



Methods and Sources: Methodological Notes

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Balance of Payments and International Investment Position

General indications

Definitions

The following definitions are based on the Sixth edition of the International Monetary Fund's Balance of Payments and International Investment Position Manual (BPM6), to which reference is made for the complete description of the various items.

The balance of payments is an accounting system that records all the economic and financial transactions that occur in a given period between a country and the rest of the world. Conventionally, in the current account and the capital account of the balance of payments, transactions such as imports, payable income and transfers and purchases of nonproduced nonfinancial assets are classified as "debits" and those such exports, receivable income and transfers and sales of nonproduced nonfinancial assets are classified as "credits"; balances are calculated as the difference between credits and debits. With the adoption of BPM6, the sign convention that traditionally characterized the financial account has been abandoned; positive (negative) values on the assets side now indicate an increase (reduction) of assets, as was already the case on the liabilities side. The balance on the financial account is therefore obtained as the difference between net flows of assets and net flows of liabilities. Consistently BPM6 provides for "errors and omissions" to be equal to the difference between the balance of the financial account and the sum of the balances of the current account and the capital account.

Balance of payments - Current account

The current account includes all transactions that pertain to goods, services, and primary and secondary incomes.

a) Goods

Comprises merchandise trade, net exports of goods under merchanting (the purchase by an Italian operator of goods from a nonresident operator and the subsequent resale of the same goods without their physically crossing the Italian border) and nonmonetary gold. Goods are recorded according to the fob definition, both for imports and for exports; so that they are valued at the frontier of the exporting country (whereas foreign trade statistics are typically compiled for imports on the basis of the cif definition, i.e. at the

frontier of the country compiling the statistics).

b) Services

Manufacturing services for goods using physical inputs owned by others (manufacture of third party goods or processing) include manufacturing services such as assembly, labeling and packing.

Maintenance and repair services cover the maintenance and repair work carried out by residents on goods that are owned by nonresidents (and vice versa).

Transport is the process of carriage of people and objects from one location to another as well as related supporting and auxiliary services, including postal and courier services, provided it is offered by a resident of an economy to one of another.

Travel covers goods and services acquired by travelers (or acquired on their behalf or however supplied to them) who stay for less than one year in a country in which they are not resident. This time limit does not apply to students or medical patients; military, government agency and embassy personnel and members of their families are excluded.

Construction covers construction and installation project work performed abroad by a resident enterprise for works with a duration of less than one year (and vice versa). Goods imported and exported for construction works are included in this item and not under goods.

Insurance and pension services include the provision to nonresidents (and vice versa) of services such as direct insurance and reinsurance, auxiliary services to insurance, pension schemes and standardized guarantee schemes. The amount includes the fee for the service provided and not the total premium.

Financial services cover commissions and fees for financial services exchanged between residents and nonresidents, indirectly measured financial intermediation services (the margin of financial companies not deriving from explicit commissions on transactions linkable to loans and deposits); insurance and pension fund services are excluded.

Charges for the use of intellectual property (royalties and license fees) include payments for the use of proprietary rights (such as patents, trademarks, copyrights, industrial processes and designs including trade secrets, franchises), which can arise from research and development, as well as from marketing. They also include charges for licenses to reproduce or distribute (or both) intellectual property embodied in produced originals or prototypes and related rights.

Computer, information and telecommunication services cover resident/non-resident transactions related to information services (news agency services, database services and web search portals), services related to hardware, software and data processing (including consultancy services and maintenance) and to transmission of sound, images, data or other information (by telephone, telex, telegram, cable radio and television, satellite radio and television, electronic mail and fax) and mobile telecommunication services, Internet services and online access services.

Other services to firms cover research and development services, professional and management consulting services and technical, trade-related and other business services.

Personal, cultural and recreational services include education services, health services and cultural and recreational services, and the other personal services provided by

residents to nonresidents (and vice versa). They include services associated with the production of films, music, radio and television programmes, and their distribution. They also include audiovisual services and the like (fees related to the production of films and radio and television programmes and the recording of music).

Government goods and services n.i.e. is a residual category that covers the transactions of governments (including international organizations on goods and services) that cannot be classified under other items.

c) Primary income

Primary income represents the return that accrues to institutional units for their contribution to the production process or for the provision of financial assets or for renting natural resources to other institutional units. It includes compensation of employees, investment income and other primary income.

Compensation of employees is recorded when the employer and the employee are located in different economies. For the economy in which the employer is located, it comprises the total remuneration (wages, salaries and other benefits, including social contributions and private insurance policies or pension funds) paid to non-resident workers. For the economy where the individuals are resident, it consists in the total remuneration paid to them by nonresident firms. If there is not an employee relationship, the compensation constitutes a purchase of services.

Investment income covers receipts and payments deriving from the ownership by residents of external financial assets by residents (credits) and, symmetrically, deriving from the ownership by nonresidents of national financial assets (debits). It includes income from shares and other equity (dividends, withdrawals from income of quasi-corporations, reinvested earnings) and interest. It also includes investment income attributable to policyholders in insurance, standardized guarantees and pension funds.

Other primary income is classified according to the institutional sector of the reporting economy (government or other sectors) and covers taxes on production and on imports, subsidies on products and fees deriving from the use of natural resources (land rent and rights to exploit mineral deposits).

d) Secondary income

This includes current transfers between residents and non-residents, i.e. the supply of real resources or financial items by a resident institutional unit to a nonresident one (and vice versa) without anything of economic value being supplied as a direct return. They are different from capital transfers and are divided according to the institutional sector that makes or receives the transfer in the reporting economy (government or other sectors).

Government current transfers include current taxes on income and wealth, social contributions and social benefits, current international cooperation, miscellaneous current transfers and the own resources of the European Union.

Current transfers of other sectors cover current taxes on income and wealth, social contributions and social benefits, current international cooperation, miscellaneous current transfers, net premiums on nonlife insurance, nonlife insurance claims, adjustment for change in pension entitlements; they also cover personal transfers in cash or in kind between resident and nonresident households, including workers' remittances.

Balance of payments - Capital account

a) Gross acquisition and disposal of nonproduced, nonfinancial assets (intangible assets).

This item refers to transfers of ownership between residents and nonresidents of: i) natural resources, ii) licenses, leasing contracts and other contracts, and iii) marketing resources (brand names, trademarks, logos, etc.) and goodwill. Acquisitions and disposals are recorded separately, on a gross basis rather than a net basis. Entry in the capital account refers only to the sale or purchase of such assets and not to their use.

b) Capital transfers.

This item refers to transfers of ownership of fixed assets; transfers of funds linked to the acquisition or disposal of fixed assets and the forgiveness of debts. Capital transfers are divided according to the institutional sector that makes or receives the transfer in the reporting economy (government or other sectors). They include capital taxes and the other capital transfers.

Balance of payments - Financial account

a) Direct investment.

There is direct investment when a resident of an economy controls or has a significant influence over the management of a firm resident in another economy. Direct or indirect possession of 10 per cent or more of the voting rights is proof of such a relationship. Once the direct investment has been established, all the subsequent financial flows and/or stocks involving the persons in question are recorded as direct investment transactions/positions. Direct investment is classified according to the instrument involved: shares, other equity, reinvested earnings and debt instruments.

b) Portfolio investment.

This item covers transactions between residents and non-residents involving equity securities and debt securities not included under direct investment. Portfolio investment is classified according to shares, investment fund shares, debt securities (short or long-term) and divided by resident sector and counterparty sector.

c) Financial derivatives and employee stock options.

These are financial instruments linked to other financial instruments by means of which specific risks can be traded directly. This category is identified separately from the others insofar as it concerns the transfer of risk rather than the provision of funds or other resources. In addition, financial derivatives do not generate primary income. Employee stock options are options to purchase the shares of a company given to its employees as a form of remuneration.

d) Other investment.

This item covers: i) equity other than securities, ii) banknotes, coins and deposits, iii)

loans, iv) insurance, pension schemes and standardized guarantees, v) trade credit and advances, vi) other accounts receivable/payable, and vii) SDR allocations (holdings of SDRs are included under reserve assets).

e) Official reserves.

The reserve assets of the European Central Bank and the national central banks making up the Eurosystem refer to assets in foreign currency other than the euro that are under the effective control of the monetary authorities, highly liquid, marketable and of high quality (claims on nonresidents of the euro area that are liquid, negotiable and readily available to the monetary authority and that are denominated in convertible currencies other than the euro, monetary gold, reserve position in IMF and SDRs).

International investment position

The international investment position indicates the stock of an economy's financial assets and liabilities (in foreign and domestic currency) with the rest of the world. The presentation format uses the same classifying criteria as the financial account: functional (direct investment, portfolio investment, financial derivatives and employee stock options, other investment, and official reserves), resident sector that holds the assets or issued the liabilities, and instrument. SDR allocations are considered as incurrence of liabilities (included under other investment) by the monetary authority of the country they are allocated to in view of the potential obligation to pay them back (SDR holdings are instead included among reserve assets).

The balance of payments and international investment position can be reconciled. The change in the stock of external financial assets and liabilities in a period is attributable to financial flows (transactions on the financial account of the balance of payments) and valuation adjustments (referring to the changes between the start and the end of the period in exchange rates and the prices of underlying assets and any other adjustments).

The sectorization is as follows. "Central bank" (Bank of Italy); "General government" (central government, local government, social security and social assistance institutions); "Banks" (banks, electronic money institutions, Cassa depositi e prestiti S.p.A.); "Other sectors" (financial companies other than banks and nonfinancial enterprises, households, non-profit-making institutions serving households). These institutional sectors are consistent with the definitions contained in ESA 2010.

Data dissemination

The balance of payments data are released both on a monthly and quarterly basis; the international investment position and external liabilities other than equity (external debt) data are released only on a quarterly basis.

The dissemination normally occurs according to the following calendar:

First dissemination

- the provisional balance of payments monthly data for month M of quarter Q are first published in the Supplement released about two months later (M+50 days);
- the provisional international investment position and external debt data and the balance of payments data available only quarterly (services other than international travel and transport; detailed data on other primary income, secondary income and capital account) are disseminated via the Statistical database (BDS) about 90 days after the end of the reference quarter (Q+90 days), approximately on 31 March, 30 June, 30 September and 31 December.

Revisions

- the first revision of balance of payments monthly data referring to each month of quarter Q is usually disseminated via the Statistical database (BDS) about 90 days after the end of the reference quarter (Q+90 days) and it applies to each month of the quarter;
- all the data (monthly and quarterly data; balance of payments, international investment position and external debt data) may be revised at the time of every end-quarter publication, until the fourth year preceding the reference quarter. Revisions published after a longer delay are to be considered as exceptional; they usually arise from specific events or methodological innovations and are properly publicized.

Sources

The data collection system for the compilation of Italian balance of payments, which started with effect from September 2010, uses several different sources: (a) censuses, such as the statistical reports of entities supervised by the Bank of Italy; (b) sample surveys, with special reference to those carried out at non-financial corporations and insurance corporations; and (c) administrative data collected for other than statistical purposes, in order to comply with legal obligations.

a) Censuses

The data on goods in the current account are compiled using information produced by Istat's National Accounts Department to adjust for the processing component in foreign trade data, obtained in turn from the Intra-Community Trade Statistical System (INTRASTAT) for intra-EU transactions and from customs declarations for extra-EU transactions. Istat's National Accounts Department also provides the data on manufacturing services for goods using physical inputs owned by others (processing).

Information about assets and liabilities stocks of the resident Italian banking system, necessary to compile the international investment position, is derived from "Matrice dei Conti"; moreover, this source supplies data on the - anonymous - security-by-security reporting of the portfolio stocks held for investors by depositories (as provided for in Guidelines ECB/2004/15 and ECB/2007/3). The monthly collection of these stocks also constitutes the basis for the calculation of portfolio flows and investment incomes.

Other information used to compile the Italian balance of payments and international investment position is derived from the statistical reports of other financial intermediaries, concerning stock and flow data and information about their portfolios and customer repurchase agreements.

b) Sample surveys

Together with sample surveys regarding tourism and international travel and merchandise transport conducted since the second half of the 1990s, there is a direct reporting system for non-financial and insurance corporations about their transactions with the rest of the world. The sample is made up of about 7,000 Italian companies, selected on the basis of their size and total volume of business with the rest of the world; for some kind of transactions, they are also selected on the basis of their geographical location and the presence/absence of foreign affiliates. Both non-financial transactions (services, some types of transfers and labour incomes) and financial transactions are collected. For the latter the periodicity of the measurements varies from quarterly to annual, except for a small sample of about 400 larger corporations, whose data are collected on a monthly basis in order to capture the evolution of highly volatile financial phenomena. Another exception regards significant transactions in direct investment (inward and outward), which are reported on a case-by-case basis.

As regards workers' remittances, the data source is constituted by the reports sent by money transfer operators, banks and other financial intermediaries that offer this kind of service, as well as by Poste Italiane spa, on money transfer transactions among physical persons, from or to abroad. This data collection system has been in place since 2006 (2010 for banks).

c) Administrative sources:

A set of additional data sources used to collect information about specific items of the Italian balance of payments and international investment position:

- the Ministry for the Economy and Finance, as a direct reporter about: a) foreign assets and liabilities of central government; b) personal income tax returns for information on foreign financial assets held by residents and related investment income, Box RW (investment abroad and/or transfers from/to abroad), Sections I, II and III; c) anonymous data regarding settlements from/to abroad, with a 12,500 euro threshold, carried out by resident natural persons, non-commercial and other minor companies by means of banks, other financial intermediaries and Poste Italiane spa, and reported yearly to the Revenue Agency.
- National Institute of Social Security (INPS): information on pensions paid abroad to non-residents and contributions received from abroad.

Main methodological changes

Data published in this Supplement have been revised due to methodological changes. In this section we describe the main characteristics of such innovations.

International standards according to the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6)

As of the October 2014 issue (no. 55) of the *Supplement to the Statistical Bulletin*, the

Bank of Italy has adopted the new international standards laid down by the sixth edition of the Balance of Payments and International Investment Position Manual (*BPM6*), published by the IMF. The shift to the new standards was agreed at international level and during 2014 involved all the EU countries. It was made in parallel with the introduction of the new European system of accounts (ESA 2010) in order to harmonize, in terms of content and presentation, the external accounts and the national accounts (for further details see the Bank of Italy's website at <http://www.bancaditalia.it/statistiche/adesione-standard/index.html?com.dotmarketing.htmlpage.language=1>).

The sixth edition of the Balance of Payments and International Investment Position Manual takes account of the changes that have occurred in the world economy in recent years: the growing international fragmentation of production, the complexity of international firms' structures, the increased attention paid to financial aspects. The changes with respect to the previous standards concern definitions, methods and measurements. The most important are discussed below (see also Figure 1).

Current account

The BPM6 lays down that the exclusive criterion for recording international merchandise trade is the transfer of ownership and removes some exceptions to this principle included in the previous edition of the manual. This gives rise to the following innovations, which have effects on the distinction between trade in goods and trade in services without, however, having a significant impact on the current account balance:

- i) a change to the treatment of goods that cross the frontier for processing without change of ownership; these goods are no longer included in the gross flows of imported and exported goods. Instead the performance of just the service of processing is included among services;
- ii) net exports of goods through merchanting transactions – the purchase by an Italian operator of goods from a non-resident operator and the subsequent resale of the same goods (usually with the achievement of a profit) to another non-resident operator without the goods physically crossing the Italian frontier – are recorded as trade in goods and no longer included among services.

The services account now includes indirectly measured financial intermediation services – banks' margin, not deriving from explicit commissions, on transactions that can be linked to loans and deposits – and the flows related to trade in patents and licenses that derive from R&D; insurance and pension services are recorded separately.

Income is divided into primary income, deriving directly from work, financial assets and natural resources, and secondary income, relating to distribution. The items previously accounted for as current transfers are included in income, mostly secondary income.

Financial account and international investment position

The sign convention that traditionally characterized the financial account has been abandoned: positive (negative) value on the assets side now indicate an increase (reduction) of assets, as was already the case on the liabilities side. The balance on the financial account is therefore obtained as the difference between flows of assets and flows of liabilities.

The financial account and the international investment position provide for greater detail

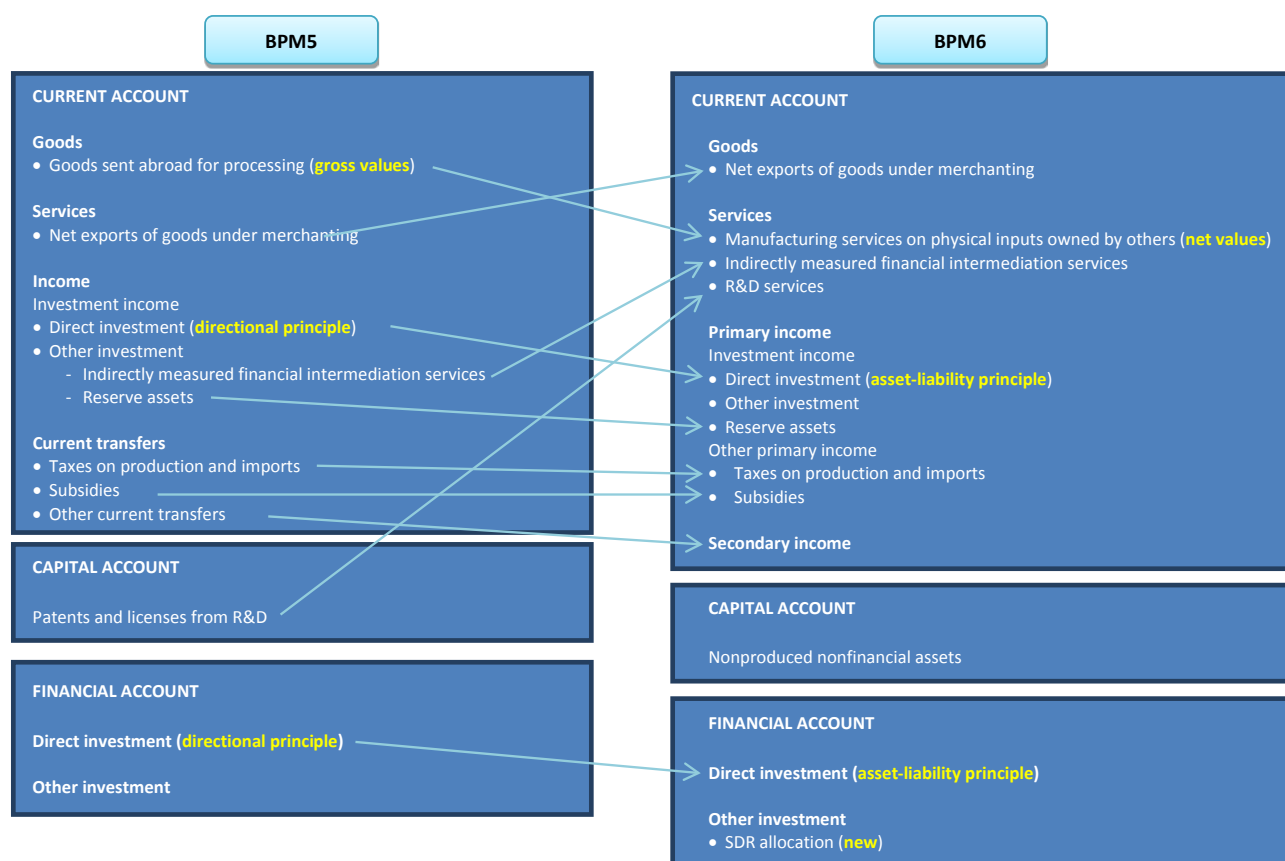
and adopt a new classification of institutional sectors and instruments, harmonized with ESA 2010.

In direct investment there is a different accounting treatment of so-called *reverse investment*, i.e. of the assets a resident firm that is the object of direct investment holds in the non-resident investing firm (and analogously of the liabilities a resident investing firm holds vis-à-vis the non-resident firm that is the object of direct investment). Such assets and liabilities, which had previously led to a reduction of the direct investment (directional principle) are now accounted for on a gross basis (asset-liability principle); the effect on the financial account balance and the international investment position is nil.

Special Drawing Rights (international reserve assets created by the IMF), which were previously included in the international investment position only on the assets side (among the official reserves), are now also recorded as liabilities of the central bank, for the part assigned to Italy.

Figure 1

Main methodological changes and/or reclassifications between BPM5 and BPM6



Competitiveness indicators

For a description of the methodology underlying the price-competitiveness indicators (Table TICOM250), see A. Felettigh and C. Giordano, '[Rethinking prices and markets underlying price-competitiveness indicators](#)', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 447, July 2018.

In a nutshell, the indicator for a given country is obtained as the weighted average of its bilateral competitiveness indicators, which are based on manufacturers' producer prices and are computed with respect to a fixed set of trading partners.

Relative to the weighting procedure:

- a) in order to account for the evolving geographical composition of trade flows, the matrix of weights referring to the period 1999-2001 is used in the time series from the start up to December 2004, while the subsequent observations use the weighting matrix for 1999-2001;
- b) for each outlet market, the competitive pressure of local producers is also taken into account.

As of the 'Balance of Payments and International Investment Position' report published in May 2018, Venezuela is excluded from the set of trading partners due to the interruption of the dissemination of official data on prices for that country; the indicators are computed from the start for every country vis-à-vis 60 trading partners. The impact of the exclusion of Venezuela on the indicators of the main euro-area countries is limited.

Starting with the 20 December 2018 issue of the 'Balance of Payments and International Investment Position' report, besides releasing a wider set of price-competitiveness indicators, the data sources were revised for the underlying producer price indices. The set of countries for which data are published was narrowed from 15 to 12 compared with earlier issues, as the series now exclude Brazil, Poland and Turkey. The time series for all the indicators, which are all monthly, now begin in January 1992 (previously they began in January 1993).

Methodological treatment of cross-border movements of euro banknotes

Since their publication on the Statistical database on 30 September 2015, the data relating to Italy's external statistics have been revised due to a change in methodology and to take new information into account.

The methodological change, agreed with the other euro-area central banks, deals with the treatment of cross-border movements of euro banknotes and has been applied to the entire period since they were introduced. The related revisions, for the period 2002-2015, concern the items "other investment" in the financial account and "primary income" in the current account.

The results provided by the new methodology indicate that the amount of banknotes put into circulation by the Bank of Italy is lower than the legal circulation and that residents hold banknotes in excess of the latter. Both factors lead to an increase in claims with respect to the Eurosystem and therefore an improvement in Italy's net external position at the end of 2014.

Seasonally adjusted series for the current account

As of the October 2015 issue (no. 55) of the *Supplements to the Statistical Bulletin*, new seasonally adjusted series for the current account and its main items are published in the Statistical database (Table TBP60090). The current account is derived as the sum of the individual seasonally adjusted components (goods, services, primary and secondary income); balances are derived as differences between seasonally adjusted credits and debits. For goods and services, the adjustment aims at ensuring consistency with the seasonally adjusted corresponding quarterly series in the national accounts.

The revision policy adopts the “partial concurrent adjustment” method, in which the model, the calendar effects and the outliers are identified on an annual basis and the estimation of the respective parameters is updated monthly. The complete seasonally adjusted time series (including the data already published in previous issues of the Statistical database) is therefore subject to monthly revisions. Revisions are usually larger for recent months and quarters, also reflecting changes in the raw data due to the availability of new information and to the alignment of the sources with national accounts statistics.

Revision of Italy's external statistics for the voluntary Disclosure procedure

Since their publication on 30 September 2016 in the Bank of Italy's statistical database (BDS), the time series for the period from 1999 through 2009 include financial assets regularized under the voluntary disclosure procedure set out by Law 186/2014. The revised time series for the period from the fourth quarter of 2009 through the fourth quarter of 2015 were published on 20 May 2016.

The regularization, with or without repatriation, applied to financial assets and goods held abroad and not declared for tax purposes as at 30 September 2014. The newly declared amounts refer to assets held by Italian residents that were previously not recorded in the statistics; they have been incorporated in the revision, using a methodology described in a note published on the Bank of Italy website ([“Revision of Italy's external statistics – September 2016”](#)).

For the international investment position, there was an increase on the asset side of the household sector, namely in the following items: 'portfolio investment', 'other investment' and 'direct investment' (real estate). For the balance of payments flows, the revisions concerned not only these items, but also the 'investment income' item of the current account.

Revision of Italy's external statistics for the update of the estimate of Italian residents' holdings of foreign investment fund shares

Since their publication in the Bank of Italy's statistical database (BDS) on 29 September 2017, the time series from 2010 include revisions due to the update of the estimates of Italian residents' holdings of foreign investment fund shares, particularly of those deposited directly abroad. This component, for which data compilation via standard sources is not possible, has been revised according to new information collected on an *ad hoc* basis. Further details on the adopted methodology are provided in a note published on the Bank of Italy website ([“Revision of Italy's external statistics – September 2017”](#)).

For the balance of payments flows, revisions concerned both the financial account

(portfolio assets in foreign fund shares) and the investment income item of the current account.

Summary of the latest relevant exceptional revisions

| Cause of the revision (methodological innovation, adjustments, etc.) | Statistics affected | Date of first publication of the revised series | Further information |
|--|---|---|--|
| Reclassification of securities in repo transactions intermediated by resident central counterparts | International investment position | April 2014 (Supplement no. 22) | Data have been revised as from December 2008. No break in time series. |
| Adoption of the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6) | Balance of payments, international investment position and external debt | October 2014 (Supplement no. 55) | The statistics are calculated under the BPM6 standards as from data referring to January 2013 (1° quarter 2013 for quarterly data). As for the previous period, the data, collected under the BPM5 standards, have been recalculated as follows: i) as from January 1995 for the Balance of payments current account and as from January 1997 for the financial account; ii) as from the 4th quarter 1998 for International investment position; iii) as from the 1st quarter 2008 for External debt. No break in time series. |
| New methodology | Competitiveness indicators | June 2015 (Supplement no. 33) | The new time series, fully recalculated applying the new methodology, start from January 1993. |
| New methodological treatment of cross-border movements of euro banknotes | Balance of payments and international investment position | 30th September 2015 (publication via Statistical database) | The new methodology has been applied to the entire period since euro banknotes were introduced (2002-2015). The related revisions concern the items "other investment" in the financial account and "primary income" in the current account. |
| New seasonal adjustment procedure | Seasonally adjusted series of main items of the Balance of payments current account | October 2015 (Supplement no. 55) | The time series have been recalculated on the basis of the corresponding unadjusted BPM6 ones starting from January 1995. |
| Voluntary disclosure procedure set out by Law 186/2014 | Balance of payments and international investment position | Data from 2010 through 2015: May 2016 (Supplement no. 26); data from 1999 through 2009: 30 September 2016 (publication in the Statistical database) | The newly declared amounts have been incorporated in the statistics from 1999 onwards, using a methodology described in a note published on the Bank of Italy website (" Revision of Italy's external statistics – September 2016 "). |

| Cause of the revision (methodological innovation, adjustments, etc.) | Statistics affected | Date of first publication of the revised series | Further information |
|--|---|--|--|
| Update of the estimation of Italian residents' holdings of foreign investment fund shares deposited abroad | Balance of payments and international investment position | 29th September 2017 (publication via the Statistical database) | Data have been revised as from 2010 to incorporate new statistical information sourced from an <i>ad hoc</i> survey; for further details see the methodological note " Revision of Italy's external statistics – September 2017 ". |
| Revision of the number of countries | Competitiveness indicators | 18 th May 2018 ("Balance of Payments and International Investment Position") | Venezuela has been excluded from the computation of the competitiveness indicators due to the interruption of the dissemination of official data on prices for this country. As of this report, the indicators are therefore computed for each country vis-à-vis 60 (as opposed to 61) trading partners. |
| Updating of data sources and broadening of the set of published statistics. | Price-competitiveness indicators | 20 December 2018 ('Balance of Payments and International Investment Position' report) | New series are published for a set of 12 countries (no longer 15: Brazil, Poland and Turkey are now excluded). The indicators are distinguished by: - outlet market, - subset of trading partners, and - import or export competitiveness. |