
Presentation of the Financial Accounts of the Spanish Economy. ESA 95. 1995-1999

1. INTRODUCTION

As is the case for the other EU Member States, Spain is obliged to comply with Council Regulation (EC) 2223/96, of 25 June 1996, on the European System of National and Regional Accounts in the European Community (ESA 95), which comprises the main macroeconomic aggregates, the accounts (financial and non-financial, and flow and balance-sheet) of the institutional sectors and also employment data. Regarding the main characteristics of ESA 95, mention may first be made of the fact that it is the first national accounts system to be set in place by a legal instrument and, therefore, all its elements are obligatorily applicable to all EU Member States, thereby ensuring the use of a uniform methodology in all countries. Second, ESA 95 is a harmonised accounting system in other respects, given that, as it is the European version of the fourth revision of the System of National Accounts (SNA 93) of the Statistical Office of the United Nations and of other international agencies, it has the same conceptual basis as the IMF Balance of Payments Manual, 5th edition, and the International Investment Position, and the basis underpinning the ongoing revision of the IMF Public Finances Statistics Manual. Of particular significance in the European realm is the inclusion in the System of a specific sub-sector in the sector Financial institutions, namely the sub-sector Monetary Financial Institutions (MFIs), which is the grouping the European System of Central Banks (ESCB) defines as the money creating sector, which reinforces the link between monetary and national accounts statistics. Moreover, ESA 95 has provided for harmonisation as regards the deadline for data availability and the periodicity of the statistical series (1), which must be the same in all countries. Lastly, Eurostat has laid down a single design for data transmission. Significant practical implications arise from the foregoing, since this provides for the compilation of aggregates for economic areas such as the EU and the euro zone, it means such aggregates adhere more closely to their very definition and it enables the lag in the publication of the Accounts to be shortened.

The entry into force of ESA 95 is being staggered following a timetable – laid down in the

(1) ESA 95 envisages annual series generally and quarterly series only for the main macroeconomic aggregates. This limitation is substantial given the growing importance of the non-financial and financial accounts for analysing the economic situation. Accordingly, several legislative projects are under way in the EU Commission to oblige countries to compile relevant statistics, such as general government statistics, with a quarterly periodicity. And regarding financial accounts, many Community countries – Spain among them – have decided to adopt the quarterly frequency as the norm for the compilation and dissemination of these accounts.

Regulation – which began in April 1999 and will run to the end of 2003 (2). Thus, the main aggregates of the total annual and quarterly resident sectors for the period 1995-1998 were sent to the Commission (Eurostat) in April 1999; the main aggregates of the general government sector for the same period, among which the deficit, were sent in August 1999; and the Notification relating to the Protocol on the procedure applicable in the event of excessive deficit (EDP) had to be made in accordance with the new methodology, for the first time, and for the same years, in February 2000.

As regards the Financial Accounts, the deadline for transmission to the Commission (Eurostat) is September 2000. However, given that the data on the main aggregates and the general government accounts with the ESA 95 methodology are known, and as the National Statistics Institute (INE) is on the point of releasing the non-financial accounts of the remaining sectors under the new system, the Banco de España, like its EU central bank counterparts, decided to speed up the work on compiling the *Financial Accounts of the Spanish Economy* (FASE) with the new methodology. The aim was to provide for readier analysis of the non-financial and financial approach in an integrated framework. This work has recently been completed with the compilation of a first version of the Financial Accounts, of quarterly periodicity, which will also present annual totals, for the period 1994 Q4-1999 Q4. The *Financial Accounts of the Spanish Economy, 1995-1999*, in terms of ESA 95, quarterly and annual series, and in the form of a Spanish-English bilingual edition, were published for the first time in mid-June 2000 in a monograph similar to that disseminated since 1990. As usual, it was distributed along with the *Informe anual*. It was likewise published on the Banco de España website. Successive quarterly updates of the Accounts will be regularly disseminated on this site, with a lag of about sixteen weeks in relation to the latest quarter to which they refer. The first release of the FASE was accompanied by an explanatory note on the application in practice of the new methodology. In this context, this article seeks to provide an overview of the most significant changes the new system has entailed for the financial accounts in general and for those relating to the Spanish economy in particular. In addition to such changes, the ESA 95 Accounts include other differences, reported below, arising from the use of new

(2) Nonetheless, some Member States have a derogation clause for several aspects, such as coverage, detail, lag and transmission methods, which extends in certain instances to January 2005.

sources of information and from the improved quality of pre-existing sources.

The article comprises nine sections, including this introduction. The following section discusses the change in the scope of the ESA 95 Accounts. Sections 3 and 4 respectively address the differences in the sectorisation and in the financial instruments between both systems. Section 5 turns to the effect that the change in the time period allocation of interest income has had on the financial part of the Accounts. Section 6 highlights the impact that the obligation under ESA 95 to value financial instruments at market price has had on the Accounts, describing the practical application of such valuation. Section 7 reports the amendments made that are not linked to the change in methodology under the new system. Since the changes reflected in the previous sections affect the various sectors differently and, on occasions, have opposite effects on the instruments they affect, section 8 offers a summary of the overall repercussion of the most important changes on the sectors into which the economy is divided and on the economy as a whole. Despite the substantial changes ESA 95 has entailed, certain additional modifications remain to be made to the FASE. This matter is discussed in section 9.

2. SCOPE OF THE ACCOUNTS

ESA 79 only envisaged the compilation of *financial transactions* accounts. However, that did not prevent the FASE, in publication since the early eighties and with series available from 1970, from including financial balance sheets, which were called financial assets and liabilities accounts (3). ESA 95 includes a full system of accounts comprising financial *balance sheets* and flows accounts, which explain the changes between the opening and closing balance sheets of each period. In addition to encompassing *financial transactions*, the flows accounts also address *other changes in financial assets [and in liabilities]* (4). The latter are

(3) This is not the place to set out the conceptual basis of the financial assets and liabilities accounts hitherto published in the FASE, but it should be borne in mind that, as a general rule, these stocks were recorded at their face value. However, there were exceptions to this principle arising from the valuation rules incorporated into the data that were the source for compiling the Accounts (see the Methodological Notes of the 1999 edition in relation to the 1987-1998 series).

(4) All financial assets are, from the standpoint of the issuer/debtor, liabilities, which is why these clarifying brackets are not repeated hereafter. All liabilities are, by definition, financial, while there are non-financial assets (the capital stock of the various sectors) which are not reflected in the financial accounts. The difference between financial assets and liabilities is comprised of the net financial assets, also called "financial wealth", of the institutional grouping involved.

made up, in turn, of: a) *accounts of other changes in the volume of financial assets*, which reflect the changes in the amount of financial assets and of liabilities as a result of the emergence or disappearance thereof (e.g. write-down/off of loans or sectorisation changes); and b) *revaluation accounts*, which include changes in the value of assets and of liabilities as a result of changes in the prices thereof or in the exchange rate of the currency in which they happen to be denominated. Accordingly, the ESA 95 Accounts constitute a perfectly integrated whole in which, for each sector and sub-sector, the difference between financial stocks or balance sheets at two moments in time are explained by the three types of account indicated: financial transactions, revaluation and other changes in the volume of financial assets.

3. SECTORISATION

Scheme 1 compares the sectorisation of the Accounts under ESA 95 with that under ESA 79. Apart from the change in terminology in defining certain sectors or sub-sectors, the notable differences between both systems are:

- a) In ESA 95 the sector *Financial corporations* is broader than that of Credit institutions in ESA 79. This is because it additionally includes 1) the sub-sector *Financial auxiliaries* [most of whose units were classified under ESA 79 in the sector Non-financial enterprises (5), and 2) *Insurance corporations and Pension funds*, which were an independent sector in ESA 79. Further, as indicated below, some of the units of the sub-sector *Other financial intermediaries, except insurance corporations and pension funds* were not part either of the sector Credit institutions in ESA 79.

As regards the various sub-sectors of the sector *Financial corporations* in ESA 95, the following changes should be highlighted:

- The sub-sector *Monetary financial institutions (MFIs)* is, as indicated in the introduction, the grouping that defines the money creating sector in the monetary statistics. It is made up of the Central Bank (Banco de España) and *Other monetary financial institutions*. In Spain's case, the latter are made up of *Credit in-*

stitutions [banks, savings banks, credit co-operatives, the Official Credit Institute and specialised credit institutions] and of *Money market funds* (FIAMMs). Under ESA 79 all these, except the Banco de España and banks, savings banks and credit co-operatives (the grouping of these last three institutions was known as "Other monetary institutions" in ESA 79), were included under the sub-sector Other credit institutions.

- The sub-sector *Other monetary financial institutions* in ESA 95 covers *Other financial intermediaries, except insurance corporations and pension funds, Financial auxiliaries and Insurance corporations and pension funds*. Unlike the sub-sector "Other credit institutions" in ESA 79, *Other financial intermediaries* do not include either the OCI, Specialised credit institutions and Money market funds (now classified under MFIs) or *Securities agencies*, which are now classified under *Financial auxiliaries*. Moreover, *Other financial intermediaries in ESA 95 include Securitisation funds and Venture capital companies and funds*, groupings which have been directly estimated for the first time in the context of the financial accounts. In ESA 79, these groups of units were included in the sector Non-financial enterprises.

- b) As regards the sector *General government*, the changes arising from sectorisation are:

- Now incorporated into this sector are certain state-owned enterprises hitherto included in the sector Non-financial enterprises. The reason for this change was the setting of more precise criteria in ESA 95 than in ESA 79, so as to determine when a state-owned enterprise should be sectorised in General government. In fact, on one hand, both systems exhibit similarities in that: 1) they define in virtually the same terms the activity and main function of the units to be included in the sector General government, in which the consideration of whether the goods they produce are market (ESA 79) or non-market (ESA 95) is fundamental; and 2) they give priority to an economic criterion over a legal-institutional one in order to establish this classification. However, on the other hand, they differ in certain respects. For instance, ESA 79 envisages a list of certain services which, by convention, are always considered as market services, in which case the institutional unit that produces them has to be sec-

(5) See the breakdown of the units included in this new sub-sector in the memorandum item at the foot of Scheme 1. Note that now included in this new sub-sector are Deposit guarantee funds, which were formerly classified under Other monetary institutions.

Sectorisation according to ESA 79 and ESA 95 (a)

ESA 79	ESA 95
S.40 CREDIT INSTITUTIONS	S.12 FINANCIAL CORPORATIONS
A. Monetary institutions	A. Monetary Financial Institutions
S.41 Central banking authorities	S.121 Central Bank
S.42 Other monetary institutions <i>Banks</i> <i>Savings banks</i> <i>Credit co-operatives</i> <i>Deposit guarantee funds</i>	S.122 Other monetary financial institutions <i>Banks</i> <i>Savings banks</i> <i>Co-operative credit banks</i> <i>Official Credit Institute</i> <i>Specialised credit institutions</i> <i>Money market funds (MMFs)</i>
B. Non-monetary institutions	B. Non-monetary financial corporations
S.43 Other credit institutions <i>Official Credit Institute</i> <i>Specialised credit institutions</i> <i>(Specialised lending institutions until 1997)</i> <i>Stockbrokers and jobbers</i> <i>Collective investment schemes</i> <i>in transferable securities</i>	S.123 Other financial intermediaries, except insurance corporations and pension funds <i>Collective investment schemes other than MMFs</i> <i>Asset securitisation funds</i> <i>Venture capital funds and companies</i> <i>Securities dealer companies</i>
S.50 INSURANCE ENTERPRISES <i>Private insurance corporations</i> <i>Non-profit insurance entities</i> <i>Insurance Compensation Consortium</i> <i>Pension funds</i>	S.124 Financial auxiliaries (b) (See detailed scheme in the memorandum item)
S.60 GENERAL GOVERNMENT	S.125 Insurance corporations and pension funds <i>Private insurance corporations</i> <i>Non-profit insurance entities</i> <i>Insurance Compensation Consortium</i> <i>Pension funds</i>
S.61 Central government	S.13 GENERAL GOVERNMENT
S.62 State and local governments <i>State government</i> <i>Local government</i>	S.1311 Central government
S.63 Social security funds	S.1312 Regional (autonomous) government
S.10 NON-FINANCIAL CORPORATE AND QUASI-CORPORATE ENTERPRISES	S.1313 Local government
S.70 PRIVATE NON-PROFIT INSTITUTIONS SERVING HOUSEHOLDS (PNISH)	S.1314 Social security funds
S.80 HOUSEHOLDS	S.11 NON-FINANCIAL CORPORATIONS
	S.15 NON-PROFIT INSTITUTIONS SERVING HOUSEHOLDS (NPISH)
	S.14 HOUSEHOLDS
	S.141 + S.142 Employers (including own-account workers)
	S.143 Employees
	S.1441 Recipients of property incomes
	S.1442 Recipients of pensions
	S.1443 Recipients of other transfer incomes
	S.145 Other households

SCHEME 1 (continuation)

Sectorisation according to ESA 79 and ESA 95 (a)

ESA 79	ESA 95
<p>S.90 REST OF THE WORLD</p> <p>S.91 Member countries of the European Communities</p> <p>S.92 Institutions of the European Communities</p> <p>S.93 Third countries and international organisations</p> <p>MEMORANDUM ITEM:</p> <p>Detail of sub-sector 124: Financial auxiliaries (ESA 95)</p> <p><i>Deposit guarantee funds (c)</i></p> <p><i>Money market intermediaries</i></p> <p><i>Appraisal companies</i></p> <p><i>Mutual guarantee companies</i></p> <p><i>Foreign exchange bureaux</i></p> <p><i>Pension fund management companies</i></p> <p><i>Insurance brokers</i></p> <p><i>Stock exchange management companies</i></p> <p><i>Futures and options market management companies</i></p> <p><i>Securities clearing and settlement service</i></p> <p><i>Association of Securities Dealers</i></p> <p><i>Securities agencies (c)</i></p> <p><i>UCITS management companies and portfolio management companies</i></p> <p><i>Mortgage securitisation fund management companies</i></p> <p><i>Asset securitisation fund management companies</i></p> <p><i>Venture capital fund management companies</i></p> <p><i>Insurance Company Liquidation Board</i></p>	<p>S.2 REST OF THE WORLD</p> <p>S.21 European Union</p> <p style="padding-left: 20px;">S.211 <i>Member countries of the EU</i></p> <p style="padding-left: 20px;">S.212 <i>Institutions of the EU</i></p> <p>S.22 Third countries and international organisations</p>
<p>Source: EUROSTAT (ESA 79 and ESA 95) and Banco de España.</p> <p>(a) The numbered sectors and sub-sectors are the only ones considered by the accounting manuals (ESA 79 and ESA 95). The additional details therein relate to specific Spanish institutional units.</p> <p>(b) In ESA 79 part of this sub-sector was classified as non-financial enterprises.</p> <p>(c) In the FASE adaptation to ESA 79 these units were classified as "Other credit institutions", and the rest as "non-financial enterprises".</p>	

torised outside General government. It then provides another list of output of services in which, to define sectorisation outside General government, the economic criterion is that market services "are produced by a unit whose resources are mainly ("mainly" is taken to mean about 50 % or more of total current resources) derived from the sale of its output and resources of the production unit shall, mostly, arise from the sale of their production". By contrast, ESA 95 does not establish a priori any list of services deemed to be market services; rather, it subjects any production unit to the 50 % rule to determine its sectorisation, this rule being defined such that only units covering at least 50 % of their production costs with

the proceeds of their sales shall not be included in General government.

This change in the sectorisation of a group of corporations has affected the General government accounts mainly in 1998 and 1999, increasing the currency and deposits captions in both transactions and in stocks, on the assets side, and in loans on the liabilities side. The opposite effect has, logically, been recorded in the sector Non-financial corporations.

- The ESA 79 sub-sector *Territorial governments* disappears in ESA 95 and is split into two: Regional governments and Local governments. Since the FASE had

already been providing this breakdown, the change is minimal in the ESA 95 version of the Accounts.

- c) ESA 95 addresses the sector *Non-profit institutions serving households (NPISH)*, while institutions of a similar nature serving corporations are included in the sector Non-financial corporations. ESA 79 included both groups in a single sector called *Private non-profit institutions serving households*.
- d) The remaining sectors of ESA 95 coincide virtually with those of ESA 79 (see Scheme 1), since the greater detail provided under ESA 95 for the sector Households will not be used for the time being in the Accounts, as will neither the breakdown of the sector *Rest of the world*. Further, in the first version of the ESA 95 accounts, and owing to limitations in the database information, *Households and Non-profit institutions serving households* will be included in a joint sector, as had been the case in the financial accounts compiled in accordance with ESA 79. The aim is to publish separate financial accounts for both sectors in the near future.

4. FINANCIAL INSTRUMENTS

Scheme 2 compares the instruments explicitly reflected in both systems. The main differences are: the degree of detail envisaged by each manual in certain headings, indicative of the relative significance of such headings at the different times the two systems came into being; the change in the treatment of monetary gold and special drawing rights (SDRs); and the consideration of *financial derivatives* under ESA 95.

Regarding the first type of differences, ESA 79 envisages greater detail than ESA 95 for deposits and the currencies in which they are denominated. By contrast, ESA 95 includes greater detail than ESA 79 for securities other than shares, and for shares and other equity. Nonetheless, with ESA 79 the FASE had never shown such an extensive breakdown as that envisaged by this manual for deposits, and it also displayed other differences with the theoretical scheme indicated, such as, for example: a) the net position in the IMF and, subsequently, that of the EMCF/EMI/ECB was incorporated under a caption called *Gold and positions in international organisations*; b) the loans heading was a single one and no distinction was made between the short, medium or long term. Nor was there any distinction in the form of an ex-

plicit heading between trade credit and other loans; rather, in the counterpart details provided by the FASE, those recorded in assets and liabilities between non-financial enterprises and households corresponded to trade credits; and c) no breakdown of insurance technical reserves by end-use was provided.

The breakdown by instrument in the FASE compiled in accordance with ESA 95 omits only the breakdown into short and long-term in loans and into quoted and unquoted shares. These omissions will progressively be rectified in subsequent versions of the Accounts.

Regarding Monetary gold and SDRs, the ESA 95 ceases to consider them as liabilities of the Rest of the world account, as they are not liabilities to any agent. Instead, it treats them as assets with a negative sign in the same account.

Turning to *financial derivatives*, ESA 79 did not envisage these instruments, given their virtual non-existence when the manual was devised. ESA 95 does consider them, but only if they have a market value, either because they are traded or cleared on the market. Under this category, ESA 95 explicitly recognises the following financial derivatives: options tradeable on organised and over-the-counter (OTC) markets; warrants; futures; swaps; and forward rate agreements (FRAs).

In the current version of the FASE according to ESA 95, data are presented for the financial derivatives heading only in the financial transactions account, and not in the financial balance sheets. For derivatives transactions it is possible, using the data provided by credit institutions, collective investment undertakings and insurance corporations, on one hand, and the Balance of Payments, on the other, to estimate reasonably the breakdown by sector of these types of transactions. However, in the case of balances, data from the International Investment Position are lacking, and those available from the above-mentioned institutions refer only to options and are not sectorised.

5. TIME PERIOD ALLOCATION OF INTEREST INCOME

Under ESA 95, the accrual principle is applied to transactions. In non-financial transactions, the application of this principle particularly affects the recording of interest income. Under ESA 79, the recording of these transactions adhered to a criterion of callability, which was somewhat confusing. Indeed, in the original English draft of the ESA 79, the interest on these

Financial instruments according to ESA 79 and ESA 95

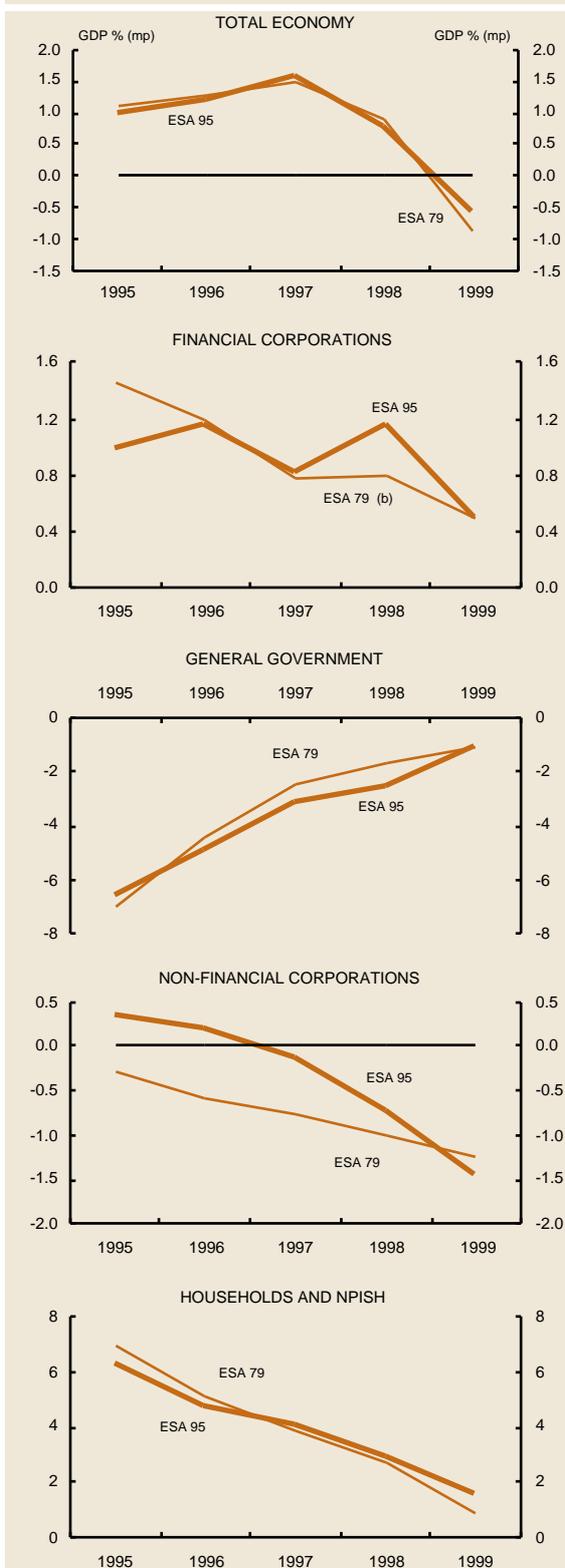
ESA 79	ESA 95
F.00 FINANCIAL GOLD	F.1 MONETARY GOLD AND SDRs
F.10 SPECIAL DRAWING RIGHTS (SDRs)	F.11 Monetary gold
	F.12 Special drawing rights (SDRs)
F.20 CURRENCY AND TRANSFERABLE SIGHT DEPOSITS	F.2 CURRENCY AND DEPOSITS
F.21 Currency and transferable sight deposits in national currency	F.21 Currency
F.22 Currency and transferable sight deposits in foreign currency	F.22 Transferable deposits
F.23 Net position in the IMF	F.29 Other deposits
F.30 OTHER DEPOSITS	
F.31 Other deposits in national currency	
<i>F.311 Time deposits in national currency</i>	
<i>F.312 Sight savings deposits in national currency</i>	
<i>F.313 Time savings deposits in national currency</i>	
F.32 Other deposits in foreign currency	
F.40 BILLS AND SHORT-TERM BONDS (a)	F.3 SECURITIES OTHER THAN SHARES (b)
F.50 LONG-TERM BONDS (c)	F.33 Securities other than shares, excluding financial derivatives
	<i>F.331 Short-term</i>
	<i>F.332 Long-term</i>
	F.34 Financial derivatives
F.60 SHARES AND OTHER EQUITIES	F.5 SHARES AND OTHER EQUITY
F.61 Shares	F.51 Shares and other equity, excluding mutual funds shares
	<i>F.511 Quoted shares</i>
	<i>F.512 Unquoted shares</i>
	<i>F.513 Other equity</i>
F.62 Other equities	F.52 Mutual funds shares
F.70 SHORT-TERM LOANS	F.4 LOANS
F.71 Short-term trade credit	F.41 Short-term loans
F.72 Accounts receivable and payable	F.42 Long-term loans
F.79 Other short-term loans	
F.80 MEDIUM AND LONG-TERM LOANS	
F.81 Medium and long-term trade credit	
F.89 Other medium and long-term loans	
F.90 INSURANCE TECHNICAL RESERVES	F.6 INSURANCE TECHNICAL RESERVES
F.91 Actuarial reserves against outstanding risks and reserves for with-profits insurance	F.61 Net equity of households in life insurance reserves and in pension funds
	<i>F.611 Net equity of households in life insurance reserves</i>
	<i>F.612 Net equity of households in pension funds reserves</i>
F.92 Prepayments of premium and reserves against unsettled claims	F.62 Prepayments of insurance premium and reserves for outstanding claims
OTHER (d)	F.7 OTHER ACCOUNTS RECEIVABLE/PAYABLE
	F.71 Trade credits and advances
	F.79 Other accounts receivable/payable, except trade credits and advances
	F.M MEMORANDUM ITEM: DIRECT FOREIGN INVESTMENT

Source: EUROSTAT (ESA 79 and ESA 95).

- (a) Non-marketable bills and short-term bonds should be included in "Other deposits".
 (b) Non-marketable securities other than shares should be included in "Loans".
 (c) Non-marketable long-term bonds should be included in "Other medium and long-term bonds".
 (d) ESA 79 did not include this item, unlike the Financial Accounts of the Spanish Economy, which always have.

CHART 1

Net financial transactions (a)



Source: Banco de España.

- (a) Net financial asset acquisitions less net liabilities incurred.
 (b) Credit institutions plus insurance enterprises.

transactions would be computed when it fell due. This wording and other similar expressions led to a degree of ambiguity, which proved particularly thorny when the recording of interest bore seriously on the estimation of the budget deficit under the EDP/SGP. The underlying problem was that ESA 79 had retained in their entirety the principles adopted by the ESA 70 drafted at the end of the sixties, when most of the securities in which debt materialised were short-term, issued at their face value and with coupon payments. In an attempt to attain a degree of harmonisation which, to some extent could integrate into ESA 79 the treatment of the interest on securities that came into being after ESA 79 had been drafted (zero-coupon bonds, tranche issues, index-linked securities, etc.), Eurostat initiated a series of consultations with the competent fora and finally, having been duly advised, adopted a series of Decisions within the scope of its remit. These Decisions were disseminated via press releases over the course of the years 1996 to 1998, and some of their consequences in the case of interest are highlighted in Box III.7 of the Banco de España's 1999 *Annual Report*. The chart and table in this box indicate the repercussion of this change on the data on interest paid by Spanish general government. With the entry into force of ESA 95 and the introduction of the accrual principle, such interpretations have ceased to be meaningful, which is a great advantage for analysts and compilers.

This change of criterion in the recording of interest in the non-financial transactions accounts affects the financial approach of the accounts. This is because applying the accrual principle means, in turn, including the interest accrued on financial transactions up to the time of payment. In connection with this incorporation into the financial account, which in principle could be done under the heading of other accounts receivable/payable, or else in the very instrument generating the interest, ESA 95 requires that the second of these options be applied in the case of issued securities. However, for the interest on deposits and loans, ESA 95 leaves the option open. Therefore, in the case of securities, the interest accrued is treated as if it were re-invested in the same instrument from which it stems, with a disinvestment from the related instrument coming about at the time of payment of the interest. The financial instrument in question shall be valued at market price, according to ESA 95 (6), with accrued interest being precisely one of the components of the change in market prices. Consequently, the

(6) The following section address the valuation criteria established under ESA 95.

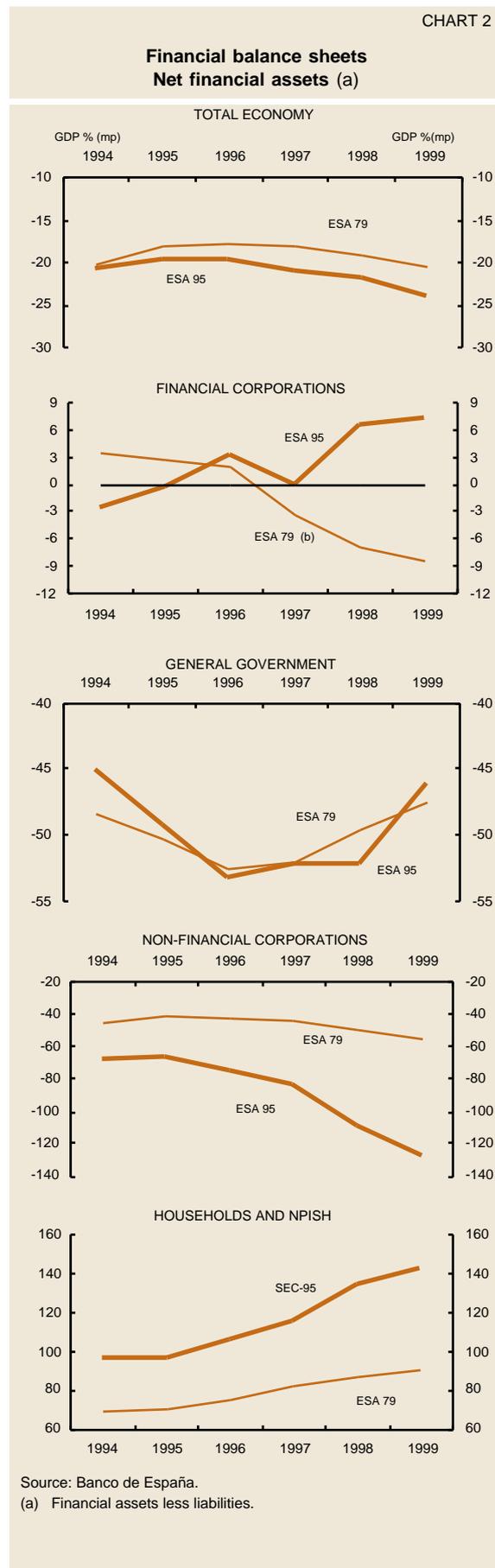
counterpart in the financial account of the interest accrued in the non-financial account is the incorporation of the accrued interest at the price of the liability.

This methodology, which is obligatory under ESA 95, has been adopted for securities in the FASE. In contrast, that applied in the FASE according to ESA 79 generally computed securities issues at face value, reflecting the interest recorded and unpaid in an asset-side financial account heading called *other*. The reflection of this change in the FASE has been a decrease in the asset heading *other* in the general government financial transactions account and a decrease in the counterpart item (liabilities-side *other*) of the holding sectors of these securities: Financial corporations, Non-financial corporations, Households and Rest of the world. Nonetheless, these changes have been partly offset by the incorporation into the heading *other accounts receivable/payable* of the interest accrued but not yet paid on bank loans and deposits, since this interest has not been included in the transactions as in the case of securities.

6. VALUATION OF FINANCIAL INSTRUMENTS

The ESA 95 methodology establishes that the valuation of financial balance sheets or stocks of financial assets and liabilities shall be at market price. To date, in the Financial assets and liabilities accounts compiled by the Banco de España, valuation was highly heterogeneous (face value, historical cost, accumulation of flows), except in the case of quoted shares, which were recorded at the market price. This is the most significant change in the Accounts and it affects, to varying degrees, all sectors of the economy. The categories most affected are *shares and other equity* and, to a lesser extent, *securities other than shares*. It is these which largely explain the difference in level and profile of the net financial assets of the various sectors shown in Chart 2. Section 8 offers a summary of how these changes have affected the results obtained.

In connection with the valuation of financial instruments at market price established by ESA 95, the practical application of this rule poses difficulties for those instruments where said valuation cannot be calculated directly. Indeed, market price can only be accurately recorded in the case of securities quoted on the Banco de España book-entry market (these are the bulk of securities other than shares in circulation) or on other organised markets, those with reasonable liquidity and quoted shares. Estimates have been made for the remaining securities.



The valuation methods used for the main instruments affected by this rule are discussed below. Evidently, these valuations are identical where the instruments are financial assets or liabilities; nonetheless, since the availability of sufficiently detailed information differs for securities issues and portfolios, the estimation procedure followed in each case shall be separately discussed.

Issues

a) Securities other than shares

- *Monetary financial institutions*

Issues with periodic payment of interest have been valued at market price. In the case of zero-coupon issues, the amount of the unmatured interest accrued has been added to the actual value at issue.

- *Non-financial corporations and other agents issuing securities other than unquoted shares*

The market value has been calculated using issuance data of similar characteristics relating to quoted securities. To make these estimates resort was had first, to zero-coupon bonds, and further, to other issues.

b) Shares

- *Quoted*

Stock market capitalisation has been applied directly.

- *Unquoted*

Banks: the market price has been obtained by applying to their own funds the market value/own funds (capital plus reserves) ratio of banks whose shares are quoted. This is the procedure recommended by the ECB and Eurostat (7) to value the unquoted shares of corporations whose sector is well represented on the stock market.

Other financial corporations: issues have been valued according to their own funds (capital plus reserves).

Non-financial corporations: unlike with banks whose shares are not quoted, most unlisted Spanish corporations do not have a sufficiently broad sectoral representation on stock markets. Hence, to value the shares of these corporations, it has been necessary to resort to procedures other than those discussed for banks. In this case the valuation procedure used by the Central Balance Sheet Office, based on the discounting of estimated ordinary results, has been incorporated. The *discount factor* applied is made up of a long-term interest rates plus a risk *premium* minus the *expected growth rate of profits* relating to a perpetual income. The risk premium includes various factors such as: a) the *structural risk* associated with the possibility of the corporations going bankrupt and b) the *liquidity risk* and *other factors* arising from the fact that the shares are not quoted on an organised market and that the life of many corporations cannot be considered as perpetual (a frequent occurrence in unlisted corporations, most of which small) Finally, in the case of non-financial corporations with net losses in the past five years, their value has been considered to be zero (8).

c) Other equity

- *Mutual funds*

According to their realisable value.

- *Non-financial corporations*

According to their own funds.

Regarding the procedures described for estimating the market price of unquoted shares and the equity of Non-financial corporations, the Central Balance Sheet Office data are only available to 1998; the 1999 data have been estimated via extrapolation.

Portfolios

From the standpoint of *holders* (financial assets), the estimation of the market-price-valued portfolios of the various sectors, sub-sectors and agents has been carried out by distributing the stocks of liabilities valued at market price (following the above-mentioned procedures) in

(7) The valuation of unquoted shares was studied by a purpose-designed sub-working group set up under the aegis of both organisations.

(8) For greater detail on these matters, see Boxes 7 and 8 of the Banco de España publication (in Spanish) "Central de Balances. Resultados anuales 1998".

direct proportion to the book or face values (whichever is appropriate) featuring in their portfolios or in the statements of securities deposited at credit institutions. Nonetheless, although it is this procedure that has been generally applied, additional information has also been taken into account, e.g. the fact that, in credit institutions' financial statements, the trading portfolio is already valued at market prices.

An exception to this general portfolio valuation rule has been *foreign direct investment in resident corporations*. To date, the International Investment Position statistics are reflecting this under the procedure of cumulative balance of payments flows. Consequently, since such investment is not valued at market prices, the application solely of the foregoing method would lead to an overvaluation of the portfolios of non-financial corporations and households sectors that are jointly obtained residually. To prevent this overvaluation, the revaluation it is estimated corresponds to the non-resident portfolios has been adjusted in the stock of liabilities. Nor has any valuation at market prices been made, so far, for *residents' direct investment in non-resident corporations*.

Finally, regarding the valuation in the ESA 95 Accounts of *loans* and *deposits*, their effective value is taken.

7. OTHER CHANGES IN THE ACCOUNTS NOT LINKED TO THE INTRODUCTION OF ESA 95

As indicated in the introduction, the changes to the FASE following ESA 95 methodology go beyond those relating to the rules laid down in this manual. The most important changes are due to the use of greater information from the Central Balance Sheet Office, now that the work providing for a relatively efficient use of the financial statements that corporations are obliged to file yearly with the Mercantile Registry has been concluded. This work involved first, editing the Mercantile Registry data in order to select the set of corporations whose data pass certain statistical tests. Second, this information was contrasted with that in INE's hands. This cross-checking was one of the tasks undertaken by a working group made up of staff from INE, the Banco de España and IGAE (the Audit Department of the Spanish Ministry of Finance) which has helped ESA 95 be set in place (see section 8.3). Finally, computer programs were designed enabling the entire process to be managed rapidly and efficiently. This improvement in the availability of information means data from over 200,000 corporations – compared with the approximately 8,000 firms

regularly reporting to the Central Balance Sheet Office – can be incorporated into the FASE. This enlarged number of corporations is important not only quantitatively, given the access to a larger amount of data, but also qualitatively, in that the extra corporations on which data are now available are small- and medium-sized and have different financial structures from large corporations, which are predominantly those that report habitually to the Central Balance Sheet Office. The categories in the FASE that have been most affected by this are *shares, other equity and trade credits*. The nature of the changes in the accounts attributable to access to greater information, and to other reasons, is discussed below.

- *Shares and other equity*

As indicated in the methodological notes accompanying previous editions of the annual FASE, one of the limitations of the work was that the outstanding balance of *shares and other equity*, and more specifically of unquoted shares and other equity issued by non-financial corporations, was underestimated. On the side of the holders, this underestimation was reflected in the portfolio of the joint sector *Non-financial corporations and households*. The above-mentioned work in the Central Balance Sheet Office has largely enabled this shortcoming to be rectified and, drawing on the data from the Mercantile Registries, it has been possible to estimate the total of unquoted shares issued by Non-financial corporations and of equity in corporations with a legal status other than that of public limited company (essentially private limited companies).

- *Trade credits*

Under ESA 79, trade credits appeared explicitly only in the accounts of non-financial corporations and households; in the other sectors they were included in the sub-category other. The approximation of the national total of credits was made on the basis of the set of corporations reporting to the Central Balance Sheet Office by means of the application of ratios relating trade credits granted (to customers) to those received (from suppliers). The latter were then related to the bank credit received by this set of corporations which, in turn, was related to the bank credit extended to the total number of resident corporations, obtained from credit institutions. Based on this estimate, the separation of trade credits into corpo-

Financial balance sheets. Comparison between ESA 95 and ESA 79
Average stocks in the period 1995-1999

TABLE 1

	% of GDP					
	Total economy	Non-financial corporations	Financial corporations	General government	Households and NPISH	Rest of the world
NET FINANCIAL ASSETS (a):						
Financial balance sheet ESA 95	-21.33	-94.51	3.53	-50.55	120.19	21.33
Financial balance sheet ESA 79	-19.06	-47.42	-3.31	-51.09	82.79	19.04
Difference	-2.27	-47.09	6.84	0.55	37.40	2.29
<i>Methodology and sources</i>	-2.61	-48.58	6.90	-0.25	39.30	2.63
<i>Change-in-GDP effect</i>	0.34	1.49	-0.06	0.80	-1.90	-0.34
FINANCIAL ASSETS:						
Financial balance sheet ESA 95	586.02	129.23	255.99	28.26	172.53	87.81
Financial balance sheet ESA 79	499.28	84.64	249.10	22.27	143.27	79.90
Difference	86.74	44.59	6.89	5.99	29.26	7.91
<i>Methodology and sources</i>	95.99	46.63	10.93	6.44	31.98	9.29
<i>Change-in-GDP effect</i>	-9.25	-2.04	-4.04	-0.45	-2.72	-1.39
LIABILITIES:						
Financial balance sheet ESA 95	607.35	223.74	252.46	78.81	52.34	66.48
Financial balance sheet ESA 79	518.34	132.06	252.42	73.36	60.48	60.86
Difference	89.01	91.68	0.05	5.45	-8.14	5.61
<i>Methodology and sources</i>	98.60	95.21	4.03	6.69	-7.32	6.66
<i>Change-in-GDP effect</i>	-9.59	-3.53	-3.98	-1.24	-0.83	-1.05

Source: Banco de España and Instituto Nacional de Estadística (as regards GDP).

(a) Financial assets less liabilities.

GDP ESA 95 (average 1995-1999): EUR 494,962 m.

GDP ESA 79 (average 1995-1999): EUR 487,272 m.

rations and households was made on the assumption that the relationship between credits granted by non-financial corporations and by households (insofar as this latter group includes individual entrepreneurs) is the same as that existing between the trade bills discounted by non-financial corporations and households at credit institutions.

In compiling the FASE with ESA 95, two changes have come about in trade credits. First, these credits appear explicitly in other sectors in addition to those of non-financial corporations and households. Access to additional sources of information and the improvement in the cross-checking of data from the different sectors have made for an acceptable estimate of the trade-credit-granting sector (non-financial corporations, households and rest of the world) and the credit-receiving sectors (general government, corporations, households and rest of the world). Mention should be made of the general government contribution to this improvement in information quality in recent years, which has provided for a greater breakdown of certain categories. This has allowed the estimated trade

credit data drawn from this source to be checked against those obtained by the Central Balance Sheet Office, with most satisfactory results.

Further, by using data from a greater number of corporations which, as earlier indicated, are mostly small, the trade credits/bank credit and trade credits/discounted bills ratios have changed significantly.

- *Other accounts receivable/payable, except trade credits*

This category (other, under the ESA 79 terminology) is, along with that of securities and that of trade credits, one of those to have been most thoroughly revised in the ESA 95 Accounts, its amount diminishing in terms of both transactions and stocks. The main reason stems from the aforementioned improved estimation of trade credits, since the omission of a large portion of these meant that the category other was overvalued, as it included residually trade credits not appearing explicitly in the Accounts. A further – albeit lesser – cause for the reduction in the relative significance of this category

is the reflection of the State's net position vis-à-vis the EU as a net liability to the rest of the world in the general government transactions accounts and balances. This form of accounting matches that adopted in the statistics of the International Investment Position. Formerly, this net position was separately included under assets (EAGGF-Guarantee and ESF funds) and liabilities (ERDF, EAGGF-Guidance and FIFG).

- *Other changes pending application in the Accounts*

- *Short-term securities issued by Monetary financial institutions*

These issues had hitherto been included along with deposits. In the ESA 95 they are classified under the category short-term securities. The main reasons for this change have been the renewed vigour of these issues over the past year and their inclusion for trading on the AIAF market. Prior to this, these securities were scarcely traded, whereby their classification among deposits was warranted according to ESA 79 (see Scheme 2, footnote 1).

- *Securities categories in general*

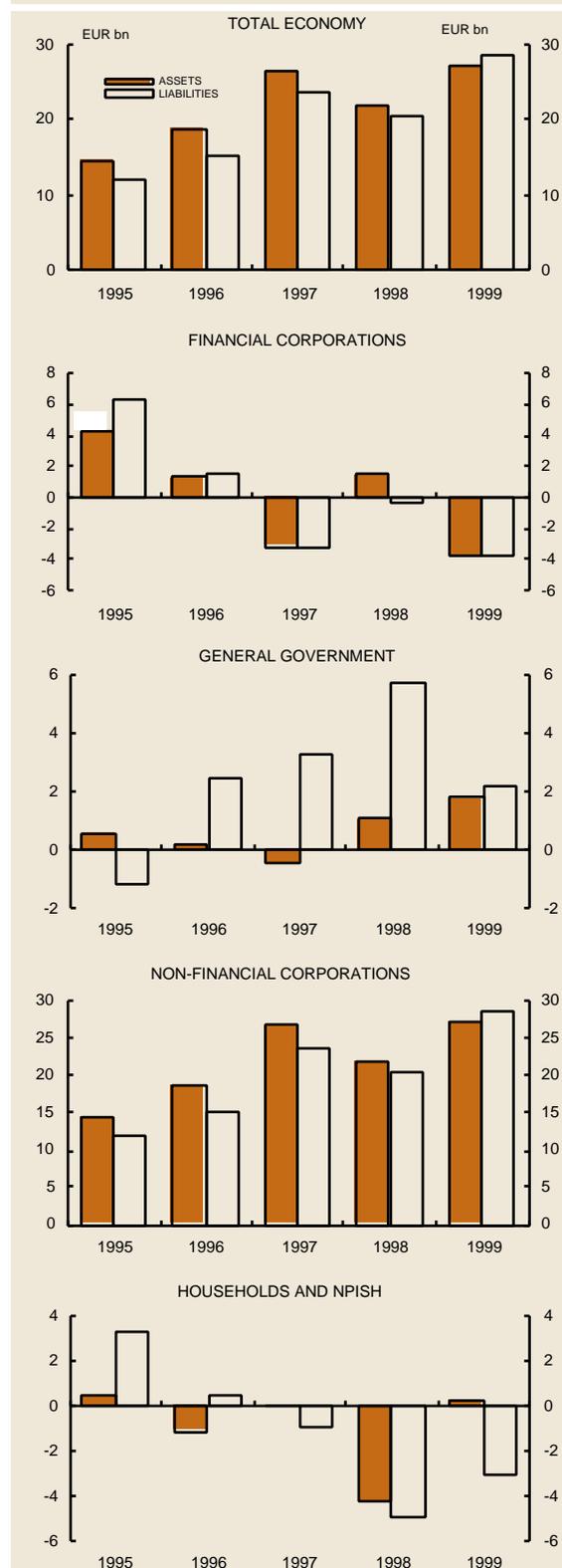
As a result of the methodological changes made and of other changes or additions, all the information on the securities categories has been revised in order to maintain the system's consistency and to adopt new procedures for compiling the ESA 95 series. By way of example, it may be stated that comprehensive information on holders of shares in mutual funds has been available since mid-1999 and that the annual revision of Balance of Payments data, which is one of the most frequently used sources, is conducive to certain changes in the Accounts.

- *Classification by instrument of international reserve assets*

Under ESA 79, these assets were classified in the annual FASE in the categories *gold and position in international organisations* and in *currency and transferable sight deposits*. In the quarterly FASE, these instruments were included in the categories *Gold and position in international organisa-*

CHART 3

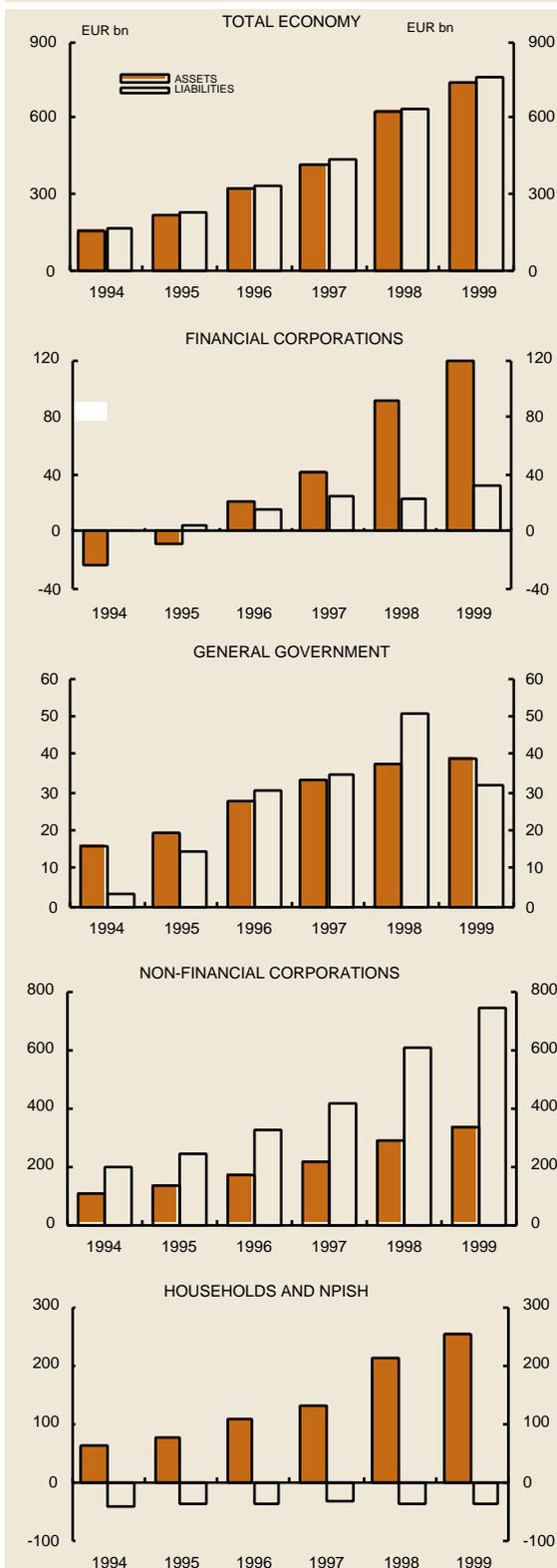
Net acquisition of assets and liabilities incurred Difference between ESA 95 and ESA 79



Source: Banco de España.

CHART 4

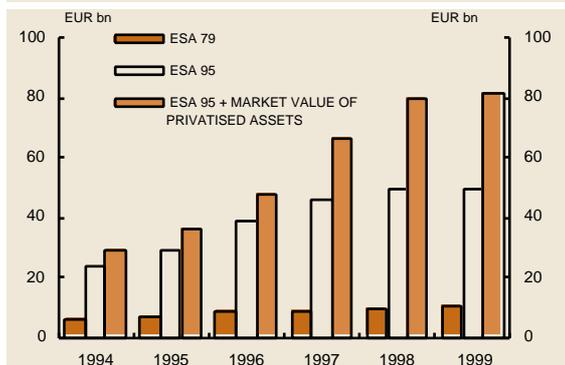
Financial assets and liabilities Difference between ESA 95 and ESA 79



Source: Banco de España.

CHART 5

General government shares and other equity Impact of privatisation of state-owned enterprises



Sources: Ministerio de Economía, Ministerio de Hacienda and Banco de España.

tions and in *Other reserve assets*. In the ESA 95 FASE, external reserves have been broken down into the instruments whose forms they have taken.

8. SUMMARY OF RESULTS OBTAINED

8.1. Main differences between ESA 95 and ESA 79 estimates

Table 1 and Charts 1 to 4 offer a summary by sector (including Rest of the world), and for the Spanish economy as a whole, of the main changes in the transactions and in the financial balance sheets recorded by the ESA 95 FASE compared with those previously published following ESA 79 methodology. To obtain an overview of the entire period 1995-1999, in Table 1 and in the comments that follow, the comparison between both systems has been made in terms of the average stocks for these years as a proportion of GDP. Table 1 indicates what portion of the change is due to the change in GDP.

Considering firstly the *Financial corporations* sector, *net financial assets* according to ESA 95 have grown by 6.8 % of GDP on average in the period 1995-1999. The changes that have most affected this sector relate to sectorisation (as indicated in section 3) and, as in other sectors, the market-price-valuation of securities, on both the asset and liabilities sides.

As regards *financial assets*, average increases of 6.9 %, 10.7 % and 14 % of GDP, respectively, were recorded in the categories *total assets*, *securities other than shares* and in *shares and other equity*, essentially due to the

change to market-price-valuation of the agents' portfolios making up this sector. Conversely, *other accounts and other instruments* show an opposite result (-8.2 % and -9.7 %, respectively). The decline in the stock of *other* is due virtually in its entirety to the elimination from the Banco de España balance sheet of the Accounts *category other reserve assets* (i.e. reserve assets other than monetary gold and the position in international organisations). In the current version of the Accounts, these reserve assets are included in the financial instruments whose form they have taken; essentially, *securities other than shares*, which, in turn, explains part of the growth of this above-mentioned category.

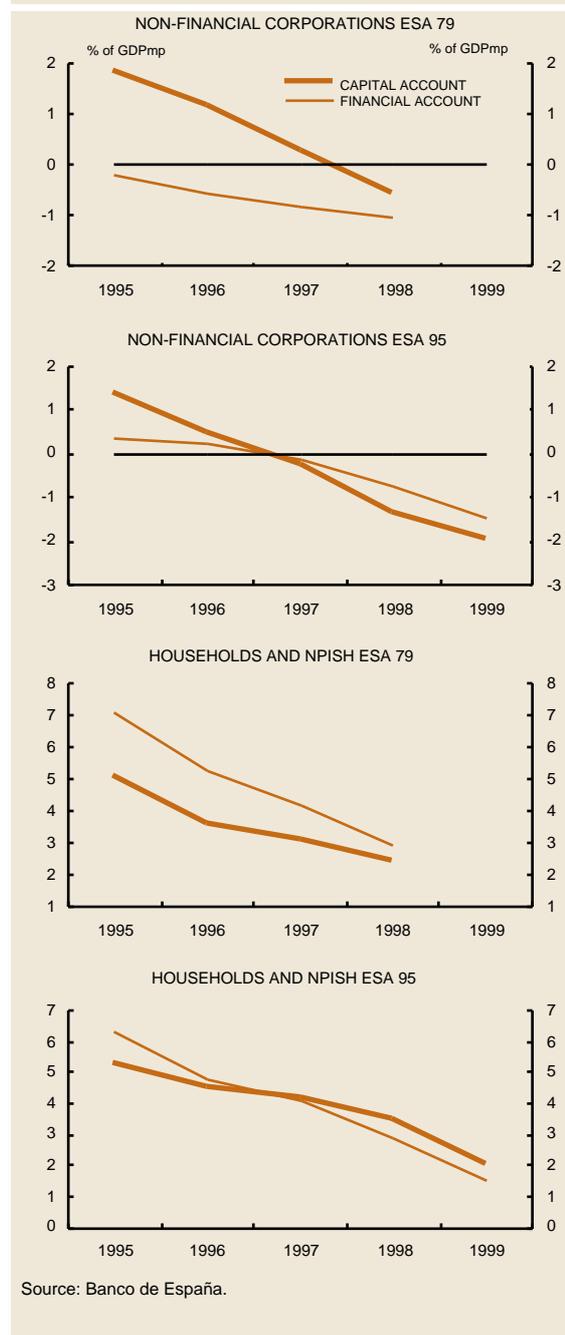
Turning to *liabilities*, the instruments whose stocks post the biggest growth are *shares and other equity* (6.3 %) and *securities other than shares* (2.2 %). In addition to being due to the market price valuation, this result, in the case of the second of these categories, is attributable to the inclusion in this sector of Securitisation funds (formerly included under Non-financial enterprises) and to the incorporation of negotiable notes issued by credit institutions (formerly included as deposits).

In the general government sector, *net financial assets* show negligible average growth (0.6 % of GDP). This is the outcome of a 6 % increase in *financial assets* and a 5.5 % rise in *liabilities*. Under assets, a key feature of this sector is the increase in the value of *shares and other equity* (6.9 % of GDP), despite the intense process of privatisation of state-owned enterprises during the period covered by the Accounts. Chart 5 and Table 3 have been drawn up to explain this effect. Chart 5 compares the value of this set of assets in the ESA 79 accounts and that in the ESA 95 accounts. Next to the latter a third bar has been added, indicating the value the portfolio would show according to ESA 95 if there had been no privatisations. Table 3 furnishes some additional details on changes in these general government assets over the period as a whole, thus complementing the information in the chart.

Another aspect of some importance regarding the assets of this sector is the reduction in *other categories* (-1 % of GDP). This result is due virtually in its entirety to the cancellation of the loan vis-à-vis RUMASA, which was among the financial assets of the State as this firm had been incorporated into the general government sector under the new sectorisation criteria.

Notable among *liabilities* are the following: growth of the order of 4 % of GDP of *securities other than shares*, as a result of the valuation of

CHART 6
Comparison between stocks of capital transaction account and of net financial transactions



outstanding public debt at market prices; the higher stock of *trade credits* (2.5 %), further to the improved estimation of this category, as discussed in section 7; and the likewise positive change in the stock of *loans* (0.5 %), resulting from the inclusion of a group of state-owned enterprises in the general government sector for the reasons set out in section 3. These enterprises did not, however, have debt in the form of securities. The improved estimation of *trade credits* accounts for most of the reduction in

other accounts payable (-1.5 %), since this was where they were formerly included.

Turning to the sector *Non-financial corporations*, the stock of *net financial assets* has undergone a fall in the new FASE of 47.1 % of GDP as a result of a 91.7 % increase in the total stock of *liabilities* and a 44.6 % rise in that of *financial assets*. Under liabilities there was a notable increase of almost 68 % of GDP in the stock of *shares and other equity*. This is due both to the rise in the value of these liabilities, following the application of market prices, and to the increase in the stock of unquoted shares and participations, further to the inclusion of the data from the Mercantile Registries on small- and medium-sized companies (as discussed in section 7). The latter also explains the increase of somewhat over 27 % in the stock of *trade credits*.

On the *assets* side, the instruments exhibiting most growth are *shares and other equity* (24 % of GDP) and *trade credits* (25 %), due in both cases to the reasons given in connection with these same instruments on the liabilities side.

The divergence between ESA 95 and ESA 79 in the sector *Households and NPISH* is the opposite to that in the sector *Non-financial corporations*. Indeed, the average stock of *net financial assets* of Households and NPISH shows an increase between both versions of the Accounts of 37.4 % of GDP as a result of a 29.3 % increase in the stock of *financial assets* and a fall of 8.1 % in that corresponding to liabilities. The increase in assets is due almost in full to the rise in the value of the portfolio of *shares and other equity* (almost 28 %), owing to the aforementioned market-price valuation and the incorporation of the data from the Mercantile Registries. As regards the decline in the stock of liabilities, the main reasons are the fall in the stock of *trade credits* (-4.1 %) and in *other accounts payable* (-3.8 %).

The overall outcome of these changes in the various sectors for the *total economy* is a reduction in the stock of *net financial assets* of 2.3 % of GDP, which arises from a 86.7 % increase in *financial assets* and a 89 % increase in *liabilities*. The impact on the economy of the market-price valuation of securities, the increase in the stock of shares and other equity and the increase in trade credits account for these high-percentage increases in assets and liabilities. Conversely, the categories *other accounts receivable* (asset-side) and *payable* (liabilities-side) have declined considerably. This is a very favourable result in the Accounts, as it has enabled the stock of those categories in-

cluding instruments not explicitly identified to be reduced significantly.

The analysis for the national economy can also be interpreted from the standpoint of the sector *Rest of the world* which, in keeping with the previous paragraph, sees its *net financial assets* rise by 2.3 % of GDP. The estimation of this limited increase, resulting from the increases in the rest of the world's financial claims on Spain and from the increase in its liabilities to the country (see Table 1), has a shortcoming. In fact, as stated in the following section, market-price valuation has yet to be applied to the liabilities of the resident sectors (financial assets of the rest of the world) which are the vehicle for direct investment. The same valuation has also yet to be done for the financial assets of the resident sectors which are liabilities of the rest of the world.

8.2. Link between the capital accounts and the financial account

The co-ordination between INE, which compiles the non-financial accounts of the institutional sectors in the context of the National Accounts, and the Banco de España, which compiles the Financial Accounts, is evident in the link between the balancing item of the capital transactions account (net lending/net borrowing) and the balancing item of the financial transactions account (net financial transactions) (9). Completing the co-ordination process is the contribution of the IGAE in respect of the accounts of the general government sector. As a result of this co-ordination, the balancing items of both accounts for the sectors *Rest of the world*, *Credit institutions* and *General government* coincided already in the series available in ESA 79 terms, and the same is the case for the balancing items of the sectors *Rest of the world*, *Financial corporations* and *General government* in ESA 95. However, the heterogeneous and non-integrated information available to national, financial and non-financial accounts practitioners means discrepancies arise between the balancing items of the aforementioned sectors *Non-financial corporations* and *Households and non-profit institutions serving households*, in both ESA 79 and ESA 95, to a

(9) Following the OECD, the version of the FASE formerly prepared by the Banco de España in ESA 79 terms called this balancing item "net financial saving", an expression which, as experience shows, is equivocal. Eurostat recommends not calling the balancing item of the financial account the same as that of the capital account (theoretically they should be identical, since one is the counterpart of the other) in order to highlight the fact that, in many cases, the estimation of both accounts draws on non-integrated information.

Links between initial and final financial balance sheets
Period 1995-1999. December 1994=100

TABLE 2

	Initial financial balance sheet (31.12.1994)	Transactions (1995-1999)	Revaluations (1995-1999)	Other changes in volume (1995-1999)	Final financial balance sheet (31.12.1999)
Financial assets					
Total economy	100.0	58.4	38.1	-1.9	194.6
Non-financial corporations	100.0	85.6	53.8	-4.3	235.2
Financial corporations	100.0	58.8	20.0	-1.6	177.2
General government	100.0	43.8	23.2	0.0	167.0
Households and NPISH	100.0	41.9	58.8	-1.2	199.5
Rest of the world	100.0	97.4	25.3	0.2	222.9
Liabilities					
Total economy	100.0	55.2	39.0	-0.7	193.5
Non-financial corporations	100.0	51.9	95.9	-0.2	247.7
Financial corporations	100.0	55.6	16.1	-1.0	170.7
General government	100.0	47.6	8.0	-1.3	154.3
Households and NPISH	100.0	75.0	-2.0	0.0	173.0
Rest of the world	100.0	147.1	11.2	-11.7	246.6

Source: Banco de España.

similar extent to those that appear in other European countries. Chart 6 shows the discrepancies that have arisen on preparing the transactions accounts within the framework of the two systems. It can be seen how the scale of these discrepancies has diminished and how their profile has drawn nearer over time. This has been the result of greater co-ordination between compilers during the implementation stage of ESA 95. Foreseeably, such co-ordination will become stronger in the future implying, inter alia, an increasingly more specific use of the Central Balance Sheet Office's information in the preparatory work for the Accounts.

8.3. Link between the financial balance sheets at the beginning and end of the period in the 1995-1999 series in ESA 95

Table 2 shows the link between the balance sheet at the beginning of the series (December 1994) and at the end (December 1999) for the various sectors. The period is extensive enough to accord generality to the conclusions drawn. In principle, it is sought to highlight the important role played by the revaluation accounts in the link. These capture the effect of the changes on the prices of financial assets and liabilities in the starting balance sheet. These revaluations were not explicit in ESA 79, because the scope of that system was confined to the transactions accounts and not to the start-

ing balance sheets. Readers of the FASE hitherto published by the Banco de España, which also included financial balance sheets (called financial assets and liabilities accounts), should be mindful of the fact that, as mentioned above, such accounts were compiled without reference to any standardised system. Accordingly, in valuing various assets and liabilities, it was decided to take the value available, which in most cases was the face value. And that, on attempting to reconcile the opening and closing balance sheets, would mask the effect of revaluations.

8.4. The FASE in ESA 95 terms and general government portfolios

Besides their general usefulness for describing the process of financing of the economy, the FASE compiled in terms of ESA 95 reveal particularly interesting aspects of developments in the different sectors. Table 3 and Chart 5 attempt to reflect in a summarised fashion how certain aspects of the privatisation process have been recorded in the accounts, i.e. the sale to other sectors of financial assets in the form of shares and other equity, which featured in the general government portfolio. The estimated amounts in the sector's portfolios were notably small in the series prior to ESA 95 being set in place owing to the fact that, as indicated on repeated occasions, the valuation followed until ESA 95 was established used het-

TABLE 3

Breakdown of general government shares and equity

EUR million

	Final balance sheet 1994	Transactions (a) (1995-1998)	Revaluations (1995-1998)	Final balance sheet 1998	Memorandum item: final balance sheet 1999
Shares and other equity (ESA 95)	26,163	-6,445	33,508	53,226	53,605
<i>Telefónica, Tabacalera, Aldeasa and Argentaria</i>	5,221	-9,556	4,335	72	0
<i>Other</i>	20,942	3,111	29,173	53,154	53,605
MEMORANDUM ITEM:					
Shares and other equities (ESA 79)	8,078	-6,209	10,180	12,049	12,592

Sources: Ministerio de Economía, Ministerio de Hacienda and Banco de España.

(a) Negative amounts: net privatisations. Positive amounts: net contribution of funds.

Valuation: 1) Quoted shares: stock market capitalisation. 2) Unquoted shares: estimation of ordinary returns discounted at the discount factor mentioned in the article. The value of corporations with net losses over the past five years is considered to be zero. 3) Equity: as per amount of own funds (capital plus reserves).

Note: The ESA 79 only defines transactions, not financial balance sheets. Therefore, columns 1, 4 and 5 in the memorandum item are based on estimations drawn from heterogeneous sources: book values, accumulated flows, nominal values, etc. See comments in section 8.4.

erogeneous criteria in the absence of a system of reference (ESA 79 restricted itself to recording the operations). This heterogeneous valuation considered, on a case-by-case basis, nominal values, accumulation of flows, book values, etc. in the manner explained in the methodological note disseminated each year in the Spanish publication *Cuentas financieras de la economía española*. It is also evident that disposals of a portion of these financial assets, as a result of privatisation, have not entailed their reduction in absolute terms owing to revaluations coming into play. Obviously, net contributions or injections of funds also arise, i.e. conventional or more specific asset-increasing operations. An example of the former is budgetary contributions in the strict sense, an example of the latter being the recording, as contributions, of equity increases at non-financial corporations or financial institutions in which general government has an ownership interest, or the instance of the conversion of general government loans to the aforementioned corporations and institutions into capital contributions.

9. CHANGES STILL TO BE MADE IN THE ACCOUNTS

— Despite all the amendments incorporated into the Accounts, there are others pending which it has not so far been possible to undertake but which will be addressed as information becomes available, in some cases, and as the work under way is finalised, in

others. A non-exhaustive list of such changes follows:

- *Financial derivatives*: inclusion of stocks in the category of securities other than shares. As indicated, at present only financial transactions are included.
- *Foreign direct investment*: pending is the valuation at market prices in the dual approximation of resident sectors' liabilities and rest of the world assets (portfolios).
- *Short-term issues of the rest of the world*: these do not appear in the Accounts as a specific category. The amounts under this item in the Balance of Payments and the International Investment Position are incorporated, along with medium- and long-term bonds, into the sub-position of long-term securities other than shares. Once the work under way aimed at reconciling the estimates obtained for this sub-position from alternative sources has been concluded, they will be correctly recorded as short-term securities.
- *Currency-exchange bureaux and insurance agents and brokers*: to date, information is not available on these corporations. Once it is, they will be incorporated into the Accounts under Financial Auxiliaries and, therefore, in the sector Financial Corporations.

22.5.2000.