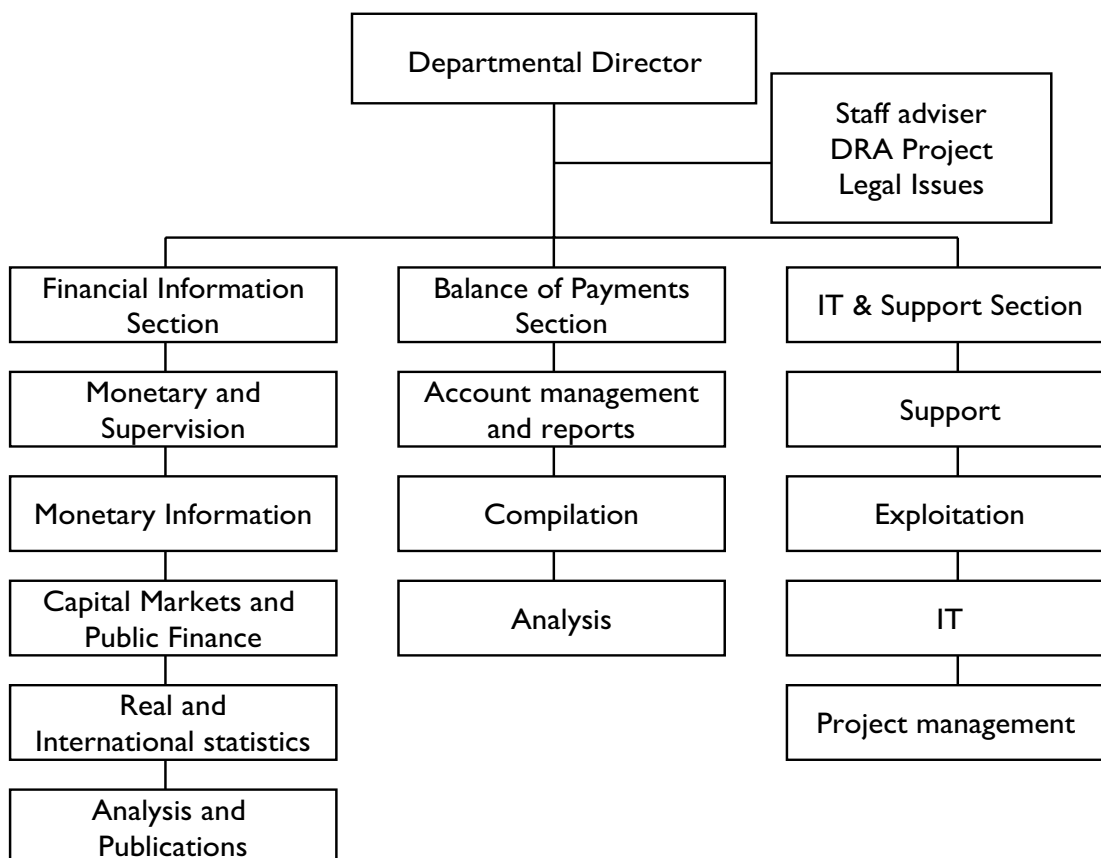
November 2002

I Organisation chart

De Nederlandsche Bank



Statistical Information and Reporting Department



2 Institutional aspects

2.1 Introduction

De Nederlandsche Bank has been responsible for compiling full balance of payments (b.o.p.) statistics since 1945. It compiled the first full b.o.p. for 1946.

2.2 Legislative provisions

Until 1981 the legal basis for the collection of b.o.p. data was the Foreign Exchange Decree of 1945, which established a general prohibition principle that required prior permission for all cross-border transactions. The exchange control regime gradually became more flexible, with a growing list of exceptions to the general prohibition against cross-border transactions. In principle, the External Financial Relations Act of 1981 permits all external transactions unless these are explicitly prohibited. The legislation imposed a general obligation on banks and non-banks to report their external positions and all transactions that are settled on the accounts held with/by non-residents. In return, full confidentiality is ensured. In 1994 the External Financial Relations Act was revised to enable De Nederlandsche Bank to exchange confidential data within the ESCB.

2.3 Internal organisation

All the statistical activities of De Nederlandsche Bank are centralised in the Statistical Information and Reporting Department. The Statistical Information and Reporting Department consists of three sections – the Financial Information Section, the IT and Support Section and the Balance of Payments (BoP) Section. Around 70 of the 150 staff members are involved in the compilation of b.o.p. statistics. The BoP Section is further divided into an account management and reports unit, a compilation unit and an analysis unit.

The account management and reports unit of the BoP Section, with around 40 staff members, receives data from all reporting agents and gathers information from a reporting population of approximately 2,000 companies. In addition, special financial institutions (SFIs) account for approximately 3,500 companies. Around 100 banks account for some 60-65% of the total turnover. If problems are detected in the data, the reporting institutions are contacted for clarification.

The IT and Support Section is responsible for processing and aggregating information via an elaborate system. The data are coded in-house, using a sophisticated, fully-automated process which searches for identifying character strings within the alphabetical descriptions of reported transactions. Approximately 200 codes are available for settlement data and around 160 are available for transactions data. Approximately half of the section (15 staff members) deal with b.o.p. statistics.

The compilation unit is responsible for the final compilation of the b.o.p. and deals with aggregated information and produces tables and graphs. The analysis unit checks the plausibility of figures and is responsible for methodological issues. It is also responsible for maintaining contact with both internal and external end-users of information. The compilation unit has eight staff members, while the analysis unit has seven.

2.4 External co-operation

De Nederlandsche Bank draws up the goods account in co-operation with Statistics Netherlands (CBS), which provides trade statistics (intra and extra-EU trade). Data provided by the CBS are adjusted for the c.i.f./f.o.b. margin and transformed into information on a transactions basis according to definitions set out in the 5th edition of the International Monetary Fund (IMF)

Chapter 4.10 The Netherlands

Balance of Payments Manual (BPM5). When the Intra-Community Trade Statistical System (Intrastat) was introduced, the quality of trade statistics diminished, thus causing integration problems. The CBS National Accounts Department makes substantial corrections to trade data, and De Nederlandsche Bank takes over these corrections. De Nederlandsche Bank provides the CBS with statistics on income, services and financial transactions needed for the compilation of the national and financial accounts.

There are many platforms on which statistical issues are discussed with the CBS. As far as the b.o.p. is concerned, De Nederlandsche Bank holds regular meetings with the CBS and the Central Planning Bureau or CPB (the part of the Ministry of Economic Affairs which deals with macroeconomic models). Issues such as data quality and coverage, volume and price indices, and the choice of solutions are covered. Frequent meetings are held with the CBS National Accounts Department to reconcile discrepancies in the current account between the national

accounts and the b.o.p. Differences in numbers cannot be explained fully by differences in definitions, partly owing to the use of different sources.

2.5 Users

Links with international organisations generally focus on the dissemination of Dutch b.o.p. data and methodological issues. The CPB generally uses national accounts data, although data from De Nederlandsche Bank are also used in the short term and for forecasts. The b.o.p. is also used as input for the Rest of the World (ROW) account compiled by the CBS. Detailed b.o.p. data are obtained from De Nederlandsche Bank, especially on a quarterly basis.

Data are supplied to international organisations, such as the ECB, the Statistical Office of the European Communities (Eurostat), the Organisation for Economic Co-operation and Development (OECD), the IMF and the Bank for International Settlements (BIS), on a regular basis.

3 Statistical system

3.1 Type of collection system

The Dutch data collection system is a “closed settlement system”. All changes in the external accounts of individual banks or non-banks are explained by the full reporting of transactions (flows). The balance of the external accounts at the beginning of the period plus the transactions during the period equal the balance at the end of the period. The general reporting system is complemented by other sources, namely “transactions” data: the CBS supplies trade statistics; and the Government reports on current and capital transfers.

3.2 Reporting agents

(i) The *banking sector*: De Nederlandsche Bank is provided with self-balancing

reports on nostro and loro accounts for banks’ own transactions and with A and B forms for clients’ transactions.

(ii) The *non-banking sector*: enterprises are required to provide self-balancing statements on accounts held with non-residents, including opening and closing positions, with a breakdown of movements showing total receipts and payments per type of transaction and country. The information reported includes bank accounts abroad, inter-company current accounts and participation in international clearing/netting systems. There is also an annual survey of foreign direct investment stocks covering approximately 80% of the total, and a full survey every two years. Settlements which do not involve actual

payments are also reported. Enterprises include SFIs, mainly finance and holding companies, which are subject to special reporting requirements.

- (iii) *Monetary authorities*: De Nederlandsche Bank reports on reserve assets and other holdings as well as on transactions of its clients (which include government agencies).
- (iv) *General government*: reports are provided on capital and current transfers (mainly EU and foreign aid).
- (v) The *Central Bureau of Statistics*: monthly trade figures are provided. These were originally based on customs information and, from 1993 onwards, figures for intra-EU trade are based on direct reporting by importing/exporting enterprises.

3.3 Thresholds

For banks, payments and receipts of domestic bank customers above a simplification threshold of or € 12,500 are reported by the customers themselves (but are collected by the banking sector), stating the nature of the transactions. For transactions up to € 50,000, banks report any information which is available without having to ask customers.

For non-banks, there is a monthly reporting obligation for enterprises (or groups of affiliated enterprises) reporting an annual turnover on foreign accounts above € 100 million. Enterprises (or groups of affiliated enterprises) with an annual turnover on foreign accounts below € 100 million are exempt from reporting.

3.4 Availability of data

A complete b.o.p. is available on a monthly basis, with a full geographical breakdown, after approximately six weeks on a

transactions basis. These data contain estimations for trade in goods, reinvested earnings, the sectoral breakdown for portfolio investment assets and short-term trade credits (see Sub-section 4.2). For the quarterly data, available after three months, real data is substituted for trade in goods and the sectoral breakdown for portfolio investment assets.

3.5 Timeliness

As far as banks are concerned, almost all are timely reporters. However, some minor banks are not. Late reports are generally processed after one month. Non-banks are more likely to report late on their foreign or inter-company accounts, after one month. This implies that a monthly b.o.p. on a cash basis is produced after six weeks. Late reporting is generally processed by revising data for the month affected by the untimely report. There are many small companies which report late without this having a significant impact on figures.

3.6 Compilation frequency

The Dutch b.o.p. is compiled on a monthly basis.

3.7 Data controls

There are different levels of data controls which are linked to the level of aggregation of data. The Account Management and Reports unit conducts the first level of checks. The controls are performed at a micro-level of individual transactions and reporting institutions. An example of these could be checks on loans, to verify whether repayments eventually exceed the balances drawn, or checks conducted on direct investment figures; flow data have to be consistent with the annual survey on stocks. At the second level, controls on aggregate data are carried out by the Compilation and Analysis units. Unexpected results trigger an

Table I
Reporting scheme for b.o.p. and i.i.p. data collection for the Netherlands

Target respondent population (e.g. MFIs, enterprises, etc.)	Name of reporting form	Contents of reporting form	Frequency of reporting	Timeliness (number of days for submission after the end of the reference period)
<i>Balance of payments:</i> MFIs	NB/LR forms	Nostro and loro accounts	Monthly	15 working days
MFIs	A/B forms	Client transactions	Monthly	15 working days
Enterprises	HI form	Accounts held abroad	Monthly	15 working days
Enterprises	M1 form	Registration of accounts held abroad	When the account is opened	15 working days
Enterprises	M2 form	Transactions not settled through accounts	Monthly	15 working days
<i>I.i.p.:</i> Enterprises	DIU/DIO	Direct investment (equity)	Yearly	5 months
Special financial institutions	BFI survey	Balance positions	Yearly	5 months
Custody Banks	Depotenquête (8037-8039)	Portfolio investment	Yearly	4 months
Banks and clearing agencies	Positions in financial derivatives (8050)	Financial derivatives	Quarterly	20 working days

analysis of suspicious figures, usually uncovering errors at a lower level of aggregation. This is done in four so-called analysis groups, each of which tackles problems relating to a certain account of the b.o.p. The analysis groups include staff from all three units within the BoP Section. De Nederlandsche Bank uses a management information system for b.o.p. reporting, which determines whether or not companies have reported, and whether reminders have to be sent.

3.8 Revision policy

The b.o.p. data are revised and corrected as new information becomes available. This happens on an ongoing basis. The revisions and corrections appear in the data only when the b.o.p. is compiled anew, which is done

once a month. Most revisions and corrections are captured within a quarter and tend to tail off thereafter.

3.9 Publication

The titles of the publications produced by de Nederlandsche Bank and the URLs of the internet websites on which data on b.o.p. statistics are published are listed in Sub-section 13.1. A release calendar is also available on the statistics website.

4 Monthly balance of payments

4.1 Availability of monthly b.o.p. data

De Nederlandsche Bank provides monthly b.o.p. data for all the requested items. A euro area/non-euro area breakdown is available as well as a split by euro area assets and euro area liabilities for portfolio investment. For financial derivatives, transactions are not separately collected for assets and liabilities. In line with IMF proposals, receipts are recorded as transactions in assets and payments as transactions in liabilities. A preliminary b.o.p. on a transactions basis is compiled after six weeks on the basis of estimations for trade in goods, reinvested earnings, the sectoral breakdown for portfolio investment assets and short-term trade credits.

No estimations are made for non-response. Coverage is usually sufficiently high after six weeks.

4.2 Estimation methods for the monthly b.o.p.

Data for the monthly b.o.p. data are estimated for trade in goods on a transactions basis, and estimation is used for reinvested earnings, based on direct investment, and for short-term trade credits.

4.2.1 For goods

The CBS compiles the external trade statistics by collecting customs documents for extra-EU trade statistics and referring to the Intrastat collection system for the intra-EU statistics. When trade data from the CBS are not available within six weeks, data for the goods item are estimated by extrapolating growth rates from previous months. The geographical breakdown is based on that of the trade data of the previous year. Both intra-EU and extra-EU trade statistics are compiled following the country-of-consignment principle. A historical c.i.f./f.o.b. margin is extrapolated on the

basis of current developments in gross turnover of cross-border freight transportation. C.i.f./f.o.b. margins are updated monthly. The geographical breakdown is based on merchandise trade and distance.

Preliminary trade data on a transactions basis are usually available after seven weeks. The data are then revised twice: after the end of the quarter and after the end of the year.

4.2.2 For services

No estimations are made for services. All data are collected through the settlement system.

4.2.3 For investment income

Reinvested earnings, which are included both in the income account and in the financial account, are estimated for the current year as the average of reinvested profits over the previous five years. The figures are revised once the actual data on reinvested earnings have been collected through the survey on direct investment, which is conducted once a year.

4.2.4 For direct investment

See Sub-section 4.2.2.

4.2.5 For portfolio investment

The sector breakdown between MFIs and non-MFIs is estimated for the monthly b.o.p. MFI transactions are derived from data on positions from Money and Banking Statistics for the most recent quarter. Non-MFI transactions are derived as a residual.

4.2.6 For financial derivatives

No estimates are used.

Chapter 4.10 The Netherlands

4.2.7 For other investment

No data on short-term trade credits are collected through the settlement system. All data for this item are estimated. The estimates are made using an econometric model which relates the supply of short-term trade credit (on the assets side) to exports and the demand for short-term trade

credit (on the liabilities side) to imports. The model's results effectively mimic an inventory process, whereby trade credits supplied and demanded in a given month are compiled from trade credits from the same month plus a certain percentage of the trade credits from previous months. The percentage used declines for months further back, so as to take redemption into account.

5 Investment income

5.1 Specific features of data collection

5.1.1 General

The collection of data on investment income is part of the general reporting system (see Sub-section 3.2).

Dividends are recorded as of the date they are paid.

5.1.2 Income on direct investment

Data on reinvested earnings are collected through the annual survey on direct investment. In general, the estimated reinvested earnings are replaced by results from the survey when stock data for direct investment are updated. This is done several times in the course of processing the survey to prepare data for Eurostat and the ECB.

5.1.3 Income on portfolio investment

See Sub-section 5.1.1.

No difference is made in the system between normal shares and shares in collective investment institutions. Income from shares in collective investment institutions is therefore treated as dividend income and is recorded when paid.

5.1.4 Income on other investment

See Sub-section 5.1.1.

5.2 Definitions

De Nederlandsche Bank complies with most of the recommendations set out in the BPM5 and the harmonisation proposals made by the Working Group on Balance of Payments and External Reserves Statistics. In particular, cross-border income from real estate is identified separately.

5.3 Deviations from agreed definitions

There are no serious deviations from agreed definitions.

5.4 Gaps

No data are collected for income on money market instruments (either paid or received) or for reinvested income from investments in foreign collective investment institutions. No data are available on income from trade credits, although the amounts involved are deemed to be relatively small.

5.5 Intended harmonisation

No further harmonisation efforts are planned.

5.6 Estimation methods

Reinvested earnings from direct investment are estimated as the five-year moving average of reinvested earnings in the previous years.

Income from bonds and notes is transformed into data according to the accruals principle, using seasonal adjustment.

6 Capital account

6.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2). The distinction between current and capital transfers according to the BPM5 is problematic, since it requires information on the use of funds abroad which is generally not available. De Nederlandsche Bank uses information from the European Commission (Eurostat) on European Commission accounts to provide a reasonable estimation of this distinction.

6.2 Definition

In principle, De Nederlandsche Bank complies with the recommendations set out in the BPM5 and the harmonisation proposals made by the Working Group on Balance of Payments and External Reserves Statistics.

6.3 Deviations from agreed definitions

The acquisition/disposal of non-produced non-financial assets item cannot be distinguished from the use of these assets and these are jointly included in the services account. All aid to developing countries is included in the b.o.p. under current transfers.

6.4 Gaps

Coverage is poor in the case of other sectors.

6.5 Intended harmonisation

No further harmonisation efforts are planned.

7 Direct investment

7.1 Specific features of data collection

De Nederlandsche Bank collects data on inward and outward direct investment flows through the general reporting system which identifies them separately. Information is stored on participation in capital, equity-related investments, (inter-company) credit and changes in current accounts. The survey on foreign direct investment stocks is alternately a survey of the complete population and of the top strata (covering around 80% of the population). This ensures nearly full annual coverage of direct investment stocks.

The geographical breakdown is based on the residency of the actual issuers (i.e. debtor/

creditor principle). Financial derivatives between affiliates (excluding the MFI sector) are not identified separately and are included under financial derivatives.

Direct investment transactions settled via the exchange of shares are recorded on the basis of special forms (so-called M2s) since no settlements take place. When a transaction is reported, it is usually recorded in the month when the exchange of shares took place. The transaction is valued according to the prices of the shares agreed by the parties involved or the actual market price, if available. The direct investment survey provides a check on the coverage of these transactions.

Chapter 4.10 The Netherlands

7.2 Definition

De Nederlandsche Bank complies with the recommendations set out in the BPM5 and the harmonisation proposals made by the Working Group on Balance of Payments and External Reserves Statistics.

7.3 Deviations from agreed definitions

The 10% rule is not strictly adhered to. In the Netherlands direct investment is assessed according to effective control. This treatment does not lead to significant deviations from the agreed concepts. If a large investment is found to bear the features of a direct investment, the investor will be consulted. Furthermore, the directional principle is not applied to the recording of reverse equity investment (i.e. investment by the direct investment enterprise in its direct investor). However, investigations have shown that reverse equity investments are not common

and do not involve significant funds. The directional principle is fully applied to other investment within direct investment.

7.4 Gaps

Final data on reinvested earnings are available within 12 to 15 months. Preliminary data are available after six months, at which point a provisional international investment position (i.i.p.) is compiled.

7.5 Intended harmonisation

No further harmonisation efforts are planned.

7.6 Estimation methods

Reinvested earnings are estimated for the current year (see Sub-section 5.6).

8 Portfolio investment

8.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2). A small number of banks report transactions (purchases/sales, emissions, redemption and income) by ISIN code.

the particular form of transactor principle applied, it is assumed that a broker becomes a temporary owner of the transacted security, and thus constitutes the counterparty. For secondary trade, the country where the transaction is effected – i.e. the country where the stock exchange is located – is regarded as the transactor.

8.2 Definition

In principle, de Nederlandsche Bank complies with the recommendations set out in the BPM5 and the harmonisation proposals made by the Working Group on Balance of Payments and External Reserves Statistics.

The geographical allocation criteria used are transactor/transactor for flows and debtor/creditor for stocks. For foreign securities, the distinction between securities issued by residents of the euro area and those issued by non-residents of the euro area was introduced at the start of 1999. As regards

8.3 Deviations from agreed definitions

There are no serious deviations. Banks provide data for each transaction separately, including own transactions and business on behalf of customers. The banks classify transactions by instrument themselves, unless they report by ISIN code. Much is left to the banks' own interpretation and guidance is needed for new instruments. In general, there is regular communication between reporting institutions and de Nederlandsche Bank.

8.4 Gaps

In the settlement data, no sectoral breakdown is available for transactions on the assets side. This sectoral breakdown is derived from information from money and banking statistics and other sources.

8.5 Intended harmonisation

No further harmonisation efforts are planned.

9 Financial derivatives

9.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2).

9.2 Definitions

As from July 1999 data is reported by instrument: options (including warrants), futures (variation margins), outright forwards and foreign exchange swaps (forward legs only), forward rate agreements, interest rate swaps (only swaps where no principal is exchanged) and cross-currency interest rate swaps (including other swaps). For exchange traded derivatives, the geographical allocation is made according to the country where the exchange is based or, in the case of a contract traded on a Dutch exchange, the country of residency of the client. For OTC contracts, for which it is assumed that the resident party is always a bank (Monetary Financial Institution, or MFI), the country of the actual counterpart is used.

10 Other investment

10.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2).

8.6 Estimation methods

No estimations are used for portfolio investment, apart from the offsetting entry under bonds and notes for income on an accruals basis (see Sub-section 5.6).

9.3 Deviations from agreed definitions

There are no serious deviations from the definitions given in the BPM5 or those agreed within the Working Group on Balance of Payments and External Reserve Statistics.

9.4 Gaps

Currently, only banks (MFIs) report on transactions in financial derivatives, both for their own accounts and for clients, according to the latest international guidelines. Nevertheless, coverage is considered to be sufficiently high.

9.5 Intended harmonisation

No further harmonisation efforts are planned.

9.6 Estimation methods

No estimations are used for financial derivatives.

As from January 1999, the extra-euro area b.o.p. flows for the MFI sector are derived from MFIs' balance sheets at the beginning and end of the period.

Chapter 4.10 The Netherlands

Transactions through TARGET are reported on a neutral code. Positions on TARGET are reported with position codes (with a distinction between positions on euro area and non-euro area countries). The net mutation on positions is reported under "Other investment, currency and deposits, monetary authorities".

Trade credits are estimated using an econometric model which uses merchandise trade as explanatory variables (see Sub-section 4.2.7). No real data are collected. There are plans to synchronise the data with the national accounts.

10.2 Definition

In principle, De Nederlandsche Bank complies with the recommendations set out in the BPM5 and the harmonisation proposals made by the Working Group on Balance of Payments and External Reserves Statistics.

11 Reserve assets

11.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2).

11.2 Definition

Since January 1999 the Eurosystem's definition of reserve assets has been applied.

11.3 Deviations from agreed definitions

There are no deviations from the Eurosystem's definition.

12 International investment position

12.1 Specific features of data collection

Data on pure stocks are collected through surveys for direct investment, portfolio

10.3 Deviations from agreed definitions

There are no serious deviations from the definitions given in the BPM5 or those agreed in the Working Group on Balance of Payments and External Reserves Statistics.

10.4 Gaps

No data are available from the settlement system on short-term trade credits. Both assets and liabilities are estimated (see Sub-section 4.2).

10.5 Intended harmonisation

No further harmonisation efforts are planned.

10.6 Estimation methods

Transactions are estimated for short-term trade credits (see Sub-section 4.2).

11.4 Gaps

None.

11.5 Intended harmonisation

No further harmonisation efforts are planned.

investment and financial derivatives. Data on stocks of other investment are collected through the settlement system and, since 1999, data for MFIs has been based on money

and banking data. Data on reserve assets are collected from administrative sources at De Nederlandsche Bank.

For the annual direct investment survey, all companies that have been identified as being involved in a direct investment relationship on the basis of information from the settlement system are asked to complete a separate form for each relationship. The form is limited to questions on stocks and changes in stocks of equity, such as retained/reinvested earnings. Data on stocks of loans and other forms of investment capital are collected through the settlement system. For each relationship, the actual direct investor and the direct investment enterprise are identified individually, along with their residency, thereby enabling assets and liabilities to be reclassified in order to comply with the directional principle.

Data on portfolio investment assets and liabilities are collected through an annual survey of Dutch custodians. This data is supplemented with information on Dutch securities registered with foreign depositories (such as American Depository Receipts) and on Dutch holdings of foreign securities held with non-resident custodians.

Data on financial derivatives are collected through a quarterly survey of banks and clearing organisations. In the survey, a distinction is made by instrument and the resident sector (only for exchange-traded contracts).

12.2 Definitions

12.2.1 General

In principle, all data comply with the definitions set out in the BPM5 and those agreed by the Working Group on Balance of Payments and External Reserves Statistics. All positions are valued at end-of-year market prices and exchange rates, except for direct investment, which includes book values if no market values are available.

12.2.2 Direct investment

The 10% rule is not strictly applied, although – in practice – quantitative differences are negligible (see Sub-section 7.3).

12.2.3 Portfolio investment

In principle, all data comply with the definitions set out in the BPM5 and those agreed by the Working Group on Balance of Payments and External Reserves Statistics.

12.2.4 Financial derivatives

Since the start of 2000, De Nederlandsche Bank has collected positions on financial derivatives on a quarterly basis. In the collection of positions, the same breakdown by instrument and geographical attribution is used as for the collection of transactions. No data on positions is collected for exchange traded futures, as all positions are assumed to revert to zero owing to the practice of daily marking-to-market. All OTC positions are assumed to be on the books of banks (MFIs).

12.2.5 Other investment

In principle, all data comply with the definitions set out in the BPM5 and those agreed by the Working Group on Balance of Payments and External Reserves Statistics.

12.2.6 Reserve assets

As agreed by the Working Group on Balance of Payments and External Reserves Statistics, the Eurosystem's definition of reserve assets was applied for the first time in the i.i.p. for end-1998.

12.3 Deviations from agreed definitions

There are no serious deviations from agreed definitions.

Chapter 4.10 The Netherlands

12.4 Gaps

Survey data on direct investment are finalised after 12 to 15 months. The data on direct investment included in the i.i.p., which is compiled six months after the end of the year, are therefore provisional.

Data on stocks of money market instruments are compiled from a combination of pure stocks data (for MFIs) and data on transactions (for other sectors). The annual survey of custodians includes pure stocks for all sectors for data from end-1998 onwards.

12.5 Intended harmonisation

No further harmonisation efforts are planned.

12.6 Estimation methods

As final data for direct investment stocks become available only after 12 to 15 months, preliminary totals are estimated by country and sector, based on the survey results that have been received at a certain time, for the compilation of the i.i.p. after six months.

Stocks of short-term trade credits are estimated (see Sub-section 4.2).

13 Administration

13.1 Titles of publications

Statistical Bulletin
Annual Report

Additional articles in Quarterly Bulletins:

“Adjustment of the presentation of the Dutch balance of payments”, Quarterly Bulletin, June 1994

“The Dutch balance of payments according to new international guidelines”, produced by H. Lub, J. M. Thoolen and F. E. M. Ouddeken (Quarterly Bulletin, June 1996)

Other:

“The Balance of Payments”, a booklet from the “blue information series”, DNB, 1997 (fourth edition)

“The Netherlands international direct investment position”, De Nederlandsche Bank, Monetary Monographs No. 7, 1987

“Dutch external assets”, special issue of the Statistical Bulletin, February 2002.

Internet:

General website of De Nederlandsche Bank:
<http://www.dnb.nl/>

Statistics website:

<http://www.statistics.dnb.nl/>

13.2 Contributors

This country information was drafted by the Balance of Payments Statistics and External Reserves Division of the ECB and subsequently amended and agreed with the Netherlands. Enquiries of a general nature should be addressed to the Press Division of the ECB. Enquiries specific to the Netherlands should be addressed to:

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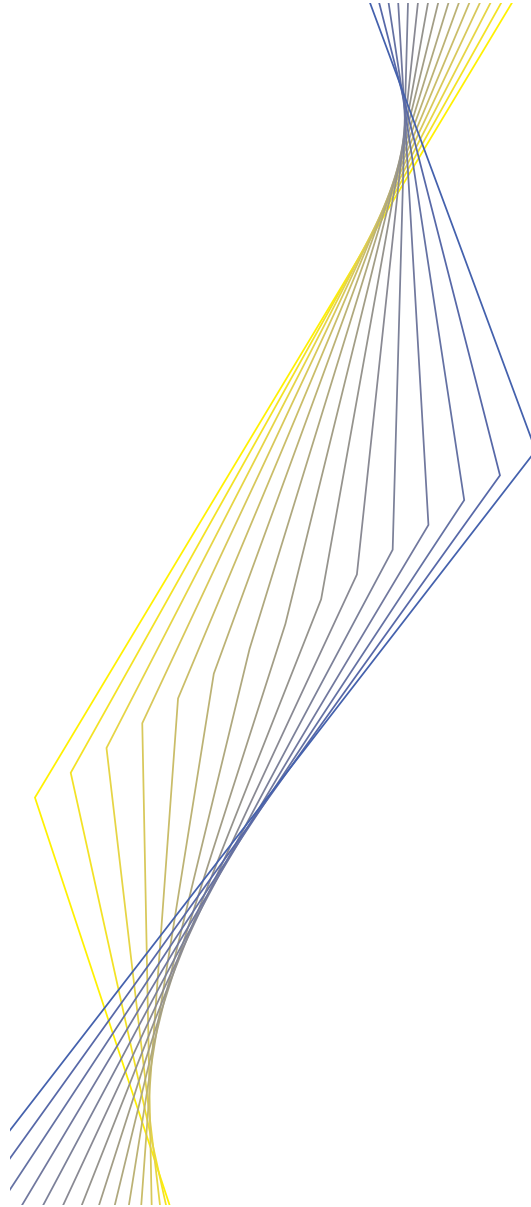
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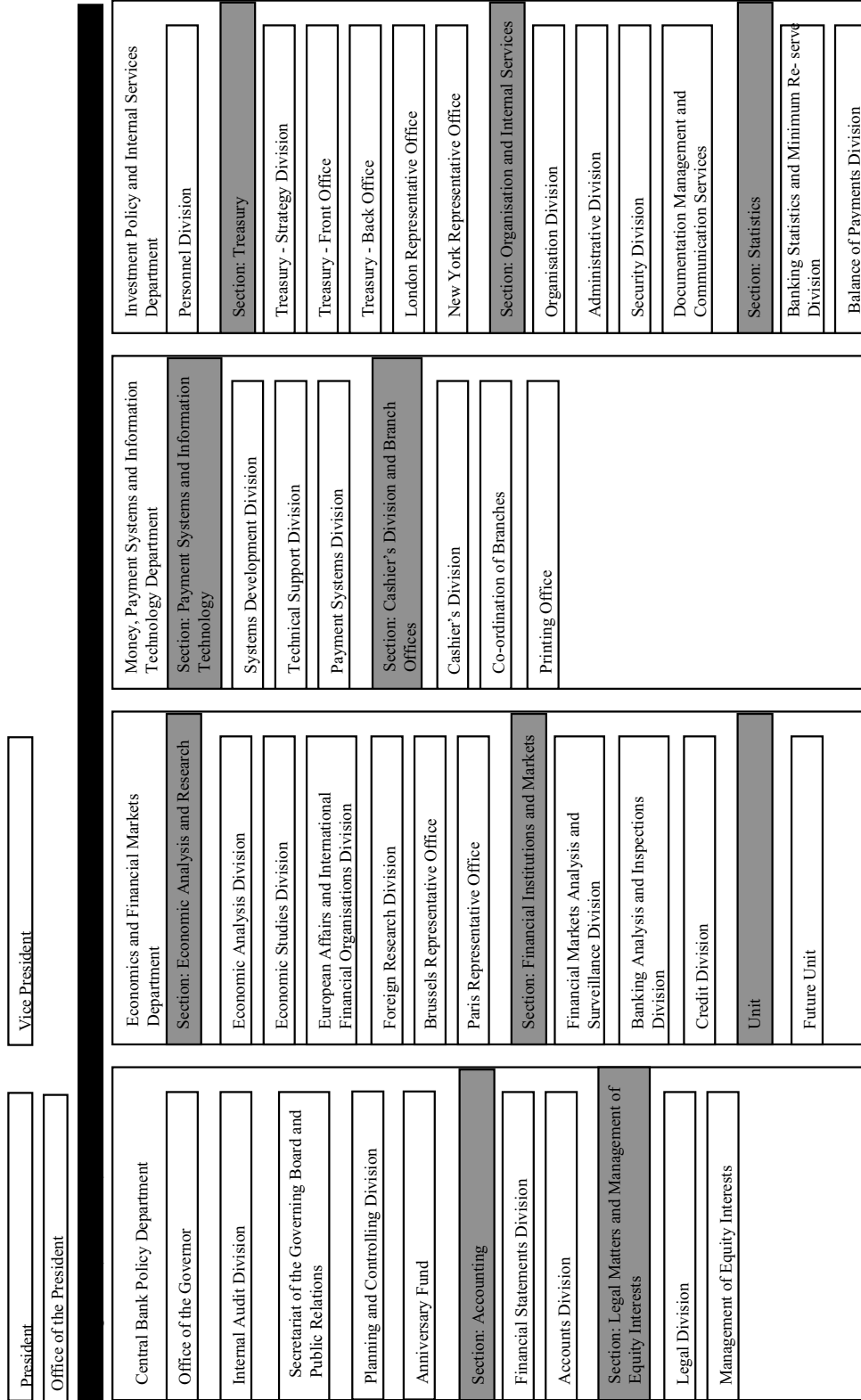


Austria

November 2002

I Organisation chart(s)

Oesterreichische Nationalbank



2 Institutional aspects

2.1 Introduction

The *Oesterreichische Nationalbank* (OeNB) is responsible for producing the following macroeconomic statistics: monetary, balance of payments (b.o.p.), international investment position (i.i.p.) and financial account statistics.

The OeNB has been responsible for compiling the Austrian b.o.p. statistics since 1946. The system for collecting and compiling the statistics has altered over time to reflect the dramatic development of the international integration of the Austrian economy over the past three decades and the liberalisation process which took place during the 1980s. The exchange controls in Austria were totally abolished on 4 November 1991 and resulted in a completely revised data collection and compilation system with effect from November 1991. First figures from the new system were published for January 1992.

In order to adapt to recommendations laid down in the 5th edition of the IMF Balance of Payments Manual (BPM5) and to meet the additional requirements deriving from Austria's obligations to the European Commission (Eurostat) and to the European Central Bank (ECB) in the field of b.o.p. statistics, a major restructuring of the internal compilation system took place between 1996 and 1998. This was carried out without significant changes to the established data collection system and without imposing any additional burden on the reporting agents.

Since the impact of external transactions on the Austrian economy is considerable, b.o.p. statistics are seen as an essential ingredient in monetary, exchange rate and general economic policy. In order to improve the analytical value of these statistics, as well as to meet international standards, such as those established by the International Monetary Fund (IMF), several conceptual and presentational changes were introduced. The system in place before the major statistical revision in 1991 had been implemented in

1974. In 1978 the definition of external reserves was brought into line with the IMF standards. In 1982 the coverage of the current account was extended in the sense that the difference between trade figures and payments for goods was included in the current account and excluded from errors and omissions.

The following chapters reflect the status of the collection and compilation of b.o.p. statistics in Austria as of January 1998 (reporting period). The implementation of data requirements outlined in the EMI document entitled "Statistical requirements for Stage Three of Monetary Union – Implementation package", as well as data requirements laid down in the BPM5 and the ESA 95, had been completed by this date.

2.2 Legislative provisions

Resident banks and non-banks are obliged to report all international transactions undertaken to the OeNB under the Foreign Exchange Act (Section 20 *Devisengesetz*, BGBl No. 162/1946) and later revisions (*Novelle zum Devisengesetz 1/92* Section 20,3); reporting requirements are published in so-called Official Announcements (*Kundmachungen*). Data reported by Austrian residents are only used for statistical purposes. A strict confidentiality regime is applied.

2.3 Internal organisation

The OeNB has a separate Statistical Department. The production of basic statistical information (primary statistics) is concentrated in two divisions within this department, namely the Banking Statistics and Minimum Reserve Division and the Balance of Payments Division.

The Banking Statistics and Minimum Reserve Division is in charge of the compilation, publication and observation of banking statistics, statistics concerning investment

institutions, and interest rate statistics as well as the BIS Banking Statistics. The Balance of Payments Division is responsible for the compilation, publication and analysis of data on Austria's external economic relations, namely its b.o.p., i.i.p., portfolio investment (flows and stocks) and direct investment (flows and stocks). The compilation and publication of financial accounts statistics are also carried out by the Balance of Payments Division in co-operation with the Accounting Department, the Banking Statistics Division and the Economic Analysis Division.

The Balance of Payments Division of the OeNB comprises 44 staff members at present. B.o.p. and i.i.p. statistics are compiled and published by a unit composed of 13 members. The group is supported by a data collection unit responsible for reports received from banks and non-banks (16 members). The Head of the Division has one deputy and is advised directly by the Macroanalysis and Quality Control Unit, which is composed of eight members. Financial accounts are compiled by two staff members. Administrative duties are carried out by three staff members.

The Balance of Payments and IIP Statistics Unit is responsible for both the compilation, following international guidelines, and the analysis of the following statistics: b.o.p., i.i.p., direct investment survey as well as the portfolio investment position. The group also prepares figures for national and international reports.

The Data Collection Unit is responsible for the availability of reports by banks and non-banks within the time and in the format requested. The group also prepares guidelines for the reporting agents and runs the master file of the securities database (individual securities according to ISIN codes).

The Macroanalysis and Quality Control Unit is responsible for the current quality control of the reporting system, including the preparation of estimation methods and contact with the Data Processing

Development Division. In addition, this group carries out the macroeconomic analysis of the b.o.p. and i.i.p. figures, i.e. the relationship between the b.o.p., the i.i.p. and the financial accounts.

2.4 External co-operation

For the compilation of b.o.p. statistics, the OeNB co-operates with other statistical authorities in Austria, but retains overall responsibility for their production. The OeNB and Statistics Austria, the Austrian Statistical Office (*Statistik Österreich*), liaise to compile data for the current account and, in particular, data relating to trade in goods items. The official foreign trade statistics collected by Statistics Austria have always been used in the b.o.p., as well as in the national accounts. Several external sources are used for the compilation of the Austrian b.o.p. In this context, as well as in their capacity as users, the OeNB co-operates closely with Austrian economic research institutes and with the Austrian Government. National accounts statistics are compiled by Statistics Austria. In this context, current account data of the OeNB are used for the calculation of the gross domestic product (GDP). An ongoing evaluation of the respective methods and figures is carried out by the OeNB and Statistics Austria. The aim is to achieve consistency between the Rest of the World sector and the corresponding b.o.p. data.

Outside Austria the Balance of Payments Division maintains close contact with other central banks which involves, inter alia, the exchange of data. Naturally, contacts with the ECB have been of particular importance in this context since the start of Stage Three of Economic and Monetary Union (EMU), given that the Balance of Payments Division has to fulfil reporting obligations vis-à-vis the ECB. The OeNB has also developed close contacts to eastern European Countries. Among various other forms of (bilateral) support, various activities are undertaken for the Joint Vienna Institute, which was

established by five international organisations (the BIS, the EBRD, the IBRD, the IMF and the OECD).

3 Statistical system

3.1 Type of collection system

The current b.o.p. system, which was introduced in 1991, is a “closed system” which is self-balancing for the banking sector as well as for the non-banking sector. Reports received from the banking sector comprise accounts held abroad by domestic banks and accounts held with domestic banks by foreign banks and non-banks. The reports of non-banks comprise accounts held abroad, inter-company working balances and clearing accounts. The system is based on the continuous monitoring of foreign payments.

The reports of banks and non-banks basically consist of stocks at the beginning of the period, stocks at the end of the period and a complete and detailed classification of all credit and debit transactions that led to the change of the stocks. The classifications of transactions often contain detailed information such as the Austrian and/or foreign counterpart, the security concerned, the transaction country, etc. These reports have to be produced for every combination of currency, country and type of accounts relevant to the b.o.p. (short/long-term, deposits/loans, assets/liabilities, etc.). The stock data are used for the compilation of the i.i.p. (mainly other investment) and the transactions are incorporated into all areas of the b.o.p. Some transactions that are not considered relevant for the b.o.p. are also included in the i.i.p. as price or other adjustments.

Information taken from a comprehensive company database is automatically used to make correct sectoral allocations of reported transactions, particularly in the area of income, transfers and the financial account.

2.5 Users

B.o.p., i.i.p. and special direct investment data are sent to the following international organisations: the European Commission (Eurostat), the ECB, the BIS, the IMF and the OECD.

In addition, stock data on portfolio investment are collected from banks and non-banks for a comprehensive securities database. The securities stock data are used in combination with the securities database to make accrual calculations for the flow statistics (portfolio investment income and offsetting entries in financial account) and to check and, if necessary, correct the securities transactions included in the above-mentioned stock and transaction reports. This reconciliation of flows and stocks may also lead to a correction of stock data. Information from the securities database is also used to derive automatically a correct geographical, instrumental and sectoral allocation for the securities transactions and stocks. Additional details of this system are given in Sub-section 8.

Annual surveys are conducted in the area of direct investment stocks. Apart from its incorporation into the i.i.p., the information is also used to check information on direct investment transactions. Data on direct investment relations between Austrian and foreign companies derived from the surveys are used to identify automatically flows and stocks of direct investment loans and flows of direct investment income reported elsewhere. The survey data are also used to estimate reinvested earnings in combination with general economic indicators (such as nominal GDP) and expectations. In the area of direct investment it is also common practice to use information from various news sources to anticipate and identify direct investment transactions. In order to reduce the reporting burden for respondents, direct investment cases below certain thresholds (below €370,000 for direct investment

Table 1
Reporting scheme for b.o.p. and i.i.p. data collection for Austria

Target respondent population (e.g. MFIs, enterprises, etc.)	Name of reporting form	Contents of reporting form	Frequency of reporting	Timeliness (number of days for submission after the end of the reference period)
MFIs	<i>Devisentableaumeldung (einschl. Zusatzmeldungen)</i> (Foreign exchange reports (including supplementary reports))	Transactions carried out through MFI's own accounts held abroad and accounts of non-residents held by these MFIs and stocks of these accounts	Daily or weekly or monthly (up to the choice of the reporting agent)	3 working days
MFIs	<i>Valutentableaumeldung</i> (Foreign currency reports)	Sales and purchases and stocks of foreign currency (over-the-counter money)	Monthly	10 working days
MFIs	<i>Wertpapierstandmeldung</i> (Securities holdings reports)	Stocks of securities which MFIs hold for their own account or for the account of resident and non-resident customers (MFIs acting as primary custodians)	Monthly	7 working days
MFIs	<i>Zusatzmeldung für Depotzertifikate</i> (Supplementary reports for certificates of deposits)	Stocks of certificates of deposits not reported as securities which MFIs hold for their own account or for the account of resident and non-resident customers	Monthly	7 working days
MFIs	<i>Zusatzmeldung Stammdaten zur internen Wertpapierkennnummer</i> (Supplementary reports for key data for "internal" securities)	Key data concerning "internal" securities where no ISIN-code is available and which are reported in connection with foreign exchange or securities holdings reports	Daily or weekly or monthly (depending on the nature of the underlying report)	3 or 7 working days (depending on the nature of the underlying report)
Non-banks	<i>Meldung über Konto-Verbindung mit Ausländern</i> (Report on banking connections with non-residents)	Initial report about the existence, respectively opening of deposit accounts, loans or clearing accounts held with non-residents	Monthly	10 calendar days
Non-banks	<i>Auslandskontenmeldung</i> (Report on foreign accounts)	Stocks and transactions of deposit accounts, loans or clearing accounts held with non-residents	Monthly	10 calendar days
Non-banks	<i>Verrechnungs- (Verfügungs)-Meldung</i> (Report on netting/disposal)	Transactions between a resident and a non-resident, in which the settlement is carried out by means of a netting of mutual claims and liabilities or by means of direct disposal of funds this non-resident owes to the resident	Monthly	10 calendar days
Non-banks	<i>Zusatzmeldung/ Sammelzahlung – Zahlstelle Ausland bzw. Zahlstelle</i> (Supplementary report/collective payment – paying agent in Austria)	Details to cross-border collective transactions that were carried out through accounts held abroad or through domestic paying agents (MFIs) and which were reported as a lump sum in a report on foreign accounts or in a foreign exchange report	Monthly	10 calendar days
Non-banks	<i>Transithandels-geschäfte</i> (Merchanting transactions)	Payments received or effected in connection with merchanting	Monthly	10 calendar days
Non-banks	<i>Standmeldung/ Gebundene Guthaben</i> (Report on balances of tied deposits)	Claims against non-resident banks from short- or long-term tied deposits ("fixed-term assets")	Annually	3 months
Non-banks	<i>Standmeldung Wertpapiere</i> (Report on stocks of securities)	Stocks of securities not kept in custody accounts at domestic banks	Annually	3 months
MFIs and non-banks	<i>Direktinvestitionsbefragungen – Aktiv und Passiv</i> (Direct investment survey – abroad and in reporting economy)	Balance sheet data and supplementary data (for instance number of employees) to be supplied by resident subjects which are direct investment enterprises and/or have direct investments abroad	Annually	10 months
Non-banks	<i>Unternehmensbefragung zum österreichischen Aussenhandel – Quartale</i> (Enterprise survey concerning trade in goods – quarterly sample)	Stocks and transactions of trade credits and advance payments in connection with goods. To be reported by a selected sample of enterprises with a quarterly breakdown (two quarters to be reported in every semi-annual survey)	Semi-annual	1 month
Non-banks	<i>Unternehmensbefragung zum österreichischen Aussenhandel – Jahreswerte</i> (Enterprise survey concerning trade in goods – annual sample)	Stocks and transactions of trade credits and advance payments in connection with goods. To be reported by enterprises which are not included in the quarterly sample (only annual figures).	Annually	5½ months

in the reporting economy and below €750,000) for direct investment abroad) only have to be reported every two years. These cases are surveyed alternately, i.e. one-half of those enterprises whose direct investment relations fall below the above-mentioned thresholds fill in the reporting form in one year, while the other 50% of those enterprises report in the following year. For those enterprises, which do not report direct investment stocks for a certain period, estimates are made on the basis of the report of the previous year.

Annual and quarterly surveys of trade credits are incorporated both in b.o.p. and in i.i.p. statistics.

For the current account, commodity trade figures are based on the official foreign trade statistics; however, settlement data are an important and timely source of information, especially for preliminary data on trade in goods items. These settlement data are used for the monthly b.o.p., while the commodity trade figures are incorporated into quarterly and annual statistics.

For the travel item in the services item of the current account, two external sources are used in addition to the data taken from the general reporting system. A private institute is conducting an annual survey on behalf of the OeNB to gather data on the travel expenditure of Austrians abroad. The results are mainly used to improve the geographical allocation of the debit side of the travel item, to determine the amount of goods bought by travellers abroad and to determine the purposes of their visits. Austria is also exchanging data with several OECD countries in the area of foreign currency exchanges of tourists.

3.2 Reporting agents

(i) The *banking sector*: the following entities are included in the reporting obligations for the banking sector: credit institutions,

building and loan associations (*Bausparkassen*), enterprises which carry out factoring business and all enterprises undertaking business similar to “banking”. According to the Foreign Exchange Act (*Kundmachung* DL 1-3/91, 2/93, 1/96), banks are required to report (on a daily/monthly basis) all transactions carried out via the domestic banking system, including transactions on behalf of their customers. More specifically, they report the following:

- all settlements carried out through the accounts of domestic banks held abroad and through the accounts of foreign banks and non-banks held by domestic banks as well as the beginning and end-of-month stocks of these accounts (*Devisentableaumeldung*); daily or weekly reporting is possible if preferred by the reporting agent;
- all sales/purchases and (beginning/end-of-month) stocks of foreign currency transactions (*Valutentableaumeldung*, over-the-counter or OTC money); and
- monthly stocks of securities, as defined in the BPM5, which banks acting as primary custodians hold for their own account or on behalf of their resident and non-resident customers (*Wertpapierstandmeldung*).

In addition, banks (acting as a direct investor and/or as a direct investment company) are requested to respond to an annual survey concerning direct investment if the value of the nominal capital of the direct investment exceeds the threshold of €75,000 and 10% of overall nominal capital. If the nominal capital does not exceed €75,000, but the balance sheet total of the direct investment enterprise exceeds €37 million and the 10% criterion is also fulfilled, banks also have to respond to the direct investment survey.

(ii) The *non-banking sector* (enterprises and households not included in subparagraph (i) above): according to the Foreign Exchange Act (*Kundmachung* DL 1-3/91, 2/93, 1/96), non-banks are required

to report all settlements and stocks on accounts held by banks abroad as well as settlements and stocks of short-term and long-term loans granted to non-residents or provided by non-residents to residents on a monthly basis if the annual volume of transactions exceeds a certain threshold (*AuslandskontenMeldung*). Stocks of fixed-term assets (deposits) and stocks of securities held by banks abroad have to be reported by non-banks on a yearly basis.

Non-banking private companies and private households (acting as a direct investor and/or as a direct investment company) are requested to respond to an annual survey concerning direct investment if the value of the nominal capital of the direct investment exceeds the threshold of €75,000 and 10% of overall nominal capital. If the nominal capital does not exceed €75,000, but the balance sheet total of the direct investment enterprise exceeds €37 million and the 10% criterion is also fulfilled, non-banks also have to respond to the direct investment survey.

In addition, companies have to submit quarterly and annual surveys (covering a selected smaller sample and a larger, more comprehensive sample, respectively) on trade credits.

(iii) *General government*: public authorities report all transactions of relevance to the b.o.p. to the OeNB. In addition, some data which are used for checking purposes are received from the Federal Ministry of Finance (particularly concerning the area of current and capital payments of the public sector vis-à-vis EU institutions).

(iv) *Monetary authority*: the OeNB reports on the external monetary position and monthly flows and stocks in the same way as the banking sector. Special quarterly reports on stocks and flows are also compiled by the Accounting Department of the OeNB for b.o.p. purposes. These reports are mainly used

to check monthly flows, to obtain data on an accruals basis and to calculate reserve assets for the i.i.p.

3.3 Thresholds

The reporting guidelines for banks include the possibility of an exemption threshold for all customer transactions below €12,500 since 1 July 2002. In order to avoid costly changes in the compilation procedures, both for the compiler and for the respondent, however, it was agreed with reporting banks to continue to use a simplification threshold on a voluntary basis. These transactions are reported with a special code and the b.o.p. classification is carried out by means of estimations. This estimated item allocation of payments below the threshold concerns almost all areas of the b.o.p. and is not separately listed under estimation methods in the following sections. The contributions of these estimations to the various items can be significant.

The present threshold for reporting by the non-banking sector is €2,500,000, based on the annual turnover in cross-border transactions. These transactions include inter-company working balances and clearing accounts. In addition, non-banks have to report merchanting transactions if an individual transaction exceeds the threshold of €12,500.

Above the threshold of €75,000, fixed-term assets (deposits) and portfolio investment stocks held abroad require annual reports.

3.4 Availability of data

The b.o.p. is available monthly on a cash basis with a limited breakdown according to key items and quarterly on a transaction basis with more details for individual items as well as for partner countries. Data for trade in goods items are currently only available after a long delay, owing to problems concerning the collection of intra-EU trade figures via

the Intra-Community Trade Statistical System (Intrastat). Therefore, the foreign trade data of Statistics Austria are only used for the b.o.p. goods item on a quarterly basis. Settlement data are used for the goods item on a monthly basis.

3.5 Timeliness

The OeNB compiles monthly b.o.p. data within six weeks of the end of the reporting period. At the same time, a country-by-country geographical breakdown is produced internally. However, the timeliness of complete b.o.p. data largely depends on the availability of data for trade in goods, which are provided by Statistics Austria.

3.6 Compilation frequency

The Austrian b.o.p. is compiled on a monthly basis.

3.7 Data controls

Formal data controls are carried out once data have been received from reporting agents. These checking procedures for individual reports include controls concerning completeness, consistency and the elimination of double reporting. Mistakes are corrected by transmitting queries to the reporting agents. Once the checks have been completed a first aggregation of the data is undertaken for both flows and stocks.

This first aggregation leads to the data being broken down geographically and by currency and for each reporting agent, as well as by the type of report, and results in up to 300,000 separate data fields existing simultaneously at this level of aggregation. At this stage the regional and currency classification scheme is transformed into building blocks for b.o.p. statistics and the i.i.p. The building blocks for the b.o.p. contain up to 1,000 information fields, the regional building blocks from 10,000 to 20,000 and the currency building blocks from

6,000 to 10,000. Plausibility checks and data content checks are carried out at this stage of the compilation process. Among the other methods applied, the development of different items which are economically linked to one another is compared (ratio analysis). In addition, significant transactions are checked on an individual basis. Comparisons with previous periods are used to assess plausibility. Again, reporting agents are asked for clarification in the event of discrepancies being detected.

Once both formal and plausibility controls have been completed, a first “round up” of preliminary results is made for the reference period. Any discrepancies detected at a later stage are only included in the revision process (see Sub-section 3.8). After three years, individual reports are destroyed for reasons of confidentiality.

3.8 Revision policy

Regular revisions as of the reporting period January 1998:

Monthly b.o.p. data on a cash basis are produced and published without subsequent revision. The monthly b.o.p. data are used mainly as a source of quickly available information which is aimed at providing a rough assessment of trends based on the accumulation of monthly data actually given. This type of data is not usually subject to major corrections. More detailed information on a transactions or an accruals basis is only incorporated in the quarterly and annual data. Consequently, the data for the three months do not add up to the quarterly data. Quarterly and annual data are published with a time-lag of three months in a “provisional” version.

Quarterly data are usually revised when data for another quarter from the same reference year is published. This means that, for example, the publication of the data for the fourth quarter of a reference year coincides with a revision of the data for the first three quarters. These revisions of quarterly and annual data are completed in June (T + 6

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calendar months) of the following calendar year. At this point in time the latest available figures or estimates on reinvested earnings, trade credits and all other revisions that might have occurred for the reference year are incorporated. Then the data for the reference year have the status of revised figures and are not changed for the following 12 months. The last revision of quarterly and annual data is completed 18 calendar months after the end of the reference year. Then the data have the status of final figures. The main reasons for the revisions are updates of figures concerning trade credits and direct investment based on information from the latest available surveys.

More frequent revisions of historical data:

New requirements, changes of the underlying b.o.p. concepts or general improvements in the reporting and compilation system lead to more frequent revisions of historical data. The length of the revision period may vary depending on the circumstances.

3.9 Publication

The OeNB publishes monthly b.o.p. data on a cash basis as well as revised quarterly and annual data on a transactions basis, including trade figures and investment income on an accruals basis.

The titles of the publications produced by the OeNB on b.o.p. statistics are listed in Sub-section 13.1.

The main user of b.o.p. and i.i.p. data within the OeNB is the Economic Analyses Division, which uses them for the purpose of general economic analyses and for the compilation of financial accounts.

In Austria b.o.p. and i.i.p. data are mainly relevant for the following institutions with which the OeNB exchanges data on a regular basis:

- the Austrian Statistical Office (Statistics Austria) for the purpose of the System of National Accounts;
- government ministries and other government institutions;
- the Chamber of Commerce, Chamber of Labour and similar official institutions that play a major role in Austria's social and economic system; and
- private research institutes (i.e. WIFO and IHS) for analysis and forecasting purposes.

The data sent to the WIFO are included in a database maintained by this research institute which is publicly accessible and which is seen as an important source of economic information within Austria.

Apart from those main clients, data are delivered upon request and/or on a regular basis to students, private companies and commercial banks. The latter mainly use the data for the purpose of drafting brochures for promoting Austrian bonds.

The main clients abroad are the ECB, the European Commission (Eurostat), the IMF, the OECD and the BIS.

Statistical data from the OeNB are available on the Internet at the following address: <http://www.oenb.co.at>. This OeNB homepage includes all the b.o.p. and i.i.p. data that are published in the monthly statistical bulletin and additional b.o.p. data, in particular data concerning the current account, travel and direct investment. Press releases from the Balance of Payments Division are also available on the Internet.

Since the OeNB has committed itself to following the rules of the Special Data Dissemination Standards (SDDS), release dates are published in advance.

4 Monthly balance of payments

4.1 Availability of monthly b.o.p. data

In January 1998 (reporting date) the OeNB started to provide the EMI/ECB with aggregated b.o.p. data according to the EMI document entitled “Statistical requirements for Stage Three of Monetary Union – Implementation Package”. National monthly data are published six weeks after the reference period. Since the most serious timeliness problems relate to trade in goods statistics, current account data are available on a settlement basis. Data for trade credits are not available on a monthly basis, but are available on a quarterly basis.

The OeNB has decided to reduce the number of items in the breakdown of the monthly b.o.p. due to the timeliness of six weeks which is required by the Implementation Package. Therefore, the checking procedures will be reduced for monthly data but will be expanded for quarterly revised data. The OeNB compiles a country-by-country geographical breakdown with the same timeliness as the aggregate figures, which is integrated into the overall data processing work. The OeNB is in a position to provide a euro area/non-euro area split for current account data and to prepare an assets/liabilities euro area/non-euro area breakdown for Stage Three of EMU.

Significant delays in the reporting of respondents, which would require estimates due to a lack of overall coverage of reported data, occur very rarely. No regular estimates or corrections due to respondents' delays are therefore necessary. Timeliness of respondents' reports is a much smaller problem than that of the correctness of reports. Revisions following inquiries by the compiler, or following corrections sent by respondents themselves, can be substantial.

4.2 Estimation methods for monthly b.o.p. data

4.2.1 For goods

Statistics Austria compiles the external trade statistics by collecting customs documents for extra-EU trade statistics and referring to the Intrastat collection system for the intra-EU statistics. However, since the official trade statistics of Statistics Austria are not available within 30 working days, as required, the OeNB is using settlement data for exports and imports derived from its general reporting system. These data are not entirely comparable with official trade statistics. Among other things, the settlement data include services components which cannot be separated from the commodities component.

Settlement figures are always available on time owing to the nature of the general b.o.p. reporting system and no further estimates have to be made to calculate trade in goods figures at the national level. The geographical breakdown, however, is estimated on the basis of the latest available trade statistics for former comparable periods (mainly the same quarter of the previous year). This geographical estimation is carried out according to the consignment principle and delivers data on a country-by-country basis. As far as trade statistics are used, the data apply the “special trade” concept.

The monthly trade in goods data (and the quarterly and annual data) are not seasonally adjusted. Owing to the preliminary nature of the settlement data, c.i.f. to f.o.b. adjustments are not carried out either. C.i.f./f.o.b. adjustments are only made on quarterly and higher levels. The method applied there is to deduct country-by-country the debit of freight transport (settlement data) from the debit of imports (trade in goods data). The extra-Euro II c.i.f./f.o.b. rates were 3.78% for

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1999 and 3.64% for 2000. The respective figures for extra-Euro 12 would have been 3.83% and 3.74% for these periods.

As is the case for all the monthly b.o.p. data, monthly trade in goods figures are not revised. All additional information, including the trade statistics of Statistics Austria for the reference periods, is only incorporated into the quarterly data.

Data on trade in goods on a monthly basis, according to the definition given above (on a settlement basis), are available from the reference period January 1992 onwards and have been published by the OeNB since the beginning of 1998.

No special treatment is foreseen for military goods and transactions under special Community programmes for the monthly goods data. Payments for such types of merchandise are included in the settlement data at a national level. Large transactions in connection with such business cases are usually checked for plausibility. Since the geographical breakdown is estimated for the monthly data as a whole, no special actions are taken concerning the above mentioned transactions.

4.2.2 For services

The services sub-account of the monthly b.o.p. comprises all items that are usually also incorporated in the quarterly data. These include financial services which are reported mainly by banks through the settlement system. The only service item not included in the monthly b.o.p. is "services not allocated", which only exists at a quarterly level as the difference between goods data according to settlements and goods data according to the trade statistics of Statistics Austria.

4.2.3 For investment income

On a monthly basis, investment income is calculated on an accruals basis for the

purposes of the euro area aggregate. Reinvested earnings are included for the monthly direct investment income data sent to the ECB. Monthly portfolio investment income has been based on accruals calculations since January 2002. This does not apply to the corresponding monthly data published in Austria. The Balance of Payments Division is of the opinion that monthly data should represent pure cash data and that the inclusion of reinvested earnings and accruals leads to a bias in the data.

The flows are settlement data taken from the general reporting system, which also provides a country-by-country geographical breakdown for all components. These data are always available on time.

For portfolio investment income, the monthly flows represent actual dividend payments recorded in the reference period and accruals for debt securities calculated from monthly stocks according to the methods described in Section 5.1.3. No estimations are necessary for this area. A geographical allocation (country-by-country) according to the issuer principle (actual counterpart) is automatically derived on the credit side of portfolio investment income by using a comprehensive securities database. All securities transactions are reported with the ISIN number of the respective security. If a security does not have an ISIN number, the reporting agent can use an "internal" number and give additional details on the security (type of security, quotation, interest rate, etc.) in a special report. The connection with the securities database and a companies database delivers the country of the issuer of the security for the reported credit transaction. On the debit side the country of settlement is used for the geographical allocation of portfolio investment transactions. Essentially, the same geographical allocation methods are used for portfolio investment income on a quarterly and annual basis.

Direct investment income is calculated according to the accruals principle since it includes estimates of reinvested earnings.

These estimates are derived from the annual surveys of direct investment (mainly balance sheet data of direct investment companies), from flows (dividend payments) taken from the settlement system and from the latest available information concerning general economic indicators and profit and business expectations of enterprises. The estimates include a country-by-country geographical breakdown. The same data are also used for quarterly direct investment income.

The monthly investment income data can be broken down into the same sub-components as the corresponding quarterly data. Portfolio investment income and offsetting entries in the financial account on an accruals basis are basically calculated on a monthly basis. However, this is only done in the course of the compilation of quarterly data and the final result is only available as a quarterly figure.

4.2.4 For direct investment

The offsetting entries for the estimates of reinvested earnings (see investment income above) are included.

5 Investment income

5.1 Specific features of data collection

5.1.1 General

All the data used for investment income are essentially part of the general reporting system (see Sub-sections 3.1 and 3.2). Dividends are recorded as of the date they are paid. In order to obtain data on an accruals basis and with the desired geographical allocation, several special features have been implemented for direct investment income and portfolio investment income.

Concerning the estimation of reinvested earnings for direct investment income and

4.2.5 For portfolio investment

Data for portfolio investment are settlement data collected on a security-by-security basis in the context of the general reporting system. No other statistics are used to compile the data. The geographical allocation by issuer on the assets side is derived in the same way as for portfolio investment income credits (see investment income above). On the liabilities side, the country of settlement is available as a geographical allocation, except for the counter-entry of the accruals calculated.

4.2.6 For financial derivatives

No estimation methods for monthly data.

4.2.7 For other investment

Trade credits are not included in the monthly b.o.p., because only quarterly information is available.

There are no further estimation methods or other specific features for the remaining items of the monthly b.o.p.

the geographical allocation of portfolio investment income (i.e. actual counterpart for credits and country of settlement for debits), all the descriptions given for monthly b.o.p. in Sub-section 4.2 also hold true for quarterly and annual data.

5.1.2 Income on direct investment

See Sub-section 5.1.1.

5.1.3 Income on portfolio investment

Portfolio investment income on an accruals basis is calculated on a security-by-security

basis using the monthly security stock reports and a securities database which includes all the relevant information, such as exchange rates of currencies, issuers, quotations, maturities, nominal values, outstanding amounts, interest rates and classification of the securities. Issuance and redemption prices are considered in the accruals calculation in order to also treat zero bonds and deep discounted papers correctly. The accruals calculation is based on monthly data. The result of the accruals calculation cannot be considered an estimated value, since it is based on in-depth calculations and reported data. Revisions only occur when the underlying stock and securities data are revised or updated. For more information on the use of the securities database, please refer to Sub-section 8.1.

A sectoral breakdown for the offsetting entries of accruals in portfolio investment (financial account) is derived from a companies database which includes information about the sector of the issuer of a security. This information is automatically processed in the security-by-security collection and calculation.

Income earned by collective investment institution (CIIs) on their cross-border assets is recorded just like other portfolio investment income, i.e. dividends when they are payable and interest on an accruals basis. Income earned by holders of the CIIs' equity capital is treated on an accruals basis. Unlike other accruals calculations, this is not implemented as an automated security-by-security approach, but as a yearly estimate. This estimation is based on the following variables: resident holdings of non-resident CIIs, non-resident holdings of resident CIIs, the cash distribution of income of these institutions, the rates of return of these institutions and assumptions about the degree of capitalisation of and the distribution of income by these institutions.

5.1.4 *Income on other investment*

See Sub-section 5.1.1.

5.2 Definitions

In principle, the OeNB intends to follow the recommendations of the BPM5 and the harmonisation proposals agreed upon by the ECB's Working Group on Balance of Payments and External Reserves Statistics (the former Task Force on Financial Flows and Stocks).

The following geographical allocation principles are used in the area of investment income:

- actual counterpart for portfolio investment credits and for direct investment credits and debits;
- country of settlement for portfolio investment debits and for other investment credits and debits.

A complete geographical breakdown (country-by-country) is achieved by using these principles both for monthly and for quarterly data.

The accruals principle for portfolio investment income has only been applied to quarterly and annual data from the first quarter of 1997 onwards. Since January 2002, the accruals principle has also been used for the monthly contributions to the euro area aggregate. In monthly publications at the national level, however, figures are still given on a pure cash basis. Income on equity is derived from the general reporting system and does not need any further special processing. It also includes income on investment in collective investment institutions (CIIs) on an accruals basis. Income on bonds and notes and on money market instruments is calculated, entirely on an accruals basis, from stocks (see Sub-section 5.1). The securities database used in this calculation comprises all kinds of securities, with the necessary information for every security. Average stocks in the periods under consideration are used for the accruals calculations. This is based on the assumption that securities are bought or sold, on average, in the middle of the period.

Reinvested earnings are included in monthly and quarterly/annual direct investment income data from 1992 onwards. The monthly data on reinvested earnings are exclusively compiled for the purposes of the ECB. Estimates of reinvested earnings are usually revised at least twice for quarterly/annual data, on the basis of the latest available information from direct investment surveys and other sources of data (see Sub-section 4.2). Once the final direct investment survey for the reference year is completed (usually at T + 18 months), the corresponding figures for reinvested earnings are also considered to be final.

Direct investment income on debt can also be automatically identified by connecting information from reported flows (foreign/Austrian counterparts of the interest transactions) with the companies database which includes information about direct investment relationships. Indirect relationships between direct investment enterprises are not included at present and interest on loans between these indirectly affiliated enterprises cannot be distinguished from other interest payments.

Other investment income mainly comprises income from deposits, loans between non-affiliated enterprises and other capital (i.e. arrears, real estate, etc.) both from banks and from non-banks. The interest share in financial leasing is also part of other investment income, since financial leasing operations are recorded as loans for which interest payments are always fully covered.

All these other income figures are part of the general reporting system, which also includes reports concerning deposits by non-banks with foreign financial institutions. Payments for such deposits are divided into capital and interest components. Once a year stock data on those deposits are received and reconciled with the reported flows.

Income on trade credits is not recorded within other investment. It is indistinguishably included in settlement figures for exports and

imports of goods. However, it is assumed that the amount of interest on trade credits is not significant.

Income generated from reserve assets, as reported by the Accounting Division of the OeNB, is also recorded under other investment income. On a quarterly basis these data are calculated according to the accruals principle.

5.3 Deviations from agreed definitions

Income on debt from indirectly affiliated enterprises is recorded under other investment and not under direct investment income.

5.4 Gaps

There are no gaps concerning investment income data.

5.5 Intended harmonisation

The issue of income on debt from indirectly affiliated companies is currently under consideration for possible improvements. No exact deadline can currently be foreseen for the possible resolution of this issue.

5.6 Estimation methods

No estimation methods are used within the area of investment income. The main sources for all the data are reports from the settlement system of the OeNB. Accruals for portfolio investment are calculated security-by-security on the basis of stock data, using a securities database. Accrual figures cannot therefore be considered to be estimations.

6 Capital account

6.1 Specific features of data collection

Part of the general reporting system (see Subsections 3.1 and 3.2).

6.2 Definition

In principle, the OeNB follows the recommendations set out in the BPM5 and the harmonisation proposals agreed upon by the ECB's Working Group on Balance of Payments and External Reserves Statistics (the former Task Force on Financial Flows and Stocks).

The distinction between current and capital transfers is laid down in the general reporting guidelines of the OeNB, in accordance with the BPM5 definitions. Items such as debt forgiveness, migration and other capital transfers are all reported separately. Therefore private sector capital transfers as well as the acquisition and disposal of non-produced non-financial assets can be clearly identified.

For public sector transfers, the coverage and distinction of capital and current transfers is also partly based on the general reporting system. In addition, information regularly received from the Federal Ministry of Finance is used to record capital transfers vis-à-vis

EU institutions. Data on current transfers are also provided by the Federal Ministry of Finance.

6.3 Deviations from agreed definitions

As of January 1998 there are no major deviations.

6.4 Gaps

Migrants' transfers are generally difficult to capture. Data are only partially available for migrants' transfers in other sectors and the acquisition/disposal of non-produced non-financial assets. The main problem in the context of migrants' transfers is the transfer of portfolio deposits in connection with migration. The relevant flows information cannot be supplied by the reporting system on transactions. However, in the course of the reconciliation of flows and stocks of securities, significant cases can be identified and corrected in the flow statistics as well. This is an important improvement compared with previous reporting years.

6.5 Intended harmonisation

None.

7 Direct investment

7.1 Specific features of data collection

The inclusion of the collection of data on direct investment flows as an integral part of the general settlement reporting system leads to good coverage and high-quality direct investment data. In addition to settlement data, annual surveys of direct investment stocks and an up-to-date companies database are used to check and clearly identify transactions between affiliates. In order to achieve a correct geographical allocation according to the country

of the actual counterpart, the reporting agents are often contacted directly in order to investigate major transactions in the area of direct investment. This quality of coverage in the area of direct investment is available both for monthly and for quarterly data from 1992 onwards. In the event that a change of ownership of a resident company from a non-resident to another non-resident direct investor is revealed from the survey, the change is recorded in the FDI stocks, but usually not in the corresponding b.o.p. flows.

Data on trade credits are obtained from enterprise surveys. It is not possible, however, to identify trade credits between affiliated enterprises.

For direct investment cases settled through an exchange of shares, the transaction is usually recorded when the exchange takes place. Unless a price has explicitly been agreed between the parties involved in the exchange of shares, the share price of the direct investor's company on the day of the exchange and the exchange relation (e.g. one share of A equals one share of B) are used to value the transaction. The direct investor in this case is usually identified as the "bigger" or "buying" party that has the majority in the newly formed group after the exchange has taken place. If both of the exchanged shares have a market price, then these prices should anyway be considered equal on the day of the exchange. More problematic would be cases where no market prices are available, as in the case of unquoted shares. This, however, has not yet occurred in Austria.

7.2 Definition

In principle, the OeNB complies with the recommendations set out in the BPM5 and the harmonisation proposals made by the Working Group on Balance of Payments and External Reserves Statistics (the former Task Force on Financial Flows and Stocks).

The OeNB applies the 10% criterion and the directional principle to direct participations and has started to develop a mechanism for compiling data on indirect relationships.

Direct investment figures comprise transactions on equity, reinvested earnings and other capital (short and long-term) with the exception of trade credits. Significant equity contributions in the form of real or financial assets without payments are usually included by directly contacting and

questioning the enterprises concerned. With regard to the issue of transactions in equity securities, it is possible to distinguish clearly between direct investment and portfolio investment based upon the information in the securities and companies databases. Furthermore, all cross-border transactions in real estate are covered.

Special purpose entities are not subject to a different treatment since they are not significant in Austria.

The geographical breakdown is based on the residency of the actual issuers (i.e. debtor/creditor principle). It is also available for historical data.

7.3 Deviations from agreed definitions

Problems arise as a result of the separation of trade credits between linked enterprises; trade credits are available as a lump sum on a quarterly basis and are recorded under other investment.

7.4 Gaps

None – the implementation of the methodology for reinvested earnings is based on the proposals made by the EMI's Sub-group on estimation methods for direct investment.

7.5 Intended harmonisation

None.

7.6 Estimation methods

For information on the estimation of reinvested earnings, see Sub-sections 4.2 and 5.2.

8 Portfolio investment

8.1 Specific features of data collection

A comprehensive and reliable compilation system is used for portfolio investment flows and stocks. The system is based on data collection on a security-by-security basis using the International Securities Identification Number (ISIN). The compilation system was developed during 1988-89 in order to improve the reliability of portfolio investment data. Experience showed that instructions to reporting agents regarding the classification of securities for b.o.p. purposes were proving to be increasingly complicated in fast developing international financial markets. Therefore, the reporting by banks of transactions and of stocks of securities is now based on the ISIN code for each individual security. Austrian banks appreciated this change, since ISIN codes were already used for the settlement of securities transactions. Based on the reported ISIN code in connection with the securities database, all necessary b.o.p. and i.i.p. classifications (by financial instrument, sector, country) and the reconciliation of flows and stocks (see Sub-section 3.2) are made.

This change in the compilation system made it necessary for the OeNB to develop and maintain a securities database. The main external information contained in this so-called master file is purchased from the Austrian and German National Numbering Agencies, i.e. the *Oesterreichische Kontrollbank* (OeKB) and the German *Wertpapiermitteilungen*. While the OeKB provides data on domestic securities and euro-denominated foreign securities traded in Austria, the *Wertpapiermitteilung* primarily delivers data on foreign securities and domestic securities denominated in currencies other than the euro. Moreover, the Austrian banks reporting portfolio stocks and transactions also have to supply information concerning “internal” securities which – to the best of their knowledge – do not have an ISIN code. If information on the same security is received by more than one

institution, then the OeKB data are usually given preference. Quotation information is obtained from the *Telekurs*. These external securities databases form the starting-point for the internal master file constructed for b.o.p. purposes.

The Statistics Department generates an internal master file from these sources and from additional information provided by Austrian banks. The internal master file used by the OeNB for the compilation of portfolio investment flows and stocks contains around 130,000 debt securities, 30,000 financial derivatives and some 100,000 equity securities, thus covering around 99% of the securities traded with Austrian residents on a cross-border basis. Not all the securities in the database are actually involved in cross-border trading. Stocks and transactions are usually reported for approximately 40% of all non-expired securities in the database for a certain period of time. The database is updated on a weekly basis. Comprehensive quality checks and amendments are made by the Balance of Payments Division in order to render the information received from external sources suitable for statistical purposes. These checking procedures comprise formal controls (completeness of information), as well as plausibility checks. The main source of quality problems regarding the information received on securities is the fact that the National Numbering Agencies maintain their databases for their customers (banks), and that the latter use the information for their own business needs, which differ from those of statistical compilers. Therefore data fields which are particularly important for statistical purposes (i.e. outstanding amount) are not always of the desired quality and have to be checked in detail.

As for the compilation of harmonised euro area portfolio investment aggregates, the OeNB is of the opinion that a securities database (master file) for statistical purposes should be generated and maintained centrally

for all EU Member States. Owing to the time-consuming quality controls carried out on commercially available information on securities, a centralised checking procedure would be most effective. This centralised database should contain information useful for all statistics required by the ECB and not only those data necessary for b.o.p. purposes. Agreement should be reached on a common definition of the content of such a centralised master file. The main advantages of the ISIN compilation system for portfolio investment flows and stocks are seen in the increased accuracy and the higher degree of flexibility for adapting the compiled aggregates to the new requirements, often without the need to address further requests to the reporting agents.

8.2 Definition

The OeNB mainly applies the recommendations set out in the BPM5 when compiling statistics on portfolio investment. The OeNB is in a position to provide a country-by-country breakdown of portfolio investment.

The use of the securities database allows a geographical allocation of portfolio investment assets according to the country of the actual counterpart (issuer). On the liabilities side, the country of settlement is used for this purpose, because there is no information available on the real holder of the security. As a consequence, the transactions on the liabilities side are largely attributed to countries where major international clearing houses are resident. The geographical breakdown described is available on a monthly basis from January 1992 onwards. Offsetting entries in portfolio investment for the accruals calculated in investment income are available on a quarterly basis as from the first quarter of 1997, and on a monthly basis (solely for the contribution to the euro area aggregate) as from January 2002 (see Sub-sections 5.1 and 5.2).

The sectoral breakdown of portfolio investment flows is achieved by using information from the securities database and from portfolio stock

reports. On the assets side, only the monthly stock reports provide reliable information about the domestic sectoral composition of portfolio investment data for a certain period. Portfolio transactions between domestic sectors are not usually covered by the reporting system for flows, since no cross-border payments are involved. These flows can only be derived from stock data.

Service charges, fees and commissions are not included in portfolio investment if separate payments are made for such components. In most cases, the reporting agents are able to identify and label such payments correctly. If they are indistinguishably included in payments for portfolio investment capital, then no separation is possible.

Trading in assets other than securities (particularly loans) is not recorded under portfolio but under other investment.

8.3 Deviations from agreed definitions

In principle, the OeNB aims to comply with the requirements set out in the BPM5 and the harmonisation proposals agreed upon by the ECB's Working Group on Balance of Payments and External Reserves Statistics (the former Task Force on Financial Flows and Stocks).

8.4 Gaps

None.

8.5 Intended harmonisation

None.

8.6 Estimation methods

There are no estimations included in portfolio investment.

9 Financial derivatives

9.1 Specific features of data collection

Financial derivatives are largely covered by the general reporting system for flows and stocks. It distinguishes between derivative instruments that are issued as securities (with an ISIN code) and other derivative transactions (mainly over-the-counter (OTC) deals).

The former are reported as normal security transactions (and stocks) and are treated in the same way as securities recorded under portfolio investment (see Sub-section 8 for information on the use of a securities database to distinguish portfolio investment from derivatives and to derive a correct geographical and sectoral allocation for financial derivatives, etc.).

The latter, i.e. other derivative transactions, are reported as special items in the context of the settlement system. Reporting agents have to distinguish between financial derivatives with underlying interest and financial derivatives with underlying capital. They are also required to report the country of the actual counterpart and the domestic partner of the derivatives transaction in case this is not the reporting agent itself. This information is used in connection with the companies database to compile a sectoral breakdown.

The geographical breakdown for financial derivatives is based primarily on the country of the actual counterpart, as reported by the respondents. These counterparts are usually available for OTC-style derivatives. In the case of trading on organised markets, especially in that for negotiable financial derivatives with ISIN-codes, the country of the first-known counterpart is available. The latter is usually identical to the market where the instrument has been traded.

9.2 Definitions

The recommendations set out in the BPM5 and the proposals of the Working Group on Balance of Payments and External Reserves Statistics (the former Task Force on Financial Flows and Stocks) are followed, apart from the exceptions mentioned in Sub-section 9.3.

For interest rate swaps, all three payments are usually recorded: the actual interest payment and both swap payments with the country of the foreign swap partner. Fees and commissions in connection with financial derivatives can be identified separately and are recorded under financial services. Initial margin payments for options and futures are recorded under other capital. Variation margins are recorded as financial derivatives. It is not possible to make the distinction between options-style and futures-style variation margins.

A geographical breakdown according to the country of the actual counterpart as well as a sectoral breakdown are available on a monthly basis. For financial derivatives without an ISIN code, the sectoral breakdown may not be totally reliable where the domestic swap partner cannot be identified correctly. The following distinctions between instruments are possible: swaps of domestic bonds and notes (currency and interest rate swaps), OTC deals, financial derivatives with an ISIN code. These categories can be subdivided further into derivatives with underlying interest and derivatives with underlying capital.

Data are available on a gross basis where the financial derivatives have been issued as securities and have ISIN codes. In these cases financial derivatives with domestic issuers are considered to be liabilities and securities with foreign issuers are considered to be assets. For derivatives without ISIN codes (mainly OTC deals), only net figures are recorded and these are allocated to the assets/credit side by default.

9.3 Deviations from agreed definitions

All deviations concerning the treatment of financial derivatives have been removed with the beginning of the year 2000. Consistent historical data back to 1992 are also available.

9.4 Gaps

Coverage of financial derivatives can be considered complete as from the beginning of 1997. Currency and interest rate swaps, which are thought to be the only significant

kinds of transactions in this context, are, in particular, very well covered.

9.5 Intended harmonisation

None.

9.6 Estimation methods

No estimation methods are used in the field of financial derivatives.

10 Other investment

10.1 Specific features of data collection

These items are part of the general reporting system (see Sub-sections 3.1 and 3.2). Recorded actual flows are used for the b.o.p. These flows are extensively checked and reconciled with stocks.

All required geographical, sectoral, maturity and instrumental breakdowns are available on a monthly basis. This also applies to back data from January 1999 onwards. For the most part, the breakdowns are derived directly from the reports. Some sectoral breakdowns are achieved by linking the reported data (including those on the domestic counterpart) to a company database.

For trade credits, quarterly and annual surveys are conducted. Trade credits are therefore not available on a monthly basis. Initial quarterly figures are often revised once the more comprehensive annual survey is concluded. The latter is usually available within six to nine months after the end of the year. The outcome of this annual survey is then incorporated in the next scheduled revision of published data. Owing to the nature of the surveys, the timing principle for trade credits is the change of ownership. No maturity breakdown is available for trade credits.

Transactions carried out through the TARGET payment system are reported according to the guidelines of the general reporting system (particularly the *Devisentableaumeldungen*), which also provides the basic rules for the reporting of payments carried out through all kinds of clearing or payment systems (i.e. EBA, TARGET, etc.). Due to the nature of every clearing or payment system (i.e. carrying out payments indirectly through a system or a paying agent), a substantial proportion of the TARGET transactions is consequently reported with neutral codes. If necessary, the resident bank that ordered or received the payment (on their own behalf or on behalf of their customers) is obliged to give detailed information on the economic nature of the settlement via a supplementary report.

10.2 Definition

The OeNB generally applies the recommendations set out in the BPM5.

Other investment figures also include foreign currency notes, financial leasing, bond lending and repos. Concerning repos, there is no detailed information available on the nature or maturity of such transactions. In addition, it is not possible to distinguish between repo activities and collateralised loans.

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Short and long-term loans between affiliated enterprises can be identified and are recorded under direct investment according to the directional principle.

Trading of loan portfolios is recorded under other investment, although the amounts in question have not been significant in recent years.

10.3 Deviations from agreed definitions

All trade credits are included under other investment (see Sub-section 7 on direct investment).

10.4 Gaps

None.

10.5 Intended harmonisation

None.

10.6 Estimation methods

Trade credits are estimations based on quarterly (smaller sample) and annual (larger sample) surveys. Initial quarterly results can be considered to be estimations. The results of the annual survey are considered to be the final outcome for the reference year.

11 Reserve assets

11.1 Specific features of data collection

Part of the general reporting system (see Sub-sections 3.1 and 3.2). The Accounting Department of the OeNB essentially makes the same reports as the banking sector. These are used for all parts of the b.o.p. on a monthly level. Special quarterly reports on stocks and flows are received to enable recording on an accruals basis and to improve the breakdown of reserve assets. The regular monthly and special quarterly reports are both incorporated in the quarterly b.o.p. The quarterly data only cover the area of reserve assets.

however, no such transactions have yet been recorded. Gold swaps are recorded as repos.

Market prices are used for valuation. The conversion into euro is carried out using average monthly exchange rates.

11.3 Deviations from agreed definitions

None.

11.4 Gaps

None.

11.2 Definition

In principle, the recommendations of the BPM5 are applied for the recording of reserve assets.

A reliable instrumental breakdown is available on a quarterly basis. Experience has shown that such a breakdown is not always possible on a monthly level with a 30-day time-lag.

Financial derivatives within reserve assets are theoretically available on a gross basis;

11.5 Intended harmonisation

The OeNB is awaiting the outcome of the discussions to be held within the ECB's Working Group on Balance of Payments and External Reserves and the ECB's Statistics Committee. Proposals for harmonisation should also be carried out in such a way as to co-ordinate closely with the work on the relevant accounting issue.

12 International investment position

12.1 Specific features of data collection

Data for the i.i.p. are collected within the general reporting system (see Sub-sections 3.1 and 3.2). The securities database is used for portfolio investment stock data in the same way as for portfolio investment flows (geographical, sectoral and instrumental allocation on a security-by-security basis, see Sub-section 8.1). The coverage and concept are in line with the quarterly/annual b.o.p./i.i.p. position of the financial account.

Pure stock data are used for portfolio investment stocks and reserve assets. A combination of stocks and accumulated flows is used for other investment (approximately 90% pure stocks data). The stock data for other investment is mainly derived from the settlement system with the exception of trade credits, which are based on quarterly and annual surveys.

Financial derivatives are also a combination of stocks and accumulated flows (approximately 20% pure stock data).

In the case of direct investment, stocks of real estate are exclusively compiled by using accumulated flows (approximately 7% on the assets side and 2% on the liabilities side of overall assets and liabilities of direct investment stocks, respectively). Additionally, since the final results of direct investment surveys only become available after 18 months, accumulated flows are used for the provisional version of direct investment stocks available after six to nine months. This provisional version is compiled as the sum of the stock data of the previous reference year plus the accumulated flows (including reinvested earnings) of the reference year. For the final version of direct investment stocks (T + 18 months), the pure stock data from the survey (also including reinvested earnings) are used.

The required sectoral and instrumental breakdowns are covered by the collection

system for all parts of the i.i.p. from the reference year 1997 onwards.

A geographical allocation between euro area and non-euro area data is possible to a substantial extent. Essentially, geographical data are collected on a country-by-country basis. However, the geographical breakdown will be highly incomplete or not available at all in the following areas:

- trade credits within other investment;
- accumulated flows (for the most part) used for other investment stocks;
- real estate within direct investment; and
- portfolio investment liabilities.

Austria participated in the Co-ordinated Portfolio Investment Survey of the IMF for 1997, providing all the mandatory items. The data requested for this survey could be compiled regularly on a quarterly basis with a timeliness of T + 6 months. Pure stock data would be used for this task.

The data for the i.i.p. would also be available quarterly. Technically these data are calculated automatically with a time-lag of three months. However, the procedures for checking and correcting data which are necessary to achieve a quality comparable to annual data would take at least six months.

12.2 Definitions

12.2.1 General

The recommendations and definitions set out in the BPM5 are applied in the compilation of the i.i.p.

12.2.2 Direct investment

The directional principle is strictly applied in the area of direct investment stocks. Reinvested earnings also form part of the stock data. Reconciliation adjustments

between flows and stocks pose a problem for direct investment in particular, because book values are primarily used for stocks and market values for flows. Therefore, other adjustments (in the sense of residual adjustments) can be very high. Price adjustments and other adjustments (in the sense of reclassifications) can be identified to a limited extent. Exchange rate adjustments are calculated on the basis of average monthly exchange rates for transactions and end-of-month exchange rates for stocks.

To the extent that accumulated flows are used (real estate and remaining provisional data after six months), market valuation can be largely assumed for direct investment stocks. As soon as final results of surveys are available (T + 18 months), only book values are used for direct investment in the i.i.p., with the exception of real estate components. Market valuation for direct investment stocks based on an “earning-method estimation” is compiled for a separate statistical publication, but these figures cannot be used for the i.i.p.

12.2.3 Portfolio investment

Stock data on portfolio investment include accruals (calculated on a security-by-security basis). In that context, it is important to note that interest rate components derived from discount prices and redemption at higher prices are included in the accruals calculation and therefore in the stocks. This mechanism was especially designed for zero-coupon bonds, but it also works for all other kinds of short and long-term securities.

Stocks and flows are closely reconciled. Exchange rate and price adjustments are calculated security-by-security, using information from the securities database (mainly quotations and exchange rates). Other adjustments (sectoral and instrumental reclassifications) are also identified automatically in this context. The remaining differences are calculated as residual adjustments. Portfolio investment stocks are valued at market prices.

On the liabilities side of portfolio investment stocks, no geographical information is available (as opposed to flows, where the country of settlement can be used for geographical allocation). On the assets side, portfolio investment stocks can be allocated geographically according to the debtor principle, using the securities database (see Sub-section 8.1).

12.2.4 Financial derivatives

Financial derivatives stocks mainly comprise accumulated flows which largely consist of OTC-style derivatives. For these instruments, no clear valuation principle can be identified, but the result should be close to market values. Remaining financial derivatives stocks are based on pure stocks of derivative securities with ISIN codes. These stocks are highly reliable and are calculated at market prices. No other kinds of financial derivatives are included in the stock data. The stocks are mainly attributed to the asset side by default, since there are no fully reliable stock data available on a gross basis.

12.2.5 Other investment

As described in Sub-section 3.1, flows and stocks for accounts relevant for other investment are combined in one report and therefore have to be reconciled by the reporting agents (in the original currency). Price adjustments (mainly relating to asset trading), other adjustments (reclassifications) and residual adjustments (reporting errors or stock corrections) can be taken directly from the reports. Exchange rate adjustments are calculated using average monthly exchange rates for transactions and for reported adjustments, and end-of-month exchange rates for stocks. The same adjustment calculations can be made for accumulated flows within other investment. Other investment assets and liabilities are based on nominal values.

12.2.6 Reserve assets

Reserve assets are directly reported by the Accounting Department of the OeNB in the form of special quarterly reports. These reports comprise stocks, transactions and all kinds of adjustments. The data are taken directly from the accounting database. Stocks and transactions of currency and deposits within reserve assets are not included in the special quarterly reports since they are already covered by the regular monthly reports which are carried out according to the guidelines of the general reporting system. Discrepancies between accounting principles and b.o.p./i.i.p. concepts are seen as being insignificant. The valuation is executed according to market values using closing market prices for gold and closing mid-market exchange rates.

12.3 Deviations from agreed definitions

The treatment of trade credits deviates from requested definitions, because trade credits

between affiliated enterprises are included in other investment.

12.4 Gaps

Gaps exist in the area of financial derivatives, which are only partly available.

12.5 Intended harmonisation

None.

12.6 Estimation methods

Accumulation of flows is used in the area of direct investment to obtain provisional stock data after six to nine months and to obtain stock data on real estate. Accumulated flows are also used to a small extent in other investment for loans and other assets/liabilities which are below the thresholds for direct reporting.

13 Administration

13.1 Titles of publications

Statistical Bulletins
Statistische Monatshefte, Monatsbilanz in vorläufiger Rechnung (monthly)
 Focus on Austria (quarterly)
 Annual Report of the Oesterreichische Nationalbank (annual)

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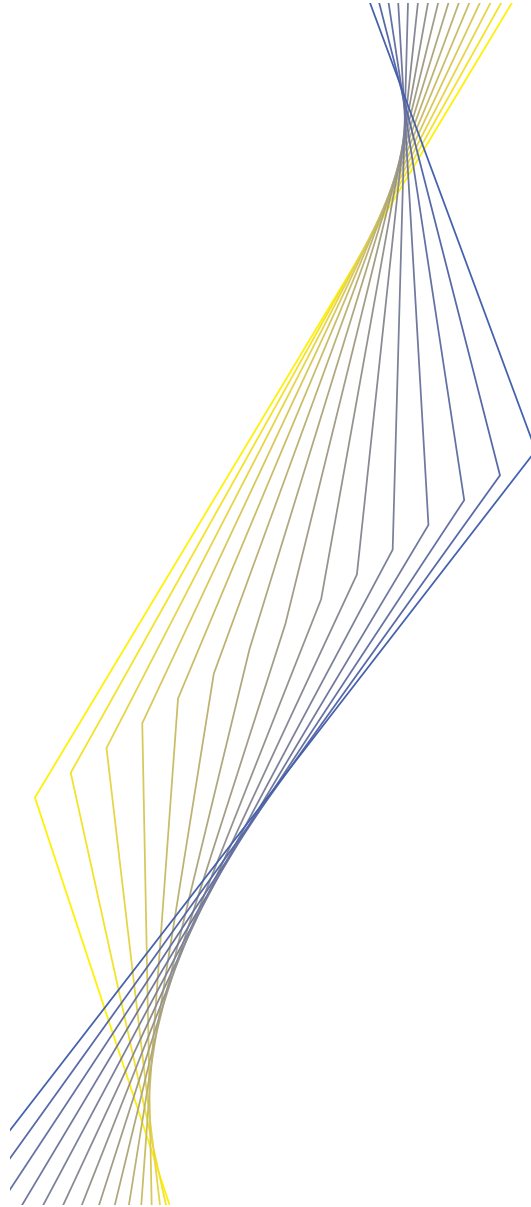
13.2 Contributors

This country information was drafted by the Balance of Payments Statistics and External Reserves Division of the ECB and subsequently amended and agreed with Austria. Enquiries of a general nature should be addressed to the Press Division of the ECB. Enquiries specific to Austria should be addressed to:

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EUROPEAN CENTRAL BANK

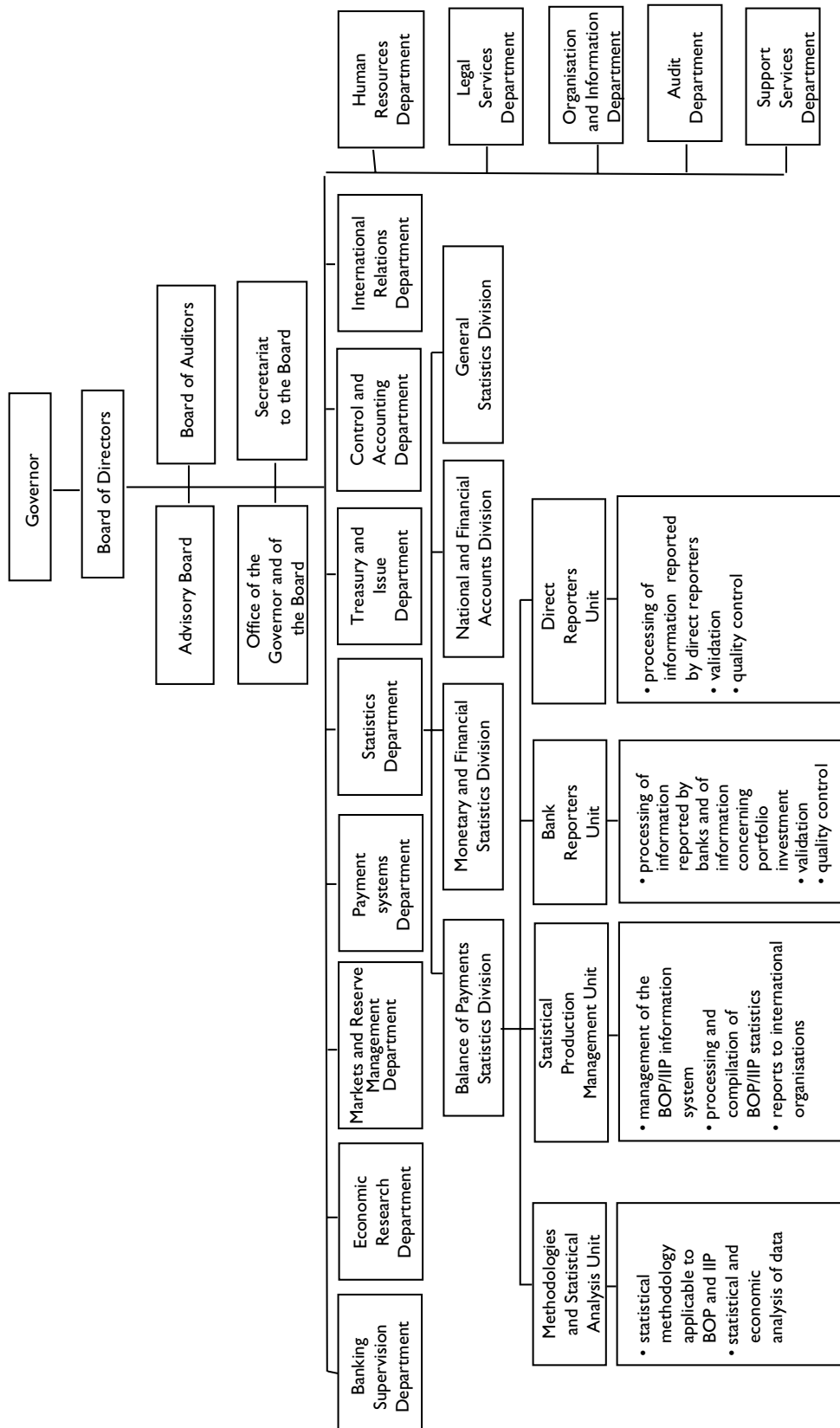


Portugal

November 2002

I Organisation chart(s)

Banco de Portugal



2 Institutional aspects

2.1 Introduction

The Banco de Portugal has been responsible for compiling and producing the Portuguese balance of payments (b.o.p.) statistics since 1963. Between 1948 and 1962 the *Inspecção do Comércio Bancário para as Instituições Bancárias* (Banking Supervisory Authority) was responsible for their collection. Further to the full liberalisation of foreign exchange regulations and the commitment by Portugal with regard to statistical harmonisation at the European level, a new methodological and statistical production system was introduced in 1993 in close co-operation with the banking community.

2.2 Legislative provisions

The legal basis for the compilation of b.o.p. transactions is the Organic Law of the Banco de Portugal (Law No. 5/98 of 31 January 1998), as amended by Decree Law No. 118/2001 of 17 April 2001. This law allows the Banco de Portugal to request information from any public or private body for statistical purposes, in particular within the scope of its co-operation with the European Central Bank.

The Banco de Portugal is authorised to collect data from both banks and non-banks (direct reporters and the official sector), and Decree Laws Nos. 13/90 of 13 January 1990 and 176/91 of 14 May 1991, as amended by Decree Law No. 170/93 of 11 May 1993, and Notice No. 5/93 of 15 October 1993, impose a general obligation on banks and non-banks to report b.o.p. transactions.

Details of the information to be reported under the b.o.p. framework are provided in the Instruction of the Banco de Portugal on External Operations Statistics No. 1/96 of 17 June 1996, as amended by Instruction No. 21/2001, of 17 September 2001, mainly regarding the introduction of an exemption threshold (EUR 12,500) for bank reporting.

In the field of portfolio investment, specific details about reporting are defined through the Instruction on Securities Statistics No. 15/99 of 15 June 1999.

2.3 Internal organisation

The Balance of Payments Statistics Division, which has a staff of 39, within the Statistics Department of the Banco de Portugal is in charge of the methodology, compilation, production and analysis of the b.o.p., the i.i.p. and the template on international reserves and foreign currency liquidity. It consists of four units: the Methodologies and Statistical Analysis Unit, the Statistical Production Management Unit, the Bank Reporters Unit and the Direct Reporters Unit, together with an auxiliary Secretariat.

The Methodologies and Statistical Analysis Unit is responsible for the development of the statistical methodology applicable to the Portuguese b.o.p., the i.i.p. and the international reserves template, and for the statistical and economic analysis of the data. It has two staff members.

The Statistical Production Management Unit is responsible for the development and management of the b.o.p./i.i.p. information system, the processing of the information, the final stage of the compilation and the maintenance of the Statistical Information Database (which is used for data dissemination). It has a staff of seven.

The Bank Reporters Unit deals with the processing, validation and quality control of both information reported by banks and information on portfolio investment. It has seventeen staff members divided into eight teams. Data received from banks account for 70% of the monthly b.o.p. Most of the information is reported via a file-transfer system. Only a few banks still send data on disks (diskettes). Around 1.0 million records are received every month.

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The Direct Reporters Unit comprises eleven staff members (in four teams) who are in charge of the processing, validation and quality control of statistical reports received from around 1,000 direct reporters and of data on direct investment stock surveys. The reporters send data to the Banco de Portugal by electronic means, but also on printed forms in the case of small companies. The Oporto branch is also involved in the reception and validation of both data on direct reporting companies and data on stock surveys, with a staff of five.

2.4 External co-operation

Several institutions provide the Banco de Portugal with supplementary information on some b.o.p. items. The *Instituto Nacional de Estatística* (INE – National Institute of Statistics) supplies data on both external trade, according to physical movements of goods, on the basis of which estimates are made for the goods item in the current account, and trade credits. The INE and the *Direcção-Geral do Turismo* (Directorate-General for Tourism) provide additional data for the travel item. The *Bolsa de Valores de Lisboa e Porto* (Lisbon and Oporto Stock Exchange) and the *Comissão do Mercado de Valores Mobiliários* (CMVM – Securities Market Commission) provide the Banco de Portugal with information useful for the compilation of the portfolio investment item. The *Direcção-Geral do Tesouro* (Treasury) and the *Instituto de*

Gestão do Crédito Público (IGCP – Public Debt Management Office) supply data on the external transactions of the general government sector.

2.5 Users

The Banco de Portugal maintains regular contacts to users such as the Ministry of Finance and the *Conselho Superior de Estatística* (Higher Council for Statistics) which is responsible for the co-ordination of statistics produced in various areas, e.g. between the Banco de Portugal and the INE. Regular contacts are maintained with users/suppliers of data through bilateral meetings. The b.o.p. is also used by the INE in the production of the national accounts, particularly the ROW item, and by the Banco de Portugal in the production of the national financial accounts (Statistics Department), for economic analysis (Economic Research Department) and in the field of co-operation (International Relations Department). Some private economic agents (e.g. banks, companies and universities) make also use of b.o.p. data.

Data in compliance with the standard components of the 5th edition of the IMF Balance of Payments Manual (BPM5) are supplied to international organisations, such as the ECB, the European Commission (Eurostat), the IMF, the OECD, the BIS and the United Nations, on a regular basis.

3 Statistical system

3.1 Type of collection system

The Portuguese data collection system is mainly based on settlements, with transaction-by-transaction reporting, covering credit and debit flows that affect the country's external position, being applied by banks and direct reporters.

In addition to the settlements, the general collection system also includes specific reporting for the following sets of information:

- trade statistics are obtained from the INE and the debit side of the transport item is also derived from information provided by the INE;
- estimates for the credit side of the travel item are derived from tourism statistics provided by both the INE and the *Direcção-Geral do Turismo*;
- security-by-security databases both on domestic and on foreign securities ensure

Table I
Reporting scheme for b.o.p. and i.i.p. data collection for Portugal

Target respondent population (e.g. MFIs, enterprises, etc.)	Name of reporting form	Contents of reporting form	Frequency of reporting	Timeliness (number of days for submission after the end of the reference period)
MFIs	External Transactions Reporting	Detailed external flows.	Monthly	10 working days
Enterprises (including GDRs), individuals	Statistical forms; External Transactions Reporting; External Positions Reporting	Deposits abroad, loans, direct investment, real estate investment, netting	Monthly	10 working days
MFIs	MFI's balance sheet	Monthly external positions	Monthly	10 working days
MFIs, depository institutions, enterprises, individuals	Integrated System for Securities Statistics	All portfolio investment transactions and positions on a security by security basis	Monthly	12 working days
MFIs, insurance companies, non-financial enterprises	FDI surveys	FDI stocks	Biennially	30 days after receiving the questionnaire
the NSI		Estimate on trade statistics	Monthly	35 days (5 weeks)
the NSI		Trade credits	Quarterly	90 days (3 months)
MFIs	Financial derivatives survey	Financial derivatives	Monthly	10 working days
the Banco de Portugal		Daily external positions	Daily	1 day

compliance with the accruals principle regarding portfolio investment income;

- reinvested earnings and trade credits between foreign direct investment (FDI) enterprises are obtained from surveys on direct investment stocks;
- a security-by-security reporting sub-system on portfolio transactions is the source used in the compilation of the portfolio investment item;
- a monthly survey of banks is the source used for compiling the financial derivatives item;
- monthly trade credits are estimated from quarterly surveys among key Portuguese exporters/importers.

Banking statistics on the banks' external positions are used for compiling data on the

monetary financial institution (MFI) sector within the other investment component. The accounting registers of the Banco de Portugal are used to derive data on reserve assets and on the Monetary Authority sector within the portfolio investment and the other investment items of the financial account.

3.2 Reporting agents

- (i) *Banks* are required to report the following types of external transactions: those carried out on behalf of their resident and non-resident customers or on their own account, whether acting as an intermediary between a non-resident (bank or non-bank) and another resident bank, or carrying out interbank operations affecting an external position. Banks engaged in trading in financial derivatives are also requested to report these data through a monthly survey.

- (ii) *Direct reporters*: general direct reporters report all transactions with non-residents, whether settled through a resident bank or not. Residents holding accounts abroad must report settlements via non-resident banks. Residents holding current accounts with non-residents must report all settlements cleared through those accounts. Additional data are also collected for enterprises/households on external credits and loans, and inward and outward direct investment.
- (iii) *Enterprises involved in FDI*: data on stock surveys for direct investment, both abroad and in Portugal, are collected from resident FDI enterprises.
- (iv) *Securities custodians*: resident securities custodians provide information about portfolio investment transactions/positions on domestic securities on behalf of their non-resident clients and on foreign securities on behalf of their resident clients. MFIs are also compelled to report transactions/positions on their own account. Investors operating through non-resident custodians have to report directly their transactions and stock data.
- (v) *Other sources*:
 - the INE reports overall statistical data on international trade (goods) and trade credits;
 - the Direcção-Geral do Tesouro and the *Instituto de Gestão do Crédito Público* (IGCP – Public Debt Management Office) report data on the external transactions of general government;
 - the Banco de Portugal supplies data on its external operations (Accounting and Markets Departments) and on MFI's external positions (Statistics Department – Monetary and Financial Statistics Division).

3.3 Thresholds

Under the general reporting system, banks may be exempted from reporting transactions in an amount of below €12,500. Missing data concerning transactions below €12,500 are estimated according to information reported in the same period of the previous year for transactions below €12,500.

The portfolio investment collection system has a simplification threshold of €500 million. All reporting institutions whose monthly transactions do not reach €500 million and, at the same time, have less than €500 million in outstanding amounts report only once a year.

3.4 Availability of data

The Banco de Portugal compiles and produces a monthly Portuguese b.o.p. on a transactions basis, with a large detailed sectoral and geographical breakdown for some items, which is first released on the website of the Banco de Portugal and subsequently published in the “*Boletim Estatístico*”. A less detailed b.o.p. on a monthly basis is also available and published in the Monthly Economic Indicators.

3.5 Timeliness

The reporting agents have ten working days from the end of the reporting period (month) within which to submit data to the Banco de Portugal. For the portfolio investment collection system, the deadline is the twelfth working day. The Balance of Payments Statistics Division has until the tenth working day of the month following receipt of the data to produce the reports for the various publications. Monthly b.o.p. data (on a transactions basis) are available within six weeks. They include estimates for trade statistics, which are received from the INE with a delay of five to six weeks (preliminary statistics on external trade are sent to the

Banco de Portugal within ten weeks), for the transport, insurance, travel and current transfers items, for reinvested earnings of direct investment, for the accruals of portfolio investment income and for trade credits.

3.6 Compilation frequency

The Portuguese b.o.p. on a transactions basis is compiled on a monthly basis.

3.7 Data controls

For the information reported via the settlement system and the portfolio investment system, there are different levels of checking controls. First, data are checked for errors concerning the protocol and label (e.g. file name, recording month or number of records) by means of an automatic procedure for data sent by file transfer, and on a PC for data sent on disk or in paper form (after being entered on a PC).

Second, quality controls are incorporated in both procedures in order to validate coding errors, such as type of account, statistical classification, currency and country; there is also an implicit plausibility check known as “meaningful transaction”. Other controls are carried out in order to achieve consistency between flows and positions, to check transactions involving two or more resident banks, to validate data from banks and companies for those enterprises with the status of direct reporting company or with accounts held abroad, and to check settlements from banks with portfolio investment data from custodians. Additional checks are made in order to control the evolution of a time series for a specific item (within a specific bank). Amendments are made whenever reporters send further corrections.

Regarding trade in goods and MFI’s transactions, data on settlements are also used for checking purposes.

Data from the other sources are checked in order to identify any inconsistencies within the information, with the other items of the b.o.p., and in relation to their evolution. In addition, other external sources, such as securities clearing houses, national institutions involved in the numbering of securities and the regulation of the capital markets, other statistics, newspapers, banks’ and companies’ accounting reports and reports of associations in the economic sector are used for quality control purposes. Data provided by the Banking Supervision Department are used for checking statistics compiled for the MFIs, namely within the FDI stocks and the other investment income frameworks. The BIS database is used to check the quality of data obtained from the reporting system on deposits held abroad by residents.

3.8 Revision policy

Monthly data are revised on a quarterly basis, at the end of each quarter and at the end of the year. The data for the first six months are revised once more at the end of the first half of the year. For example, in March data for both January and February will be revised, in June data for January to May will be revised, and in December data for all months of the year will be revised (as well as data for the previous year, if necessary). The annual b.o.p. becomes definitive after two years.

3.9 Publication

Data on the b.o.p. are published monthly and annually. The titles of the publications produced by the Banco de Portugal on b.o.p. statistics are listed in Sub-section 13.1. Before the dissemination of those publications, a first disclosure of b.o.p. statistics is made on the Internet (website: www.bportugal.pt). Usually, users are informed in advance of the date on which publications will be made available. The “Boletim Estatístico” regarding a certain month contains new b.o.p. data for the previous month, while in the “Monthly

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Economic Indicators”, new b.o.p. data refer to two months before. The Banco de Portugal (B.o.p. Division) also has a commitment to the IMF’s Special Data

Dissemination Standards (SDDS) regarding the dissemination of statistics on b.o.p., i.i.p. and the template on international reserves and foreign currency liquidity.

4 Monthly balance of payments

4.1 Availability of monthly b.o.p. data

The Banco de Portugal can provide full monthly b.o.p. data in line with the timeliness endorsed by Guideline ECB/2000/4 of 11 May 2000. A euro area/non-euro area breakdown is possible for all the items in the b.o.p. statistics.

In the case of delays by the respondents, which do not occur often, the B.o.p. Division produces estimates.

4.2 Estimation methods for monthly b.o.p. data

The monthly b.o.p. data include estimations of trade in goods, transport, travel, insurance, reinvested earnings, portfolio investment income, current transfers and trade credits.

4.2.1 For goods and services

Data on trade in goods are obtained from the INE. The figures on imports and exports related to intra-EU trade are derived from the data obtained within the Intrastat system; for extra-EU trade, data are derived from customs declarations. The reference time underlying these statistics is the time of the physical transaction in the goods. The INE provides preliminary estimates of international trade within five to six weeks, in compliance with the SDDS requirements. These estimates allow the Banco de Portugal to provide a first draft of the b.o.p. within a six-week period.

The estimates provided by the INE are based on data submitted by a set of major exporters/importers, which broadly

represents 70% of the total trade within the EU, and on data collected through customs declarations (for trade outside the EU). A further adjustment is made by the Banco de Portugal, with the aim of approaching “definitive” data. INE data are adjusted by the b.o.p. compilers for the following items:

- information below the Intrastat exemption threshold and non-response;
- government trade;
- c.i.f./f.o.b. margin;
- goods not crossing the border;
- f.o.b. goods not included in trade statistics;
- non monetary gold;
- goods procured in ports by carriers (imports).

Information on military goods is that included in Foreign Trade Statistics, with the respective geographical breakdown being made available by the INE. No estimates are made on this item.

There is no evidence of transactions carried out under special Community programmes in the information on trade in goods gathered by the INE.

Regarding the compilation of the b.o.p., imports reported by the INE are also adjusted to produce figures on a f.o.b. basis. For this adjustment, an estimate is made of the implicit c.i.f./f.o.b. margin and of the split between resident and non-resident transport and insurance enterprises. Those components estimated to have been carried out by non-resident transport and insurance companies are added to imports of merchandise transport, freight insurance services and other current transfers.

The c.i.f./f.o.b. rate is calculated through a matrix of import quantities and costs according to the types of goods, the country of origin, the modes of transport utilised and the nationality of the carriers, valued by respective transport costs. The construction of the matrix was based on available information disclosed by the INE (namely the nationality of the carrier) for 1992 and on information gathered from the main transport agents for each mode of transport and from some insurance companies approached by the Banco de Portugal for that purpose.

Based on information made available by the INE, the weights of the modes of transport utilised are updated regularly.

The c.i.f./f.o.b. rate is a fixed percentage by mode of transport, unique for all partner countries. No additional adjustments are made for the non-euro area countries.

Geographical allocation is derived from the INE, according to the country of consignment principle. However, estimates reported within five to six weeks are made available without a geographical allocation. In that case, the Banco de Portugal applies the structure of countries for the same month in the previous year.

The INE compiles trade statistics according to the "special trade" principle.

Data on trade in goods included in the Portuguese b.o.p. are fully compliant with BPM5 standards.

The travel item includes estimates for expenses settled in Portugal by foreigners with euro brought from another euro area country (for credits) and for expenses settled abroad by residents in Portugal with euro obtained before leaving the country (for debits). The process of estimation takes into account information available in the Banco de Portugal, namely data on payments with other means like credit and debit cards, cheques and bank transfers. Data are first

estimated on a settlements basis. Compliance with the transactions principle relies on the year-on-year rate of change in the settlement figures applied to the previous monthly year's transactions data. Half yearly, adjustments based on the available physical indicators are then made.

An estimated split is made between the service and the transfer components of insurance.

Estimates are included in services (transport and insurance) and in transfers, as a result of the procedure undertaken to value imports on an f.o.b. basis.

Financial services recorded in the b.o.p. are compiled from settlements data, which includes a specific code to cover these kinds of transactions.

4.2.2 For investment income

Monthly data on investment income are being produced, making substantial use of the accruals principle. The breakdown into sub-components (direct investment income, portfolio investment income and other investment income) is available for monthly data. In the geographical split between euro area/non-euro area for portfolio investment income, the issuer principle is applied for the assets side of the portfolio investment (i.e. credits of portfolio investment income) and the first known counterpart principle for the liabilities side of the same investment (i.e. debits).

For direct investment income, excluding reinvested earnings, monthly flows are obtained from settlement data, while portfolio investment income is mainly estimated to comply with the accruals principle. For other investment income, settlement data are mainly applied.

Regarding compliance with the accruals principle, estimates of both direct and portfolio investment income are produced on a monthly basis.

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Reinvested earnings are estimated from the stock surveys on foreign direct investment in Portugal and Portuguese direct investment abroad. These surveys are launched biennially and in alternate years. An estimate of the annual figure is first produced, with account being taken of the net results of enterprises, as reported in the previous surveys, and of the impact of the year-on-year rate of change in the gross domestic product (GDP) of the countries of destination, regarding the credits side, and of Portugal, for the debits. Once the annual net results are estimated, monthly figures are obtained by dividing the estimated value by 12 and by deducting the respective monthly dividends collected through the settlement system. These figures are revised only after the results of the next survey are available, at which time they become definitive. An offsetting entry in the financial account, in the respective direct investment item, is also made.

Portfolio investment income include, monthly, the interest due or payable (on an accruals basis), as derived from data on interest rates and stocks of securities.

Dividends included in investment income are compiled on a settlement basis, i.e. they are registered in the month in which they are paid.

4.2.3 For direct investment

Monthly estimates are produced for reinvested earnings (see description presented in Sub-section 4.2.2 on investment

income) and for trade credits between affiliates. Trade credits recorded under direct investment are estimated from FDI stock surveys. Monthly figures are obtained by applying the monthly year-on-year rate of change of imports (for credits received from abroad) and exports (for credits granted to non-residents) to the stock value of trade credits derived from the results of the previous FDI stock surveys.

4.2.4 For portfolio investment

The portfolio investment component of the financial account includes a component estimated on a monthly basis as a result of compliance with the accruals principle.

For the geographical allocation procedure, the issuer country applies for the assets side and the first known counterpart for the liabilities side.

4.2.5 For financial derivatives

Financial derivatives are, at present, compiled from a monthly survey of the resident banking system.

4.2.6 For other investment

Trade credits are estimated from a quarterly survey of major exporters and importers. Monthly figures are obtained by using the monthly year-on-year rate of change of exports and imports, as reported by the INE.

5 Investment income

5.1 Specific features of data collection

5.1.1 General

The accruals principle is applied to almost all investment income components. The only exception concerns other investment (including the reserve assets component), for

which data on a settlement basis are obtained from the general reporting system. Data derived from stocks are used to make estimates of figures accrued. Those estimates are revised once the results of the stock surveys are available, at which time they become definitive.

Within investment income, a breakdown into sub-components is available on a monthly basis. The criterion applied for geographical allocation differs for each type of investment income:

- (i) *for direct investment income*, excluding reinvested earnings, flows are allocated to the country reported under the settlement system; for reinvested earnings, data are allocated to the country of residency of the actual counterpart (debtor/creditor principle), according to the structure of countries given by the stock surveys;
- (ii) *for portfolio investment income*, flows are allocated to the country of residency of the security issuer, in the case of credits, and to the country of the first known counterpart for the debits side, both being fully in line with the entries registered under the respective financial account assets/liabilities;
- (iii) *for other investment income*, the country of settlement is used to allocate flows geographically.

A geographical allocation is also available for accrued historical data compiled monthly for the period 1996-98.

5.1.2 Income on direct investment

Under direct investment income, reinvested earnings are accrued. The main sources for data on reinvested earnings are stock surveys on direct investment activities performed abroad by residents and in Portugal by non-residents. These stocks are compiled every two years to produce annual data. Given the statistical requirements regarding the production of the b.o.p. on both a monthly and a quarterly basis, estimates are made on this issue. Those estimates are initially made on an annual basis, taking into account the year-on-year rate of change in the GDP of those countries which are major recipients of direct investment from Portugal (for

credits) and of Portugal (for debits) applied to the previous companies' results compiled from the survey. Monthly figures are subsequently obtained by dividing the estimate by twelve and by deducting the respective monthly dividends obtained from the settlements.

For the compilation of income on debt transactions between direct investment companies, settlement data are being used.

5.1.3 Income on portfolio investment

In accordance to the description in Sub-section 8.1, a new system for portfolio investment data was introduced in the first quarter of 2000. The accruals on portfolio investment income are being estimated on the basis of monthly stock data. This procedure is applied to all types of securities, with the exception of interest associated with the liabilities side of investment trust units (e.g. collective investment institutions (CII)) due to a partial lack of information, this last segment of data being then based on settlements.

The new portfolio collection system allows compliance with the accruals principle for all types of securities, based on security-by-security databases both for domestic and for foreign securities.

5.1.4 Income on other investment

Interest on loans between enterprises without a direct investment relationship is compiled from settlement data.

Deposits of private individuals/enterprises held with non-resident financial institutions are reported to the Banco de Portugal through the general reporting system, with the interest on such deposits being compiled on a settlement basis.

The figures for income on reserve assets are provided by the Banco de Portugal, under

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the general reporting system. Data are compiled on a settlement basis.

5.2 Definitions

The Banco de Portugal mainly applies the recommendations of the BPM5 for investment income.

5.3 Deviations from agreed definitions

The accruals principle is not fully applied to investment income. Within portfolio investment, income paid to non-residents on investment trust units issued by residents is not accrued. No other investment income components are accrued.

6 Capital account

6.1 Specific features of data collection

Please refer to the information on the general reporting system (see Sub-section 3.2).

6.2 Definition

The Banco de Portugal has implemented the recommendations of the BPM5, in accordance with the harmonisation proposals made by the ECB. In this context, only transfers which reflect a change in the stocks of assets of one or both parties involved in the transaction are included as capital transfers. The classification of transfers as public or private primarily takes into account the criterion of the institutional sector of the resident. Thus, transfers involving the Portuguese State are registered as public transfers and those that involve other resident sectors are classified as private transfers.

Within the transfers data received from the EU institutions, a split is made between capital and current transfers. Additional

5.4 Gaps

None.

5.5 Intended harmonisation

Income derived from reserve assets will, in principle, be accrued, on a monthly basis. The securities system recently implemented in Portugal is expected to make a contribution in this domain.

5.6 Estimation methods

No quarterly estimates are produced. All estimates are made on a monthly basis and aggregated to obtain the quarterly figures.

details reported by the Treasury are useful in this field. The criterion applied respects, above all, the Eurostat recommendation, which was adjusted in accordance with the final destination of the EU funds transferred to Portugal. The breakdown applied was based on the purposes of the EU funds with reference to the period 1993-97. Those EU transfers used to finance infrastructure projects are recorded as capital transfers, namely: the Cohesion Fund (100%), the Specific Program for the Development of Portuguese Industry (100%), the ERDF (85%), the EAGGF-Guidance (80%) and the FIGG (55%). All the other funds are recorded under current transfers.

6.3 Deviations from agreed definitions

None.

6.4 Gaps

Data relating to certain capital transfers, such as migrants' transfers (excluding workers' remittances), investment grants in kind, and

debt forgiveness by companies, are difficult to obtain, as the b.o.p. statistical collection system mainly relies on settlement data reported by resident banks, which might not cover these subjects properly.

7 Direct investment

7.1 Specific features of data collection

The Banco de Portugal collects data on a transaction-by-transaction basis for inward and outward direct investment flows via the External Transaction Report (COE) registers submitted by the resident banking community. The Banco de Portugal also receives detailed data on direct investment transactions above €250,000 via the Direct Investment Statistical Declaration, i.e. data regarding the identification of the resident and non-resident parties to the transaction, a description of the transaction, and supplementary information on the equity participation. Whenever transactions are performed via a non-resident bank, the resident must report directly the transaction settlement which takes place abroad to the Banco de Portugal.

Definitive direct investment statistics are also based on the results of annual stock surveys on both Portuguese direct investment abroad and foreign direct investment in Portugal. These surveys are the source used for recording reinvested earnings. For foreign direct investment in Portugal, the survey was first launched to gather data for end-1995. For Portuguese direct investment abroad, data based on a stock survey began to be available from 1996 onwards. Historical estimates of reinvested earnings for the years before 1996 can be made available.

The geographical breakdown is based on the residency of the actual issuers (i.e. debtor/creditor principle).

6.5 Intended harmonisation

A quality assessment is made whenever Eurostat provides information on the b.o.p. of the European Union Institutions vis-à-vis Portugal. Regular contacts are established with official entities in order to monitor the quality of and the breakdown by current and capital transfers.

In the event that a change of ownership of a resident company from a non-resident to another non-resident direct investor is revealed from the survey, the change is, in principle, recorded both in the FDI stocks and in the corresponding b.o.p. flows.

Transactions settled via an exchange of shares are only collected from the FDI stock surveys, being recorded at the time the exchange of shares takes place and valued according to the accounting entries reported through the surveys.

7.2 Definition

The new version of the Nomenclature of External Operations has complied with the 10% rule since the introduction of Decree Law No. 321/95 of 28 November 1995, which took into account the international recommendations regarding foreign direct investment. The direct investment item in the Portuguese b.o.p. includes short-term transactions between direct investors and direct investment companies. Furthermore, all cross-border transactions in real estate are covered.

Data provided by stock surveys are also being used to improve the coverage of long-term/short-term loans between enterprises with a direct investment relationship. Equity contributions without payment (provision of real or financial assets) are also covered by those surveys, as well as trade credits between affiliated enterprises.

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The distinction between direct investment and portfolio investment is possible using data on stocks acquired by investors through secondary markets. The 10% rule is mainly applied to this purpose.

Special Purpose Entities are treated, both for inflows and outflows, in accordance with the BPM5 and OECD benchmark recommendations, i.e. they are included if short-term transactions between banks or other financial intermediaries are not involved.

7.3 Deviations from agreed definitions

The current operating performance concept is not fully applied for the valuation of direct investment income. Instead, the Banco de Portugal has been using the net results of companies deducted from capital gains and losses and other extraordinary items.

8 Portfolio investment

8.1 Specific features of data collection

The Statistics Department introduced a new portfolio investment collection system in the first quarter of 2000, based on a single report that is used to collect information for purposes of the b.o.p., monetary and financial and the financial accounts statistics.

It is a full-automated system whereby domestic securities custodians provide information about portfolio investment transactions in domestic securities on behalf of their non-resident clients and in foreign securities on behalf of their resident clients. MFIs must also report transactions on their own account. Investors operating through non-resident custodians must report their transactions and stock data directly. This is a security-by-security and an investor-by-investor system. Resident investors are identified by their fiscal number or by their institution number in the case of pension or investment funds. Non-resident investors

7.4 Gaps

None.

7.5 Intended harmonisation

Consolidated balance sheets have been requested since 1997 in the surveys on direct investment. An improvement in the coverage of group-related enterprises' operations and of those of indirectly owned companies is expected as a result of the new layout of the FDI survey.

7.6 Estimation methods

There are no quarterly estimates in the field of direct investment. Only those estimates described above for monthly data, regarding reinvested earnings and trade credits, are made for this item.

must have been previously identified in the system (using a specific type of record within the reporting file), with exception of households that must be identified by the ISO code for their country of origin (PRT if they are residents, other country codes if they are non-residents). Identification includes the country of residence and the institutional sector of the non-resident investor.

The investor or custodian must report monthly statistical information on transactions and quarterly data on end-of-period positions. However, they may choose to report both transactions and stocks on a monthly basis. There is also a simplified regime of annual data reporting for those entities whose transactions and balance sheet assets fall below a certain threshold, as described in Sub-section 3.3.

The ISIN codes are used in the codification of the securities reported to the Banco de

Portugal. Moreover, the existence of a centralised securities database may contribute to a further harmonisation of international statistics in this domain.

The geographical allocation criteria are based on the country of residence, on the assets side, of the issuer of the security (debtor) and, on the liabilities side, on that of the first known counterpart, for both flows and stocks. The geographical breakdown is possible for monthly flows and stocks. An euro area/non-euro area assets split is possible for historical data.

COE registers and MFI balance sheets are used for checking and quality control purposes.

8.2 Definition

The Banco de Portugal mainly applies the recommendations of the BPM5 for portfolio investment.

Service charges, fees and commissions are identified separately in the specific reporting of securities. These transactions are, for the time being, still compiled through the reporting system for external operations based on COE, with different codes in each category.

The money market instruments that may be identified are Treasury bills, commercial paper, negotiable certificates of deposit (with original maturities of one year or less) and other short-term securities.

9 Financial derivatives

9.1 Specific features of data collection

A new system for the collection of data for financial derivatives was implemented in 1999. This new system is based on a monthly survey, among the more important banks in this domain, on both flows and positions for assets and liabilities. This new survey takes

As explained in Sub-section 5.1.3 on portfolio investment income, the offsetting entry for accrued interest in securities portfolios is recorded under portfolio investment. This procedure is carried out on a monthly basis.

8.3 Deviations from agreed definitions

The geographical allocation approach applied to portfolio transactions is the debtor principle for assets and the first-known counterpart principle for liabilities. The first-known counterpart may be the final client or the broker engaged in the securities operation.

8.4 Gaps

The major difficulties in the portfolio collection system concern the capture of securities transactions not deposited with resident custodians and the coverage of private placements.

8.5 Intended harmonisation

None.

8.6 Estimation methods

Accrued income based on monthly estimates is included in portfolio investment transactions.

into account the most recent recommendations of the ECB and the IMF.

Financial derivatives transactions are also captured through the settlement system, which has a specific code for this type of transaction.

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Banks have to report both their own positions and positions opened by their clients (mainly enterprises and individuals). The Banco de Portugal (Operations Department) reports data for the monetary authority sector. Data for the general government sector will have to be compiled from other sources, namely the Treasury.

Monthly data are available with a breakdown by institutional sector of the resident counterpart to the transactions.

A breakdown of data by inflows and outflows is available. This breakdown is consistent with the recommendations of the IMF that, if compilers are unable, because of market practices, to implement this approach (that is, a separation between assets and liabilities according to the market value of the contract), all cash settlement receipts be recorded as a reduction in financial assets and all cash settlement payments be recorded as a decrease in liabilities.

The recording of the net stream of settlement flows associated with interest rate derivatives (forward rate agreements, interest rate swaps and the income component of the cross-currency interest rate swaps) is made under financial derivatives.

The instrument breakdown available is based on the type of instrument and the market risk, in accordance with the structure defined in the BPM5 for "Selected Supplementary Information". The instruments available are futures, options, swaps, forward transactions and others (a residual figure that might include, for example, credit derivatives). The possible market risks are foreign exchange, single currency interest rate, equities, commodities and others (a residual figure).

The criteria for the geographical allocation of the counterpart are based on the country

of residence of the clearing house, in the case of contracts traded in organised markets, and on the country of the counterpart, in the case of over-the-counter (OTC) contracts.

9.2 Definitions

The recording of margin payments for options and futures is carried out according to the ECB recommendations, i.e., initial margins and option-style variation margins are compiled through the settlement system and registered as "Currency and deposits" under other investment, and the futures-style variation margins are to be compiled through the above-mentioned new survey and recorded under financial derivatives.

9.3 Deviations from agreed definitions

The identification of the country of the counterpart in the case of OTC contracts may not always be conducted on the basis of the risk exposure, but may in some cases be based on the country of settlement, booking or trading.

9.4 Gaps

See Sub-section 9.3.

9.5 Intended harmonisation

None.

9.6 Estimation methods

None.

10 Other Investment

10.1 Specific features of data collection

B.o.p. flows for the MFI sector are derived from the MFIs' balance sheet at the beginning and end of period. Differences are calculated in foreign currency and converted into euro by using the respective monthly average exchange rates.

In order to separately identify those transactions which are carried out through TARGET, MFIs report these transactions with a "neutral" code. Finally, the Banco de Portugal, which carries out the real payments, supplies these data as cross-border transactions, so that they are allocated to the Monetary Authority sector.

The collection system for other investment of other sectors (excluding the monetary authority, MFIs and general government) relies mainly on the information reported via COE registers. Data regarding the external loans and borrowings of the general government are provided by the Treasury.

Trade credits are estimated on a monthly basis by applying the monthly year-on-year rate of change of exports and imports, as reported by the INE, to the stock value obtained through a quarterly survey of major exporters and importers. The time of recording of trade credits is the time of the change of ownership of the items, based on the time of registration in the accounting books of the companies involved in these operations. At the time the i.i.p. is compiled, data on trade credits are reviewed within the reconciliation exercise between flows and stocks, taking into account the results of the surveys.

Actual flows of other investment, and not the change in stocks, are registered in the b.o.p, except for transactions concerning the MFI and Monetary Authority sectors.

Transactions recorded under the sub-item "other assets/other liabilities" mainly relate

to residual financial operations, which are still under evaluation in order to obtain a proper classification.

Geographical breakdowns of historical data concerning other investment are available as from January 1996.

Sectoral, instrument and original maturity breakdowns are available, in the other investment category, on a monthly basis.

10.2 Definition

In general, the Banco de Portugal has implemented the recommendations of the BPM5 and the harmonisation proposals made by the ECB.

Short-term claims and liabilities between affiliated enterprises are recorded under direct investment.

Foreign currency notes and coins and financial leasing are included in "loans/currency and deposits" within other investment.

Repurchase agreements, sell/buy-back transactions and bond lending should not be very significant in Portugal. However, since January 1999 new codes have been introduced in the External Operations Nomenclature, in order to collect data on these kinds of transactions within the other investment category.

10.3 Deviations from agreed definitions

None.

10.4 Gaps

None.

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10.5 Intended harmonisation

None.

10.6 Estimation methods

None.

11 Reserve assets

11.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2).

11.2 Definition

The Banco de Portugal follows the recommendations of the BPM5 and those of the ECB regarding the definition of the reserves of the Eurosystem.

All instruments are identified separately within the monthly reserve assets figure. Daily transactions are calculated through the change in stocks, valued at market prices and converted to euro using daily market exchange rates, except regarding “monetary

gold”, for which monthly external transactions are reported.

11.3 Deviations from agreed definitions

There are no significant deviations in the Portuguese b.o.p. data available for reserve assets.

11.4 Gaps

None.

11.5 Intended harmonisation

None.

12 International investment position

12.1 Specific features of data collection

Once the figures on direct investment, trade credits and financial derivatives were made available, a complete i.i.p. was produced, for the first time in Portugal, in September 1999, regarding end-1997 and 1998 stock data. When they become definitive, statistics for i.i.p. components are mostly compiled using pure stock data. The Banco de Portugal publishes in the “Boletim Estatístico”, on a monthly basis, the last complete annual i.i.p. made available and detailed end-of-quarter figures, based on pure stocks and accumulated flows, for the main components of the Portuguese i.i.p. (assets and liabilities), namely for direct investment, portfolio investment, other investment, financial derivatives (on a net basis) and reserve assets.

12.2 Definitions

12.2.1 General

See 12.1.

12.2.2 Direct investment

Final data on stock statistics are available through the Foreign Direct Investment in Portugal Questionnaire (first data concerning 1995), and through the Portuguese Direct Investment Abroad Questionnaire (1996 data were first made available), which are conducted in alternate years (biennially). Data supplied to the Banco de Portugal are based on book values, which are supposedly revalued according to accounting principles at current prices. Quarterly estimates are produced through a mixed stock data/

accumulation of flows procedure over the following year in which pure stock data are not immediately available.

A full geographical allocation can be provided on an annual basis.

12.2.3 Portfolio investment

Until the end of 1999, pure stock statistics on resident holdings of securities were produced on the basis of information reported through a specific form. Detailed annual information was provided on the identity of the investor, the custodian, the denomination of the security (on a security-by-security basis), the codification of the security (e.g. ISIN), the type of security, the identity of the issuer and the valuation of stocks (physical quantity, currency and quotation of securities). Additional items, such as the currency of denomination of the securities and the sector of both the investor and the issuer, which were not included in the IMF 1997 Co-ordinated Portfolio Investment Survey, were requested. A complete geographical allocation was available according to the country of residence of the security issuer.

Data on stocks of domestic securities held by non-residents were produced on a monthly basis, until the end of 1999, through the reports collected from custodians (concerning physical quantities and nominal values of securities deposited in non-resident dossiers) and from the Portuguese stock exchange (concerning prices). A complete geographical allocation was available, based on the country of residence of the first known counterpart.

From 2000 onwards, stock data for both assets and liabilities are collected monthly, on a security-by-security basis, using the ISIN code as the security identifier. A complete geographical breakdown is available, based on the country of residence of the security issuer (assets) or of the first known

counterpart (liabilities). Information reported under the new security-by-security system is used to produce monthly estimates on stock statistics. Quarterly estimates on stock data are being published.

MFI balance sheets, data on stocks for collective investment institutions (CIIs), as reported by the CMVM, and Euroclear information on public debt securities are all used for checking and quality control purposes.

12.2.4 Financial derivatives

Options, futures, swaps and forwards are valued at market prices. In the case of futures, the market practice usually involves a daily settlement of gains and losses (variation margin), implying that their market value is zero.

12.2.5 Other investment

Data on the monetary authority's assets and liabilities are derived from the Banco de Portugal's balance sheet. Data on the General Government assets and liabilities are collected directly from the Treasury. Data on banks' assets and liabilities are collected through external positions of the banks' balance sheets. A mix of BIS figures and an accumulation of flows was used to compile deposits of resident non banks with non-resident banks until 1997; accumulation of flows have been used since then. Stock figures on loans are derived from the accumulation of flows based on pure stocks of 1994. A quarterly survey of major exporters/importers is used to produce stock data on trade credits.

12.2.6 Reserve assets

The balance sheet of the Banco de Portugal is the source of these data. It is available, for this purpose, on a monthly basis.

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12.3 Deviations from agreed definitions

Book values, supposedly revalued at current prices according to accounting principles, are applied to the stock figures on direct investment, instead of pure market values. The first disclosure of data is based on mixed stock data/accumulation of flows. After the results of the surveys are made available, in principle two years after the reference period, the figures become definitive, the final data being based on pure stock statistics.

The first known counterpart criterion is applied to split stocks on portfolio investment liabilities.

In the case of financial derivatives, contracts for hedging purposes are not always valued at market prices.

12.4 Gaps

None.

12.5 Intended harmonisation

None.

12.6 Estimation methods

None.

13 Administration

13.1 Titles of publications

General publications of the Banco de Portugal:

Boletim Estatístico – on a monthly basis;

Monthly Economic Indicators – on a monthly basis;

Economic Bulletin – on a quarterly basis;

Annual Report – on an annual basis.

Specific publications on statistics related to the b.o.p./i.i.p.:

“Foreign Direct Investment in Portugal: Flow and stock statistics for 1996 and stock estimates for 1997”, Supplement 2/98 to the Statistical Bulletin of December 1998;

“New Presentation of the Balance of Payments Statistics”, Supplement 1/99 to the Statistical Bulletin of February/March 1999.

“*Investimento Directo de Portugal no Exterior: Estatísticas de fluxos e stocks para o ano de 1997 e estimativa de stocks para 1998 e*

1999”, Supplement 1/00 to the Statistical Bulletin of December 2000 (available only in Portuguese; presents the first results for stocks of direct investment abroad).

13.2 Contributors

This country information was drafted by the ECB's Balance of Payments Statistics and External Reserves Division and subsequently amended and agreed with Portugal. Enquiries of a general nature should be addressed to the Press Division of the ECB. Enquiries specific to Portugal should be addressed to:

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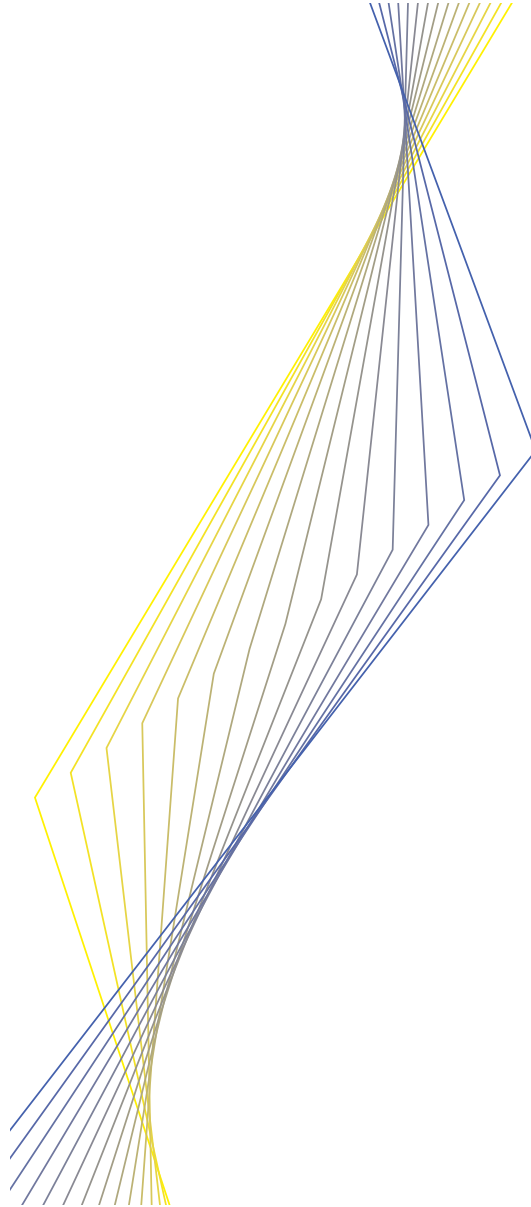
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EUROPEAN CENTRAL BANK

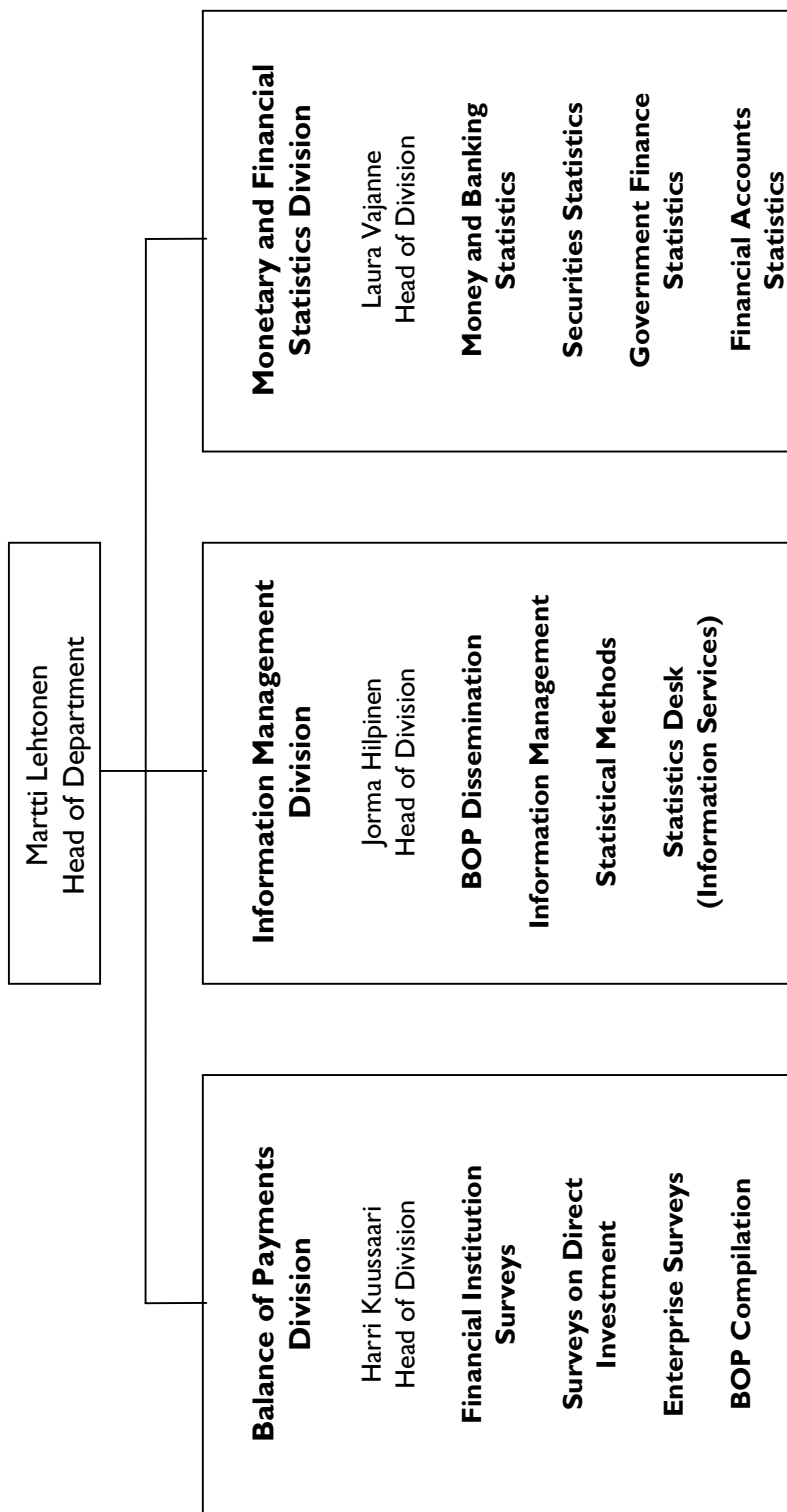


Finland

November 2002

I Organisation chart(s)

**Suomen Pankki - Finlands Bank
Statistics Department**



(Unofficial translation)

2 Institutional aspects

2.1 Introduction

Suomen Pankki - Finlands Bank has been responsible for compiling Finnish balance of payments (b.o.p.) statistics since 1948. This responsibility was seen as natural because exchange controls were carried out by Suomen Pankki - Finlands Bank. The system for compiling statistics has altered over time to reflect the changing stance of exchange controls and, finally, the liberalisation process, which took place during the 1980s. Exchange controls in Finland were abolished in full and the current types of b.o.p financial account surveys were introduced in 1991.

2.2 Legislative provisions

Residents are obliged under Section 28 of the Act on the Bank of Finland (214/1998), which entered into force on 1 January 1999, to report all international transactions they undertake to Suomen Pankki - Finlands Bank. Failure to report such transactions may result in a fine.

2.3 Internal organisation

Since 1 June 1999 the compilation of the ESCB statistics at Suomen Pankki - Finlands Bank has been centralised in the new Statistics Department, with personnel of 50. Some 25 members of staff work in the field of b.o.p. statistics. They are divided into teams for the processing of data on banks and other financial institutions as well as securities trading, data on the corporate sector and direct investment and the compilation, estimation and information service. A separate team provides general data processing expertise for all statistical areas.

2.4 External co-operation

There is a close relationship between Suomen Pankki - Finlands Bank, Statistics Finland and the Board of Customs in the compilation of various statistics. Statistics Finland prepares, inter alia, the national accounts and data on price indices. Suomen Pankki - Finlands Bank focuses its statistical activities on the statistics compiled for the ECB. With regard to the b.o.p. and the international investment position (i.i.p.), this means that the Bank compiles the financial account and investment income data. Statistics Finland is responsible for the collection of data for the current account items, except for investment income. The official foreign trade statistics produced by the Board of Customs are used in the b.o.p. as well as in the national accounts.

2.5 Users

Data in line with the standard components of the IMF Balance of Payments Manual (5th edition, BPM5) are supplied to international organisations, such as the ECB, the European Commission (Eurostat), the OECD, the IMF and the BIS, on a regular basis.

At the national level b.o.p. and i.i.p. data are used by Statistics Finland in its national accounts. In addition, Statistics Finland and the Research Institute of the Finnish Economy (ETLA) operate as data distributors in that they distribute b.o.p. data, for instance, via their commercial economic databases. The data are also supplied to various organisations, such as the Ministry of Finance, research institutes and universities.

3 Statistical system

3.1 Type of collection system

The current data collection system for the b.o.p. and the i.i.p. was introduced in 1991. It is a pure survey-type system with emphasis on end-investor and issuer surveys. For the financial account, surveys have been the source of information since 1991; for the current account, time series methods have replaced the settlement data in the preliminary monthly statistics as the collection of data on settlements was ceased at the beginning of 1999. Trade statistics are compiled on a monthly basis by the Board of Customs.

The traditional surveys carried out by Suomen Pankki - Finland's Bank concern the foreign financial assets and liabilities of enterprises, banks, other financial institutions and the general government as well as direct investment, securities trading and custodian services. In the asset and liability surveys the b.o.p. and i.i.p. data are collected simultaneously, and the respondents have to reconcile stocks, flows and related income. An essential element in conducting surveys is the use of various targeted registers as frames for selecting respondents.

The Finnish b.o.p. compilation system is based on monthly and quarterly frequencies. Since 1994 it has been compliant with the BPM5, and has been reported to international organisations. Between 1994 and 1998 Suomen Pankki - Finland's Bank compiled current account data according to the SNA (1968 edition) standards for domestic usage. Data on most of the b.o.p. components are collected on a monthly basis, e.g. trade account data, investment income data and data on most items in the financial account, including reserve assets. As the collection of settlements ceased in 1999, data related to international trade in services, current transfers, compensation of employees and the capital account are only available on a quarterly or an annual basis. Suomen Pankki - Finland's Bank uses various estimation

methods to compile the monthly and quarterly preliminary figures on foreign trade in services and other items where high-frequency data are not available. Statistics Finland produces the final and structural data on these items.

Financial stocks are produced simultaneously with the monthly b.o.p. The monthly stock data also serve as an important quality control tool for the registration of international capital flows, which allows the consistency between flows and stocks to be monitored.

The Finnish b.o.p. compilation process is described in Figure 1.

The data sources as well as the estimation and compilation methods are described in more detail in Sub-sections 4 to 12.

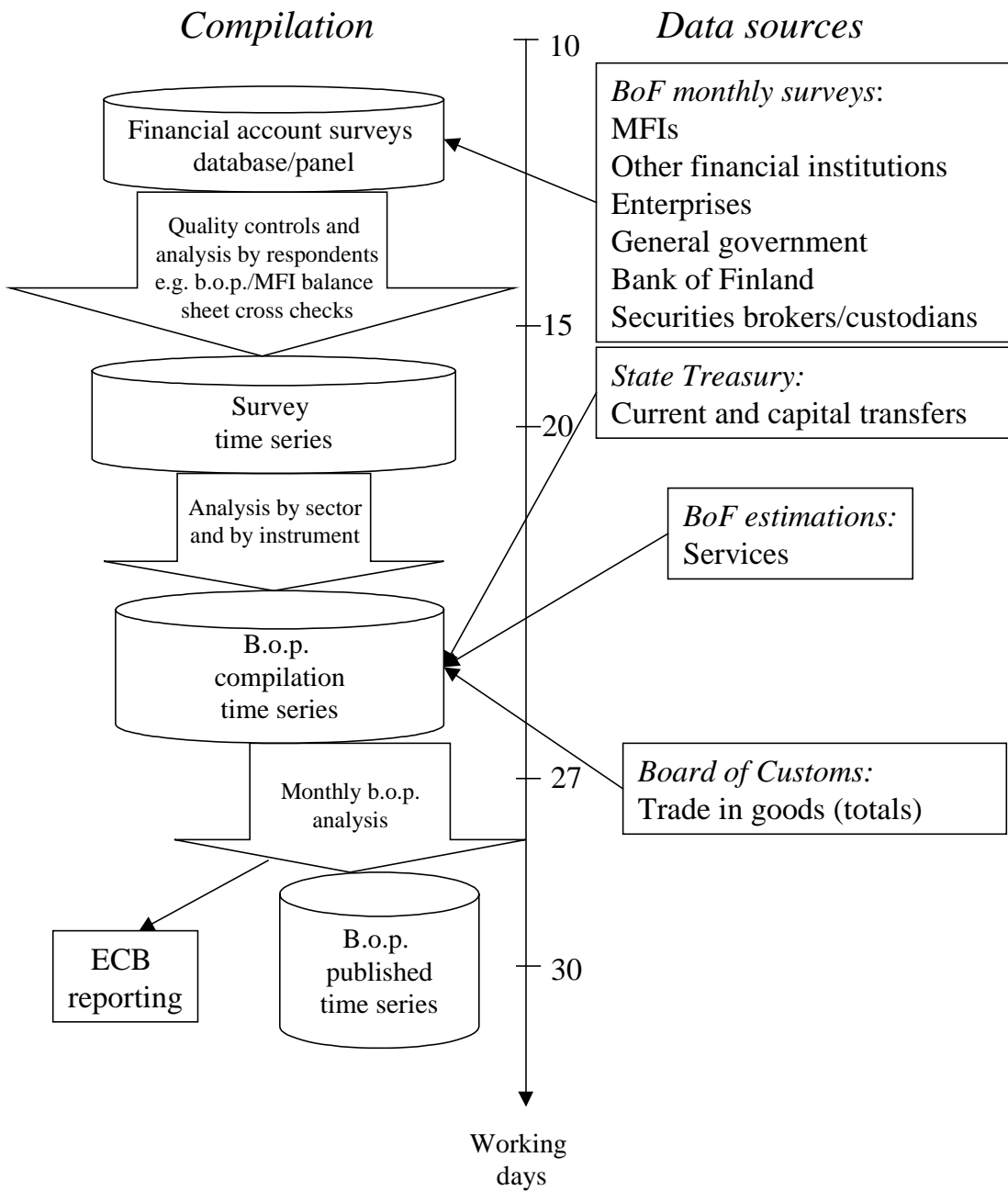
3.2 Reporting agents

(i) Registers

The official register of enterprises and establishments is received from Statistics Finland on an annual basis. It contains information on around 300,000 enterprises and establishments. The frames targeted for various b.o.p. surveys are, however, structured on the basis of other information. The commodity trade register maintained by the Board of Customs includes some 12,000 exporters and 17,000 importers. A balance sheet database with information on 7,000 largest enterprises in Finland is used for the purposes of the frame. The official register contains a subset of 700 consolidated enterprises, including Finnish enterprises in foreign ownership. In addition, Suomen Pankki - Finland's Bank monitors mergers and acquisitions in order to keep the targeted direct investment registers up to date. The Financial Supervision Authority maintains the register of financial institutions.

Figure 1

The Finnish b.o.p. compilation process



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(ii) *Corporate sector*

For the corporate sector, a multi-frequency financial asset and liability survey (various strata respond on different frequencies) and annual FDI surveys are employed. The frame of the multi-frequency asset and liability survey contains some 550 enterprises. A small group of 35 large consolidated enterprises (the top stratum) is surveyed for financial flows and stocks on a monthly basis. A stratum of 85 medium-sized respondents is obliged to report the same items quarterly. Finally, a simpler annual survey is conducted for the rest of the enterprises included in the frame to make up the data a census; that is all enterprises in the frame are included. Data on statistically important international mergers and acquisitions, which are not covered by the surveys, are requested from the Finnish counterparts to the transactions.

Suomen Pankki - Finland's Bank conducts annual direct investment surveys in order to collect the data on reinvested earnings and direct investment stocks, especially stocks of equity assets. The coverage of direct investment data in the monthly/quarterly surveys is also improved by the annual surveys. The breakdowns of direct investment by geographical location and economic activity are likewise based on the annual surveys. The sample for the annual survey of direct investment abroad consists of around 400 enterprises. The annual sample survey of direct investment in the domestic economy consists of some 800 enterprises. The direct investment surveys are carried out every five years as a census. The same definitions and concepts are used in the monthly/quarterly surveys and in the annual direct investment surveys.

For trade credits, a larger number of enterprises must be surveyed at intervals of a few years in order to check the levels of data.

There are no major gaps in the reporting system. Monthly data are complemented with

quarterly and annual information, and no specific grossing-up procedures are employed for the flow data. In practice, the flows are almost always fully covered by the quarterly data, since enterprises having a small stock seldom have flows. The probability that flows are missing in quarterly data is negligible. However, since the data collection is based mainly on non-probability sample surveys taken from a changing reporting population, it is possible that the coverage in terms of respondents is insufficient. The maintenance of the frames is the most difficult problem facing the system. Larger surveys in which all potential respondents are included must be conducted systematically in order to update the frames.

In 2000, large frame surveys were conducted for the high frequency survey system and for the annual direct investment surveys. The frames constructed from the returns are the basis for the selection and/or sampling of the respondents in current surveys. A detailed report on the results of the frame surveys is available in the series of working papers of Bank of Finland's Statistics Department (No. 1/2001).

(iii) *Financial institutions, government and households*

Suomen Pankki - Finland's Bank conducts surveys on banks, other financial institutions and general government agencies. All banks, and most other financial institutions and general government agencies are covered. Around 60 institutions belong to the survey on banks and other financial institutions and to that on securities brokers/custodians. Securities brokers report the foreign securities trade which they carry out on behalf of the domestic sectors. On the portfolio investment asset side, securities brokers' reports are the main source of data on households' holdings.

(iv) *Monetary authority*

Suomen Pankki - Finland's Bank reports on the external monetary position.

Table I**Reporting scheme for b.o.p. and i.i.p. data collection for Finland**

Target respondent population	Name of reporting form	Contents of reporting form	Frequency of reporting	Timeliness (time for submission after the end of the reference period)
MFIs (13 respondents, full coverage)	RSV	Foreign assets and liabilities (stocks, flows and income)	Monthly	15 banking days
Other financial institutions (16 respondents, full coverage)	RSV	Foreign assets, liabilities (stocks, flows and income)	Monthly	15 banking days
Other financial institutions (11 respondents, full coverage)	RSV	Foreign assets and liabilities (stocks, flows and income)	Quarterly	15 banking days
Enterprises (35 respondents, 80% cut-off)	YSV	Foreign assets and liabilities (stocks, flows and income)	Monthly	15 banking days
Enterprises (35+ 80 respondents, 95% cut-off)	YSV	Foreign assets and liabilities (stocks, flows and income)	Quarterly	15 banking days
Enterprises (35+ 80+250 respondents, full coverage)	YSV	Foreign assets and liabilities (stocks, flows and income)	Annually	4 months
Central government (4 respondents, full coverage)	VSV	Foreign assets and liabilities (stocks, flows and income)	Monthly	15 banking days
Central government (3 respondents, full coverage)	VSV	Foreign assets and liabilities (stocks, flows and income)	Quarterly	15 banking days
Local government (6 respondents, full coverage)	KSV	Foreign assets and liabilities (stocks, flows and income)	Quarterly	15 banking days
Other financial institutions (27 respondents, full coverage)	MSV	Foreign asset and liability stocks with geographical breakdown	Annually	4 months
Enterprises (115 respondents, 95% cut-off)	MSV	Foreign asset and liability stocks with geographical breakdown	Annually	4 months
Mutual fund companies (23 respondents, full coverage)	MSV	Portfolio Investment asset stocks with geographical breakdown	Annually	2 months
Securities brokers (27 respondents, full coverage)	APK	Securities trade between residents and non-residents	Monthly	15 banking days
MFIs (13 respondents, full coverage)	SSS	Direct Investment in Finland	Annually	4 months
Other financial institutions (27 respondents, full coverage)	SSS	Direct Investment in Finland	Annually	4 months
Enterprises (800 respondents, sample survey)	SSS	Direct Investment in Finland	Annually	4 months
MFIs (13 respondents, full coverage)	SSU	Direct Investment abroad	Annually	4 months
Other financial institutions (27 respondents, full coverage)	SSU	Direct Investment abroad	Annually	4 months
Enterprises (400 respondents, sample survey)	SSU	Direct Investment abroad	Annually	4 months

(v) Customs and Intrastat

The commodity trade data are based on the official foreign trade statistics produced by the Board of Customs. The Board of Customs publishes the monthly global commodity trade figures within six weeks and geographical details within ten weeks. This means that the split between the euro area and other countries must be estimated for the first preliminary b.o.p. data to be reported to the ECB. A more timely provision of the euro area/non-euro area split is being developed at the Board of Customs. The f.o.b.-f.o.b. calculations are based on a recent survey conducted by the Board of Customs.

3.3 Thresholds

None.

3.4 Availability of data

B.o.p. statistics with a euro area/non-euro area breakdown have been available on a monthly basis since January 1999; however there is no further breakdown on a country-by-country basis. Historical data according to the BPM5 are available as from 1975, except for financial derivatives (these data are available only from 1994 onwards).

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3.5 Timeliness

The respondents are obliged to reply by the 15th banking day after the end of the reference month. The processing of the financial survey data takes just below three weeks. The Board of Customs delivers its preliminary trade statistics approximately six weeks after the end of the reference month. All in all, there are only a few days for the overall quality assessment of the monthly data. The first preliminary data are published at the national level after submission of the data to the ECB.

3.6 Compilation frequency

The Finnish aggregate b.o.p. is compiled on a monthly basis and more detailed breakdowns are available quarterly.

3.7 Data controls

Survey data relating to major enterprises are compared with balance sheets and news on international mergers and acquisitions. Bilateral contacts with these enterprises have been intensified during recent years. Similarly, the b.o.p. banking data are compared with the banks' balance sheet data. Procedures for the comparison of MFI banking data with the b.o.p. data have been introduced. An understanding of the behaviour of firms and banks and their financial statements is a necessary precondition for an effective quality control of surveys. Moreover, time series methods are widely employed in quality control.

3.8 Revision policy

Data previously published can be revised. Monthly preliminary data are revised during the following month and thereafter on a quarterly basis. Quarterly data are revised when the data for the next quarter are published. Following this, the revision timetable adheres to that of the national accounts.

3.9 Publication

Suomen Pankki - Finland's Bank disseminates the monthly b.o.p. and net i.i.p. six weeks after the end of the respective month. Data are available in monthly statistical bulletins as well as on the website (www.bof.fi) and in the Statistical Review of the Bank. More detailed data on the b.o.p., i.i.p. (assets and liabilities) and external debt, including a separate annual publication on direct investment, are published at quarterly and annual intervals. Detailed data are available from public and commercial databases (Statistics Finland and the Research Institute of the Finnish Economy (ETLA)). Details of the data users are given in Sub-section 2.5.

Both the publishing and the revision timetables are available in advance on the websites of Suomen Pankki - Finland's Bank (<http://www.bof.fi>), Statistics Finland (<http://www.stat.fi>) and in the IMF's SDDS (<http://dsbb.imf.org/sdds.htm>).

The titles of the publications produced by Suomen Pankki - Finland's Bank on b.o.p. statistics are listed in Sub-section 13.1.

4 Monthly balance of payments

4.1 Availability of monthly b.o.p. data

Suomen Pankki - Finlands Bank can provide all requested monthly b.o.p. items data within 30 working days after the end of the month to which the data relate.

Most of the monthly b.o.p. data are based on the same sources as the quarterly and annual data owing to the properties of the b.o.p. collection system. The response rate in the monthly part of the multi-frequency survey is nearly 100%. Exceptions are the data relating to international trade in services, compensation of employees, current transfers and the capital account. Monthly information on reinvested earnings is based on estimates.

The euro area/non-euro area breakdown was implemented in the survey system at the beginning of 1999. For commodity trade data, a full breakdown by country is available, but only after a ten-week delay. Therefore, the monthly euro area/non-euro area breakdown is estimated by Suomen Pankki - Finlands Bank for the preliminary figures. Estimation is also applied to the geographical breakdown of the other current account data in the monthly b.o.p.

4.2 Estimation methods for monthly b.o.p. data

4.2.1 For goods

The Board of Customs is responsible for the compilation of the Finnish foreign trade statistics. The trade statistics are based on the f.o.b.-c.i.f. (exports-imports) principles. For the b.o.p. statistics, Suomen Pankki - Finlands Bank adjusts trade data to the f.o.b.-f.o.b. basis. In addition, Suomen Pankki - Finlands Bank makes preliminary estimations of the euro area/non-euro area breakdown of the monthly b.o.p.

The Board of Customs publishes both extra and intra-EU15 trade data according to the final-destination/country-of-origin principle.

However, consignment data are also collected for imports. Suomen Pankki - Finlands Bank introduced the consignment principle to imports as from the beginning of 2000, with backdata from 1998 onwards. Data are not seasonally adjusted.

The Board of Customs publishes monthly data in several steps. The preliminary aggregate trade statistics, excluding both country and industry breakdowns, are published approximately six weeks after the end of the month to which they relate. Monthly statistics, including country and industry-level information, are published approximately ten weeks after the month to which they relate. The data are revised by month several times in the course of the year. The final annual data become available in May.

Suomen Pankki - Finlands Bank estimates the monthly adjustment items for f.o.b.-f.o.b. conversion on the basis of the results of a survey conducted by the Board of Customs. In the late 1990s BPM5-based exports exceeded the merchandise values of customs by approximately 0.5%. In imports BPM5 values were approximately 5.9% lower than the customs values in general and approximately 6% lower for extra-euro area imports.

Military goods are treated as normal goods.

Transactions under special Community programmes (Satellite, Airbus and others) are, in principle, treated as normal trade in goods. Making the geographical allocation can be problematic, however, and therefore these types of transaction must be reviewed case by case.

The calculations for the c.i.f.-f.o.b. adjustment are based on a recent survey conducted by the Board of Customs, as mentioned in Sub-section 3.2 (v).

4.2.2 For services

The preliminary monthly data on international trade in services are based on

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estimations by Suomen Pankki - Finlands Bank. Statistics Finland compiles quarterly statistics on transportation and travel as well as annual statistics on other services.

The preliminary monthly figures produced by Suomen Pankki - Finlands Bank are based on quarterly forecasts which are produced on the basis of structural time series models (STMs). The quarterly values for the other services are estimated on the basis of their historical share in total international trade in services. The estimated quarterly figures are compared with the forecasts made by the Economics Department. In addition, system (multivariate) time series modelling is applied in the process to judge the recent development of the trade in services. Relevant quantitative and qualitative indicators are used as explanatory variables in the system modelling. The aggregated quarterly estimates on services are interpolated to the monthly level using the cubic spline method.¹

Data are revised in two stages. The first revisions are made when the quarterly data become available. The preliminary estimates relating to transportation and travel are replaced by the actual data, and estimates concerning other services are revised accordingly. The other revision occurs when the annual data on other services become available.

Statistics Finland is responsible for compiling data on financial services. No data are available yet, but action on this issue is pending.

4.2.3 For the income account

The data on compensation of employees are available from Statistics Finland only on an annual basis. The monthly and quarterly figures are estimated by Suomen Pankki - Finlands Bank, on the basis of historical data. Owing to the small weight of this item in the Finnish b.o.p., the simplest possible technique is used: compensation of employees is assumed to be at the same level as in the previous year. Neither trends nor seasonal effects are calculated. The

euro area/non-euro area breakdown is based on historical data.

For investment income, see Sub-section 5.

4.2.4 For current transfers

The monthly preliminary estimation of current transfers is performed separately for private and public transfers. Owing to the small weight of private current transfers, the simplest possible technique is used: they are assumed to be at the same level as in the previous year. Neither trends nor seasonal effects are calculated. Data on public current transfers (central government only) are available from the Ministry of Finance and the central accounting function of the Treasury on a monthly basis.

The euro area/non-euro area breakdown of private current transfers is based on historical data. It is possible to obtain the geographical breakdown of public transfers by area.

4.2.5 For the direct investment account

See Sub-section 3.2 for a general description of the system and Sub-sections 7 to 12 for detailed information on the compilation of data on direct investment, portfolio investment, financial derivatives, other investment and reserve assets.

4.2.6 For the portfolio investment account

4.2.7 For the financial derivatives account

4.2.8 For the other investment account

¹ The cubic spline finds the monthly path which fits best between quarterly data points, constraining the sum of the three individual months to the published quarterly total. This generates a "smooth" series without any jumps which could occur between quarters if, for instance, a monthly series were derived simply by dividing each quarter into three equal months.

5 Investment income

5.1 Specific features of data collection

5.1.1 General

The collection of investment income data is based on surveys directed at enterprises, Monetary Financial Institutions (MFIs), central government, local government and securities brokers. The Accounting Department is responsible for the data related to Suomen Pankki - Finlands Bank. The monthly data on reinvested earnings are based on estimations. Final data are derived from annual surveys. In addition, the accruals on government bonds and the geographical breakdown of portfolio income debits are based on estimations. Quarterly and annual data are aggregated monthly information.

Reporting agents identify monthly investment income flows, and income on interest-bearing instruments is recorded on an accruals basis. On the assets side, a breakdown into income on euro area and non-euro area assets is available. Reporting agents are instructed to apply the creditor/debtor principle in the surveys.

According to an empirical study, the phenomenon of a bias towards an under-recording of credits does not seem to be apparent in the Finnish data. When comparing the investment income credits to the stock of assets, the derived implicit interest rate is consistent with market rates.

The geographical breakdown (euro area/non-euro area) for investment income has been in a readily available format on a quarterly basis since 1994.² However, this information (excluding direct investment income) is based on settlement data, so that the creditor/debtor principle cannot be applied. Instead, the country of settlement is used, which may be misleading and distorts the allocation in favour of major international financial centres.

Investment income is broken down further into:

- direct investment income - equities and debts;
- portfolio investment income - equities and debts (bonds and notes, money market instruments); and
- other investment income.

The definitions applied conform to the BPM5.

5.1.2 Income on direct investment

Direct investment income data with a euro area/non-euro area breakdown of inward and outward investment are compiled on a monthly basis. Preliminary data on distributed dividends and interest on inter-company loans on an accruals basis are derived from the high frequency surveys on foreign assets and liabilities. Reinvested earnings and dividends distributed by foreign-owned enterprises in Finland are based on estimates by Suomen Pankki - Finlands Bank, before the data from the annual direct investment surveys become available. The preliminary results of the surveys are available within six months of the end of the reference year and the quality-controlled results within nine months. The final figures for direct investment income are based on the annual direct investment surveys.

In the annual direct investment surveys, respondents are requested to report both the total profits of direct investment enterprises and, separately, the capital gains and losses included in those total profits. In practice, it is difficult to check the quality of reported data on capital gains and losses. However, Suomen Pankki - Finlands Bank uses this information to exclude capital gains and losses from reinvested earnings.

² In principle, the split is available for backdata from 1986 onwards.

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Quarterly and annual income data are consistent with monthly data. Annual income data are available by economic activity of Finnish investor/Finnish investee and by country of immediate foreign investee/foreign investor.

5.1.3 *Income on portfolio investment*

Reporting agents identify income on equities/Clls on a cash basis and income on bonds, notes and money market instruments on an accruals basis. A breakdown by sector is available for all instruments.

Income on equities:

For credits, reporting agents covered by the survey of securities brokers identify monthly income on the foreign assets (equities and Clls) in their custody. Other reporting agents identify income on their own foreign assets. The income on Clls is also reported on a cash basis, as the amounts are negligible. In practice, only income actually paid is currently recorded for Finnish residents' investments in non-resident Clls. However, the amounts outstanding on this item are insignificant and do not have impact on the level of income flows. Income related to resident Cll's assets and liabilities is estimated on the basis of investment stocks outstanding.

Reporting agents are furthermore required to divide the income according to the euro area/non-euro area split.

For debits, the amounts reported in the survey of brokers are negligible, except in March and April when most Finnish companies pay out their dividends. Estimation methods for producing the euro area/non-euro area split are currently under consideration.

Income on bonds and notes and on money market instruments:

For credits, reporting agents in the survey of brokers identify monthly income on the foreign assets in their custody. Other reporting agents identify income on their own

foreign assets. Bonds/notes and money market instruments are reported separately in the surveys, and a euro area/non-euro area split is required.

For debits, reporting agents in the survey of brokers identify monthly investment income debits on the foreign liabilities in their custody. Other reporting agents identify debits on their own foreign liabilities. In the case of the survey of brokers, estimation methods are applied to derive accruals (see Sub-section 5.6).

The accruals principle (based on stocks) is applied to both credits and debits on all debt instruments. For bonds/notes, reporting agents are instructed to accrue interest on their stocks monthly, taking into account discounts/premiums on the issue price. Thus, accrued interest is based on effective (historical cost) interest rates, and flows/stocks are reported at market price (dirty price). The difference between the issue price and the nominal price in the case of zero-coupon instruments is also accrued during the life of the instrument. In the survey of brokers transactions are to be reported at market value, thus including interest accrued since the last coupon. Reporting agents also identify interest on a cash basis for quality control purposes.

Implied interest on repo transactions (or net interest in the case of coupon washing) is impossible to identify in the current reporting system, but there is reason to believe that this factor is not very significant in the Finnish b.o.p. Nevertheless, a project concerning the importance of repos in the Finnish b.o.p. is under way.

5.1.4 *Income on other investment*

The respondents report interest on an accruals basis for all types of assets, including interest on loans to non-affiliated enterprises. The survey system does not collect information from private individuals because the amount of other investment income flows

arising from the household sector is considered to be insignificant.

Leasing payments made according to the agreement are considered to include in the principal both repayments and interest, and they are reported in the monthly survey as described in the agreement. Income on trade credits is not recorded because, in practice, trade credits are payable without interest.

5.2 Definitions

Suomen Pankki - Finlands Bank primarily applies the recommendations of the BPM5 for investment income.

5.3 Deviations from agreed definitions

None.

5.4 Gaps

None.

5.5 Intended harmonisation

None.

5.6 Estimation methods

Direct investment:

The preliminary results of the surveys are available within six months of the end of the reference year and the quality controlled results within nine months. Suomen Pankki - Finlands Bank estimates the yearly results of the direct investment enterprises. The figures related to the results of enterprises for the previous year are considered to be a proxy for the results in the current year. The developments in the global economy and any noteworthy changes in the population of direct investment enterprises are taken into account in the estimation as well. The monthly estimates of the results are

calculated by dividing the yearly estimates by twelve. The monthly estimates of reinvested earnings are calculated by deducting monthly dividend payments from the monthly estimates of the results of direct investment enterprises.

Since the preliminary data from the annual surveys for the previous year are available within six months, the estimates of reinvested earnings for the first four months of the current year are based partly on the information derived from the monthly/quarterly surveys of the previous year and partly on the revenue forecasts made by the investment banks. The estimates are revised for the first time in June, once the preliminary results of the survey for the previous year have been processed, and the second revision takes place on the basis of the more controlled survey data in September for the figures for the period from January to August. At the same time, when the monthly estimates of reinvested earnings for the current year are revised, the monthly data on all the direct investment income items for the previous year are revised to correspond to the annual data.

As for the dividends distributed by foreign-owned enterprises in Finland, the monthly/quarterly surveys are not very extensive. For this reason, Suomen Pankki - Finlands Bank estimates the dividends of foreign-owned enterprises for May and June (traditionally, dividends are distributed in these months), using the annual survey of foreign direct investment in Finland, with the previous year serving as a reference year.

Accruals on government bonds:

The State Treasury cannot report accrued interest on domestic currency-denominated bonds held by non-residents as the ultimate creditor is unknown. Therefore, the accruals on these serial bonds have to be estimated by Suomen Pankki - Finlands Bank.

The data on which the estimation is based are stocks held in custody, as reported in the survey on brokers. The estimation

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method is the historical cost method, as presented by the EMI. This method takes into account discounts/premiums in the issue price of a tranche, and thus implies the use of effective interest rates when calculating the accrued interest. Empirical evidence, as well as the practicality of the method, provided strong arguments in favour of adopting this approach for Finnish b.o.p. purposes.

The actual calculations based on the historical cost method are carried out using two files, one of which is designed to maintain a register of all tenders for any of the serial bonds in the market. The other file contains a record of the interest accrued on every individual tranche on a month-by-month basis. The interest accrued is calculated as compound interest, and thus takes into account the time which has elapsed since the last coupon payment.

6 Capital account

6.1 Specific features of data collection

Statistics Finland is responsible for the collection of capital account data. The data only partially cover the capital transfers of central government on a quarterly basis. Preliminary quarterly figures are adjusted if necessary when final annual figures become available.

The euro area/non-euro area breakdown is based on current information.

6.3 Deviations from agreed definitions

None.

6.2 Definition

Current and capital account classifications follow the recommendations of the BPM5. The central government data are compiled on the basis of the State's annual accounts, which makes it possible to identify current, capital and financial transfers between Finland and the EU. Debt forgiveness by the central government is recorded by the Ministry of Foreign Affairs.

6.4 Gaps

As from 1999 data on capital transfers by the central government are available on a quarterly basis. No estimation methods for preliminary data have been developed owing to the small amounts involved and the high level of volatility.

6.5 Intended harmonisation

None.

7 Direct Investment

7.1 Specific features of data collection

Flows and stocks of inward and outward direct investment are compiled on a monthly basis. The preliminary figures are based on the monthly/quarterly surveys of foreign assets and liabilities and on the data on statistically important international mergers and acquisitions (purchase or selling price of at least EUR 10 million) which are not

covered by the monthly surveys. Before the results of the annual surveys are available, reinvested earnings and exchange rate and other valuation changes in equity assets are estimated.

The data from the annual direct investment surveys is used to improve the coverage of the preliminary monthly/quarterly flow and stock figures. In other words, the annual

surveys provide Suomen Pankki - Finland's Bank with information on the stocks of inter-company loans and trade credits from the respondents not covered in the high-frequency surveys, and the corresponding flows of these items are estimated as a change in stocks. All those Finnish direct investors and foreign direct investment enterprises that, according to publicly available information, have been involved in an international merger or acquisition during the year are included in the annual survey. In this way, it is possible to check that all relevant mergers and acquisitions have been recorded in the flow figures.

Quarterly and annual flow data are consistent with monthly data. The monthly stock figures are calculated by accumulating monthly flows, exchange rate and other valuation changes starting from the preceding year's closing stocks.

Annual flow and stock data are available by economic activity of the Finnish investor/investee and by country of the immediate foreign investee/investor within around nine months of the end of the reference year. Monthly and quarterly data have been compiled with a euro area/non-euro area breakdown as from the beginning of 1999. The geographical breakdown is based on the residency of the actual issuers (i.e. debtor/creditor principle). The geographical breakdown of historical monthly data can be estimated using the annual geographical data.

Financial derivatives will be identified separately in the annual survey for the first time this year, i.e. for data relating to 2000.

In the event that a change of ownership of a resident company from a non-resident to another non-resident direct investor is revealed by the survey, the change is, in principle, recorded both in the FDI stocks and in the corresponding b.o.p. flows.

Transactions settled through an exchange of shares are recorded at the time when the exchange of shares takes place.

Valuation of transactions settled through an exchange of shares is primarily based on the agreed price. In cases where there is no agreed price, the price quoted on the market is applied. Where companies are unlisted, book values are used.

7.2 Definition

Suomen Pankki - Finland's Bank applies the 10% principle for the direct or indirect ownership of the equity of an enterprise as the criterion for direct investment. So-called special purpose entities are defined as direct investment enterprises. Direct investment capital transactions are recorded on a directional basis. Cross-border transactions in real estate are included, based on an estimate.

The components of direct investment capital are equity capital, reinvested earnings and other capital. The item other capital consists of inter-company loans and trade credits. Trade credits have been recorded in direct investment as from the beginning of 1999. Earlier they were recorded under other investment.

Owing to the survey-based data collection, equity contributions without payment (i.e. the provision of real or financial assets) are also covered.

Both short-term and long-term inter-company loans are included in direct investment capital. To be more precise, the respondents are asked to report promissory note loans, leasing credits, subordinated loans equivalent to equity and those deposits in intra-group accounts that the respondent classifies as inter-company assets and liabilities in its own accounting as inter-company loans.

In the annual direct investment surveys, Suomen Pankki - Finland's Bank collects stock data on the possible inter-company debt securities outstanding at the end of the year. Reported inter-company debt securities have been insignificant in value and are therefore not included in the direct investment figures.

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In the annual direct investment surveys data are also collected on any cross-participations of less than 10% existing at the end of the year. So far, there are few foreign direct investment enterprises which own shares in Finnish direct investor enterprises. Stocks of equity assets are based on the balance sheets of direct investment enterprises, i.e. the stocks are valued at book value.

7.3 Deviations from agreed definitions

None.

7.4 Gaps

None.

7.5 Intended harmonisation

None.

7.6 Estimation methods

See Sub-section 5.6 for the estimation methods for reinvested earnings.

Estimation of monthly exchange rate and other valuation changes in equity assets:

Suomen Pankki - Finlands Bank estimates monthly exchange rate changes in equity assets of outward investment using the annual data on the geographical breakdown of stocks of equity assets abroad. In addition, any large valuation changes originating from individual international mergers and acquisitions are estimated using the purchase or selling price of the shares and the latest balance sheet value of the shares.

The estimation of direct investment in shares listed in Finland:

Suomen Pankki - Finlands Bank will use the same data source as for other international mergers and acquisitions, i.e. publicly available information. There is a lot of information available, especially on companies listed in

Finland. On the website of the Helsinki Exchanges the stock exchange bulletins of companies listed in Finland are available. In these bulletins the companies are to report on all mergers and acquisitions. According to the Finnish Securities Market Act, the companies also have to report if the ownership or voting power of an individual shareholder exceeds or falls below 5%, 10%, 20%, 33%, 50% or 66%. If the date and the purchase or selling price are not mentioned in these bulletins, Suomen Pankki - Finlands Bank contacts the company. The market prices of shares can be used as estimates in the case of gradual investments. In addition, with regard to the annual direct investment surveys, the annual reports of all companies listed in Finland in which foreign ownership is at least 10% are examined (information provided by the Finnish Central Securities Depository).

In their annual reports companies publish the lists of their major shareholders at the end of the financial year. In this way, it is possible to check that all the relevant direct investment is included. Suomen Pankki - Finlands Bank aims to cover only transactions of at least EUR 100 million.

In the monthly data collection the respondents report all the data on purchases and sales of shares listed in Finland under portfolio investment. In order to avoid double recording, Suomen Pankki - Finlands Bank deducts the direct investment transactions in question from the portfolio investment figures.

The estimation of cross-border transactions in real estate:

Estimation of cross-border real estate transactions is based on data collected via the settlement system in 1998. The volume of this type of transaction is insignificant in the Finnish b.o.p.

8 Portfolio investment

8.1 Specific features of data collection

The collection of portfolio investment data is part of the general reporting system (see Sub-section 3.2), which is based almost entirely on end-investor surveys (directed at non-financial companies, financial institutions and general government) and surveys of brokers. The highly concentrated nature of the Finnish banking and securities markets implies that good quality data are available from a relatively small sample. It is also worth noting that the reconciliation of stocks and flows is inherent in the surveys.

The ISIN code is not used directly for the compilation of the Finnish b.o.p., although reporting agents use it when identifying securities for the euro area/non-euro area split. There is no ISIN security database available at the national level, and some reporting agents in the survey of brokers have encountered considerable difficulties in implementing the euro area/non-euro area split for certain instruments. This has been due to the ambiguity of the ISIN code regarding the issuer in the case of debt instruments. Therefore, a centralised securities database which is available to the reporting agents would be most welcome for the purposes of the Finnish b.o.p.

The euro area/non-euro area split is available for all portfolio investment assets,³ but not for liabilities. Reporting agents are required to break the assets in the surveys down according to the creditor/debtor principle on a monthly basis.

In the banking sector the monthly balance sheets of banks are used for quality control purposes.

8.2 Definition

Suomen Pankki - Finland's Bank primarily applies the recommendations of the BPM5 for portfolio investment. The portfolio

investment statistics include shares/participations in funds, bonds and money market instruments. Private placement loans are classified as loans and not as portfolio investment. Portfolio investment is broken down by sector and by euro area/non-euro area issuer, but not by country. Money market instruments were introduced into surveys at the beginning of 1994.

The reconciliation adjustment between stocks and flows takes place through exchange rate changes and other changes in the surveys. The item other changes includes price changes and it can be calculated as a residual item. All instruments (both flows and stocks) are to be reported at market value (dirty price in the case of bonds), and the offsetting entry for accrued interest is recorded monthly under portfolio investment in accordance with BPM5 recommendations. Recording practices for debt instruments take into account premiums/discounts on the issue price. Reporting agents are instructed to exclude service charges, fees and commissions.

As far as the Finnish money markets are concerned, banks' certificates of deposit (CDs) are by far the most popular instrument, but they are mainly used in the domestic interbank market. From the Finnish b.o.p. point of view, Finnish government Treasury bills are the most important instrument, as they are actively traded in the secondary market. Moreover, commercial paper programmes issued by enterprises are apparent in the Finnish b.o.p. There are no significant problems regarding money market instruments in the Finnish b.o.p.

8.3 Deviations from agreed definitions

None.

³ The assets split is not available for backdata.

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8.4 Gaps

None.

8.5 Intended harmonisation

None.

8.6 Estimation methods

Accrued interest on government bonds:

The accrued interest calculated according to the principles described in Sub-section 5.6 (together with the accrued interest on foreign bonds, as reported by the State Treasury) is recorded monthly in the current account/investment income debits, with an offsetting entry in the portfolio investment credits. When the coupon is paid (reported in the survey of brokers in the case of serial bonds and by the State Treasury in the survey on government assets and liabilities in the case of foreign bonds), it is deducted from the b.o.p. bond stocks through portfolio investment debits. Finally, it is worth noting that the process produces not only quarterly and annual, but also monthly estimates of the accrued interest in the Finnish b.o.p.

Estimation of mutual funds' monthly flows:

The monthly capital movements pertaining to mutual funds' investments are based on the monthly mutual funds reports published by the Helsinki Stock Exchange. The data available from the Stock Exchange are on an aggregate basis. Suomen Pankki - Finland's Bank estimates the necessary geographical and instrument breakdowns on the basis of data received from Statistics Finland's quarterly survey of all resident CII's. The

monthly estimates are revised to be consistent with the quarterly survey data when they become available.

Estimation of the government bond stock:

The end-of-month government bond stocks comprise two elements:

- (i) the end-of-month foreign bond stocks, as reported by the State Treasury in the survey on government assets and liabilities. These stocks are given at market value and take account of the interest accrued/paid;
- (ii) the serial bond stocks reported by brokers/custodians in the survey of brokers. The initial, reported stocks are given in terms of nominal value and do not take account of repos. The following two aspects have to be considered when estimating the ultimate adjusted stocks:
 - the initial nominal stocks have to be converted to market value according to the maturity distribution of the stocks;
 - in the Finnish repo market serial bonds are usually used as collateral. As resident banks are traditionally net creditors in the repo market, and as the bonds used as collateral are deducted by banks' accounting systems from the reported liability stocks vis-à-vis non-residents, an estimate by Suomen Pankki - Finland's Bank of the amount of serial bonds used as collateral has to be added to the initial stocks reported by brokers. The figure calculated in this way is then adjusted for the net flows reported by brokers each month.

9 Financial derivatives

9.1 Specific features of data collection

The collection of financial derivatives data is based on monthly/quarterly surveys directed at non-financial companies, Monetary Financial Institutions, other financial institutions (including insurance companies), general government and securities broking firms (see Sub-section 3). Special survey forms have been developed for the purposes of collecting data on derivatives.

In the “end-investor” surveys (directed at non-financial companies, financial institutions and general government) respondents are required to provide data on both flows (net cash payments pertaining to derivatives contracts entered into with non-residents) and stocks (net value and gross market values of outstanding contracts). Net payments are classified according to the direction of the payments (to or from non-resident counterparties). Flows and stocks have to be reconciled by the respondents, so that information on valuation changes for the reporting month is also included in the reports.

In the survey directed at securities broking firms only flow data are collected. These flow data cover, on the one hand, net payments related to derivative contracts entered into by residents on non-resident derivatives exchanges, classified according to the direction of the payments and the domestic sector involved. On the other hand, the data also cover net payments related to derivatives contracts entered into by non-residents on resident derivatives exchanges, classified according to the direction of the payments.

In line with the ECB recommendations, flow data for derivatives are collected on a net basis only. Payments related to derivatives assets are not distinguished from those related to derivatives liabilities in the surveys. Stock data are, however, basically collected on a gross basis. The net value of outstanding

contracts at the end of the reporting month is broken down into gross positive market value (assets) and gross negative market value (liabilities).

The information collected for derivatives covers both exchange-traded and bilateral, OTC-type derivatives (e.g. options, warrants, subscription rights, futures, forward contracts, foreign exchange swaps and cross-currency interest-rate swaps). Interest rate instruments are, in principle, included in derivatives (and not in investment income). The respondents report only aggregated data on their derivatives transactions and stocks, and no breakdowns by instruments are provided. Based on earlier observations and experience, however, it is known that currency swaps linked to individual assets or liabilities have been the most common instrument category, especially for central government. As from 1999, instruments such as forward contracts and interest rate swaps have also become significant in the data (earlier they were excluded from derivatives). If considered necessary, special inquiries directed at the most important respondents are occasionally conducted to ascertain the breakdown of their derivatives by instrument. Geographical breakdowns are not available.

Regarding the issue of residency in the context of derivatives contracts, identifying the residency of the counterpart should pose no difficulties for respondents in the case of bilateral contracts. In the case of exchange-traded derivatives the decisive criterion has been stipulated as the residency (location) of the derivatives exchange/the clearing house in question.

As for margin payments, respondents have been instructed to report all non-repayable margin payments as derivatives transactions (to be included in net payments) if these can be distinguished. All repayable margin payments (including initial margins and option-style variation margins) and collateral deposits must, as stipulated, be reported as

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transactions in deposits. If repayable and non-repayable margin payments cannot be separated by the respondent, they will most likely be reported as transactions in deposits.

9.2 Definitions

Suomen Pankki - Finland's Bank follows the basic conceptual framework and methodology originally set out in the BPM5 and subsequently revised by the IMF. Nowadays both exchange-traded derivatives and OTC-type derivatives are included. Payments related to interest rate swaps and forward rate agreements (FRAs) are classified as transactions in financial derivatives (and are not recorded in investment income flows).

Regarding practical compilation, Suomen Pankki - Finland's Bank applies the ECB recommendations, according to which derivative flows should be recorded on a net basis. Asset and liability flows are not separated; all transactions are aggregated into one figure.

Transactions in derivatives cover, in principle, all payments related to option contracts as well as forward-type contracts (including swaps): payments at inception (option premiums), during the life of and at the close of contracts. Secondary market trades in marketable derivatives are included. The difference between the contract (or strike) price and the prevailing market price in the case of delivery of the underlying instrument in a contract is also classified as a transaction in derivatives. Non-repayable margin payments are included to the extent possible (see Sub-section 9.1).

10 Other investment

10.1 Specific features of data collection

Data are obtained via surveys (see Sub-section 3.2). The respondents report monthly/quarterly data on stocks (at the start and at the end of the reporting period), net

The valuation of stock positions for derivatives is based on gross market values. Assets are defined as the sum of contracts with a positive market value (including purchased options), and liabilities as the sum of contracts with negative market value (including written options).

9.3 Deviations from agreed definitions

There are no deviations from agreed definitions at the conceptual level, because the survey instructions for respondents are based on these definitions. In practice, however, it may not always be possible for respondents to follow the instructions in full. For example, in the case of delivery of the underlying instrument in a contract, some respondents find it very difficult to report the difference between the contract (or strike) price and the prevailing market price as a transaction in derivatives. Margin payments represent another example (see Sub-section 9.1).

9.4 Gaps

None.

9.5 Intended harmonisation

None.

9.6 Estimation methods

None.

changes, exchange rate changes and other valuation changes (not significant) during the reporting period. The compilation of annual statistics is also based on data derived from the monthly/quarterly surveys.

The stocks of import-related supplier credits and import advances are grossed up by a coefficient calculated on the basis of the results of a special enterprise survey. This survey is carried out every few years in order to check the overall level of import credits. The net changes for these trade credit items are computed as differences between stocks after the grossing-up procedure.

10.2 Definition

Suomen Pankki - Finland's Bank applies the recommendations of the BPM5. Other investment includes loans, trade credits, currency and deposits, and other assets and liabilities.

Loans include promissory note loans (including private placements), financial leasing and repurchase agreements.

Trade credits include import-related supplier credits, export advances, import advances and export claims.

Credit accounts of companies are classified under other assets and liabilities, except for inter-company accounts, which are classified under direct investment. Short-term claims and liabilities between affiliated enterprises are also recorded under direct investment.

In the Finnish b.o.p. genuine repos and sell/buy-back transactions are recorded under collateralised loans. Under the current reporting system, reporting agents are not required to separate repos from other short-term activities.

As far as the Finnish repo market practices are concerned, the instruments used in repo transactions are usually Finnish government benchmark bonds. Sell/buy-back transactions are more commonly used than outright ones, but it has to be noted that there seems to be no clear distinction between the two in back-office confirmations. Thus, a crucial feature is that traders agree on the price, so that the ambiguous definitions do not cause confusion. Moreover, some market participants discourage their repo dealers from trading in bonds with a coupon due during the repo period.

When the Finnish repo markets were thinner, maturities were largely dictated by settlement day aspects, but now the need for various (longer) repo periods has grown. The popularity of one-week repos, in particular, has increased, but periods of one month or longer are not yet common.

10.3 Deviations from agreed definitions

None.

10.4 Gaps

None.

10.5 Intended harmonisation

None.

10.6 Estimation methods

None.

11 Reserve assets

11.1 Specific features of data collection

Data collection forms part of the general reporting system (see Sub-section 3.2). The Accounting Department reports the data on reserve assets stocks monthly. The flows are derived from this data.

breakdown by instrument is available monthly for reporting to the ECB, but is not yet published nationally.

11.3 Deviations from agreed definitions

None.

11.2 Definition

According to the BPM5, the reserve assets comprise gold, special drawing rights (SDRs), the reserve position in the IMF, foreign exchange and other claims. This definition and the ECB recommendations of the Working Group on Balance of Payments and External Reserves Statistics are followed. The

11.4 Gaps

None.

11.5 Intended harmonisation

None.

12 International investment position

12.1 Specific features of data collection

Data related to the international investment position (i.i.p.) are collected together with the flow data via monthly surveys. See Sub-section 3.2 for a general description of the data collection system of Suomen Pankki - Finland's Bank and Sub-sections 7 to 11 for specific descriptions of direct investment, portfolio investment, financial derivatives, other investment and reserve assets data collection. Geographical details for the i.i.p. have been collected via an annual survey since 2000. In this additional survey, respondents in the monthly and quarterly surveys report their year-end asset and liability stocks, broken down by counterpart country.

12.2.2 Direct investment

See Sub-section 12.1.

12.2.3 Portfolio investment

See Sub-section 12.1.

12.2.4 Financial derivatives

See Sub-section 12.1.

12.2.5 Other investment

See Sub-section 12.1.

12.2 Definitions

12.2.6 Reserve assets

12.2.1 General

See Sub-section 12.1.

See Sub-section 12.1.

12.3 Deviations from agreed definitions

See Sub-section 12.1.

12.4 Gaps

See Sub-section 12.1.

12.5 Intended harmonisation

See Sub-section 12.1.

12.6 Estimation methods

See Sub-section 12.1.

13 Administration

13.1 Titles of publications

Statistical Bulletins

Finland's b.o.p.; monthly and annual (13 issues per year)

B.o.p. and i.i.p.; quarterly (4 issues per year)

Direct investment in Finland's b.o.p.; annual (one issue per year)

Statistical Review

Financial Markets; monthly (12 issues per year)

Releases of charts and time series on the Internet (www.bof.fi)

Releases of time series in the databases of Statistics Finland and the Research Institute of the Finnish Economy

13.2 Contributors

This country information was drafted by the ECB's Balance of Payments and External Reserves Division and subsequently amended and agreed with Finland. Enquiries of a general nature should be addressed to the Press Division of the ECB. Enquiries specific to Finland should be addressed to:

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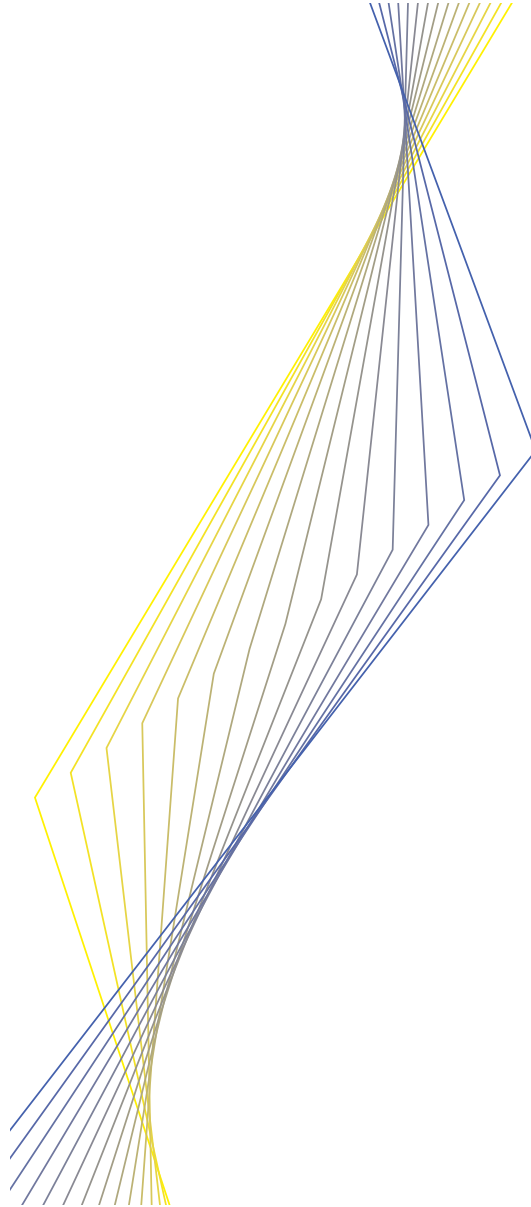
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EUROPEAN CENTRAL BANK

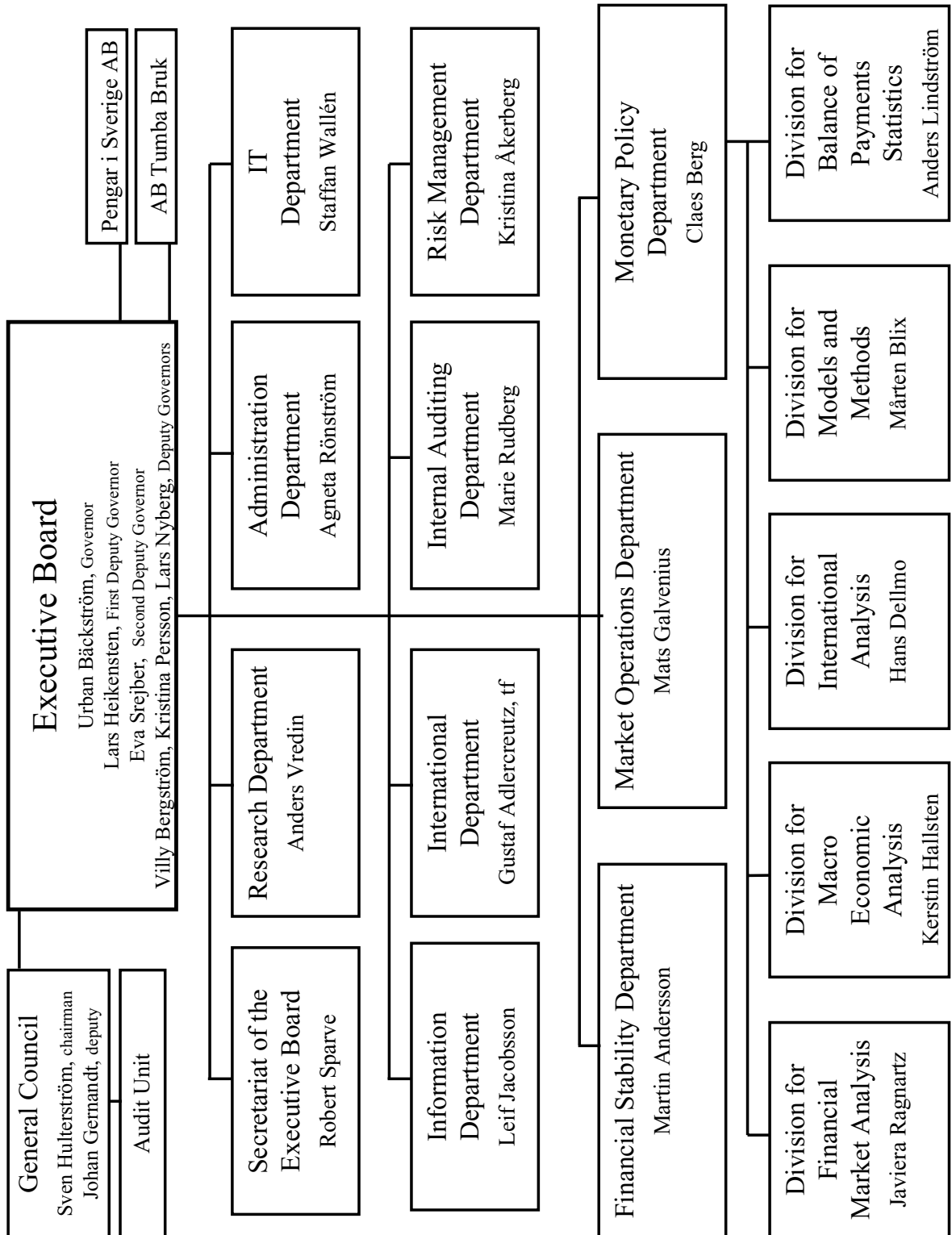


Sweden

November 2002

I Organisation chart(s)

Sveriges Riksbank



2 Institutional aspects

2.1 Introduction

Sveriges Riksbank (the Riksbank) is accountable to the Swedish Parliament as stated in the Constitution Act. This means that the Riksbank's activities are governed by laws enacted by Parliament, in particular the *Sveriges Riksbank Act*. The Riksbank is administered by its Governing Board. The different departments of the Riksbank are supervised by the Board of Directors.

2.2 Legislative provisions

The regulations on statutory reporting to the Riksbank for balance of payments (b.o.p.) statistics are laid down in Article 9, of the *Sveriges Riksbank Act* (1988:1385). The reporting obligations are set out in the Riksbank's Statute Book, which lays down the rules for statutory reporting to the Riksbank for b.o.p. statistics. It is possible for the Riksbank to make changes to the Statute Book at short notice. The current reporting obligations (RBFS 1997:4) became effective on 1 October 1997, the date on which the Riksbank's rules on statutory reporting to the Riksbank ceased to be effective (RBFS 1992:16, A:73). The new reporting obligations were adapted to the changes to the reporting system due in October 1997.

2.3 Internal organisation

The Riksbank has a new organisation effective from 1 June 2000. The current organisation comprises the following operational departments: the Monetary Policy Department, which is responsible for overseeing and analysing monetary stability, in addition to compiling and publishing b.o.p. statistics; the Financial Stability Department, which is responsible for overseeing and analysing payment system stability, as well as for compiling and publishing money and banking statistics; the Market Operations

Department, which manages the Riksbank's foreign exchange reserves and the payment system, and which also implements monetary and exchange rate policy; and the Administration Department. There are seven other departments that are unchanged after the reorganisation (Secretariat of the Executive Board, Information, International, IT, Risk Management, Research and Internal Auditing).

The production of b.o.p. statistics takes place in the Monetary Policy Department (MPD). There are 73 staff in the MPD, 25 of whom currently work on the b.o.p. statistics. The production of the b.o.p. statistics is undertaken by the Balance of Payments Division (with 22 staff members). In addition, part of the publication, analysis and some IT support are placed within another division of the MPD.

2.4 External co-operation

For b.o.p. statistics purposes, the Riksbank co-operates closely with other authorities in Sweden, but retains overall responsibility for their production. The Riksbank and Statistics Sweden (the Swedish National Institute of Statistics) liaise to compile data for the current account and, in particular, the trade in goods items, including trade credits and transportation. The official foreign trade statistics collected by Statistics Sweden have always been used in the b.o.p., as well as in the national accounts. The two organisations discuss methodological issues and the development of the statistics in joint task forces. One of the most important tasks performed over the past few years has been the full harmonisation of definitions between the national accounts and the b.o.p. In addition, data exchange takes place between the Riksbank and Statistics Sweden, which are linked electronically.

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There is regular co-operation with the National Audit Bureau with regard to EU and other central government transactions. Co-operation also takes place with the National Institute for Economic Research, as the Riksbank supplies forecasts on income and travel statistics as well as calculations for the national budget. The Riksbank is consulted by the Ministry of Finance in relation to economic forecasts and statistical support. In addition, there is regular contact with data providers, especially with large banks and enterprises, and with data users, such as market players and analysts. Close and regular contacts are maintained with other European central banks, in particular those of the other Nordic countries (Denmark, Finland, Iceland and Norway); these contacts include annual “Nordcap” meetings on b.o.p. issues.

3 Statistical system

3.1 Type of collection system

In October 1997 the Swedish b.o.p. was brought into line with the 5th edition of the IMF Balance of Payments Manual (BPM5). In order to achieve this, substantial changes were made to the collection system. The Swedish b.o.p. data collection system could be described as a direct reporting system supported by settlement data. The thresholds applied for direct reporting are adapted according to the different types of transactions and sectors, etc. Players below the thresholds are covered by settlement data. Even though settlements are used only to a minor extent for the compilation of the b.o.p., settlement data are important since they form a continuously updated register of the target population.

The Swedish b.o.p. collection system started off as an open settlement system, which was originally created for the purpose of foreign exchange controls. In the current system, settlement reporting covers payments settled with domestic banks as intermediaries and is supplemented by the direct reporting of

2.5 Users

B.o.p. data are sent to the following international organisations: the Statistical Office of the European Communities (Eurostat), the ECB, the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD). The data sent to the Bank for International Settlements (BIS) for the International Banking Statistics are provided by the Financial Stability Department. Data are exchanged with other OECD countries concerning the sale and purchase of banknotes to and from the public. These data form the basis for the correction of gross travel flows.

payments settled in netting systems (clearing) and via foreign bank accounts. Domestic settlements in foreign currency and banks' own settlements are excluded from reporting obligations. Instead, the system is closed by means of banks reporting on a transaction basis. In total, around 70,000 active reporting agents carry out foreign transactions in the register based on settlements.

In the final b.o.p. compilation process, most settlement data are replaced by information received by means of direct reporting, i.e. from so-called general direct reporting companies (GDRs), and from other “special” direct reporting companies (DRCs). The monitoring of the survey populations for direct reporting is ongoing, using the enterprise register based on settlement data.

The GDRs report monthly information on all their financial and current account transactions to the Riksbank. For financial transactions, the related stocks at the beginning and end of the reporting period are also reported. Current account transactions are reported with monthly

Table I**Reporting scheme for b.o.p. and i.i.p. data collection for Sweden**

Target respondent population (e.g. MFIs, enterprises, etc.)	Name of reporting form	Contents of reporting form	Frequency of reporting	Timeliness (number of days for submission after the end of the reference period)
MFIs, insurance companies, enterprises, National Debt Office, local government, brokers.	Capital	Portfolio investment/liabilities, lending/borrowing, other investment and income.	Monthly	15
MFIs, brokers, insurance companies, pension funds	Trade in equities	Trade in portfolio equities on the secondary market	Monthly	15
MFIs, brokers, insurance companies, pension funds	Trade in interest-bearing securities	Trade in interest-bearing securities on the secondary market	Monthly	15
MFIs, National Debt Office, enterprises, insurance companies, pension funds	Financial derivatives	Flows and stocks from financial derivatives, including interest transactions from derivatives	Monthly	15
Enterprises, MFIs, insurance companies.	Direct investments	Direct investment in Sweden and abroad, including interest income and dividends.	Monthly	15
Custodians	Custody holdings and redemption	Interest-bearing securities held in Swedish custody. Both domestic and foreign securities	Monthly	15

aggregates adapted to the sector of the respondent; data are broken down by country. GDRs comprise all insurance companies, Monetary Financial Institutions (MFIs) and major players within the manufacturing and contracting sectors (12-15 groups). 11 reporting forms are used by GDRs to provide the Riksbank with monthly data.

The DRCs report detailed information concerning b.o.p. areas falling within the category of their “main activity” to the Riksbank on a monthly basis. This mainly covers financial transactions, but also includes any current account transactions identified in reporting on netting and foreign bank accounts. The reporting requirements are identical to those for GDRs. The population of DRCs is selected by the Riksbank according to the magnitude of their cross-border transactions, which are evaluated from general settlement reports. In total, around 30 forms are used for monthly reporting by DRCs. The number of DRCs involved varies from 10 to 300, depending on the b.o.p. item concerned.

As a result, the financial account is compiled almost entirely from reports sent directly to the Riksbank; settlement data are only used for small and medium-sized enterprises (SMEs) and households. In the current account, settlements still represent an important source for services data, whereas data on goods, freight, travel and transfers are based on other sources; mainly direct reporting and Statistics Sweden.

3.2 Reporting agents

The Riksbank has been receiving the following b.o.p. reports since October 1997:

(i) Settlements – banks

Under the Sveriges Riksbank Act, banks are required to report all transactions effected on behalf of their customers. There is a general exemption for individual transactions below a threshold of SEK 150,000 (as from 1 July 2002).

Banking institutions report all incoming and outgoing payments effected on behalf of

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customers on a monthly basis; information about the purpose of payment is indicated by means of a code.

Other intermediaries are required to report these payments if the total annual volume amounts to more than SEK 10 million. In addition, monthly reports are required for trade in foreign currency with the non-banking public (there is no applicable exemption threshold).

(ii) *Direct reporting*

Under the Sveriges Riksbank Act, enterprises and individuals are obliged, upon request, to report all transactions with non-residents directly to the Riksbank on a monthly basis. In addition, there is a reporting requirement (travel) for credit card enterprises both on the use of credit cards by Swedish legal entities abroad and by individuals who are Swedish residents, as well as on the use of credit cards in Sweden by foreign legal entities and by individuals who are not resident in Sweden.

Direct reporting consists of data being supplied by general and other direct reporting enterprises, depending on the scale of the enterprises' foreign operations; the GDRs supply reports on all their current account and financial transactions, whereas the DRCs report on b.o.p. transactions for selected areas. The populations for direct reporting are targeted by means of settlement data. Enterprises are identified by means of an identification number. The following direct reports are collected.

Major players and all Monetary Financial Institutions (MFIs) supply data on financial transactions as well as on stocks and investment income on an accrual basis (approximately 150 reporting agents). (Stock data on their own issues of interest-bearing securities in domestic currency are based on custody reports.)

Data on secondary market trade in securities are reported by intermediaries, including banks. These agents also supply data on debt

securities held in their custody (60 to 70 reporting agents). Major players, other than intermediaries, report their trade with foreign counterparts directly, as well as stock data on securities not held in Swedish custody (75 to 100 reporting agents).

Data on financial derivatives are reported by MFIs and other major players (approximately 120 reporting agents). The reports cover flows and stocks. Derivatives within foreign direct investment (FDI) relationships are not reported separately.

Major players report financial transactions and dividends paid within direct investment relationships (approximately 100 reporting agents). Other companies report single transactions in equities (acquisitions, disposals, issues, contributions, etc.) directly to the Riksbank. For this category of respondents, loan transactions, etc. are collected from the settlement system; financial derivatives are not included.

The use of Swedish credit cards abroad and of foreign credit cards in Sweden is reported by credit card companies (approximately 15 reporting agents). Sales and purchases of banknotes and travellers' cheques are reported by banks and other companies which trade in currencies with the non-bank public (approximately 50 reporting agents).

The settlement data collected by the banking sector are supplemented by enterprises' direct reports of gross payments settled in netting systems (clearing) and via foreign bank accounts; only bank accounts with an annual turnover exceeding SEK 100 million are reported. In total, there are around 40 reporting agents for netting transactions and approximately 250 reporting agents for foreign bank accounts.

Direct investment stocks and reinvested earnings are calculated on the basis of an annual sample survey.

Residents' holdings of foreign portfolio shares are surveyed annually.

(iii) *Other reporting agents*

Statistics Sweden provides the following data:

- merchandise data on a monthly basis;
- data on sea transport, based on a quarterly questionnaire;
- data on transport and services from Scandinavian Airlines Systems;
- calculated adjustments of the basic trade statistics (Intra-Community Trade Statistical System (Intrastat) and Extrastat) on a quarterly basis (calculated by the National Accounts Section of Statistics Sweden);
- quarterly data on trade credits, which are based on a sample survey designed for the financial accounts system. These data are broken down into intra-group credits and others, using 50% ownership as a criterion (no geographical breakdown is available); and
- information on stocks of Swedish shares held by non-residents on the basis of an annual survey.

The Swedish International Development Co-operation Agency (SIDA) provides information on development aid.

The National Audit Bureau provides monthly data on EU transactions.

The Riksbank reports on the external monetary position and monthly flows.

3.3 Thresholds

For settlements, there is a general exemption for individual transactions below a threshold of SEK 150,000 (as from 1 July 2002).

For accounts held abroad, gross information on transactions and the balances of accounts with an annual turnover in excess of SEK 100 million are to be reported.

For financial transactions – mainly for loans – an informal threshold is applied to select

DRCs, i.e. a monthly report is required for enterprises with stocks of loans exceeding SEK 150 million.

3.4 Availability of data

Complete monthly, quarterly and annual b.o.p. data are available.

3.5 Timeliness

The Riksbank compiles monthly b.o.p. data within six to seven weeks of the end of the reporting period. Some items are estimated, mainly reinvested earnings, for which data are received from an annual survey after a ten-month time-lag.

3.6 Compilation frequency

The Swedish b.o.p. is compiled on a monthly basis.

3.7 Data controls

Data go through numerous checking processes before being published. There are ordinary checks on format and integrity, etc. for all data received. In addition, there are several forms of regular quality controls on the data: current contacts with the respondents; comparisons between income and the corresponding stocks; the comparison of transactions and corresponding changes in stocks (e.g. securities and loans); and the comparison of settlements and transactions. Comparisons are also made with other sources, e.g. banking statistics and newspapers.

3.8 Revision policy

The revision policy of the Swedish balance of payments contains three elements:

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Regular revisions

Each month, the five preceding months are revised. At the release of data for December, the whole year is revised. If necessary, earlier years are revised at the same time.

Consistency with other official statistics

To the extent that other official statistics constituting an input to the balance of payments are revised, a corresponding revision is always made within the balance of payments. These revisions might therefore go beyond the regular five-month revisions. This applies to the following statistics:

- merchandise trade;
- national accounts adjustments in trade in goods;
- sea transportation;
- trade credits; and
- income on direct investments (annual survey by the Riksbank).

The reason is a strong user requirement that the b.o.p. should not deviate from other openly available statistical sources.

Ad-hoc revisions of statistics collected by the Riksbank

Occasionally, when substantial revisions occur in data collected by the Riksbank, revisions are made in the b.o.p. Revisions are made when it is felt that the new data give a changed picture of the developments in the b.o.p. The reason is

that users should be provided as soon as possible with statistics that give an accurate picture of the b.o.p. These ad hoc revisions regard mainly big financial transactions, such as direct investments. On rare occasions, current account transactions are revised for this reason.

3.9 Publication

The b.o.p. statistics are presented and commented on by the Monetary Policy Department in four different publications. A full account of the b.o.p., with short comments, is published monthly, as are data on cross-border trade in securities. In addition, statistics with stock data on non-residents' holdings and the repo position of Swedish interest-bearing securities are published monthly. Statistics relating to Sweden's external assets and liabilities are published biannually and a more detailed b.o.p. with monthly and annual time series is also published monthly. For direct investment, statistics with comments on stock data on inward and outward direct investment and direct investment income are published annually.

The titles of publications produced by the Riksbank concerning b.o.p. statistics are listed in Sub-section 13.1.

4 Implementation

4.1 Monthly balance of payments

Monthly b.o.p. statistics contribute to the analysis of monetary, exchange rate and general economic developments. In order to improve the analytical value of these statistics – as well as to comply with international standards – several conceptual and presentational changes have been introduced. The liberalisation of international transactions in 1989 called for major statistical revisions. Turbulence on the

financial markets in 1992 and 1994 led to an increase in public interest, both in Sweden and abroad, in capital flows.

The Riksbank very rarely estimates missing figures owing to late reporting. The estimation methods described below are used to comply with the BPM5.

4.2 Estimation methods for monthly b.o.p. data

4.2.1 For goods

Goods: Statistics Sweden collects and compiles merchandise trade from customs data (extra-EU) and Intrastat. A survey of approximately 1800 intra-EU traders (75% of the total intra-trade value) is carried out on a monthly basis. This survey enables Statistics Sweden to fulfil the timeliness requirements for the reporting of global trade data.

For extra trade: imports are classified according to the country of consignment and exports according to the country of final destination. For intra trade: imports are classified according to the Member State of consignment and exports according to the Member State of destination.

In order to comply with international recommendations, the valuation of imports is converted from a c.i.f. to an f.o.b. figure. At present the c.i.f. component of merchandise trade is only estimated for sea freight. The estimation is based on two surveys: (i) one of ship-owners and (ii) one of ports on the arrivals and departures of ships. The former covers all transactions of ship-owners, domestic as well as foreign. This provides the basis for the estimation of one part of the c.i.f. component of sea freight, namely the value of resident carriers' freight services to Sweden. This part of freight is not to be included in the b.o.p., but forms one part of the c.i.f. component.

The other part of the c.i.f. component, namely the value of foreign ship-owners' freight services with regard to imports of goods, is calculated by comparing the shipping tonnage arriving to Swedish ports by nationality; i.e. the Swedish tonnage compared to foreign tonnage, as derived from the survey of ports given under (ii) above. The amount of goods arriving by Swedish and foreign ships is also taken into account. However, it has to be assumed that

the prices of foreign and domestic freight to Sweden are equal. Based on this information, the value of foreign ship-owners' freight services with regard to goods imports is calculated. This value is entered into the freight component of the b.o.p. as a debit.

Regarding the recording of military goods, all military goods were coded, until January 2000, under the country of the actual counterpart. Since January 2000, all goods have been coded under "other UN organisations".

As regards transactions under special Community programmes, the only two Community programmes thus far not based on the settlement system are Scandinavian Airline Systems, where Statistics Sweden provides the data, and the construction of the Öresund bridge, where the costs have been split evenly between Denmark and Sweden. Other special Community programmes, apart from those mentioned, are seen to be insignificant.

4.2.2 For services

Services: brokerage fees are calculated monthly, based on reports of trade in equity from Swedish brokerage firms. No such calculation is made for trade in interest-bearing securities.

4.2.2 For investment income

Reinvested earnings: the main source concerning reinvested earnings is an annual survey of profits from direct investment income. Reinvested earnings are transferred to the year in which they have been earned and distributed over the months.

4.2.3 For capital account

No estimates are used.

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4.2.4 For direct investment

See Sub-section 4.2.2 above.

4.2.5 For portfolio investment

A monthly estimate is made of accrued coupon interest on Swedish krona-denominated instruments on the basis of detailed information from custodians.

4.2.6 For financial derivatives

No estimates are used.

4.2.7 For other investment

Trade credits: the data concerning trade credits are available from Statistics Sweden only on a quarterly basis. The monthly figures are estimated by the Riksbank.

4.3 Monthly b.o.p. – implementation plan

A table showing details of the implementation of the monthly b.o.p. is shown on the following page. A distinction is made between current data availability and future implementation requirements for Sweden.

4.4 Implementation of the BPM5

Most of the adaptations needed to comply with the BPM5 took place in October 1997. Some parts of the adaptation are to be

developed further at a later stage, namely the freight and merchandise items (f.o.b./f.o.b. adjustment). For both items, Statistics Sweden will develop new methods, which are more in line with the BPM5 requirements. Furthermore, the “full” geographical breakdown for financial transactions was implemented in January 1999, with the exception of that for debt securities issued by residents, which will not be distributed by the country of creditor. Data on financial transactions are being collected through the direct reporting system with a breakdown into at least 20 countries as of this year.

Earlier periods have been revised and adapted to comply – to a limited extent – with the BPM5. For the current account, comparisons will be possible at an aggregated level. As a result, most b.o.p. data series before and after October 1997 are not comparable.

Difficulties concerning the implementation of the BPM5 are experienced in the following areas:

- the automation of the reporting procedure on a large scale; and
- the inclusion of construction in FDI, according to the European System of Accounts (ESA) 95.

4.5 Standard components – quarterly and annual

The presentation of the Swedish b.o.p. complies with the IMF standard components (5th edition).

Table 2
Implementation of the ECB's monthly b.o.p. requirements

Sweden	Current data availability						
	Item	Timeliness for national data		Timeliness for geographical breakdown on a country-by-country basis		Timetable for implementing the euro area/non-euro area split	
		<i>credits/ assets</i>	<i>debits/ liabilities</i>	<i>credits/ assets</i>	<i>debits/ liabilities</i>	<i>credits/ assets</i>	<i>debits/ liabilities</i>
Current account	6 weeks	6 weeks	6 weeks	6 weeks	available	available	
Goods	6 weeks	6 weeks	6 weeks	6 weeks	available	available	
Services	6 weeks	6 weeks	6 weeks	6 weeks	available	available	
Income	6 weeks	6 weeks	6 weeks	6 weeks	available	available	
on direct investment	6 weeks	6 weeks	6 weeks	6 weeks	available	available	
on portfolio investment	6 weeks	6 weeks	6 weeks	n.a.	available	-	
on other investment	6 weeks	6 weeks	6 weeks	6 weeks	available	available	
Current transfers	6 weeks	6 weeks	6 weeks	6 weeks	available	available	
Capital account	6 weeks	6 weeks	6 weeks	6 weeks	available	available	
Direct investment	6 weeks	6 weeks	6 weeks	6 weeks	available	available	
Equity capital	6 weeks	6 weeks	6 weeks	6 weeks	available	available	
MFIs (excluding central banks)	6 weeks	6 weeks	6 weeks	6 weeks	available	available	
Non-MFIs	6 weeks	6 weeks	6 weeks	6 weeks	available	available	
Reinvested earnings	6 weeks	6 weeks	6 weeks	6 weeks	available	available	
MFIs (excluding central banks)	6 weeks	6 weeks	6 weeks	6 weeks	available	available	
Non-MFIs	6 weeks	6 weeks	6 weeks	6 weeks	available	available	
Other capital	6 weeks	6 weeks	6 weeks	6 weeks	available	available	
MFIs (excluding central banks)	6 weeks	6 weeks	6 weeks	6 weeks	available	available	
Non-MFIs	6 weeks	6 weeks	6 weeks	6 weeks	available	available	
Portfolio investment	6 weeks	6 weeks	6 weeks	6 weeks	available	available	
Equity securities	6 weeks	6 weeks	6 weeks	n.a.	available	-	
Monetary authorities	6 weeks	6 weeks	6 weeks	n.a.	available	-	
MFIs (excluding central banks)	6 weeks	6 weeks	6 weeks	n.a.	available	-	
Non-MFIs	6 weeks	6 weeks	6 weeks	n.a.	available	-	
Debt securities	6 weeks	6 weeks	6 weeks	n.a.	available	-	
Bonds and notes	6 weeks	6 weeks	6 weeks	n.a.	available	-	
Monetary authorities	6 weeks	6 weeks	6 weeks	n.a.	available	-	
MFIs (excluding central banks)	6 weeks	6 weeks	6 weeks	n.a.	available	-	
Non-MFIs	6 weeks	6 weeks	6 weeks	n.a.	available	-	
Money market instruments	6 weeks	6 weeks	6 weeks	n.a.	available	-	
Monetary authorities	6 weeks	6 weeks	6 weeks	n.a.	available	-	
MFIs (excluding central banks)	6 weeks	6 weeks	6 weeks	n.a.	available	-	
Non-MFIs	6 weeks	6 weeks	6 weeks	n.a.	available	-	

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Financial derivatives	6 weeks	6 weeks	6 weeks	6 weeks	available	available
Other investment	6 weeks	6 weeks	6 weeks	6 weeks	available	available
Monetary authorities	6 weeks	6 weeks	6 weeks	6 weeks	available	available
General government	6 weeks	6 weeks	6 weeks	6 weeks	available	available
MFIs	6 weeks	6 weeks	6 weeks	6 weeks	available	available
long-term	6 weeks	6 weeks	6 weeks	6 weeks	available	available
short-term	6 weeks	6 weeks	6 weeks	6 weeks	available	available
Other sectors	6 weeks	6 weeks	6 weeks	6 weeks	available	available
Reserve assets	6 weeks	6 weeks	n.a.	n.a.	available	-

5 Investment income

5.1 Specific features of data collection

earnings, are calculated with a considerable time lag, forecasts have to be made.

5.1.1 General

Income on financial assets and liabilities is broken down according to the standard components in the BPM5.

5.1.3 Income on portfolio investment

This sub-item is broken down by:

5.1.2 Income on direct investment

This component includes all income on assets and liabilities between parties in a direct investment relationship and is broken down according to:

- dividends;
- interest; and
- reinvested earnings.

- dividends;
- interest;
- bonds; and
- money market instruments.

Reinvested earnings are calculated as the difference between total profit after tax and dividends. While dividends are reported at the time of payment, reinvested profits are transferred to the year earned and distributed evenly over the months. Interest rates have been reported on an accrual basis since October 1997.

Equity income is reported on a settlement basis, while interest is recorded on an accrual basis.

Statistics are based on monthly reports and settlements data. An estimate is made of accrued coupon interest on Swedish krona-denominated instruments on the basis of detailed information from custodians.

The main sources of data on direct investment income are direct reporting from major players and an annual survey of profits of direct investment companies. Moreover, some information on interest on loans is collected from settlement data.

5.1.4 Income on other investment

Interest on loans has been reported primarily on an accrual basis since October 1997. The sources are monthly direct reporting by major players supplemented with settlement data.

Since total profits on direct investment income, and consequently reinvested

5.2 Definitions

In principle, the Riksbank has implemented the recommendations of the BPM5 and the harmonisation proposals made by the Task

Force on Financial Flows and Stocks, which has now been succeeded by the Working Group on Balance of Payments and External Reserves Statistics.

5.3 Deviations from agreed definitions

Some of the Swedish data on interest transactions are based on settlement data and are thus not compiled on an accrual basis. At present, less than 15% of the data on interest transactions are compiled on a settlement basis.

5.4 Gaps

Income on collective investment institutions (CIIs) is a difficult area where, at present,

6 Capital account

6.1 Specific features of data collection

The Riksbank collects data on the capital account both from the settlement systems and via direct reporting; the latter covers the capital flows of aid to developing countries and the contributions from the EU.

6.2 Definition

In principle, the Riksbank has implemented the recommendations of the BPM5 and the harmonisation proposals made by the Task Force on Financial Flows and Stocks, which has now been succeeded by the Working Group on Balance of Payments and External Reserves Statistics.

6.3 Deviations from agreed definitions

The Riksbank claims that significant volumes are only involved for some items of the

statistical information relies mainly on settlement data. For the time being, the agreed recording recommendations are not being applied in the Swedish b.o.p. It is rather the paid-out dividends from the CIIs that are recorded in the statistics.

5.5 Intended harmonisation

None.

5.6 Estimation methods

None.

capital account, namely general government/ other; other sectors/migrants' transfers. Among these significant items, data on migrants' transfers will be available only for transactions in cash and not in kind.

6.4 Gaps

None.

6.5 Intended harmonisation

Sweden expects to receive good quality data on capital (and current) transfers between EU institutions and Member States as a consequence of intensive co-operation with other Swedish authorities, including Statistics Sweden.

7 Direct investment

7.1 Specific features of data collection

The Riksbank collects data on direct investment flows and stocks from three different sources:

- (i) monthly direct reporting, which covers all FDI transactions from respondents with considerable stocks and transactions regarding loans, etc. The selection of respondents is based mainly on the annual sample survey on FDI stocks. The samples for the annual surveys are broken down by size and sector. Classification by size is based on simulated direct investment assets computed as the most recent survey data for the direct investment asset plus the accumulated net flow up to the measurement date. All the largest companies as well as all banks and insurance companies are included in the survey. In addition, single transactions in equity are reported directly to the Riksbank;
- (ii) information on stocks and reinvested earnings is obtained from an annual survey; and
- (iii) settlement data, which are used for FDI transactions by enterprises not reporting directly; settlements data are also used to obtain information on private, non-commercial real estate investment.

The current method of calculating reinvested earnings has remained essentially unchanged in the new b.o.p. compilation system (i.e. monthly estimates, ex post information from the annual survey).

The geographical breakdown is based on the residency of the actual issuers (i.e. debtor/creditor principle). It is also available for historical data.

In the event that a change of ownership of a resident company from a non-resident to another non-resident direct investor is revealed in the survey, the change is

recorded, in principle, both in the FDI stocks and in the corresponding b.o.p. flows.

For direct investment cases settled through an exchange of shares, the transaction is usually recorded when the exchange takes place.

In cases where no price has explicitly been agreed between the parties involved in the exchange of shares (e.g. one share of A equals one share of B), Swedish reporters determine the value of the transaction on the basis of information on the market price or, if not available, on the basis of book values. If both of the exchanged shares have a market price, then these prices should anyway be considered equal on the day of the exchange. More problematic would be cases where no market prices are available, as in the case of unquoted shares.

7.2 Definition

The combination of the three data sources leads to a good coverage and quality of direct investment data. The 10% criterion is applied. The directional principle is used, but data are also compiled according to the assets/liabilities principle.

7.3 Deviations from agreed definitions

In addition, for intra-group trade credits, a 50% ownership criterion is applied instead of the 10% criterion.

All FDI data are in line with the BPM5 as from October 1997, with some minor deviations.

7.4 Gaps

None.

7.5 Intended harmonisation

Some additional improvements will be implemented with regard to geographical allocation, information on dividends paid and income on real estate.

The Riksbank will take account of the discussion on appropriate estimation

methods held within the Working Group on Balance of Payments and External Reserves Statistics.

7.6 Estimation methods

None.

8 Portfolio investment

8.1 Specific features of data collection

In the new b.o.p. data compilation system, data relating to the portfolio investment account are based entirely on monthly direct reporting, i.e. banks and brokers report aggregated transactions in which they have acted as intermediaries on behalf of customers and for themselves; major players report aggregated direct transactions with customers abroad, i.e. transactions executed without the intermediation of Swedish banks and brokers, aggregated transactions in securities issued abroad by the major players themselves, and information on repo transactions; custodians report monthly information on stocks and redemptions.

8.2 Definition

A full breakdown by instrument of the portfolio investment account, in line with the BPM5, was introduced in October 1997.

For repurchase agreements, bond lending and related instruments, the Riksbank compiles only so-called genuine repos as collateralised loans. Other related instruments – so-called non-genuine repos – are recorded as portfolio investment.

8.3 Deviations from agreed definitions

At present, no geographical breakdown is available for portfolio investment liabilities. For assets, a geographical breakdown is available as from January 2000.

8.4 Gaps

No data are available on bond lending.

8.5 Intended harmonisation

A harmonisation of banks' accounting practices is desirable.

The ISIN code and its use for harmonisation among the EU Member States are being considered as a possible tool for identification purposes. In the longer term the ISIN code may prove to be necessary for a full geographical breakdown and for a full breakdown into intra-euro area (debtor) sectors.

8.6 Estimation methods

None.

9 Financial derivatives

9.1 Specific features of data collection

The Riksbank has been collecting data on financial derivatives since March 1995. The data are collected via monthly direct reporting by MFIs and other major players, among them the Swedish clearing house OM. As from January 1999 a full geographical breakdown based on the country of the counterpart has been included.

As from March 2001, the Riksbank implemented a change in the classification of income in the form of interest on financial derivatives. The implication of this change is that the interest income from derivatives is moved from the current account to the financial account. The change in classification was in accordance with international recommendations.

The transaction data are broken down by: (i) option premiums; (ii) the realised value of derivative contracts redeemed/matured; and (iii) net flows of interest rate swaps and forward rate agreements (FRAs) and the interest part of cross-currency interest rate swaps (CCIRS).

The data on financial derivatives are collected in a highly aggregated form. Therefore, Sweden is not in a position to produce a breakdown by instrument other than those outlined in items (i) to (iii) above.

The data are collected and recorded on a gross basis according to the recommendations of the BPM5, i.e. net of all derivative instruments which indicate a realised profit for the reporting agent are reported as

credits. Accordingly, all instruments which indicate realised losses are reported as debits.

Margin payments are included in the reported data, but data are not collected separately. Furthermore, the Riksbank is not in a position to distinguish between options-style and futures-style variation margin payments.

9.2 Definitions

In principle, the Riksbank has implemented the recommendations of the BPM5 and the harmonisation proposals made by the Task Force on Financial Flows and Stocks, which has now been succeeded by the Working Group on Balance of Payments and External Reserves Statistics.

9.3 Deviations from agreed definitions

Derivatives within FDI relationships are included in the data, but are not reported separately.

9.4 Gaps

None.

9.5 Intended harmonisation

None.

9.6 Estimation methods

None.

10 Other Investment

10.1 Specific features of data collection

The Riksbank collects data on other investment flows and stocks from three different sources: monthly direct reporting

by banks and other major players is used for aggregated transactions and stocks, including accrued interest; settlement data are used for SMEs and households; and data on trade credits are supplied by Statistics Sweden.

Data on trade credits are based on a quarterly sample survey designed for the financial accounts system conducted by Statistics Sweden. Data are broken down into intra group trade credits (to be recorded under direct investment) and others using the 50% ownership criterion. Before the outcome of the survey is available, estimations are made for trade credit stocks. No estimations are made for flows. As soon as the result of the survey is available, the figures are introduced in the b.o.p. statistics.

For repos, bond lending and other related instruments, see Sub-section 8.

The flows of the MFI sector are reported by MFIs as real transactions which should be adjusted for the impact of foreign exchange rate changes.

10.2 Definition

In principle, the Riksbank has implemented the recommendations of the BPM5 and the

harmonisation proposals made by the Task Force on Financial Flows and Stocks, which has now been succeeded by the Working Group on Balance of Payments and External Reserves Statistics.

10.3 Deviations from agreed definitions

None.

10.4 Gaps

Monthly figures on trade credits are estimated by the Riksbank.

10.5 Intended harmonisation

None.

10.6 Estimation methods

None.

11 Reserve assets

11.1 Specific features of data collection

Data on reserve assets are recorded on a transaction basis, using the Riksbank's accounting records. Income is recorded on an accrual basis.

general government are not included. The gross concept is applied, i.e. there is no netting of the central bank's assets and liabilities.

11.3 Deviations from agreed definitions

None.

11.2 Definition

According to the new BPM5, reserve assets comprise gold, special drawing rights (SDRs), the reserve position in the IMF, convertible currency claims and the euro amount receivable from the ECB. All reserve assets of the Riksbank are readily available to (i.e. highly liquid, marketable and creditworthy) and controlled by the central bank, are held against non-residents and are denominated in foreign currency (i.e. in currencies other than the Swedish krona). Holdings of the

11.4 Gaps

None.

11.5 Intended harmonisation

None.

12 International investment position

12.1 Specific features of data collection

Sweden's i.i.p. is compiled by the Riksbank and published semi-annually with a time lag of six weeks. Published data are revised continually in connection with the monthly publication of the b.o.p. At the time of the first publication estimates are made for direct investment assets and liabilities, portfolio equity and trade credits. Definitions of the various instruments, etc. coincide wholly with those applicable to the b.o.p.

The Swedish i.i.p. consists almost entirely of pure stock data. Data on loans from SMEs are produced using the accumulation of flow data. These calculated loans account for less than 10% of the total stocks of loans. Stocks in the form of life and pension savings are also calculated on the basis of accumulated transactions.

The i.i.p. is reported broken down by instrument and by domestic sector.

The Riksbank collects the majority of the statistics via monthly direct reporting from the major players and via annual surveys. Information on foreign holdings of Swedish shares and on trade credits is also obtained from Statistics Sweden. Data collection is supplemented by calculations for certain items.

The Swedish i.i.p. statistics were adapted to the new international nomenclature (BPM5) in October 1997. Owing to insufficient underlying material, retrospective adjustment of data has only been possible to a very limited extent, which means that there is a break in the time series.

Most of the items of the Swedish i.i.p. are broken down geographically as from January 1999. At present portfolio investment liabilities and foreign exchange reserves are not allocated geographically.

12.2 Definitions

12.2.1 General

See 12.1.

12.2.2 Direct investment

Stock information on direct investment refers mainly to book values. However, the Riksbank has also developed a method of market valuation which is based on the price/earnings ratio of listed companies with a similar business structure. Stock information at market value was published for the first time in August 1999, as supplementary information to the official book values. The definitions of direct investment stocks are the same as those for the transaction data. This means, for example, that the 10% criterion and the directional principle are applied.

Statistics for direct investment are mainly based on three sources:

- a sample survey;
- calculations by the Riksbank; and
- Statistics Sweden.

Sample survey

The Riksbank carries out an annual sample survey to measure direct investment stocks in the form of:

- equity capital; and
- loans and other capital provided and received in a direct investment relationship.

The survey also measures total profits from direct investment abroad and in Sweden in order to calculate reinvested earnings.

The results of the survey are presented in a special publication.

The outcome of the sample questionnaire becomes available after a time lag of around

11 months. Statistics are therefore supplemented with forecasts, mainly based on previous stock data supplemented with transaction data and adjusted for some valuation changes.

Calculations – private non-commercial real estate

Private non-commercial real estate is included in the concept of direct investment, according to the international nomenclature. The statistics are mainly based on settlements data, which is accumulated to provide stock figures. These are adjusted to take account of both inflation and – with regard to private real estate abroad – exchange rate fluctuations.

Statistics Sweden – trade credits

Information on trade credits within direct investment relationships is obtained from Statistics Sweden, which bases the information on quarterly surveys.

As the information is obtained after a three-month lag, stocks are forecast by projecting the most recently available outcome.

12.2.3 Portfolio investment

Foreign equity

Every year the Riksbank carries out a survey with the aim of measuring the size of Swedish assets abroad in the form of foreign equity. Holdings of both individual shares and shares in foreign unit trusts are included in the results of the study.

For compilations produced at times when survey results are not available, forecasts are made on the basis of previous stock and transaction data, which are adapted to take account of changes in foreign stock prices and exchange rates.

Swedish equity

Information about the size of foreign holdings of Swedish equities is obtained from Statistics Sweden, which sends an annual questionnaire

to the Swedish National Numbering Agency and Swedish deposit managers. Forecasts are made in the same way as for foreign equity.

Foreign interest-bearing securities

Information about Swedish holdings of interest-bearing securities with foreign issuers is based on monthly reports from Swedish deposit managers and from players holding paper deposited abroad. Data are stated in terms of market values.

Swedish interest-bearing securities

Statistics on the foreign holdings of interest-bearing securities with Swedish issuers are based on monthly reports from players who have issued securities abroad. This information is completed by using monthly reports from deposit managers on Swedish krona-denominated securities that are held in Swedish custody. Finally, securities that serve as collateral in repo agreements are added to the stock.

Information from custodians regarding Swedish krona-denominated securities is valued at nominal amounts, while other data are valued at market value. A method to calculate market values for all interest bearing securities denominated in Swedish kronor has recently been developed and should be implemented for official use in Swedish statistics in the near future.

12.2.4 Financial derivatives

Stock information for financial derivatives is based on monthly reports from the largest players and is recorded on a market valuation basis. Information is reported in aggregate, i.e. not broken down by the type of instrument.

The data are reported on a gross basis, as recommended in the IMF manual.

From January 1999 onwards, a full geographical breakdown by counterpart country is collected.

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Financial derivatives within direct investment relationships are recorded under financial derivatives and not under direct investment.

12.2.5 Other investment

Trade credits

Statistics Sweden compiles statistics on trade credits on the basis of a quarterly survey. Intragroup trade credits are reported under direct investment.

Loans, etc.

Data on loans, etc. (including deposits, financial leasing and repos) are based on monthly reports from major players. Stock data for SMEs are calculated on the basis of settlement data.

Other

Interim items (transactions contracted, but not settled), certain assets and liabilities in relation to international organisations and insurance saving are reported under the sub-item other.

The sub-item is based on monthly reports, and on accumulated settlements.

Insurance saving

Saving in the form of life and pension savings is calculated on the basis of accumulated transactions, corrected for exchange rate and

stock exchange price movements and the level of interest rates.

12.2.6 Reserve assets

Data on reserve assets are based on the Riksbank's report on holdings of gold and foreign assets. These data are available on a monthly basis. All items, including gold, are recorded at market prices.

12.3 Deviations from agreed definitions

None.

12.4 Gaps

None.

12.5 Intended harmonisation

None.

12.6 Estimation methods

None.

13 Administration

13.1 Titles of publications

B.o.p. statistics (texts in Swedish and in English);

Sweden's Balance of Payments (monthly statistics);

Sweden's Balance of Payments, Tables (tables of data for the past eight years and for the past 24 months);

Sweden's external assets and liabilities (half-yearly statistics with commentary);

Cross-border trade in securities (monthly statistics with commentary);

Direct investment companies (annual statistics with commentary).

All the reports are available free of charge in Swedish and English and can be ordered from the Riksbank's Information Centre; the data are also available on the URL <http://www.riksbank.se>. Some information is also published by Reuters.

Data on the following are available but are not published:

- non-residents' holdings of Swedish interest-bearing securities (monthly stock data); and
- non-residents' repo positions in Swedish interest-bearing securities (monthly stock data).

general nature should be addressed to the Press Division of the ECB. Enquiries specific to Sweden should be addressed to:

Mr. Anders Lindström
Sveriges Riksbank
Monetary Policy Department
S-10337 STOCKHOLM
Sweden

13.3 Contributors

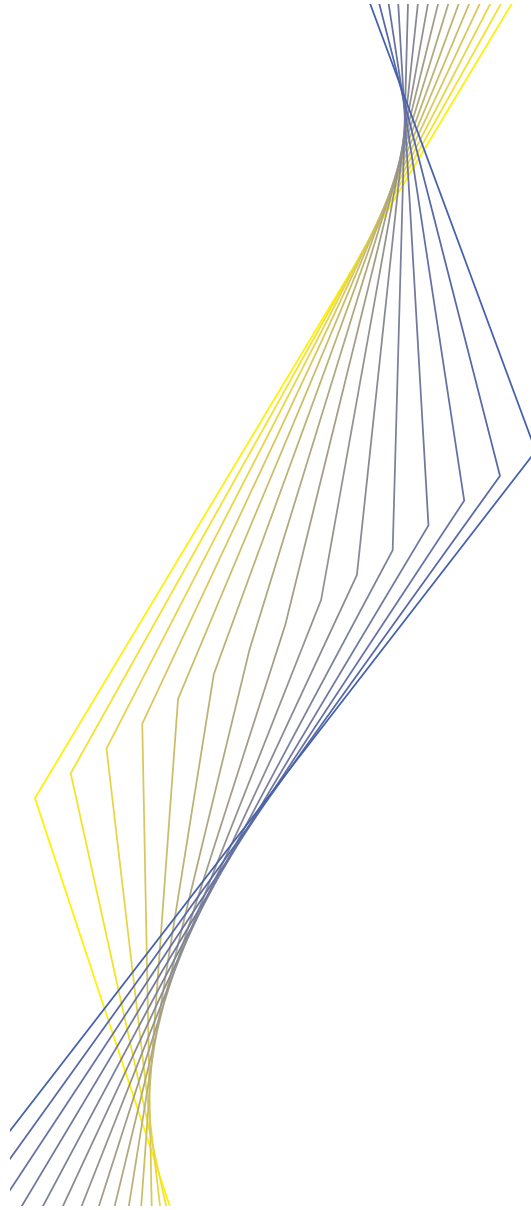
This country information was drafted by the ECB's Balance of Payments and External Reserves Division and subsequently amended and agreed with Sweden. Enquiries of a

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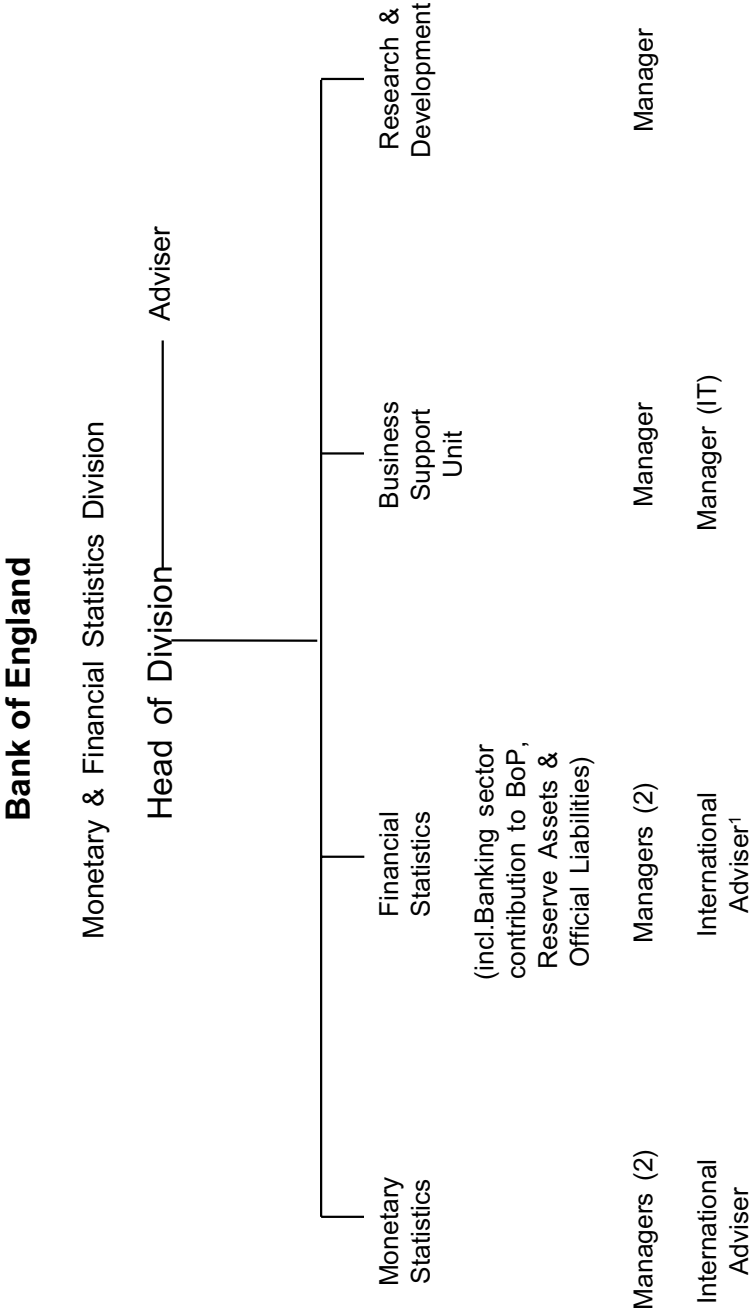
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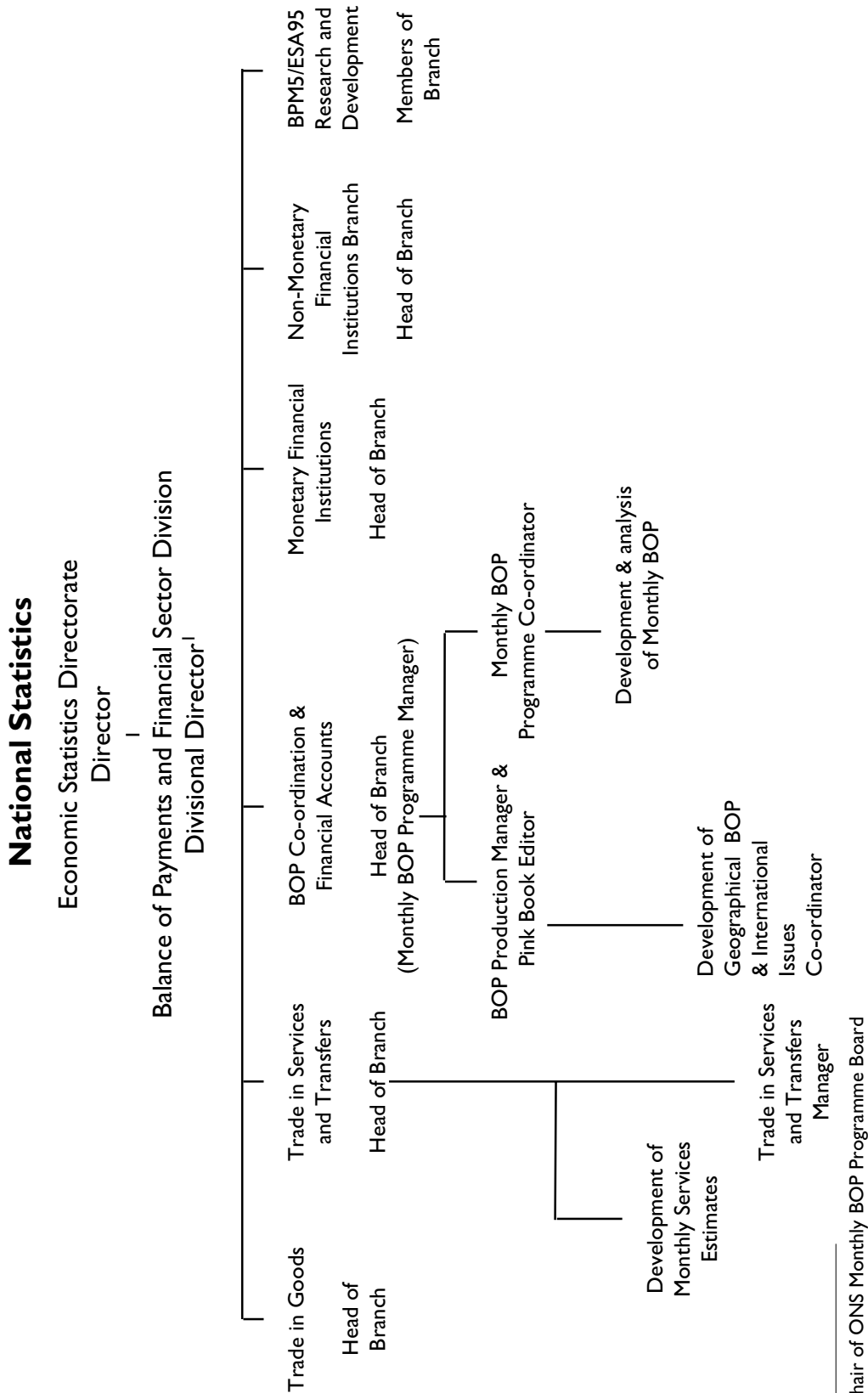
The United Kingdom

November 2002

I Organisation chart(s)



¹Chair of ONS Monthly BOP Technical Board



¹ Chair of ONS Monthly BOP Programme Board

2 Institutional aspects

2.1 Introduction

The compilation of the United Kingdom's balance of payments (b.o.p.) is carried out on the basis of data submitted to both the Office for National Statistics (ONS) and the Bank of England, with the ONS responsible for compiling the overall aggregates. The ONS collects data from non-bank financial institutions and is the government agency responsible for compiling, analysing and disseminating most of the United Kingdom's economic, social and demographic statistics, including the national accounts, retail price index, trade figures and labour market data, as well as a periodic census of the population and health statistics. The Bank of England collects data from UK banks and is responsible for compiling banking and money supply data.

2.2 Legislative provisions

(i) ONS

The ONS was formed in April 1996 following a merger of the Central Statistical Office and the Office of Population Censuses and Surveys. On 7 June 2000 the United Kingdom launched "National Statistics" as the new framework under which economic and business data would be collected for statistical purposes only, under the Statistics of Trade Act. This Act sets out the need for timely and accurate data. Statutory penalties are available, where necessary, under the Statistics of Trade Act. Data on trade in goods are collected by the Board of Customs and Excise and supplied to the ONS.

The ONS has a "Code of Practice" which sets out the common good practices established over many years by statisticians in a wide range of government departments and agencies. The code is of a general nature and is designed to promote high standards and to maintain public confidence in all official statistics and analyses. The Bank of England has adopted a similar code which adapts the same basic principles to the specific circumstances of the central bank.

(ii) Bank of England

The Bank of England Act 1998, which came into force on 1 June 1998, gives the Bank the power to obtain information (principally from Monetary Financial Institutions (MFIs)) for the purposes of its functions in relation to monetary policy. The scope of information relevant for this purpose is set out in secondary legislation pursuant to the Act. In essence, the coverage is the same as in the previous, long-standing, voluntary arrangements to supply data for macroeconomic purposes, including data related to the money supply and the b.o.p., and for the preparation of the national accounts. The Act also allows the UK regulatory body, the Financial Services Authority (FSA), to require supervised institutions to report prudential supervisory information to the Bank acting on its behalf. As with the Statistics of Trade Act (see above), statutory penalties are available, where necessary, under the Bank of England Act.

The arrangement between commercial banks, as represented by the British Bankers' Association, and the Bank of England to supply financial statistics originated following widespread acceptance within the financial community of the 1959 report by the Parliamentary Committee on the Working of the Monetary System (known as the Radcliffe Report). The report contained a recommendation regarding the publication of statistical information necessary for an understanding of the financial positions of the main sectors of the economy. A regime of regular statistical reporting by commercial banks to the Bank of England was introduced in 1963 and was based on a quarterly (now monthly) balance sheet.

2.3 Internal organisation

(i) General

The ONS and the Bank of England work closely together on a number of issues. The relationship exists not only with respect to

the b.o.p., which is part of a larger overall process culminating in the production of the UK national accounts, but also in relation to macroeconomic issues. The ONS and the Bank of England have joint statistical work programmes and there are both formal and informal mechanisms which enable this co-operation to work successfully.

The formal mechanism is the “Firm Agreement”, which was drawn up to define clearly the responsibilities of both institutions, including timetables, deadlines and joint representation at international meetings.

The informal mechanism involves high levels of communication in terms of frequent liaison meetings between representatives of the ONS and the Bank. The two institutions exchange information regularly and discuss their respective work programmes in detail.

(ii) ONS

The ONS is the official b.o.p. compiler for the United Kingdom. The collection and compilation of statistics are carried out separately. The Newport office of the ONS (Prices & Business Group (PBG)) is responsible for the preparation of surveys and for the actual data collection. The Balance of Payments and Financial Sector (BoPFS) Division of the ONS, located in London, is responsible for producing and developing statistics for the rest of the world (RoW) and the financial sectors of the national accounts, including the compilation and publication of b.o.p. statistics. In addition, the BoP Co-ordination Branch within the BoPFS Division is responsible for taking the lead for the United Kingdom in liaison with the European Commission (Eurostat), the ECB and the International Monetary Fund (IMF) on b.o.p. issues in general. In particular, its Head of Branch is a UK representative in the Working Group on Balance of Payments and External Reserves (WGBP&ER), together with a representative from the Bank of England.

The BoPFS Division is part of the National Accounts Group (NAG) within the Economic

Statistics Directorate (ESD), which is responsible for the national accounts. As the b.o.p. forms an integral part of the national accounts, the BoPFS Division of the ONS co-operates very closely with other Divisions within the NAG. There are both formal and informal links between the NAG and the PBG, with many shared work programmes.

(iii) Bank of England

The Bank of England collects the data on the banking sector used in the b.o.p. and in the national accounts. The Bank also supplies b.o.p. data on reserve assets and official liabilities obtained from administrative sources within the Bank.

The Monetary and Financial Statistics Division (MFSD) of the Bank of England is responsible for providing statistics. The Financial Statistics Group deals specifically with b.o.p. statistics for the MFI sector (current account and direct and portfolio investment in the financial account) and for reserve assets and official liabilities. The remainder of the contribution of the MFI sector to the UK b.o.p. is drawn from data processed elsewhere in the Division primarily for other purposes. The Bank also liaises with the FSA, for example, in the event of the repeated late submission of survey forms.

The Bank of England provides the ONS with support both in discussions on data for the banking sector, the provision of data and advice on capital markets, and in its attendance at international b.o.p. meetings, for example at meetings organised by the ECB and the European Commission (Eurostat).

2.4 External co-operation

The ONS is an executive agency independent of any other government department and is accountable to the Chancellor of the Exchequer. Under the new framework of National Statistics, it works in partnership with other entities within the Government Statistical Service (GSS) located in many

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Table I
Reporting scheme for b.o.p. and i.i.p. data collection for the United Kingdom

Target respondent population (e.g. MFIs, enterprises, etc.)	Name of reporting form	Contents of reporting form	Frequency of reporting	Timeliness (number of days for submission after the end of the reference period)
Enterprises	INTRASTAT		Monthly	10 working days
Enterprises	Custom declarations		Continuous	Immediate
Enterprises	International Trade in Services Inquiry		Quarterly	28
Enterprises	International Trade in Services Inquiry		Annually	70
Travelling public	International Passenger Survey		Approx. 260,000 interviews carried out on most days of the year	Immediate – respondents complete the survey as they are either arriving in or departing from the United Kingdom (face-to-face interviews)
UK ship owners	Chamber of Shipping Inquiry		Quarterly	50
UK ship owners	Chamber of Shipping Inquiry		Annual	140
Airlines	Civil Aviation Authority Inquiry		Annual	45
Road haulage firms	DTLR International Road Haulage Survey		Continuous	Quarterly delivery to the ONS
Companies with foreign links (greater than 10%)	M&A Inquiry	Share dealings and funding	Continuous	Form requests return by 4 weeks after despatch 1 st reminder 4 weeks after 2 nd reminder 6 weeks after
Companies with foreign links (greater than 10%)	Quarterly Inward Inquiry	Earnings and flows	Quarterly	Form requests return by 4 weeks after quarter end 1 st reminder 4 weeks after 2 nd reminder 6 weeks after
Companies with foreign links (greater than 10%)	Quarterly Outward Inquiry	Earnings and flows	Quarterly	Form requests return by 4 weeks after quarter end 1 st reminder 4 weeks after 2 nd reminder 6 weeks after
Companies with foreign links (greater than 10%)	Annual Inward Inquiry	Earnings, flows and levels, including geographical breakdown	Annual	Form requests return by 4 weeks after despatch 1 st reminder 10 weeks after 2 nd reminder 14 weeks after
Companies with foreign links (greater than 10%)	Annual Outward Inquiry	Earnings, flows and levels, including geographical breakdown	Annual	Form requests return by 4 weeks after despatch 1 st reminder 10 weeks after 2 nd reminder 14 weeks after
Banks	Balance sheet (BT)	Includes levels of deposits, loans and investment	Monthly	6/7
	Supplementary data (QX)	Levels of direct and portfolio investment and direct investment flows	Quarterly	18/20
	Security transactions affecting the UK balance of payments (P1)	Portfolio investment flows	Quarterly	30/31
	Country analysis of UK external claims (CC)	Levels of loans and advances, CDs and CP, equity and securities	Quarterly	18/20
	Country analysis of UK external liabilities (CL)	Levels of deposits	Quarterly	18/20
	Transactions with non-residents: interest, dividends and income (BP)	Income on direct, portfolio and other investment and trade in services	Quarterly	49
	Total derivatives business in banks' trading and banking books (DQ)	Derivatives levels and flows, mostly on an experimental basis. Only swaps & FRAs data are currently available	Quarterly	20
	Levels of direct investment with non-residents (HI/HO)	Levels of direct investment with a geographical breakdown	Annual	84
	Transactions with non-residents: interest, dividends and other income by geographic location (BG)	Income on direct investment and trade in services	Annual	60

government departments. The overall objective of the ONS is to provide Parliament, the Government and the wider community with the statistical information, analyses and advice needed to improve decision-making, stimulate research and inform debate.

The reporting burden for data suppliers is kept to a minimum. To this end, extensive use is made of some external data suppliers:

- (i) Bank for International Settlements (BIS) data are used to estimate bank accounts (deposits and borrowing) abroad (for the non-bank sector);
- (ii) government official records are used to provide information on government services and transfers; and
- (iii) some bilateral counterparty data are used to provide information on private transfers.

Data for private sector loans from the European Investment Bank (EIB) are sent directly to the ONS.

3 Statistical system

3.1 Type of collection system

The United Kingdom's economic data collection system can be broadly described as an "enterprise survey system" (as defined in paragraphs 131 and 132 of the Compilation Guide to the 5th edition of the IMF Balance of Payments Manual (BPM5)). In a survey system enterprises are surveyed using registers. The surveys cover all units in the population in some areas. In other areas, different techniques are used for grossing-up which are generally based on either the population counts or an independent variable such as historical turnover held on the register. In the United Kingdom the b.o.p. surveys are completely integrated into the statistical system for the economic accounts (national accounts). Sample surveys keep inquiry costs to a minimum both for the

2.5 Users

The ONS and the Bank of England both supply data to the Government (mainly HM Treasury, but also other government departments), City analysts, universities (for research), forecasters, etc. The ONS supplies data to international organisations such as the Organisation for Economic Co-operation and Development (OECD), the European Commission (Eurostat), the IMF and, via the Bank of England, to the ECB and the BIS. The data supplied to the European Commission (Eurostat), the OECD and the IMF are used in analysis of direct investment data by country and by industry, and for other purposes as well. These institutions also produce publications in which UK data are quoted and comparisons are made with data from other countries. The Bank of England also supplies data to the BIS and publishes the international reserves and liquidity Template on its website.

Government, in terms of processing, and business, in terms of filling-in forms. They also lead to a quicker delivery of inquiry results than might be the case with a census. The surveys are largely based on paper forms¹ which are sent, depending on the survey, to either the enterprise or the head of the enterprise group within the United Kingdom, in which case consolidated information for the group as a whole is requested.

The enterprise survey system used by the United Kingdom includes stock statistics; i.e. some balance sheet data are collected on the surveys. Data extracted from a securities

¹ Although the Bank of England reporting system has largely moved away from a paper-based system in favour of electronic reporting.

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database system are used to compile estimates of non-resident transactions in bonds and notes within portfolio investment in the United Kingdom. Data from the BIS database are used to compile estimates of non-banks' transactions, balance sheets and earnings from the rest of the world.

3.2 Reporting agents

Inquiries are geared to different sectors of the economy and the responding agents are selected on the basis of registers. The main groups of respondents are summarised below.

(i) *Banking sector*: banks are defined as all financial institutions recognised by the Bank of England as UK banks for statistical purposes. This includes:

- (1) institutions which have a permission under Part 4 of the Financial Services and Markets Act 2000 (FSMA) to accept deposits other than (i) credit unions, (ii) firms which have a permission to accept deposits only in the course of effecting or carrying out contracts of insurance in accordance with that permission, (iii) friendly societies and (iv) building societies;
- (2) European Economic Area credit institutions with a permission under Schedule 3 to FSMA to accept deposits through a UK branch; and
- (3) the Banking and Issue Departments of the Bank of England (the latter from April 1998).

Resident banks are required to report balance sheet and other returns, including the following b.o.p.-related forms:

Form DQ: total derivatives business in banks' trading and banking books (quarterly inquiry);

Form PI: security transactions affecting the UK b.o.p. (quarterly inquiry);

Form QX (Section 7): foreign direct investment transactions – inward and outward (quarterly inquiry);

Form HI: levels of inward foreign direct investment (annual inquiry);

Form HO: levels of outward foreign direct investment (annual inquiry);

Form BP: transactions with non-residents – interest, dividends and other earnings (quarterly or annual inquiry, depending upon the size of the bank);

Form BG: transactions with non-residents – interest, dividends and other income (country analysis; annual inquiry); and

Forms CC and CL: a country analysis of UK external claims and liabilities (quarterly inquiries).

Data on banks' deposit liabilities and lending vis-à-vis non-residents are taken from the core balance sheet return which is primarily used for the compilation of the domestic monetary and credit aggregates.

Equivalent data, to the extent that they are relevant, are collected from building societies (which are also MFIs) by the Financial Services Authority. Aggregate data are passed to the ONS for inclusion in the b.o.p.

(ii) *Government sector*: information is provided by the various government departments. Most of the government services and transfers are obtained as a by-product of the compilation of government accounts and from official records.

(iii) *Securities dealers* are all firms dealing in securities in the United Kingdom that are not authorised institutions under the Banking Act 1987. The target population is supplied by the regulator, the FSA, and securities dealers are required to report via the Quarterly Inquiry of Liabilities

and Assets, the Quarterly Inquiry of Transactions in Securities, and the Quarterly Inquiry of Income and Expenditure.

- (iv) *Insurance companies* are all authorised insurers in the United Kingdom and all companies authorised in other EU countries that have places of business in the United Kingdom. The inquiries to be completed are the following: Quarterly Income and Expenditure, Quarterly Transactions in Financial Assets, Annual Income and Expenditure, and the Annual Balance Sheet. All inquiries are statutory. In addition, all insurance companies with foreign subsidiary or parent companies are required to report on the Annual Foreign Direct Investment (outward) Inquiry and the Annual Foreign Direct Investment (inward) Inquiry. These two inquiries collect details of transactions with foreign subsidiary and associate companies, the capital and reserves of foreign subsidiaries and associates, and transactions with foreign branches and agents.
- (v) *Pension funds* are all self-administered pension funds located in the United Kingdom. The requirement to report on the three inquiries Quarterly Transactions in Financial Assets, Quarterly Income and Expenditure, and Annual Balance Sheet is statutory. The information is used to compile the current and financial accounts within the national accounts. It is also included in the b.o.p. account and as a component of both insurance and pension funds.
- (vi) *Investment trusts* are those companies in the United Kingdom which are published in the Directory of Trusts by the Association of Investment Trust Companies. This is a panel survey for which a fixed panel of contributors is selected. These companies are required to report on the Quarterly Return of Transactions and the Annual Return of

Liabilities and Assets. The information is supplied on a statutory basis.

- (vii) *Unit/property trusts* are those set up under the Financial Services Act 1986. This list is published in the Financial Times Unit Trusts Yearbook. The two inquiry forms, the Quarterly Return of Transactions and the Annual Return of Liabilities and Assets, collect balance sheet information on the short-term assets and liabilities of collective investment schemes and their transactions in various long-term financial instruments. This information is supplied on a statutory basis.
- (viii) *Private non-financial corporations* are surveyed on trade in services and direct investment. For both quarterly and annual data, sample surveys are based on stratified designs and include samples of smaller enterprise groups. The services inquiries are primarily focused on consultancy and business services; insurance brokers; fund management; education services; merchanting; and film and television services. Royalties are reported as a separate product in the services inquiry. For direct investment, enterprise groups receive inquiries on direct investment capital and earnings.
- (ix) *Households*: some inquiries are specifically aimed at the household sector, such as the International Passenger Survey (IPS).
- (x) *Customs and Intrastat data*: data on international merchandise trade outside the EU is collected via customs returns. Intra-EU trade is collected via Intrastat.
- (xi) *Transport sector*: the transportation account covers sea, air and other transport. It includes the movement of passengers and freight, and other related transport services.
 - Sea transport: statistics relating to UK operators are provided by the Chamber of Shipping (CoS) which conducts inquiries into its members' participation

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in foreign trade. Since 1995, the CoS has surveyed all its members annually. Estimates of passenger fares paid to non-resident shipping operators are derived mainly from the results of the IPS.

– Air transport: the transactions of UK airlines are derived from returns supplied by the airlines to the Civil Aviation Authority. Fares paid by UK passengers to non-resident airlines is derived from the IPS.

– Other transport: this covers the movement of passengers and freight, and other related transport services, by rail, road and pipeline. Information is provided by Le Shuttle and Eurostar, and by the International Road Haulage Survey.

3.3 Thresholds

In general, the United Kingdom does not apply thresholds for reporting since the data are collected through surveys. The ONS survey forms request data in pounds sterling in millions to one decimal place, although the option to complete the forms in Euro is also available. The Bank of England collects data in pounds sterling in thousands. All survey results are grossed up for sampling fractions and non-response.

3.4 Availability of data

The UK b.o.p. is available on a quarterly basis. There are some surveys specific to the b.o.p. In general, the surveys are designed so as to produce high quality national estimates. However, a Eurostat level-three geographical breakdown is available for the current account total; broken down into trade in goods, trade in services, transfers and investment income. Experimental monthly b.o.p. data have been available since December 1999 (reference month October 1999). Research is under way with respect to the compilation of an annual geographical breakdown of the UK's international investment position (i.i.p.).

3.5 Timeliness

Timeliness varies from inquiry to inquiry. In general, the data become available eight weeks after the end of a quarter. There is a four-week turnaround time. Estimates are made for late responses or in the absence of a response either through the grossing procedure or by imputation. Publication of the quarterly b.o.p. accounts takes place 13 weeks after the end of the quarter.

3.6 Compilation frequency

The UK b.o.p. is compiled on a quarterly basis, although data on trade in goods and services are available on a monthly basis.

3.7 Data controls

The Statistics of Trade Act used by the ONS contains provisions relating to the provision of inaccurate, false or misleading information. In particular, it is an offence to provide false or misleading information in certain circumstances.

Possible anomalies as a result of inconsistency, implausibility and inconsistencies between reporting schemes are detected by computer programs and/or manual checking by the ONS and the Bank of England. These are usually followed up with the reporting company/bank the following day. The quality of the data received is checked using a combination of validation, auditing and credibility checks, which have been devised over time and which are considered to be appropriate to the ultimate use of the data.

Response rates and reminder procedures are set for each ONS survey. Response rates are set as ONS targets. For banks, the response rate is close to 100%.

Users need to be provided with reliable data as soon as possible after the period to which the data relate. Possible anomalies are detected as early as possible and the

reporters concerned are notified by telephone. Queries and resulting amendments to data are initially carried out over the telephone and changes to data which have been reported are annotated and processed immediately. Persistent problems may result in a visit to the responding company/bank to assist in identifying data problems. Late reporters are initially contacted by telephone and subsequently by letter if the information required is not forthcoming. Enforcement action is taken in cases of persistent non response.

3.8 Revision policy

The ONS and the Bank of England aim to provide accounts that are timely, reliable and internally consistent. Therefore, a balance has to be struck between the need to take account of revisions to component series and the need for coherent accounts. Normally, when the national accounts figures are being prepared for publication in the "Blue Book" and "Pink Book" each year, the estimates for the past four complete years (t-4) are reassessed in the "annual round" and balanced within the input-output framework for years up to t-2. An internal Revisions Task Force decides whether and, if so, which revisions should be introduced. Any methodological changes are subject to a process of "peer group appraisal" involving all other sectors affected by the change.

After publication of the annual figures, the data for all the quarters of the past year covered and those for subsequent quarters only are reassessed in each "quarterly round" (similarly, monthly data are only revised for the years in question). The accounts for periods earlier than those to which reference is made are not usually re-opened in the

relevant round. (A detailed description of the revisions in the national accounts is provided in the articles entitled "Handling Revisions in the National Accounts", by David Wroe, *Economic Trends*, No. 480, October 1993 and "Revisions to the UK Balance of Payments", by Stuart Brown and Tim Jones, *Economic Trends*, No. 518, December 1996.)

3.9 Publication

The UK b.o.p. forms an integral part of the national accounts and this is reflected in the compilation process and the revision policy. Data used to compile the b.o.p. are collected within the framework of the national accounts. Within the national accounts the different accounts (including the RoW account) must balance.

The ONS Pink Book is a b.o.p. publication which is prepared by the BoPFS Division of the ONS in collaboration with other divisions within the ONS, other government departments and the Bank of England. Comments on the nature of the publication from various external bodies are welcome.

Although the Bank of England supplies data for the UK b.o.p., only the Governor has access to the complete b.o.p. data prior to publication, along with the Chancellor of the Exchequer, the Prime Minister, and selected officials at the Treasury. Published data may not reveal, either directly or through residual values, statistics relating to individual institutions unless the prior consent of the latter has been obtained.

The titles of the publications produced by the United Kingdom on b.o.p. statistics are listed in Sub-section 13.1.

4 Implementation

4.1 Monthly balance of payments

The BoPFS Division of the ONS manages a major programme of work to provide monthly b.o.p. data to the ECB as part of the United Kingdom's agenda of wider preparations prior to entering EMU if a decision is taken to do so. The programme is sponsored by the Head of the EMU policy team at HM Treasury and by the Head of Monetary and Financial Statistics Division at the Bank of England.

A key element of the programme is to ensure that all possible means to estimate the monthly data within existing resources are utilised. Monthly data are used where available, monthly proxy indicators where appropriate, and forecasting techniques elsewhere to estimate a monthly path from quarterly data. As part of its quality assurance programme the ONS has initiated consultation with the ECB to examine the quality and use of all the monthly data.

Trade in goods statistics are derived from Intrastat returns for trade within the EU, and from HM Customs and Excise returns for trade outside the EU. Data for EU and non-EU trade are published within the six-week deadline after the end of the reference month.

Trade in services statistics are derived from a variety of sources, the majority of which are either monthly or quarterly sample surveys. In some cases, these are supplemented by more comprehensive annual surveys or censuses. Monthly estimates have been produced since 1997, and are published within the monthly Trade First Release within six weeks after the end of each month.

Investment income data are published quarterly by the ONS. The main data sources are quarterly surveys, but monthly balance sheet data collected by the Bank of England is used to derive monthly MFI income flows. For each of the investment income groups, both credits and debits are broken down to a lower level of

aggregation to enable monthly data and estimates from the Bank of England to be incorporated where appropriate. Where data are available only at a quarterly frequency, ARIMA methodology is applied to calculate a quarterly forecast; a cubic spline is then used to interpolate the quarterly data and thus produce monthly estimates.

The Bank of England also supplies data for inclusion in the financial account (including reserve assets). The Bank of England has a slightly different approach to that of the ONS, owing to its different expertise and differing collection system. The b.o.p. collection system is a sub-set of the money and banking statistics data collection system. For those series for which it is not possible to find a suitable proxy or a soundly based estimate, the reporting banks will be asked to collect the data on a monthly basis if the United Kingdom joins Monetary Union.

Quarterly estimates for the financial account, which covers flows of investment, are generally based on the same data sources as investment income, i.e. quarterly and annual data. The development of a methodology for monthly estimates will therefore follow a path similar to that for investment income. The flow series are very erratic and it is hard to find a suitable ARIMA model. For those series where no satisfactory data projection method is found, data will have to be collected by the Bank of England (MFIs) and the ONS (non-MFIs) if the United Kingdom joins Monetary Union.

The initial development of estimates for the monthly b.o.p. has focused on national totals vis-à-vis the rest of the world. A significant, and challenging, next step in the programme is to derive a split between intra and extra-euro area flows on a monthly basis. This split is under development for current and capital account series; a system using forecasting and splining methodology, based on quarterly estimates of the EU/non-EU split that have been published alongside global data since

September 1997, has been set up and the figures are currently under quality review. The same split for the financial account will be more difficult to achieve, as no similar quarterly estimates are published.

The United Kingdom commenced delivery of monthly b.o.p. data to the ECB in December 1999 and the process was described in more detail in an article in the December 1999 edition (No. 553) of the ONS publication "Economic Trends". An update to this was published in the June 2001 edition (No. 571), coinciding with the monthly b.o.p. dataset becoming available on the National Statistics website (www.statistics.gov.uk). These articles also gave outside users the opportunity to comment on the approach and the methods adopted to derive the monthly b.o.p., and stressed that research into improved methodology was continuing. While the United Kingdom is not participating in Stage Three of EMU, the data that are provided to the ECB and appear on the internet are supplied on the basis that they are experimental data only.

4.2 Estimation methods for the monthly b.o.p. data

4.2.1 For goods

The basic sources of data on trade in goods are customs declarations (SADs – i.e. Single Administrative Documents) for trade with non-EU countries and Intrastat forms (Supplementary Declarations) for trade with EU countries. The statistics are compiled in accordance with the "general trade" system, as described in the UN's "International Merchandise Trade Statistics: Concepts & Definitions". Imports are classified according to the country from which goods are consigned and exports according to the country of consignment, as identified at the time of export. For statistical purposes, the customs data use the valuation bases recommended in the UN's "International Merchandise Trade Statistics: Concepts & Definitions", namely exports valued on a

f.o.b. basis and imports valued on a c.i.f. basis. However, in order to comply with the IMF's BPM5 a number of adjustments to these basic source data are made by the ONS. One of these adjustments is the conversion of the valuation of imports from c.i.f. to f.o.b. Other adjustments are made in order to include certain transactions not reported to customs and to exclude others that do not involve a change of ownership. The time series for trade with the rest of the world are available monthly on a BPM5 basis from 1980, with a split of the monthly data between EU and non-EU countries on a BPM5 basis available from 1988. These data are available both seasonally adjusted (using X11ARIMA) and not seasonally adjusted. Monthly data on a BPM5 basis are published 40 calendar days after the end of the month for trade with both EU and non-EU countries.

Customs data are subject to revision for some months after they are first published, so that, for example, final monthly data from that source for 2000 were not available before September 2001. In addition, there may be further revisions, generally of a minor nature, to the adjustments made to convert this data to a BPM5 basis.

Exports and imports of military goods to non-UK bases abroad are included within the trade in goods data, but not separately identifiable. Information, including a country breakdown, is supplied to HM Customs and Excise by the Ministry of Defence. Goods that are shipped abroad for use in UK military bases abroad are excluded from the trade figures.

Exports and imports under special Community programmes (Satellite, Airbus and others) are included within the main trade figures.

The adjustments of imports from c.i.f. to f.o.b. are made in the following way:

Freight: the cost of freight services for the sea legs of dry cargo imports is estimated by applying freight rates (derived from the rates for a large sample of individual commodities

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imported from various countries) to tonnage of goods arriving by sea. For the land legs, estimates of freight rates per tonne-kilometre for different commodities and estimated distances are used. Estimates of rail freight through the Channel Tunnel are estimated from data provided by Le Shuttle and freight operators. The cost of freight on imports arriving by air is derived from information on the earnings of UK airlines on UK imports and the respective tonnage landed by UK and foreign airlines at UK airports. Pending investigations of an alternative methodology, the cost of freight and insurance on oil and gas imports is projected from data formerly supplied by the Department of Trade and Industry. Sources: tonnage from the TSO; information on freight rates from Chamber of Shipping, Civil Aviation Authority and road hauliers; information from Le Shuttle.

Insurance: the cost of insurance premiums on non-oil imports is estimated as a fixed percentage of the value of imports.

4.2.2 For services

Monthly estimates are produced at a high level of disaggregation, using models, where no actual or proxy data exist, to produce estimates at the six-week stage. The most volatile contribution to the monthly profile is the travel item. The timeliness of this item has been improved to meet the six-week deadline.

Components for which monthly data are available comprise some 25% of trade in services credits and 40% of debits, mainly travel data collected via the IPS, as well as some insurance services data. For the remainder, other monthly data sources are being examined to see if they provide a good correlation with existing quarterly series and might be used as proxies, for example, monthly data on UK airline traffic and passengers on overseas aircraft. Where no monthly data or proxies are available, ARIMA forecasting models are used to extrapolate a quarterly estimate from

the existing sources, and a monthly path is interpolated using a cubic spline.

For credits, the monthly estimates predicted the first published quarterly figure to within 5% in ten of the thirteen quarters for which results were produced. For debits, monthly results in all of the thirteen quarters predicted the quarterly figure to within 5%. The quality of the estimates continues to be monitored with the move to the BPM5 presentation.

4.2.3 For investment income

Monthly estimates have been produced using statistical models (usually ARIMA) with monthly data from the Bank of England based on rates of return applied to monthly balance sheets.

ARIMA models are generally used where no real data are available: a quarterly estimate is extrapolated and then a cubic spline provides the monthly path. The models are reviewed regularly, as the behaviour of certain series might change significantly over time. Identification of ARIMA models has been carried out using a specialised statistical modelling tool developed by the SASTM software company. In general, estimates of income from direct investment, non-banks' portfolio investment and non-banks' other investment are derived using forecast and spline methodology.

4.2.4 For current transfers

Components for which monthly data are available comprise around 40% of total current transfer credits and debits. For those series with no monthly data or acceptable proxies, statistical modelling is used to extrapolate a quarterly estimate and interpolate a monthly path. As the majority of the volatility in the current transfers data is driven by those series that are available on a monthly basis, this methodology should provide a good predictor of the quarterly outturn.

4.2.5 For the capital account

Components for which monthly data are available comprise up to around 50% of total capital account credits. For those series with no monthly data or acceptable proxies, statistical modelling is used to extrapolate a quarterly estimate and interpolate a monthly path.

4.2.6 For direct investment

The ONS maintains a continuous database of reported cross-border merger and acquisition deals, the results of which are being used as monthly proxies for the equity component of quarterly direct investment. Monthly reinvested earnings and other capital transactions are derived using ARIMA modelling. It has been found that use of the merger and acquisition data significantly improves the quality of the forecast compared with modelling alone.

4.2.7 For portfolio investment

Monthly portfolio investment data are not available from ONS or Bank of England surveys, but data from banks' balance sheets are used as proxies in the modelling of some series, together with the counterparty share, cash and fixed-interest security values of major merger and acquisition deals.

4.2.8 For financial derivatives

No monthly data are available here, so that forecasting and spline methodology are used for the figure published quarterly.

4.2.9 For other investment

Monthly other investment data are not available from ONS surveys. Estimation of these series is generally via ARIMA modelling and interpolation. However, the Bank of England produces a monthly financial account of other investment transactions for banks,

using monthly balance sheet levels, and these monthly data are used to derive OI bank deposits and lending estimates. Until the introduction of the supplementary reporting arrangements, the distinction between transactions with the euro area and the rest of the world, and the split into short-term and long-term debt, will have to be estimated.

4.3 Monthly b.o.p. – implementation plan

A table showing details of the implementation of monthly b.o.p. is shown on the following page. A distinction is made between current data availability and future implementation requirements for the United Kingdom.

4.4 Implementation of the BPM5

B.o.p. accounts for the United Kingdom are consistent with the BPM5. The full implementation took place in September 1998, and included the production of extensive detailed historic quarterly data on a consistent basis going back to 1987: for the key economic indicators, data have been re-estimated in line with the BPM5 for almost 50 years.

The adoption of the BPM5 has required a number of complementary activities, such as the interpretation of the new framework within the UK context and the identification of new data sources for concepts and transactions not previously identified. Inevitably, some parts of the new accounts are more firmly based than others. For instance, where new information has been required, this has been more readily available for recent periods than for the more distant past.

In order to produce a full and consistent set of BPM5 accounts, the ONS and the Bank of England had to undertake numerous initiatives. As the United Kingdom uses a survey-based system, this meant changing the inquiry forms in order to collect new information which was not previously

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Table 2
Implementation of the ECB's monthly b.o.p. requirements

United Kingdom	Current data availability				Timetable for implementing the euro area/non-euro area split	
	Timeliness for national data		Timeliness for geographical breakdown on a country-by-country basis			
Key item	credits/ assets	debits/ liabilities	credits/ assets	debits/ liabilities	credits/ assets	debits/ liabilities
Current account	6 weeks	6 weeks	Na	Na	End 2002	End 2002
Goods	6 weeks	6 weeks	Na	Na	End 2002	End 2002
Services	6 weeks	6 weeks	Na	Na	End 2002	End 2002
Income	6 weeks	6 weeks	Na	Na	End 2002	End 2002
on direct investment	6 weeks	6 weeks	Na	Na	End 2002	End 2002
on portfolio investment	6 weeks	6 weeks	Na	Na	End 2002	End 2002
on other investment	6 weeks	6 weeks	Na	Na	End 2002	End 2002
Current transfers	6 weeks	6 weeks	Na	Na	End 2002	End 2002
Capital account	6 weeks	6 weeks	Na	Na	End 2002	End 2002
Direct investment	6 weeks	6 weeks	Na	Na	-	-
Equity capital	6 weeks	6 weeks	Na	Na	-	-
MFIs (excluding central banks)	Na	Na	Na	Na	-	-
Non-MFIs	Na	Na	Na	Na	-	-
Reinvested earnings	6 weeks	6 weeks	Na	Na	-	-
MFIs (excluding central banks)	Na	Na	Na	Na	-	-
Non-MFIs	Na	Na	Na	Na	-	-
Other capital	6 weeks	6 weeks	Na	Na	-	-
MFIs (excluding central banks)	Na	Na	Na	Na	-	-
Non-MFIs	Na	Na	Na	Na	-	-
Portfolio investment	6 weeks	6 weeks	Na	Na	-	-
Equity securities	6 weeks	6 weeks	Na	Na	-	-
Monetary authorities	Na	Na	Na	Na	-	-
MFIs (excluding central banks)	Na	Na	Na	Na	-	-
Non-MFIs	Na	Na	Na	Na	-	-
Debt securities	6 weeks	6 weeks	Na	Na	-	-
Bonds and notes	6 weeks	6 weeks	Na	Na	-	-
Monetary authorities	Na	Na	Na	Na	-	-
MFIs (excluding central banks)	Na	Na	Na	Na	-	-
Non-MFIs	Na	Na	Na	Na	-	-
Money market instruments	6 weeks	6 weeks	Na	Na	-	-
Monetary authorities	Na	Na	Na	Na	-	-
MFIs (excluding central banks)	Na	Na	Na	Na	-	-
Non-MFIs	Na	Na	Na	Na	-	-
Financial derivatives	6 weeks	6 weeks	Na	Na	-	-
Other investment	6 weeks	6 weeks	Na	Na	-	-
Monetary authorities	Na	Na	Na	Na	-	-
General government	6 weeks	6 weeks	Na	Na	-	-
MFIs	6 weeks	6 weeks	Na	Na	-	-
long-term	Na	Na	Na	Na	-	-
short-term	Na	Na	Na	Na	-	-
Other sectors	6 weeks	6 weeks	Na	Na	-	-
Reserve assets	6 weeks	6 weeks	Na	Na	-	-

required. A prime example was the quarterly inquiry into trade in services where there was a greater need for product detail.

The Bank of England also implemented changes to its inquiries in conjunction with its Banking Statistics Review. These changes were fully implemented early in 1998. All changes to inquiries are discussed with respondents.

One of the major changes to the coverage of the accounts was the removal of the offshore centres, i.e. the Channel Islands and the Isle of Man. With this change to the “definition” of the United Kingdom, the b.o.p. was brought into line with the rest of the national accounts as specified in the Council Directive of 13 February 1989 on the harmonisation of the compilation of gross national product at market prices (89/130/EEC).

5 Investment income

5.1 Specific features of data collection

Estimates for investment income are largely based on quarterly and annual surveys undertaken by the ONS and the Bank of England. The Bank of England conducts quarterly surveys covering UK banks’ earnings on portfolio investment abroad (credits), UK banks’ earnings on borrowing and lending (within other investment credits and debits) and UK banks’ direct investment earnings (both credits and debits). Surveys conducted by the ONS cover direct investment earnings by sectors other than banks (both credits and debits), portfolio investment earnings (credits only) by insurance companies and pension funds and other financial intermediaries. In some instances earnings are estimated by applying appropriate rates of return to stock data. Since June 2002, the Export Credit Guarantee Department (ECGD) supplies data on income from its taking over of bad debt resulting from ECGD-guaranteed loans.

Investigations have been carried out into data sources for investment on the part of the household sector, but surveys are relatively ineffective. The possible shortfall in coverage must be kept in perspective; there is little tradition in the United Kingdom of individuals holding foreign-issued securities directly. Most financial investment by households in the RoW sector is undertaken through collective investment media (i.e. unit and investment trusts).

4.5 Standard components – quarterly and annual

From September 1998 onwards data have been compiled and presented on a BPM5 basis.

The ONS has not observed a bias towards the under-recording of credits in the income account. No adjustments are made between annual, quarterly and monthly figures; nor is any reconciliation undertaken between estimates and outcome.

The ONS has been publishing a quarterly EU/non-EU breakdown of income consistent with the BPM5 since March 1999. Furthermore, an annual country breakdown of the main aggregates of the b.o.p. current account, which closely approximates level three of the European Commission’s (Eurostat’s) “Vade-mecum”, has been published since 1996. Compilation systems which produce the quarterly and annual geographic split are used to provide estimates of investment income with EU Member States not participating in Monetary Union. Quarterly back data is available from the first quarter of 1996 onwards.

Investment income estimates for both credits and debits are allocated to countries using the residency of the actual counterpart,

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i.e. the creditor/debtor principle. There are, however, a number of conceptual and practical limitations associated with the collection of geographical data on investment income. In particular, flows through financial intermediaries are harder to allocate correctly to an individual country. These estimates should be seen as a broad indication of the earnings on investment between the United Kingdom and non-residents.

In general, revisions are carried out as a result of the annual surveys, which are more comprehensive in terms of the sample size and the detail of the questions asked than the quarterly surveys. Moreover, historical quarterly series are revised in line with UK national accounts revisions policy each quarter. This usually means that up to seven recent quarters are liable to be revised on the basis of late returns and corrections to the quarterly survey.

5.2 Definitions

In principle, the United Kingdom complies with the recommendations of the BPM5 and the harmonisation proposals made by the Working Group on Balance of Payments and External Reserves. Investment income consists of direct investment income, portfolio investment income and other investment income. Dividends are recorded as of the date they are paid. Earnings on reserve assets are included as a separate category for domestic publications, but are included in other investment, as specified by the BPM5, in the data supplied to the ECB.

5.2.1 Direct investment income

Earnings from direct investment could, for example, take the form of a dividend or interest on an outstanding loan. The information is collected in annual and quarterly sample surveys which include grossing to the population. Earnings data are collected on:

- the profit or loss attributable to the parent company;
- interest payments and receipts between related concerns; and
- branch profits (currently collected on an all-inclusive basis for branches of financial institutions).

Rates of return can be calculated from the above data, e.g. earnings as a percentage of stocks held at the end of the period. Reinvested earnings are calculated as profits earned during the period less dividends paid, both for inward and outward investment. Interest payments and receipts between related concerns as a result of inter-company loans are recorded quarterly and annually.

Once the quarterly figures are published, the monthly estimates are constrained to the real data by maintaining the same path but adjusting the levels. Similarly, quarterly data will be revised to reflect final annual survey results. Annual inquiry results for foreign direct investment surveys are available around $t+12$ months.

5.2.2 Portfolio investment income

Although income data for banks are collected separately and are not derived from levels, they are also checked against stocks for plausibility. Income from unit and investment trusts is attributed to households if distributed, or to the trusts themselves, if reinvested.

5.2.3 Other investment income

Although income on loans and deposits by banks are collected separately and are not derived from levels, data are also checked against stocks for plausibility.

5.3 Deviations from agreed definitions

None.

5.4 Gaps

None.

5.5 Intended harmonisation

None.

5.6 Estimation methods

See Sub-section 5.1 above for a summary of the estimation methods. Income data are collected on an accrued basis on ONS and Bank of England survey forms. All the requirements set out in the document entitled "Statistical requirements for Stage Three of Monetary Union – Implementation package" (Implementation Package) would be met on time.

6 Capital account

6.1 Specific features of data collection

Part of the general reporting system (see Sub-section 3.2).

6.2 Definition

In principle, the United Kingdom complies with the recommendations of the BPM5. Since June 2002, the capital account has included debt forgiveness data from the ECGD.

6.3 Deviations from agreed definitions

None.

6.4 Gaps

None.

6.5 Intended harmonisation

The United Kingdom has published estimates for the capital account routinely in the b.o.p. First Release and Pink Book since September 1998.

Sales and purchases of non-produced non-financial assets have been identified from the extended quarterly inquiry into trade in services and estimates were included for the first time in the 1998 Pink Book.

7 Direct investment

7.1 Specific features of data collection

Extensive use is made of commercial databases (e.g. Dun & Bradstreet and Worldbase) in order to maintain a company register as the basis for the sample framework.

The Bank of England collects data on outward direct investment by banks and inward direct investment in banks, the ONS collects data from other sectors. The surveys are based on paper forms² which are generally sent to the head of the enterprise group within the

United Kingdom and from which consolidated information for the group as a whole is requested. In view of the nature of direct investment, the questionnaires used are relatively complex. Therefore, over the years, there have been a number of changes to the forms to improve consistency and coherence. The latest change concerns the move to the new ESA 95 and the BPM5. In the b.o.p. the historical series have been amended in order to overcome the discontinuity problems.

² See footnote on Sub-section 3.1.

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For non-banks, a geographical breakdown of investment is collected only as part of the annual inquiry. The analysis of inward investment is based on the country of ownership of the immediate parent company. Thus, inward investment in a UK company may be attributed to the country of the intervening overseas subsidiary, rather than to the country of the ultimate parent. Similarly, the country analysis of outward investment is based on the country of residency of the immediate subsidiary. For example, to the extent that overseas investment in the United Kingdom is channelled through holding companies in the Netherlands, the underlying flow of investment from this country is overstated and the inflow from originating countries is understated.

Quarterly estimates by country based on annual breakdowns are available for investment earnings going back to the first quarter of 1996.

Transactions settled through an exchange of shares are recorded when the deal goes wholly unconditional according to the company involved (respondent). The valuation of transactions settled through an exchange of shares is based on the price declared by the company involved (respondent) at the time when the deal is declared unconditional.

7.2 Definition

Data include the investors' share of the reinvested earnings of the subsidiary or associated company, the net acquisition of share and loan capital, changes in the inter-company accounts and changes in branch/head office indebtedness. All short-term and long-term loans between affiliated enterprises (including trade credits) are included in the figures for inter-company loans, except for those between affiliated banks and financial intermediaries. Real assets in the sense of investment in land, structures or equipment are recorded in the annual and quarterly surveys.

In the United Kingdom, for the purposes of the statistical inquiry, direct investment is based on a holding of 10% or more in the foreign enterprise. The inquiries cover investment in subsidiaries, associate companies and branches. They do not cover cross-border investment by public corporations or investment in property. These are regarded as direct investment in the national accounts, however, and figures for that activity are added to inquiry totals when they are used in the b.o.p. and national accounts.

The definitions used to compile direct investment information are based on international guidelines. These include the BPM5, the OECD Benchmark Definition of Foreign Direct Investment (third edition) and the ESA 95. They also take account of corporate accounting practices in the United Kingdom through periodic reviews, which include consultation with contributors.

Direct investment and portfolio investment are measured independently.

It is not possible to identify direct investment specifically from the portfolio investment inquiries, mainly because they do not collect information on ownership. The direct investment inquiries include special purpose entities in the form of holding companies.

7.3 Deviations from agreed definitions

The United Kingdom does not completely use the fully consolidated system for recording direct investment. On the outward side, contributors are asked to consolidate the figures for each of the indirectly owned subsidiaries and associates with the directly owned businesses, but—if that is not possible—data for indirect subsidiaries and associates should be reported separately. On the inward side, the United Kingdom generally approaches the head of the UK part of the group and asks for consolidated figures for the group as a whole. If requested

to do so by the group, the United Kingdom approaches individual enterprises.

Direct investment inquiries record earnings net of tax, but tax is added on for national accounts purposes. Earnings of financial institutions are compiled on an all-inclusive basis, rather than according to the current operating performance concept, but the latter concept is applied to non-financial enterprises. Financial derivatives between affiliates are not identified separately.

7.4 Gaps

All sectors are covered, either by the ONS or by the Bank of England, via sample survey data. Monthly data are not collected, except

for returns on cross-border mergers and acquisitions.

7.5 Intended harmonisation

None.

7.6 Estimation methods

Estimates for individual concerns not selected for the annual inquiries are produced using the actual returns to the inquiry. Quarterly aggregates are produced by projecting forward annual figures using the quarterly inquiry sample.

8 Portfolio investment

8.1 Specific features of data collection

For banks, outward portfolio investment is effectively covered by the total outward portfolio investment survey carried out by the Bank of England.

UK banks' investment in money market instruments issued by the RoW are reported directly to the Bank of England as part of monthly/quarterly surveys, and include debt securities with similar characteristics but issued with an original maturity of over one year.

For non-banks, information on outward investment is obtained from the Annual Balance Sheet Inquiry form which the ONS sends to pension funds, insurance companies, asset financing companies, non-bank credit grantors, unit trusts and investment trusts. The actual population varies for each inquiry. The inquiries are all conducted on a statutory basis.

The ONS calculates estimates of transactions in foreign-issued securities on the basis of integrated quarterly inquiries which have

separate questions on securities issued by non-residents and by UK residents. Estimates of holdings are based on similar but less frequent (e.g. annual) inquiries. Financial companies report transactions directly (acquisitions and disposals), while those of non-financial companies are estimated from changes in balance sheet values. Estimates of UK investment in money market instruments issued by non-residents are obtained from quarterly/annual surveys carried out by the ONS.

Investment in UK government securities is calculated by the ONS as the difference between net new issues and net investment from UK domestic sources, including the banking statistics. The correct sectorisation of holdings is complicated by the widespread use of nominees. To address the latter problem, the Bank and the ONS conduct a periodic survey into the beneficial ownership of British government securities.

Investment in UK company bonds is calculated by the ONS as the difference between net new issues and net investment from UK domestic sources. The sectorisation

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of these bonds is currently based on the crude assumption that UK banks' and other sectors' liabilities to non-residents are roughly in proportion to their percentage of the total company bonds issued that quarter. A similar methodology is used to estimate non-resident acquisitions or disposals of government foreign currency bonds. Purchases by non-residents are assumed to be the residual value after accounting for acquisitions and disposals by UK banks and non-banks.

Estimates of investment in ordinary shares of UK companies are derived from quarterly inquiries conducted by the ONS and the Bank of England and from Stock Exchange data. These data are then adjusted to take account of total stocks of non-resident investment in ordinary shares collected in the ONS's annual Share Ownership Survey (formerly the Share Register Survey – SRS). The last SOS, covering the period to end-2001, is due to be published by the ONS in autumn 2002. Estimates are also included for investment in unquoted shares. Estimates for non-resident investment in money market instruments issued by UK banks are derived by the Bank of England from monthly/quarterly surveys. Estimates of non-bank money market instrument liabilities are predominantly derived from residual values after accounting for all net issues and net purchases. This residual estimation method is used, in particular, to estimate non-resident investment in commercial paper and sterling Treasury bills.

In common with many other countries, the United Kingdom has problems compiling accurate information on the geographical allocation of tradable inward portfolio investment (including equities, bonds and money market instruments) when the securities can be sold on in secondary markets—as the issuer of the security may not be aware of the current holder.

It is not possible to identify direct investment specifically from the portfolio investment

inquiries, mainly because they do not collect information on ownership.

8.2 Definition

Estimates of non-resident investment in UK company bonds are obtained by assuming that any net transactions in UK securities not attributed to the domestic sectors (using all the sources of information available) are attributable to non-residents.

Geographical analysis of assets is based on balance sheets (stocks) on a quarterly basis for banks and annually for non-banks.

Fee and commission earnings for banks are collected on Form BP (see Sub-section 3.2), and are included (on a gross basis) in the trade in services component of the current account – and are therefore not included within portfolio investment income.

8.3 Deviations from agreed definitions

None.

8.4 Gaps

The United Kingdom does not currently produce portfolio investment income with a maturity breakdown.

8.5 Intended harmonisation

The ONS and the Bank of England are currently carrying out a study to assess the feasibility of adopting an improved data collection model for portfolio investment.

8.6 Estimation methods

See Sub-section 8.1 for a description of the estimation methods. Quarterly estimates are produced for portfolio investment.

Inquiries for pension funds, insurance companies and securities dealers use common methods for compiling quarterly estimates. In each case the information is collected from a sample of companies. The data are then grossed up using auxiliary information, which is available for the

complete population of the industry. The samples are broken down in strata that group together companies with similar characteristics. Any unusual returns will be validated and abnormally large returns will be given a reduced weight in the estimation process.

9 Financial derivatives

9.1 Specific features of data collection

The Bank of England has collected quarterly data on the derivatives activity of banks since the fourth quarter of 1997 and has published a breakdown of positions outstanding by product, risk category and sector of the counterparty (including separate identification of non-residents) since the second quarter of 1998. The ONS has collected information from the major non-bank financial institutions since the first quarter of 1998. Separate derivative balance sheet information is published in the Pink Book, but this is for information only, and is not included in the UK i.i.p.

For banks, all data are collected on a quarterly basis, using a survey-based system that collects both the value of outstanding contracts and the associated flows. Premia on options are included within these flows, as are non-repayable variation margin payments associated with exchange traded activity. Repayable margins, including initial margins on exchange traded activity, are not recorded as transactions in derivatives. The Bank of England collects detailed information according to product type (swaps, forwards, FRAs and options), risk category (interest rate, foreign exchange or commodity/equity), sector of the counterparty, currency and (for stocks only) by country of counterpart.

For non-bank financial institutions, additional questions have been added to the existing ONS inquiries to collect annual balance sheet information and quarterly transactions data. In addition, for the securities dealers' sample,

the quarterly transactions and balance sheet inquiry includes some additional questions on the product and sectoral breakdown of the counterparties. The sectoral breakdown is collected on a quarterly basis. Respondents are asked to provide a split between transactions and positions held with central banks, banks, building societies, other financial institutions, non-financial institutions and the RoW. The instrument breakdown requested on the forms is swaps, FRAs and other derivative instruments. The process of estimation is the same for each instrument specified. No geographical breakdown is collected other than resident/non-resident.

9.2 Definitions

Data are collected according to the international statistical standards, using the normal residency criterion (country of incorporation of the counterparty). Although stocks are collected on a gross basis, transactions in derivatives are collected on a net basis, i.e. transactions in assets are not separately identified from transactions in liabilities.

9.3 Deviations from agreed definitions

The United Kingdom does not currently publish comprehensive data on financial derivatives. Settlement receipts and payments on interest rate swaps only are published within the financial account.

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9.4 Gaps

No geographical breakdown is available for non-bank financial institutions and, except in the case of security dealers, the instrument and counterparty sector breakdowns are limited: investigations are continuing into whether the information can be compiled at the level of detail requested. It is not possible to distinguish between option-style variation margins and future-style variation margin payments.

9.5 Intended harmonisation

None.

9.6 Estimation methods

Some banks approximate the split between resident and non-resident transactions in derivatives. In addition, a full geographic analysis of transactions is not currently possible, and any split between euro area/non-euro area countries will need to be estimated from stocks.

All the inquiries that collect derivatives data, including pension funds, insurance companies and securities dealers, will use common methods for compiling quarterly estimates. These inquiries are linked to those collecting information on portfolio investment (see Sub-section 8.6). The estimation of a geographical breakdown will probably be based on experience with the data collected for the banks.

10 Other investment

10.1 Specific features of data collection

Other investment estimates are largely based on stock data, although actual flows are available for some components. Geographical data for other investment for non-banks are not available.

Information on the assets and liabilities of the general government sector are derived from the official records of government departments. The foreign currency borrowing and lending of banks is calculated from the end-quarter balances of claims and liabilities reported to the Bank of England by all UK resident banks and similar institutions. Estimates for sterling borrowing and lending abroad are also derived from changes in the external balances from the banking statistics produced by the Bank of England.

Estimates concerning the assets and liabilities of other UK residents (non-government, non-banks) come from a variety of sources including the ONS, the Bank of England, the European Investment Bank and the BIS. Export credits are taken from the ECGD,

together with long-term sterling assets acquired from UK banks under ECGD refinancing agreements. In principle, trade credit is recorded at the time of the extension of credit. The Bank of England and the ECGD submit real trade credit data on a quarterly basis, and this is incorporated into the quarter's figures. Since June 2002, data supplied by the ECGD on the taking over of bad debt resulting from ECGD-guaranteed loans has been published quarterly. Associated debt forgiveness figures are also included in the financial account.

The sectoral breakdown of other investment produced by the ONS is limited to a split between MFIs (with banks and building societies separately identified), central government, public corporations and other sectors. The other sectors category consists of insurance companies and pension funds, other financial intermediaries, private non-financial corporations and the household sector, but these sectors cannot be separately identified.

For inward other investment in banks, the United Kingdom sees no distinction between loans and deposits. The estimates for foreign loans to UK banks are therefore included indistinguishably under deposits. For outward investment, all loans by MFIs are assumed to be short-term and, for inward investment, all loans to UK securities dealers are assumed to be short-term.

Flow data for MFIs' deposits from, and lending to, non-residents are derived from end-period stock data adjusted for exchange rate movements and other identified changes in outstanding liabilities and claims not arising from 'transactions'. Balance sheet positions, reported in sterling equivalent at middle-market end-period rates are reconstituted in their original currencies using supplementary returns covering the currency composition of assets and liabilities (there is some element of brigading of positions in statistically less significant currencies, which may be translated by an appropriate proxy). The resulting first differences in original currencies are retranslated into sterling at average exchange rates for the period concerned.

Within the breakdown by domestic sector, the contribution of the central bank (monetary authorities) is subsumed within the aggregates for the MFI sector as a whole, of which it forms a part. The central bank completes a full set of statistical returns so the data sources are the same as for other MFIs and positions will be recorded according to the definitions in the monetary statistics. This means, for example, that positions vis-à-vis other central banks arising from its role in TARGET are included in gross terms within borrowing from, and lending to, non-residents respectively. This ensures coherence across the Sector Financial Accounts as a whole. The estimates of flows, as described above, are compiled at the level of the MFI sector overall.

10.2 Definition

In principle, the United Kingdom complies with the recommendations of the BPM5 and

the harmonisation proposals made by the Working Group on Balance of Payments and External Reserves. Other investment consists of trade credit, loans, currency and deposits and other assets and liabilities. MFIs' trade credit was reclassified under loans in June 2002. Finance leasing is included within loans and is recorded according to standard international guidelines. Foreign currency notes and coin are included under currency and deposits.

Repos (i.e. sale and repurchase agreements for securities), and the similar sell/buy-back transactions, are recorded on a collateralised loan basis. The majority of repos usually mature within a single month. Loan portfolio trading should, in principle, be recorded indistinguishably within total loans, but—as the data are not collected separately—it is not possible to assess its significance.

All acquisitions of bonds are recorded under either direct or portfolio investment.

Short-term credits and liabilities between affiliated enterprises are recorded as direct investment and not under other investment, except in the case of banks.

10.3 Deviations from agreed definitions

With regard to the classification of monetary gold, the United Kingdom has a derogation under Council Regulation No 2223/96 until 2005. According to the SNA 93/ESA 95, all non-monetary gold is treated as a commodity. In the United Kingdom, financial gold is traded in the same way as any other financial asset and is treated like any other foreign currency in the b.o.p. Reporting requirements for the period after the expiry of the derogation are under review.

10.4 Gaps

None.

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10.5 Intended harmonisation

None.

10.6 Estimation methods

Quarterly estimates are produced for other investment. See Sub-section 10.1 above for a summary of the estimation methods.

11 Reserve assets

11.1 Specific features of data collection

The United Kingdom's reserve assets are the property of Her Majesty's Government and are held in the Exchange Equalisation Account (EEA), a government account. They are managed by the Bank of England on behalf of HM Treasury under agreed procedures. Data for the b.o.p. entry for reserve assets is drawn from administrative sources at the Bank of England (primarily from the information systems used in the process of reserves management). Since July 1999 data on the UK reserves has been produced in accordance with the IMF Data Template on International Reserves and Foreign Currency Liquidity. As a result an instrument breakdown is available on a monthly basis (within three working days) and a currency breakdown is available (with a two-month lag) on a quarterly basis.

Reserve assets are valued at market prices and converted into sterling using mid-market closing rates at the end of each month. Reserve assets in the United Kingdom are recorded on a contract date basis allowing the incorporation of off-balance sheet items such as swaps and forwards into the reserves.

11.2 Definition

Reserve assets are presented on a BPM5 basis in the UK balance of payments. In practice, all reserve assets of the United

Kingdom are readily available (i.e. highly liquid, marketable and creditworthy) and denominated in foreign currency (i.e. in currencies other than pounds sterling). For b.o.p. purposes, only claims on non-residents are included.

Central government acquisitions of rest-of-world money market instruments are identified separately and published in the Pink Book 2002.

Details of the instrument breakdown are published monthly on the UK version of the IMF Data Template on International Reserves and Foreign Currency Liquidity.

11.3 Deviations from agreed definitions

The reserve assets of the United Kingdom comprise the holdings of the UK Government (Treasury), reflecting the present legal and institutional arrangements in the United Kingdom—which differs from euro area institutional arrangements.

11.4 Gaps

None.

11.5 Intended harmonisation

None required at present.

12 International investment position

12.1 Specific features of data collection

The i.i.p. is published quarterly as part of the UK b.o.p. data set, with a timeliness of three months. I.i.p. levels are fully consistent with the RoW sector accounts balance sheets.

For banks, data on levels are collected on a quarterly basis with respect to both direct investment and portfolio investment as well as deposits held with non-residents and loans to non-residents. All these data include a full country breakdown for each.

For other financial intermediaries, quarterly levels are based on a combination of pure stock data and accumulated flows. However, with the exception of liabilities for portfolio and other investment, surveys on levels are conducted at least annually. Annual benchmark surveys – typically with an expanded sample compared with quarterly inquiries – are conducted for direct investment and portfolio investment assets, and take place around 10 months after the year-end. Therefore, published levels for the year-end are considered to be provisional until the release of those data published after 12 months. Quarterly levels between benchmark inquiry levels are revised on the basis of the previous quarterly profile. (Essentially, quarterly flows are pro-rated to the annual flow and accumulated to the previous year's level to bring them into alignment.)

The United Kingdom participated in the 1997 IMF Co-ordinated Portfolio Investment Survey (CPIS). Coverage of the survey was limited to mandatory items, except in the case of banks, for which short-term debt instruments were included. Data relating to banking activities were collected from standard balance sheet returns (primarily servicing the BIS international banking statistics) and also included non-mandatory information on money market instruments. For financial intermediaries other than banks, however, special ministerial approval was required to extend the coverage of the inquiry from global coverage only to a

geographical breakdown. In future, the CPIS is to be carried out annually, starting in December 2002 for end-2001 data.

CPIS is restricted to end-investors only and does not cover custodians based in the United Kingdom acting on behalf of non-residents. This is consistent with the approach adopted for all ONS inquiries for b.o.p. purposes. While it is recognised that there is a desire on the part of other countries for non-residents' assets lodged with UK custodians to be surveyed, this would not only be unnecessary from a UK perspective, but it is also unclear whether the existing statutory authority (the Statistics of Trade Act) would cover such an approach, so that it would have to be done on voluntary basis. It is anticipated that it would be more difficult to obtain ministerial approval for such an inquiry.

The banks' contribution to the i.i.p. is largely obtained from end-month balance sheet returns, supplemented by more detailed quarterly and annual data. Data are not collected by accumulating flows (see Sub-section 3.2 for more details of the reporting forms). Data are collected according to international guidelines, and to the same time scale as the b.o.p. (see Sub-section 3.9).

The Bank of England is also contributing to the geographical breakdown of i.i.p which is being developed by the ONS. This will correspond to Eurostat's level-three country breakdown.

12.2 Definitions

In principle, the United Kingdom complies with the recommendations of the BPM5 and the harmonisation proposals made by the Working Group on Balance of Payments and External Reserves.

12.2.1 General

I.i.p. definitions are in line with international guidelines, with practices being similar to

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those outlined in earlier chapters for information on income.

12.2.2 Direct investment

Direct investment stocks are recorded at book value, equal to historic cost minus allowances for depreciation and write-offs. The directional principle is used, and reinvested earnings are also included.

12.2.3 Portfolio investment

The United Kingdom estimates the level of portfolio investment liabilities for equity held by non-residents directly. The ONS conducts the annual Share Ownership Survey (SOS) in order to identify holdings by the domestic sector as well as the RoW (see also Sub-section 8.1). Data are also sourced from the electronic CREST registration system, which also includes UK government securities (gilts). There is a limited geographical breakdown available from the SOS; there is none from CREST. Otherwise there is no direct measurement of RoW levels for debt liabilities: these are generally deduced from total UK issues less domestic acquisitions.

Portfolio investment instruments are collected according to international definitions, with money market instruments being recorded at the market, or discounted, price.

12.2.4 Financial derivatives

The vast majority of stock data are collected on a marked-to-market basis, although some banking book data are collected on an accruals basis. This applies to all instrument types – including options, swaps, FRAs and forwards. Data are recorded on a gross basis, meaning that levels with a positive value are recorded separately from positions with a negative value.

12.2.5 Other investment

International guidelines are followed in recording other investment stocks.

12.2.6 Reserve assets

Reserve assets data are recorded at closing middle market exchange rates and valued at end-period market prices. Data recorded in the i.i.p. are based on stock data produced from administrative information. Since July 1999 data on the UK reserves has been produced in accordance with the IMF Data Template on International Reserves and Foreign Currency Liquidity. For further information on the compilation of reserves data, see Sub-section 11.

12.3 Deviations from agreed definitions

There is currently no reconciliation between flow data in the b.o.p. and levels data in the i.i.p.

12.4 Gaps

None.

12.5 Intended harmonisation

See Sub-section 12.3.

12.6 Estimation methods

None.

13 Administration

13.1 Titles of publications

Division of the ECB. Enquiries specific to the United Kingdom should be addressed to:

(i) ONS

Economic Trends (monthly)
Financial Statistics (monthly)
UK Economic Accounts (quarterly)
UK Balance of Payments "The Pink Book"
(annual)
UK National Accounts "The Blue Book"
(annual)

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(ii) Bank of England

Monetary and Financial Statistics (monthly)
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13.2 Contributors

This country information was initially drafted in 1996 by the EMI's BOP Section. It was subsequently amended and agreed with the United Kingdom in 1997 and extensively redrafted and expanded by the United Kingdom in 1999. Enquiries of a general nature should be addressed to the Press

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5 Annex

5.1 Glossary

The definitions of the terms included in this section are taken from the IMF Balance of Payments Manual (5th edition), the EMI's Implementation Package or from reports prepared by the EMI's Task Force on Financial Flows and Stocks, the forerunner of the ESCB Statistics Committee's Working Group on Balance of Payments and External Reserves Statistics. The terms are shown in alphabetical order.

Accruals principle – a method of continuous recording that matches the cost of capital with the provision of capital. This concept, which is broader than the actual payment of dividends and interest (on a cash or settlement basis), covers dividends due for payment, interest accrued, and unremitted profits (reinvested earnings) of direct investment enterprises.

Balance of payments (b.o.p.) – the statistical statement that systematically summarises for a specific time period (usually monthly, quarterly and/or annually) the economic transactions of an economy with the rest of the world. Transactions between residents and non-residents consist of those involving goods, services and income; those involving financial claims on and liabilities to the rest of the world; and those classified as transfers (such as gifts) which involve offsetting entries to balance – in an accounting sense – one-sided transactions.

Bonds and notes – these are securities issued with an initial maturity of more than one year which usually give the holder: (i) the unconditional right to a fixed monetary income or contractually determined variable monetary income (payment of interest being independent of the earnings of the debtor); and (ii) the unconditional right to a fixed sum in repayment of the principal on a specified date or dates.

Capital and financial accounts – the capital account covers all transactions that involve the receipt or payment of capital transfers and the acquisition or disposal of non-produced, non-financial assets, while the financial account covers all transactions associated with changes of ownership in the foreign financial assets and liabilities of an economy, including the creation/liquidation of claims on/by the rest of the world.

Cash basis – see accruals principle.

C.i.f. (cost, insurance and freight at the importer's border) – valuation of the goods at the market value at the customs border of the economy into which they are imported, including in the import value the insurance and transportation costs.

Credits and debits – a credit in the b.o.p. records the provision of goods or services, a decrease in holdings of a financial asset or an increase in liabilities. Credits and debits form the two elements in the simple double-entry system used for recording the b.o.p.

Current account – the b.o.p. current account covers all transactions between resident and non-resident entities that involve economic values. Also covered are offsets to current economic values provided or acquired without a reciprocal exchange. The major classifications are goods and services, income and current transfers.

Debtor/creditor principle – foreign assets are geographically allocated to the country of the debtor (issuer), while liabilities are allocated to the country of the creditor (holder). This principle is the most appropriate choice if the interest concerns a change in the geographical distribution of the items on the nation's balance sheet.

Direct investment – the category of international investment that reflects a lasting interest of a resident entity in one economy

in an enterprise resident in another economy. The resident entity is the direct investor and the enterprise is the direct investment enterprise. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the investor on the management of the enterprise.

Direct investment enterprise – an incorporated or unincorporated enterprise in which a direct investor, who is resident in another economy, owns 10% or more of the ordinary shares or voting power (of the incorporated enterprise) or the equivalent (of the unincorporated enterprise).

Direct investors – these may be individuals, incorporated or unincorporated private or public enterprises, associated groups of individuals or enterprises, governments or government agencies, or estates, trusts, or other organisations that individually own 10% or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise in economies other than those in which the direct investors reside.

Directional principle – the recording of direct investment flows according to the directional principle means, in general, that all capital transactions with foreign direct investment enterprises are recorded by the country of the direct investor as direct investment abroad; all capital transactions of resident direct investment enterprises with foreign direct investors are recorded by the country of the direct investment enterprise as direct investment in the reporting country. The status of the resident enterprise (i.e. direct investor or direct investment enterprise) in relation to its counterpart in the transaction is essential for the recording of direct investment flows.

Enhanced Structural Adjustment Facility (ESAF) – through the ESAF, the IMF provides assistance to low-income member countries at concessionary terms,

in support of macroeconomic adjustment and structural reforms, to lay the basis for high and sustainable growth and external payments viability. This facility was replaced from 2000 onwards by the “Poverty Reduction and Growth Facility” (PRGF).

Equity – covers all instruments and records acknowledging, after the claims of all creditors have been met, claims to the residual values of incorporated enterprises. Shares, stocks, participation rights or similar documents (such as US Depositary Receipts) usually denote ownership of equity. Preferred stocks or shares, which also provide for participation in the distribution of the residual value of dissolution of an incorporated enterprise, are included, as are shares of collective investment institutions, e.g. investment funds.

Euro area – the area encompassing those Member States in which the euro has been adopted as the single currency in accordance with the Treaty establishing the European Community and in which a single monetary policy is conducted under the responsibility of the ECB. The euro area comprises Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal, Finland, and for statistical purposes, the ECB.

Euro area assets – this term means assets issued by non-residents of the Member States participating in the euro area which have been purchased and/or are held by euro area residents.

Euro area liabilities – this term means liabilities of euro area residents which have been purchased and/or are held by non-residents of the Member States participating in the euro area.

European Central Bank (ECB) – the ECB lies at the centre of the ESCB and the Eurosystem and has legal personality under Community law. It ensures that the tasks conferred upon the Eurosystem and the ESCB are implemented either by its own

activities pursuant to its Statute or through the national central banks.

European System of Central Banks (ESCB) – the ESCB is composed of the ECB and the national central banks of all 15 EU Member States, i.e. it includes, in addition to the members of the Eurosystem, the national central banks of the Member States which did not adopt the euro at the start of Stage Three of EMU.

European System of National and Regional Accounts (ESA 95) – this is an internationally compatible accounting framework for a systematic and detailed description of a total economy (that is, a region, country or group of countries), its components and its relations with other total economies. The ESA 95 is fully consistent with the SNA 93 (see below), but focuses more on the circumstances and data needs in the European Union. The ESA 95 was adopted in the form of a Council Regulation dated 25 June 1996.

European Union (EU) – comprises the Member States of the EU and the EU institutions. All EU institutions besides the ECB are considered non-euro area resident units.

European Union Member States (EU Member States) – Belgium, Denmark, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal, Finland, Sweden and the United Kingdom.

Eurosystem – comprises the ECB and the national central banks of the Member States which have adopted the euro in Stage Three of EMU (see also euro area). There are currently 12 national central banks in the Eurosystem. The Eurosystem is governed by the Governing Council and the Executive Board of the ECB.

Financial derivatives – financial instruments that are linked to a specific financial instrument, indicator or commodity,

and through which specific financial risks can be traded in financial markets in their own right.

F.o.b. (free on board at the exporter's border) – valuation at the market value of the goods at the customs border of the economy from which they are exported, excluding the respective insurance and transportation services incurred.

General Arrangements to Borrow (GAB) – the General Arrangements to Borrow enable the IMF to borrow specified amounts of currencies from 11 industrial countries or their central banks, under certain circumstances, at market-related rates of interest.

Goods – this item covers general merchandise, goods for processing, repairs on goods, goods procured in ports by carriers and non-monetary gold.

International investment position (i.i.p.) – the statistical statement of the value and composition of the stock of an economy's financial claims on the rest of the world, and of an economy's financial liabilities to the rest of the world.

Investment income – incorporates income derived from a resident entity's ownership of a foreign financial asset (credits) and, symmetrically, income derived from a non-resident entity's ownership of a domestic financial asset (debits).

Loans/currency and deposits – comprise transactions in the following financial instruments: loans, i.e. those financial assets created through the direct lending of funds by a creditor (lender) to a debtor (borrower) through an arrangement in which the lender either receives no security evidencing the transactions or receives an effectively non-negotiable document or instrument; deposits; repo-type operations; and currency. Included are, inter alia, loans to finance trade, other loans and advances (including mortgages). In addition, financial leases are covered.

Money market instruments (MMIs) – securities issued with an original maturity of up to one year. 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 is dependent upon the interest rate and the time remaining to maturity.

New Arrangements to Borrow (NAB) – the New Arrangements to Borrow became effective on 17 November 1998. They are a set of credit arrangements between the IMF and 25 member countries and institutions to provide supplementary resources to the IMF to forestall or cope with an impairment of the international monetary system or to deal with an exceptional situation that poses a threat to the stability of that system. The NAB do not replace the existing General Arrangements to Borrow (GAB), which remain in force.

Other assets/other liabilities – sub-item of other investment which covers all items other than trade credits, loans and currency and deposits.

Other investment – the residual category of the b.o.p. which therefore includes all financial transactions with non-residents not covered in direct investment, portfolio investment, financial derivatives or reserve assets.

Other services – those service transactions with non-residents which are not covered under transportation and travel, such as communications services, construction services, insurance or financial services.

Portfolio investment – this covers investment in equity securities (quoted shares) and debt securities (bonds and notes, and money market instruments). Excluded are any of these instruments which are included in direct investment or reserve assets.

Poverty Reduction and Growth Facility (PRGF) – See Enhanced Structural Adjustment Facility (ESAF).

Real-time gross settlement (RTGS) system – a settlement system in which processing and settlement take place on an order-by-order basis (without netting) in real time (continuously). See also **TARGET**.

Reinvested earnings – appear in the context of income on direct investment. They are defined as the direct investor's share of the total consolidated profits earned by the affiliated company in a certain period (after allowing for tax, interest and depreciation) less dividends due for payment in the relevant period, even if these dividends relate to profits earned in earlier periods.

Reserve assets – consist of those external assets that are readily available to and controlled by monetary authorities for direct financing of payments imbalances, for indirectly regulating the magnitude of such imbalances through intervention in exchange markets to affect the currency exchange rate, and/or for other purposes. Reserve assets of the euro area are foreign (i.e. non-euro area) currency-denominated claims on non-euro area residents which are held by the Eurosystem.

Residents – these comprise the general government, individuals, private non-profit making bodies serving households, and enterprises, whose centre of economic interest lies within the territory of a given economy.

Services – consist of transportation, travel and other services.

Settlement basis – the recording of flows according to payments.

Statistics Committee (STC) – an ESCB committee which assists in collecting the statistical information necessary for the performance of the ESCB's tasks, in

harmonising the rules and practices governing the collection, compilation and distribution of statistics within its field of competence and in developing and implementing ESCB-wide statistical IT applications.

System of National Accounts of the United Nations (SNA 93) – this is the international standard for a comprehensive and systematic framework for the collection and presentation of the economic statistics of an economy. It encompasses transactions, other flows, stocks, and other changes affecting the level of assets and liabilities from one accounting period to another. These guidelines have been produced under the joint responsibility of the United Nations, the IMF, the Commission of the European Communities, the OECD and the World Bank.

Trade credits – consist of claims and liabilities arising from the direct extension of credit by suppliers and buyers for goods and services transactions and advance payments for work that is in progress (or to be undertaken) and associated with such transactions.

Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET) – a payment system composed of one RTGS system in each of the 15 EU Member States and the ECB payment mechanism. The domestic RTGS systems and the ECB payment mechanism are interconnected according to common procedures to allow cross-border transfers throughout the EU to move from one system to another.

Transaction – an economic flow that reflects the creation, transformation, exchange, transfer or extinction of economic value and involves changes in ownership of goods and/or financial assets, the provision of services, or the provision of labour and capital.

Transactions basis – the recording of flows according to the change in ownership and

not according to settlements. In the context of securities, the term “transactions basis” is identical to “accruals principle”.

Transactor principle – this principle allocates a transaction between a resident and a non-resident to the country of the direct counterparty to the transaction. The transactor principle provides information on the immediate direction of flows resulting from international settlements.

Transportation – covers all international transportation services (sea, air and other – including land, internal waterway, space and pipeline) that are performed by residents of one economy for residents of another economy and that involve the carriage of passengers, the movement of goods (freight), rentals (charters) of carriers with crew, and related supporting and auxiliary services. Excluded are passenger services provided to non-euro area residents by euro area carriers within the euro area economies, or vice versa (these are included under travel).

Travel – comprises the goods and services that travellers consume from one economy during visits of less than one year to that economy. It differs from other components of services in that it is a demand-oriented activity. Thus, unlike other services, travel is not a specific type of service, but an assortment of services consumed by travellers.

Working Group on Balance of Payments and External Reserves Statistics (WG-BP&ER) – reports to the Statistics Committee on matters relating to b.o.p./i.i.p. statistics.

5.2 Contributors

The individual country information was drafted by the ECB's Balance of Payments Statistics and External Reserves Division and subsequently amended and agreed with the country concerned. Enquiries of a general nature should be addressed to the Press

Annex

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