

2015

METHODOLOGY

**THE FRENCH BALANCE OF
PAYMENTS AND INTERNATIONAL
INVESTMENT POSITION**

"No complete or partial copies or reproductions, other than those stipulated in Article L122-5 (2° and 3°a) of the *Intellectual Property Code*, may be made of this publication without the explicit authorisation of the Banque de France or, where appropriate, without compliance with the procedures stipulated in Article L122-10 of the said Code."

© Banque de France – 2015

FOREWORD

This document presents an inventory of the sources and methods that the Banque de France uses to compile France's balance of payments and international investment position. The first section presents the general aspects that ensure the consistency of the balance of payments and the international investment position: definitions, core concepts, general accounting principles and the statistical sources used to track international transactions. The second section provides details about each component of the balance of payments and the international investment position.

Readers will find a brief history of changes in the data collection system, along with a glossary and a list of acronyms at the end of the document.

COMPLETED IN JUNE 2015

CONTENTS

PART 1	GENERAL ASPECTS	7
	1I Definitions, institutional aspects and legal framework	8
	1I1 Definitions	8
	1I2 Objectives	8
	1I3 Institutional aspects	9
	1I4 Conceptual framework	9
	1I5 Flows and positions: balance of payments and international investment position	10
	1I6 Data availability, publications and revision policy	10
	2I Basic concepts	11
	2I1 Residents/non-residents	11
	2I2 France's economic territory for the purposes of the balance of payments	12
	2I3 Resident institutional sectors	12
	2I4 Functional categories of the financial account and the international investment position	12
	2I5 Maturities: long term/short term	12
	3I General accounting principles	13
	3I1 Change of economic ownership	13
	3I2 Accrual basis for determining the time of recording of transactions	13
	3I3 Valuation method for transactions in the balance of payments and positions in the international investment position	13
	3I4 Sign convention	13
	3I5 Sector and geographical breakdowns	14
	4I Statistical sources	14
	4I1 The main Banque de France surveys and data collections	14
	4I2 Other sources used to compile the balance of payments and the international investment position	18
PART 2	STRUCTURE OF THE BALANCE OF PAYMENTS AND THE INTERNATIONAL INVESTMENT POSITION	19
	1I Current account and capital account	20
	1I1 Goods	20
	1I2 Services	22
	1I3 Primary income	25
	1I4 Secondary income	27
	1I5 Capital account	29
	2I The financial account of the balance of payments and the international investment position	30
	2I1 Direct investment	30
	2I2 Portfolio investment	34
	2I3 Financial derivatives	35
	2I4 Other investment	35
	2I5 Reserve assets	37
	3I External debt	38

APPENDICES

A

Seasonally adjusted current account statistics

A1

Changes in the data collection system for the balance of payments
and the international investment position

A3

Glossary

A5

List of abbreviations

A11

BOXES

1 Laws and regulations governing the compilation of the balance of payments and the international investment position by the Banque de France	9
2 From customs data to balance of payments data	21
3 Financial intermediation services indirectly measured (FISIM)	23
4 Reinvested earnings	26
5 Interest accruals	27
6 Outward workers' remittances	29
7 Direct investment presentation principles	30
8 Difference between the annual variation in direct investment positions at mixed value and balance of payments flows	33



PART 1

GENERAL ASPECTS

Furthermore, as part of the implementation of the European “package” adopted by the European Union Council in October 2011 with the aim of enhancing economic governance within the European Union, the European Commission draws up a yearly scoreboard of 11 main macroeconomic indicators and nearly 40 secondary indicators.¹ The current account balance, the net international investment position and changes in export market shares are included in the 11 main indicators.

1/3 Institutional aspects

The Banque de France has a legal obligation to compile France's balance of payments and international investment position (see Box 1). It also contributes to

the preparation of the euro-area balance of payments and international investment position. Legally, it can require all economic and financial agents to submit any documents and information that it needs to perform this task. At the operational level, it is the Banque de France's Directorate General of Statistics that compiles the balance of payments.

1/4 Conceptual framework

The Articles of Association of the International Monetary Fund (IMF) give the Fund responsibility for ensuring the smooth operation of the international monetary system. In this capacity, the IMF plays an important role in standardising the concepts, definitions, classifications and conventions. Standardisation makes it easier to collect, present and compare balance of payment statistics at the national and international levels.

The current conceptual framework for compiling the balance of payments and the international investment position is set out in the 6th Edition of the Balance of Payments and International Investment Position Manual,² abbreviated as “BPM6” (<https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf>).

¹ For more detailed information, see http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/mip_scoreboard/index_en.htm

² For more details about the implications of the changeover to BPM6, see B. Collès, J. Pavot and J. Uri, “Preparing France's balance of payments in accordance with the new international standards: a statistical response to economic globalisation”, Banque de France Bulletin, *Quarterly Selection of Articles*, No. 37, Spring 2015. https://www.banque-france.fr/fileadmin/user_upload/banque_de_france/publications/QSA37_5_Preparing-FR-Balance.pdf

Box 1

Laws and regulations governing the compilation of the balance of payments and the international investment position by the Banque de France

France has compiled a complete balance of payments since 1945. This task was originally given to the Exchange Board and then transferred to the Banque de France when the board was abolished in December 1959. The role of the Banque de France has been upheld several times since then, by Decree 89-938 of 29 December 1989, the Act of 4 August 1993, as amended, on the reform of the Banque de France's status.

For the purposes of Article L141-6 of the Monetary and Financial Code, the Banque de France is responsible for decisions determining which data need to be gathered to compile the balance of payments and the international investment position. These laws and regulations can be consulted via the “reporting institutions page” of the Banque de France website under “Economics and Statistics”. These laws and regulations include:

- *Decision 2007-01 of the Monetary Committee of the Banque de France General Council on the collection of statistics for the compilation of France's balance of payments and international investment position of France, the euro area and the European Community;*
- *Decision 2007-02 of the Monetary Committee of the Banque de France General Council on the collection of statistics about securities holdings from credit institutions and investment firms;*
- *Decision 2009-04 of the Governor of the Banque de France on the reporting of statistics by financial intermediaries for the purposes of compiling the balance of payments and the international investment position.*

These decisions ensure the proper enforcement of European rules and global standards governing balance of payments and international investment position statistics.

The Manual was published in 2009 and, like the previous editions, published by the IMF in 1948, 1950, 1961, 1977 and 1993, it serves as a guide for the member countries. The 6th Edition of the Manual has been in force since 2014 for the compilation of the balance of payments and the international investment position of the euro area and the European Union.

Furthermore, in view of the statistical harmonisation process in the euro area, the European Central Bank (ECB) has been led to define more precisely certain aspects of the balances of payments of the countries in the Monetary Union and to describe the derived concepts and methods in the *Balance of Payments Book*. The Book is updated periodically and can be consulted on the ECB website (<https://www.ecb.europa.eu/stats/external/bpm6/html/index.en.html>).

1|5 Flows and positions: balance of payments and international investment position

The international investment position represents the nation's net assets or liabilities vis-à-vis the rest of the world. The balance of payments records annual flows, while the international investment position records positions (stocks). The use of similar information sources and the same concepts for the balance of payments and for the international investment position testifies to the determination to facilitate linkages between the two sets of statistics and ensuring consistent analysis of both sets of accounts.

More specifically, the change in a financial position between two dates can be broken down into financial transactions during the accounting period and the

variation stemming from changes in exchange rates and asset prices on existing positions (see Table 1-1).

In addition there are "other adjustments", which may be the result of such factors as (1) reclassification between functional categories, for example, between portfolio investment and direct investment, (2) write-offs of private claims or the elimination of assets or liabilities (following the disappearance of a business, for example), (3) breaks in data series stemming from changes in methodology or data collection.

1|6 Data availability, publications and revision policy

France's balance of payments is compiled monthly using a simplified format and estimated figures for a number of items. It is published approximately six weeks after the end of the month under review. The "unadjusted" current account statistics are published, along with seasonally and working-day adjusted³ statistics.

Revised and more detailed balance of payments data are published quarterly, along with international investment position data. The data are published approximately three months after the end of the quarter under review, along with the monthly statistics for the second month of the following quarter.

The schedule of statistical publications is available on the Banque de France website (<https://www.banque-france.fr/en/economics-statistics/calendar.html>).

³ For more detailed information about adjusted statistics, see Appendix 1.

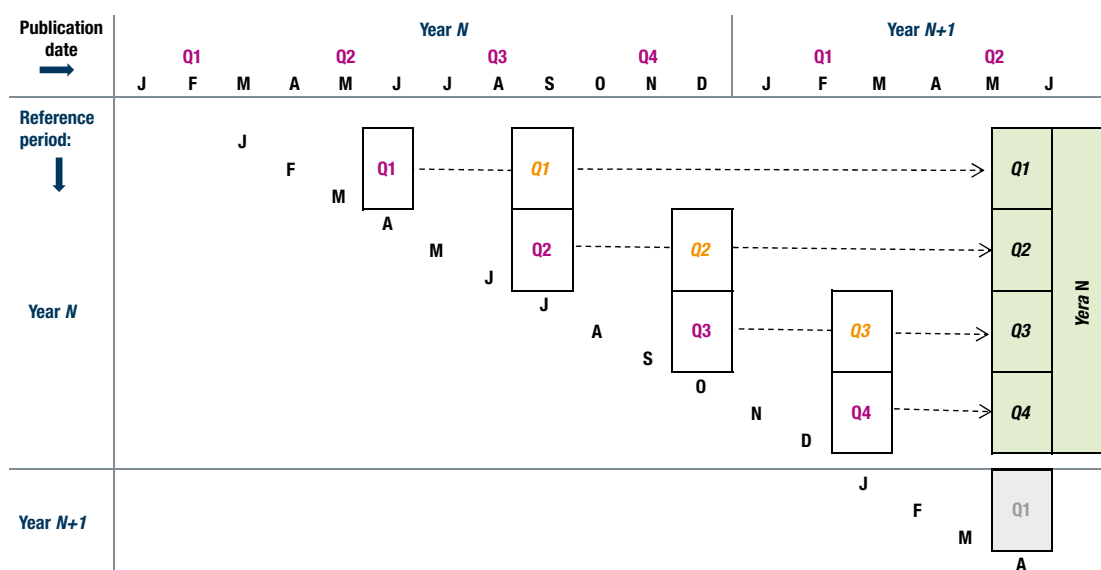
T1-1 Integration of flows and positions between the balance of payments and the international investment position

(illustration based on 2009-2010 data)

	Positions end 2009	Balance of payments transactions in 2010	Changes attributable to changes in exchange rates, market prices and other adjustments				Position end 2010
			Total	Changes in exchange rates	Changes in market prices	Other adjustments	
	1	2	3				4 = 1 + 2 + 3
Direct investment (mixed value)	328	26	52	25	0	27	406
Portfolio investment	-219	-117	15	13	-1	3	-321
Financial derivatives	-72	-3	27	0	0	27	-48
Other investment	-403	89	-17	-17	0	0	-331
Reserve assets	92	-2	-47	-47	0	0	44
Balance	-274	-6	30	-26	-1	57	-250

Source: Banque de France.

Publication and revision schedule for Year N data



Key: The Banque de France compiles the July balance of payments in September of year N. It also compiles the balance of payments for the second quarter, which includes the revision of the monthly data from April, May and June. At the same time, it revises the data from the first quarter (January, February, March).
Source: Banque de France.

Then, once a year, the balance of payments and the international investment position data from the last three years are revised and the revisions are presented when the *Annual Report – The French Balance of Payments and International Investment Position*⁴ is published (see diagram above).

The quarterly and annual revisions stem from the late arrival of reports or corrections of errors in previous reports, as well as the inclusion of data that are only available on a quarterly basis, for the quarterly revisions, or on an annual basis, for the annual revisions.

2| BASIC CONCEPTS

2|1 Residents/non-residents

The basic criterion is the country of residence of economic agents, which might differ from their nationality. For the purposes of the balance of payments, residents and non-residents are defined as follows.

Residents are:

- natural persons having their centre of predominant economic interest in France, regardless of their nationality, except for foreign civil servants and military personnel assigned to France, who remain non-residents;
- civil servants and other French government employees posted to other countries or seconded to international organisations or other non-resident employers;
- French and foreign legal entities, for their establishments in France, except for foreign diplomatic missions and international organisations based in France, when there is a real economic activity carried out in France by autonomous production units, regardless of their legal form (subsidiary, branch, agency, office, etc.).

Non-residents are:

- foreign and French natural persons who live abroad, meaning who are actually located abroad, with the exception of French diplomatic missions and French civil servants posted abroad;
- foreign and French legal entities, for their establishments abroad, when they have a real economic activity performed abroad by autonomous production units, regardless of their legal form.

⁴ <https://www.banque-france.fr/economie-et-statistiques/balance-des-paiements-et-autres-statistiques-internationales/la-balance-des-paiements-et-la-position-exterieure/rapport-annuel-de-la-balance-des-paiements-et-la-position-exterieure-de-la-france.html>

2|2 France's economic territory for the purposes of the balance of payments

For the purposes of the balance of payments and the international investment position, France's economic territory includes the departments in metropolitan France, the overseas departments (Guadeloupe, French Guyana, La Réunion, Martinique and Mayotte), and the overseas communities of Saint-Barthelemy, Saint-Martin and Saint Pierre and Miquelon,⁵ along with the Principality of Monaco. All other countries, territories and institutions, including the ECB, are regarded as non-residents.

2|3 Resident institutional sectors

The amounts recorded under most balance of payments items, with some exceptions, such as goods and services, are broken down according to the institutional sector of the resident party to the transaction. The institutional sectors are the same ones used in the system of national accounts. These sectors are:

- monetary authorities (or central bank), which correspond to the Banque de France;
- the general government sector, which covers central government, various central government entities, local government and social security administrations;
- the monetary financial institutions (MFI) sector, excluding the central bank, includes resident credit institutions, as defined in European legislation,⁶ and all other resident financial institutions the business of which is to receive deposits (or close substitutes for deposits) from entities other than MFIs and to grant credit and/or make investments in securities for their own account. The Caisse des Dépôts et Consignations, money market funds and the Caisse Nationale d'Épargne are also part of the MFI sector. On the other hand, payment institutions are not part of this sector;
- the "other sectors" item records transactions by economic agents that are not monetary authorities, general government or monetary financial institutions. This category covers other financial corporations (insurance corporations, investment companies, financial holding companies, investment funds, except money market funds, which are classified as monetary financial institutions), industrial and commercial companies, households and unincorporated enterprises. This residual sector also includes non-profit institutions serving households (NPISHs), such as associations or foundations.

2|4 Functional categories of the financial account and the international investment position

The international accounts (balance of payments and international investment position) identify five functional categories of financial transactions and positions (as well as for the allocation of certain types of primary income). These categories are direct investment, portfolio investment, financial derivatives, "other investment" and reserve assets.

- Direct investment covers investments that give a resident control or a significant degree of influence over the management of a non-resident enterprise and vice versa.
- Portfolio investment covers transactions and positions in debt and equity securities, other than those covered by direct investment or reserve assets.
- A derivative is a financial instrument linked to another instrument, financial indicator or specific commodity that makes it possible to trade specified financial risks on the financial markets.
- "Other investment" covers transactions and positions other than those covered by direct investment, portfolio investment, financial derivatives and reserve assets. It mainly concerns deposits, loans and borrowing, particularly banks' international transactions, and trade credit.
- Reserve assets are external assets that are readily available to the Central Bank.

2|5 Maturities: long term/short term

For the purposes of the balance of payments and international investment position, long term means initial maturities of more than one year and short term means initial maturities of one year or less.

⁵ The other overseas communities (French Polynesia, Wallis and Futuna and New Caledonia) are not members of the European Union and are not included in the French balance of payments. The two largest, French Polynesia and New Caledonia, have their own individual balances of payments compiled by the overseas banknote issuing institution (Institut d'émission d'outre-mer). See <http://www.ieom.fr/ieom/balance-des-paiements/>

⁶ A credit institution is defined as an undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account (Article 4 of Regulation 575/2013 EU of 26 June 2013).

3| GENERAL ACCOUNTING PRINCIPLES

PART 1 GENERAL ASPECTS

3|1 Change of economic ownership

A transaction between a resident and a non-resident is recorded in the balance of payments if it results in a change of economic ownership. This is a key criterion in BPM6. At first glance, the change of economic ownership is more abstract than customs clearance or the recording of an international credit transfer, but it means a uniform and adaptable principle can be applied to the different and constantly changing procedures of international trade and payments. Economic ownership includes all risks and rewards, rights and responsibilities of ownership. This may be different from legal ownership and the notion of crossing a border. This principle is used to record transactions where legal ownership may be different from economic ownership, such as repurchase transactions, financial leases or transactions between an enterprise and its branches.

3|2 Accrual basis for determining the time of recording of transactions

Under the accrual basis of accounting, transactions are recorded when economic value is created, transformed, exchanged, transferred or extinguished. This means the effects of economic events are recorded in the accounting period when the events occur, regardless of when the funds are due or payment is made or received. When an economic event is paired with a payment at a later date – for example, when imports are financed by trade credit –, the time lag is overcome by recording each event separately – the entry at the time of import is recorded as a loan to be repaid. The accrual basis is also used for national accounts.

3|3 Valuation method for transactions in the balance of payments and positions in the international investment position

The market price is the current exchange value, meaning the value at which goods, services, labour or financial assets are exchanged or else could be exchanged for cash. This price is the base for valuations in international accounts.

The market price of a transaction is defined as the amount of cash that a buyer agrees to pay to acquire

what the seller agrees to sell. In balance of payments transactions, the problem of estimating the value of transaction rarely arises: in most cases, the exchanges between two parties are made for payment and the observed price is used for the valuation of the transactions.

Valuation is another matter entirely for the international investment position, which records positions. The value of these positions may change over time and they are often valued at prices that are not the ones paid in the financial transactions leading to the accumulation of the positions.

Positions in financial assets and liabilities are generally valued as if they were acquired in transactions on the market on the last day of the accounting period. This market price is available for certain assets only, which are those that are frequently exchanged, especially those traded on organised markets, such as stock exchanges. Other assets are not exchanged frequently and determining their market value may be difficult. If such a value is not available, a substitute must be found.

One possible substitute is the book value, meaning the value that enterprises report in their financial statements. For instance, aggregate direct investment is valued at “mixed value”, meaning a combination of market value for listed assets and book value for unlisted assets. Mixed value is the most widely used measurement of direct investment, particularly within the euro area and the European Union. This facilitates international comparisons.

Loans and deposits are recorded at their book value.

3|4 Sign convention

By convention, all current account credit and debit transactions have a positive sign, with a few exceptions, including acquisitions for merchanting and reinvested earnings in the event of operating losses, which are recorded as credits or debits, as the case may be, with a negative sign. A positive balance (credits minus debits) on the current account and the capital account indicates that receipts are greater than payments, resulting in net lending. In the case of transactions in assets and liabilities on the financial account, a positive sign indicates an increase in assets or liabilities and a negative figure indicates a decrease in assets or liabilities. A positive balance of flows on the financial account indicates an increase in France's net assets, and a negative balance indicates a decrease in net assets. Simultaneous increases of assets and liabilities by the same amount do not change the balance of the financial account.

Simplified diagram of the sign convention

		+	-
Current account	Credit	Receipt (for example: export, receipt of a dividend or a benefit)	Payment (for example: acquisition of goods in a merchanting transaction)
	Debit	Payment (for example: import, remittance)	
	Balance	Surplus	Deficit

Financial account	Assets	Increase in assets (for example: a direct investment abroad creates a foreign asset)	Decrease in assets (for example: a resident's sale of American Treasury bonds decreases claims on the United States)
	Liabilities	Increase in liabilities (for example: borrowing from foreign banks increases liabilities to non-residents)	Decrease in liabilities (for example: redemption of French government bonds owned by non-residents reduces government debt to non-residents, thereby reducing liabilities)
	Net	Increase in France's net assets	Decrease in France's net assets

■ The counterpart is a capital inflow.

■ The counterpart is a capital outflow.

Source: Banque de France.

The sign conventions for the international investment position are consistent with those for the financial account in the balance of payments and with those of the system of national accounts.

3|5 Sector and geographical breakdowns

Financial flows and positions are allocated by resident institutional sectors: the sector of the resident investor for French residents' assets vis-à-vis the rest of the world and the sector of the resident issuer for liabilities vis-à-vis the rest of the world.

Flows and positions are also allocated by the counterparties' geographic zones and their institutional sectors. There is one exception however: portfolio investment liabilities are not broken down by the non-resident investors' sectors or countries. Surveys on non-residents' holdings of French securities capture only the first counterparties at best, and some or all of them may be financial intermediaries, such as custodians, who are not in the same sector or country as the investor.

Current account flows in goods and services are allocated by counterparties' countries, but not by sector.

Primary income and secondary income are allocated by resident sector and by the counterpart's country of residence and sector. However, portfolio investment income is an exception, since it is impossible to allocate the liability positions (see above).

4| STATISTICAL SOURCES

Reporting requirements incumbent on resident economic agents for the purposes of the balance of payments and the international investment position are described in legislation, technical memos and specification sheets for reporting entities, that can be found on the Banque de France website at the following address: <https://www.banque-france.fr/en/economics-statistics/reporting-information-and-access.html>

Changes to the data collection system over time are summed up in Appendix 2.

4|1 The main Banque de France surveys and data collections

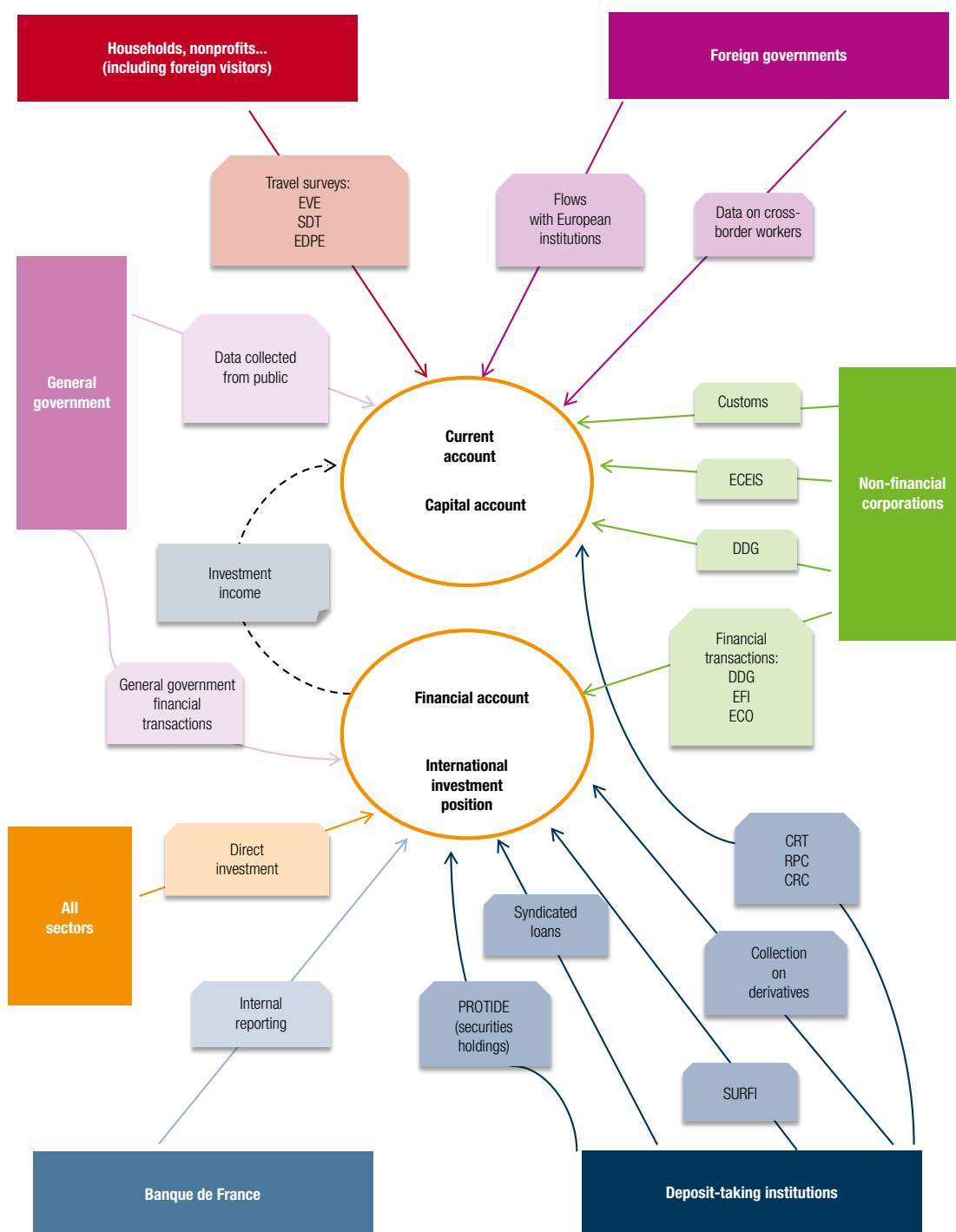
Internal data collection

The Banque de France manages the central government's foreign exchange reserves under the rules of the Eurosystem and reports the position data. The central bank also provides information about all of its other transactions, which is mainly presented under the items recording the monetary authorities' portfolio investment and "other investment".

Full direct reporting system (DDG)

Full direct reporters are industrial and commercial corporations, airlines and insurance and reinsurance corporations engaging in foreign transactions of any

Diagram summarising the statistical sources used to compile the French balance of payments and international investment position (cf. links [↗](#))



Source: Banque de France.

type and through any means for amounts that exceed a set threshold in any given calendar year. This threshold

is set by Decree⁷ and currently stands at EUR 30 million. These companies report all of their cross-border transactions, except transactions in goods, which are reported to Customs, and their positions in securities and financial instruments. They also report their trade credit and financial assets and liabilities. The reports indicate the economic nature of the transactions,

⁷ Decision 2007-01 of the Monetary Committee of the General Council of the Banque de France on the collection of statistics for compiling the balance of payments and the international investment position of France, the euro area and the European Community.

the counterparties' countries of residence and the currencies used for the transactions.

Supplementary survey on international trade in services (*Enquête complémentaire sur les échanges internationaux de services – ECEIS*)

This annual survey is conducted using a sample of non-bank corporations that are not full direct reporters and engage in service transactions (other than travel) with non-residents. The purpose of this survey is to supplement the information obtained from the general direct reporting system. The ECEIS survey also includes a section on insurance technical reserves for the relevant companies.

Data collection from foreign airlines

Foreign airlines doing business in France report payments related to their flight and sales activity, as well as cash transactions with their head offices and affiliates in other countries. These reports are incorporated into the transport items.

Surveys used for the "Travel" item

Residents' expenditure abroad is tracked by means of a monthly survey of a panel of 20,000 resident households about their personal travel (Tourism Demand Survey — *Suivi de la demande touristique* — SDT). Another survey of a panel of 10,000 resident individuals provides information about business travel (Survey on Business Expenditure Abroad — *Enquête sur les dépenses professionnelles à l'étranger* — EDPE).

Expenditure by non-residents visiting France is measured by means of surveys of foreign visitors (80,000 questionnaires per year) in airports, ports, motorway rest areas and on major international rail routes (Survey of foreign visitors—*Enquête auprès des visiteurs venant de l'étranger*—EVE).

In addition, a monthly survey of cross-border credit/debit card transactions (CRC) polls credit institutions and payment institutions handling card payments and provides further information about foreign visitors' spending in France and residents' spending abroad.

Transaction reports (*Comptes rendus de transaction* – CRT)

All financial intermediaries file transaction reports directly on their cross-border transactions for their own account, except for securities transactions and lending/borrowing transactions. The purpose of the

reports is to record cross-border transactions, allocating them to the various components of the balance of payments according to their economic purpose. Reporting requirements have been adapted to the specific features of financial activities. The reports are filed monthly in the case of large reporting entities and annually for the other entities. Transaction reports provide details about the economic nature of the transaction, the counterparty's country of residence and the currency used for the transaction.

Customer payments statement (*Relevé de paiement clientèle* – RPC)

Credit institutions and payment institutions must report monthly payments in excess of EUR 50,000 that they make on behalf of their customers to counterparties outside of the Single Euro Payments Area (SEPA). These data are used to identify enterprises with international activity for such purposes as drawing survey samples (e.g. ECEIS).

Collection of securities holding statistics (*Production de statistiques de titres en détention* – PROTIDE)

Custodians report monthly the holdings of securities issued by residents and non-residents in their custody and held for their own account or on behalf of their resident and non-resident customers. The reports provide details for each security, including the ISIN⁸ and certain characteristics. This information combined with the Centralised Securities Data Base (see below), ensures the accuracy of the allocations by instrument, geographical zone and issuing sector. This information is used to estimate the monthly and quarterly flows of portfolio investment.

Unified financial reporting system (*Système unifié de rapport financier* – SURFI)

The reporting system for some of the data collected from banks was defined jointly by the Banque de France, for the purposes of its statistical obligations, and by the Prudential Supervision and Resolution Authority (ACPR), for the purposes of banking supervision. The Banque de France collects the data quarterly to determine resident banks' assets and liabilities vis-à-vis non-residents. The data are also used to estimate and verify the securities portfolios owned by resident banks, along with the direct investment of the resident banking sector (foreign investment and identification of resident banks in which foreign enterprises own equity stakes).

⁸ International securities identification number.

Data collection from clearinghouses and investment firms

Investment firms (except fund management companies), and clearinghouses report monthly position data regarding their lending and borrowing transactions with non-residents, with the exception of investment-related receivables and payables. These data include the gross amount of bad debt and securities transactions carried out for the firms' own account.

Direct investment disclosure requirement

Enterprises, insurance corporations and financial intermediaries acquiring or disposing of outward direct investment or affected by acquisitions or disposals of inward direct investment for amounts exceeding EUR 15 million are required to disclose such transactions within 20 business days of their execution.

Survey of direct investment abroad

Each year, the Banque de France branches survey enterprises in their catchment areas about their subsidiaries and equity investment in other countries, including ownership shares, equity capital, current income, exceptional income, other equity capital, dividends. These data are used for the "investment income" item in the current account and the "direct investment" item in the financial account of the balance of payments. These data are also used to determine the direct investment position in the international investment position.

Survey of trade receivables and payables vis-à-vis non-residents (*Enquête sur les créances et dettes commerciales vis-à-vis des non-résidents – ECO*)

This survey of a sample of operators engaging in foreign trade in goods and services is used to determine the "trade credit" items in the balance of payments. It covers receivables and payables, broken down by currency used for the transaction and the country of residence of the counterparty. The receivables and payables tracked stem from exports and imports of goods and services, as well as advances paid.

If a resident or non-resident enterprise grants payment terms to a customer, the financial counterpart to its exports of goods and services, which needs to be included in the balance of payments, can be found only in its customer accounts. The ECO survey can be used to identify this counterpart. The survey of a sample of enterprises is conducted quarterly or annually, depending on the size of the respondent enterprises. It distinguishes between trade receivables and payables arising from transactions between affiliated entities

belonging to the same international group, which are recorded as "direct investment", and those arising from all other business transactions with unaffiliated entities, which are recorded as "other investment".

Survey of financial assets and liabilities vis-à-vis non-residents (*Enquête sur les créances et dettes financières vis-à-vis des non-résidents – EFI*)

This survey of a sample of resident industrial and commercial enterprises and insurance corporations is used to determine their financial assets and liabilities vis-à-vis non-resident entities. It is conducted quarterly and annually. It has two parts: "Affiliates", which covers assets and liabilities vis-à-vis entities belonging to the same international group, recorded as "direct investment", and "Non-affiliates" (all other business transactions), where assets and liabilities are recorded as "other investment". In the case of financial assets and liabilities vis-à-vis affiliates, any related interest payable and receivable must also be reported.

Syndicated loan survey

A syndicated loan is granted by a banking syndicate made up of several financial institutions to finance a given project or undertaking. The syndicate is usually coordinated by a syndicate manager. Syndicated loans granted to non-residents by resident institutions are measured on the basis of their SURFI filings (see above). Meanwhile, the Banque de France survey of syndicated loans measures loans granted to residents by non-resident financial intermediaries: French banks acting as syndicate managers report the amounts of loans granted by non-resident banks to resident customers through syndicated loans. The survey of syndicated loans is a monthly survey of banking institutions doing significant business in this area.

Statement of technical reserves of insurance corporations (*État des provisions d'assurance – EPA*)

Resident insurance and reinsurance corporations that are full direct reporters disclose the technical reserves shown on their balance sheets to cover their contractual liabilities vis-à-vis non-residents. These amounts are broken down by type of insurance, by country and by nature of the reserves ("Premiums" or "Claims payable"). Estimates of the investment income earned on technical reserves are also disclosed. The filings are made quarterly. The data collected are used to compile the "Insurance technical reserves" item under "Other investment" and they affect the amount of insurance services. Methodological work is under way to use the data collected more thoroughly.

The main Banque de France surveys

Survey / collection	Reporting entities	Number of reporting entities and frequency	Type of survey
DDG	Industrial and commercial enterprises, airlines, insurance corporations with more than EUR 30 billion in foreign transactions per year	≈ 500 monthly	Complete
ECEIS	Industrial and commercial enterprises, airlines, insurance corporations that are not direct reporters, but which are involved in significant foreign trade in services	≈ 5,500 annually	Sample
ECO	Industrial and commercial enterprises, airlines that are not direct reporters, but which are involved in significant foreign trade in goods and services	≈ 900 quarterly ≈ 1,000 annually	Sample
EFI	Industrial and commercial enterprises, airlines, insurance corporations that are not direct reporters, but which have significant amounts of financial assets and liabilities	≈ 600 quarterly ≈ 1,000 annually	Sample
CRT/RPC	Financial intermediaries ^{a)}	≈ 30 monthly ≈ 1,500 annually	Complete
SURFI	Financial intermediaries subject to the supervision of the ACPR (credit institutions and investment firms)	≈ 100 quarterly	Complete
PROTIDE	Custodians	≈ 340 quarterly	Complete

a) Financial intermediaries: credit institutions, investment firms, payment institutions, financial holding companies and portfolio management companies.
Source: Banque de France.

Data collected from public accountants

Public accountants provide direct reporting of certain data pertaining to foreign payments and receipts. The main reporting entities are the Ministerial Budget and Accounting Audit Department at the Ministry of Finance, the General Treasury Office for Taxpayers Abroad, French chancelleries and the export insurance company COFACE. These data are used to compile the general government items.

Data collected about international transactions in banknotes

In order to determine the amount of non-residents' holdings of euro banknotes issued by the Banque de France, which is recorded in the international investment position, the Banque de France's Directorate General of Statistics collects data on cross-border flows of banknotes from the Banque de France's Cash Management Directorate and the major operators in the sector.

4|2 Other sources used to compile the balance of payments and the international investment position

In addition to the data collected by the Banque de France, data from other sources are used to compile some of the items in the balance of payments and the international investment position, or to supplement or verify the data from the sources mentioned above.

Data from the Customs Statistics Department

The Customs administration provides the Banque de France with detailed data about exports and imports of goods, as well as the VAT returns relating to intra-EU trade in services.⁹

Banking data base on resident companies (Fichier bancaire des entreprises – FIBEN)

The banking data base on companies (www.fiben.fr) is managed by the Banque de France and contains information on 7 million entities and 280,000 balance sheets. This data source is used to compile data on inward direct investment income and positions.

Securities data bases

The statistics on portfolio investment also rely on data collected for statistics on securities issuance. The securities data base managed by the Banque de France lists the relevant characteristics of each security issued by residents, including the nature of the instrument, country of residence of the issuer, currency of issuance, identification of the issuer by its SIREN code (for resident issuers), date of issue, redemption date, etc. These data are used to allocate securities in the balance of payments and the international investment position (allocation between French and foreign securities, geographical allocation of foreign securities, allocation by type of security – equities, investment fund units/shares and debt securities –, allocation by issuer sector for French securities, allocation by currency).

The Centralised Securities Data Base (CSDB) managed by the ECB is used to supplement information about securities, particularly in the case of foreign securities.

Insee

France's national statistics institute (Insee) provides information about direct investment through its company registers (LIFI data base on financial links between companies).

⁹ The foreign trade portal explains the concepts and methods used to compile foreign trade statistics: http://lekiosque.finances.gouv.fr/APPCHIFFRE/Portail_default.asp



PART 2

STRUCTURE OF THE BALANCE OF PAYMENTS AND THE INTERNATIONAL INVESTMENT POSITION

The balance of payments items, as defined in BPM6 in line with the system of national accounts are divided into:

- the current account balance, which is subdivided into goods, services, primary income and secondary income;
- the capital account, which records capital transfers (debt forgiveness, write-offs of claims, investment grants) and acquisition and disposal of non-produced, non-financial assets;¹⁰
- the financial account, which is divided into direct investment, portfolio investment, financial derivatives, other investment and reserve assets.

The “Net errors and omissions” item is a balancing item. It exists because, unlike a simple double-entry accounting system, debits and credits recorded in the balance of payments rely on reports and surveys using different sources. Errors and omissions reflect statistical discrepancies stemming from uncertainty about the coverage ratios of certain data sources, time lags and even methodological differences.

The international investment position presents assets and liabilities using the same categories as the financial account, i.e. direct investment, portfolio investment, financial derivatives, other investment and reserve assets.

Therefore, the rest of this document presents the current account and the capital account of the balance of payments in Section 1, followed by the financial account of the balance of payments, presented jointly with the international investment position in Section 2.

The balance of payments	
Current account	
Goods	
Services	
Primary income	
Secondary income	
Capital account	
Financial account	
Direct investment	
Portfolio investment	
Financial derivatives	
Other investment	
Reserve assets	
Net errors and omissions	

International investment position	
Direct investment	
Portfolio investment	
Financial derivatives	
Other investment	
Reserve assets	
Net international investment position	

1| CURRENT ACCOUNT AND CAPITAL ACCOUNT

Current account

Goods
Services
Primary income
Secondary income

Capital account

The current account balance covers goods, services, primary income and secondary income.

The current account balance is the difference between exports and income receivable by residents, on the one hand, and imports and income payable by residents, on the other hand.

The capital account covers capital transfers (debt forgiveness, write-offs of claims, investment grants) and acquisition and disposal of non-produced, non-financial assets.

The sum of the current account balance and the capital account balance corresponds to the nation's net lending or net borrowing shown in the system of national accounts.

The current account balance indicates the national economy's capacity to balance its trade with the rest of the world. All else being equal, lasting current account and capital account deficits lead to a deterioration of the international investment position and, consequently, increased financial dependency on non-residents. On the contrary, an accumulation of current account surpluses, all else being equal, leads to a net asset position on the international investment position.

1|1 Goods

Goods are physical, produced assets over which ownership rights can be established and whose economic ownership can be transferred from one institutional unit to another by engaging in transactions.

Goods

General merchandise
Customs data
Adjustment
Goods procured in ports by carriers
Merchandising

¹⁰ See above for definition.

In BPM6, exchanges of goods are defined as transactions in produced goods, provided there is a change in economic ownership (see Part 1, Section 3).

Exchanges of goods cover two items: general merchandise and merchanting.

General merchandise

This item records transfers of ownership of moveable assets between residents and non-residents that are not included in another specific category, such as merchanting, travel or construction. Transactions are valued at the market value of the goods at the border of the exporting economy.

In other words, imports and exports need to be assessed at their “free on board” (FOB) value.

In BPM6, general merchandise also includes goods procured in ports by carriers. This item covers purchases of goods, such as fuel, stores and provisions in foreign ports and airports by resident carriers and by foreign carriers in France. It does not cover related services, such as towing and warehousing, which are recorded as transport services.

General merchandise data are taken from the foreign trade statistics published by the Directorate General of Customs and Excise (DGDDI) (see Box 2).

Merchanting

Merchanting covers transactions related to residents’ purchases and resale of foreign goods to non-residents when the goods are not imported into France’s customs territory, and to residents’ purchases and resale to non-residents of French goods that stay within France’s customs territory. Under BPM6, goods under merchanting are now included in goods,¹¹ but recorded separately from general merchandise.

¹¹ Under BPM5, they were classified under trade in services.

Box 2

From customs data to balance of payments data

Trade in goods is primarily measured on the basis of customs data on transactions in merchandise and Banque de France surveys on merchanting.

The customs data are generally published CIF-FOB, which means that imports include the cost of insurance and freight, while exports are measured at their value when they cross the border (free-on-board – FOB). The international standards for balance of payments data on trade in goods require recording the FOB-FOB values. To achieve this, the cost of insurance and freight to the French border are subtracted from the value of imports and reclassified as payments for the relevant services (insurance and pension services, transport services).

In addition, the data are corrected and adjusted so that exchanges of goods include only the transactions entailing a change of economic ownership of produced goods. Therefore, customs data are adjusted for unrequited transfers. A distinction needs to be made between two types of transfers:

- *transactions with no payment for a change in economic ownership (primarily grants): economic ownership is handed over, but it is a transfer and not an exchange. Consequently, the counterpart to such transfers is recorded as secondary income;*
- *transactions with no payment or change in ownership: these are primarily movements of goods for processing, which need to be recorded under services. For example, movements of components used in the Airbus coordinated manufacturing scheme are recorded under “manufacturing services on physical inputs owned by others” (see below). Furthermore, exchanges of goods under leasing arrangements are recorded as leasing services.*

And finally, goods procured in ports by carriers are included in the “general merchandise” item.

The change of economic ownership principle for recording transactions under BPM6 may lead to significant divergences between the goods balance and the foreign trade statistics. The latter record transactions when the goods physically cross the border. Consequently, all the transactions that involve moving goods across a border with no change in ownership between residents and non-residents, or a change in ownership with no movement across a border, result in discrepancies between the balance of payments statistics and customs statistics.

1|2 Services

Services constitute the second main component of the current account. Unlike goods, where production and marketing are clearly separate activities, trade in services is closely linked to their production. Services include transport and travel.

Trade in services between France and the rest of the world is primarily tracked using the filings from direct reporters, the Supplementary Survey on International Trade in Services (ECEIS) and the transaction reports (CRT) for trade in services provided by financial intermediaries. The "Travel" item relies on special surveys (see Part 1, Section 4).

The "travel" item records natural persons' expenditure when travelling abroad

The travel item records as receipts all spending in France by non-resident natural persons, including spending on goods acquired for their own use or to give away, during excursions (stays of less than 24 hours), and leisure or business trips of less than one year, as well as spending on personal services acquired from residents (healthcare, tuition, etc.). Travel payments record similar spending by residents abroad. Transport receipts and payments for international travel are not recorded under this item. They are recorded under transport services instead. On the other hand, "travel" does include non-residents' use of domestic transport services in France and French residents' use of domestic transport services in a foreign country.

Services

Manufacturing services on physical inputs owned by others
Maintenance and repair services n.i.e.
Transport services
Travel
Construction services
Insurance and pension services
Financial services
Services giving rise to explicit charges and other financial services
Financial intermediation services indirectly measured (FISIM)
Charges for the use of intellectual property n.i.e.
Telecommunications, computer and information services
Other business services
Research and development services
Professional and management consulting services
Technical, trade-related and other business services
Personal, cultural and recreational services
General government services n.i.e.

Manufacturing services on physical inputs owned by others

This item used to be recorded under goods in the "Goods for processing" item under BPM5. This category is now classified with services. It records transactions involving processing, assembling, labelling, packaging, etc. provided by enterprises that do not own the goods in question. Since there is no transfer of economic ownership of the goods being processed, the transaction is recorded as exchanges of services and not as exchanges of goods.

Manufacturing services on physical inputs owned by others includes oil refining, liquefaction of natural gas or assembly of clothing and electronics.

Maintenance and repair services n.i.e.¹²

This item records maintenance and repair work performed by residents on goods owned by non-residents and vice versa. It primarily covers maintenance and repair services on ships, aircraft and other transport equipment. On the other hand, cleaning of transport equipment is recorded under transport services, maintenance and repair of buildings is recorded under construction services, and maintenance and repairs of computer hardware is recorded under computer services.

Transport services

Transport services are broken down into sea, air and other transport (space, rail, road, inland waterway, pipeline, etc.).

In addition to transactions reported for the transport of goods and passengers, this item records transactions reported for the related expenses, except for goods procured in ports by carriers (see goods), and the shipping expenses included in trade in goods. Transport services also include postal and courier services.

Some of the data on freight services come from the direct reporters' filings and the Supplementary Survey on International Trade in Services. However, transport services are often paid for indirectly as part of the cost of merchandise; consequently, some of the amounts are calculated by the Banque de France using the CIF/FOB ratios estimated by Customs. The data on air passenger transport comes from the direct reporters' filings, as well as direct reporting by foreign airlines.

¹² Not included elsewhere.

Construction services

Construction covers the creation, renovation, repair, or extension of fixed assets in the form of buildings, land improvements of an engineering nature, and other such engineering constructions as roads, bridges, dams, etc. It includes site preparation and general construction as well as specialised services such as painting, plumbing, and demolition. It also includes related installation, assembly work and management of construction projects.

Acquisition of goods and services from the economy of location of the construction work by the enterprises providing these services is also recorded under construction. Goods and services provided from the home economy are resident-to-resident transactions, and so should be excluded from the balance of payments.

Insurance and pension services

These services include various forms of insurance provided to non-residents by resident insurers and vice versa. They include “direct” insurance services (freight insurance, life insurance, non-life insurance), and reinsurance. International direct insurance services correspond to the charges for services included in the premiums and commissions relating to the contracts and not to the total of premiums per se, since the latter include the claims to be paid in the medium term, as well as charges for insurance services.

The amounts of insurance services payments and receipts are determined using data from the direct reporters’ filings and the Supplementary Survey on International Trade in Services, supplemented by data from the Statement of Technical Reserves of Insurance Corporations (EPA). Methodological work is under way to use the latter data more thoroughly.

¹³ However, marketing assets, such as trademarks, designs, logos or domain names, are considered to be non-produced assets, which means they are recorded in the capital account.

¹⁴ With the exception of payments for perpetual use of standardised products provided on a physical medium, such as a CD or a DVD, which are recorded as trade in goods.

Financial services

This item covers the commissions and fees received, primarily by financial intermediaries, for foreign exchange transactions, securities transactions, etc. They are divided into services for which there are explicit charges and financial intermediation service charges indirectly measured (FISIM) (see Box 3).

Charges for the use of intellectual property n.i.e.

BPM6 makes a distinction between the use of intellectual property, such as the purchase or sale of licences to use, distribute or reproduce intellectual property, recorded under this item, and the outright purchase or sale of intellectual property rights. The latter case is discussed below under “Research and Development services”.

The “Charges for the use of intellectual property n.i.e.” item records transactions involving the use of intellectual property rights. Therefore, this item records transactions between residents and non-residents related to periodic royalties payments and receipts for the use of patents, trademarks, designs, copyrights and ownership rights.¹³

There are some exceptions, however: purchases of licences to use computer software are recorded under “Computer services” and purchases of licences to use audio-visual content¹⁴ are recorded under “Personal, cultural and recreational services”.

Telecommunications, computer and information services

This item records transactions in all computer services, including royalties for the use of software, along with transactions in telegraph and telephone services, the use of telecommunications networks and data transmission.

Other business services

This item records research and development services, professional and management consulting services, technical, trade-related and other business services.

Box 3

Financial intermediation services indirectly measured (FISIM)

FISIM represent the services that financial intermediaries provide for which no explicit charge is billed to customers. Financial intermediaries pay themselves for these services through an interest rate margin on customer deposits and loans.

.../...

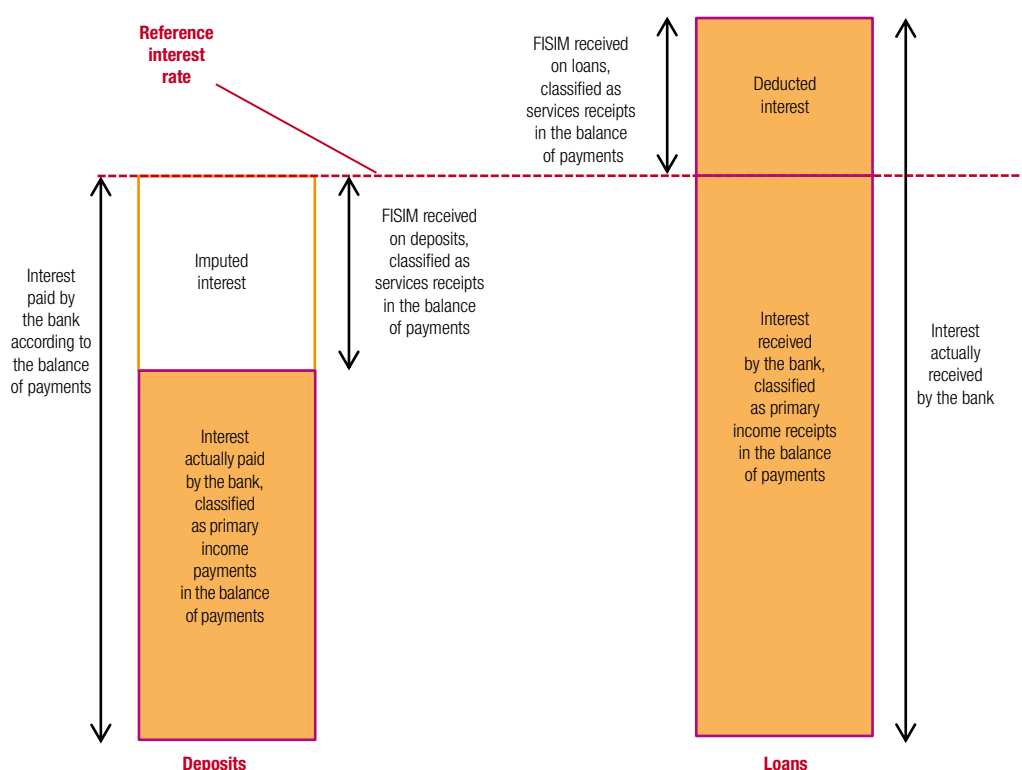
To make a profit, a financial intermediary must lend money at a higher interest rate than the rate it pays for refinancing. It must also pay depositors a lower interest rate than the one it could obtain for making its own risk-free investments. The margin generated by each transaction is measured in comparison to the refinancing costs paid by financial institutions. Since it is very difficult to observe this margin, conventional reference interest rates are used.

FISIM on bank deposits are calculated as the difference between the implied interest rate earned on the money market in the economy of the financial intermediary taking the deposits and the actual amount of deposit interest paid by the financial intermediary on the same deposits.

In accordance with the same principle, FISIM on bank loans are calculated as the difference between the interest actually received by the financial intermediaries on loans to their customers and the implied cost of refinancing borne by the financial intermediaries.

In both cases, the interest margins are considered to be production of financial intermediation services. The diagram below illustrates the recording of transactions between a resident bank and its non-resident customers in the balance of payments:

Calculation of FISIM: Example of transactions between a resident bank and its non-resident customers



Source of the diagram: Insee.

For example, let the reference interest rate be 0.15%. A resident bank lends a non-resident customer EUR 100,000 for one year at an interest rate of 0.25%. The bank receives EUR 250 in interest on this transaction. The FISIM calculation considers that EUR 150 out of the EUR 250 corresponds to investment income, whereas the remaining EUR 100 is the money the bank receives for the financial intermediation service it has provided.

Similarly, in the case of a non-resident customer who deposits EUR 100,000 in the same resident bank, the deposit interest paid being 0.05% per year, the non-resident customer receives EUR 50 in interest for the deposit. The calculation of the FISIM recorded in the balance of payments considers that the customer received EUR 150 in investment income, and paid back EUR 100 for the financial intermediation service provided by the bank.

The example above clearly shows that the restatement of FISIM is a reallocation of the interest actually paid or received between investment income and services income and that it has no impact on the aggregate current account.

Research and development services include:

- services associated with basic research, applied research and experimental development of new products and processes;
- outright sales of the results of research and development (patents, copyrights or industrial processes).¹⁵

On the other hand, royalties payable for the use of research and development products are recorded under the “Charges for the use of intellectual property n.i.e.” (see above).

Professional and management consulting services include:

- legal services, accounting, management consulting, managerial services and public relations services;
- advertising, market research and public opinion polling services.

Technical, trade-related and other business services include:

- architectural, engineering and other technical services;
- waste treatment and depollution, agricultural and mining services;
- operating leasing services;
- trade-related services (commissions on goods and services transactions payable to merchants, commodity brokers, dealers, auctioneers and commission agents), with the exclusion of brokerage of financial instruments, which is recorded as financial services, and transport-related charges, which are recorded as transport services;
- other business services include distribution of water, steam, gas and other petroleum products (where these services are identified separately from transmission services), placement of personnel, security services, translation and interpretation, photographic services, publishing, building cleaning and real estate services).

¹⁵ The new national accounts standards (SNA 2008 and ESA 2010) and BPM6 consider these to be produced assets. Under BPM5, however, they were considered to be non-produced assets, which meant they were recorded in the capital account.

Personal, cultural and recreational services

These services are divided into audio-visual and related services and other personal, cultural and recreational services. They include transactions related to motion pictures, sales and rentals of radio and television programmes, along with personal services not included elsewhere.

Government goods and services n.i.e.

This item primarily covers expenditure related to the administration of French embassies and consulates abroad and foreign embassies and consulates in France, along with current expenditure related to French military personnel posted abroad and foreign military personnel posted in France.

1/3 Primary income

1/3|1 Definition

Primary income refers to the flows received by economic agents for their participation in the production process (“compensation of employees”) or for the provision of financial assets (“investment income”) or for renting natural resources (“rent”). Taxes and subsidies on products and production are also included in primary income. Primary income is allocated by institutional sectors.

Compensation of employees includes salaries, wages and compensation paid by non-resident employers to their resident employees (border workers, seasonal workers and short-term employees) and vice versa. This item also includes the employers’ and employees’ social contributions.

Investment income corresponds to receipts or payments relating to external financial assets and liabilities. These are allocated according to the nature of the related financial transactions: direct investment income, portfolio investment income, other investment income and reserve asset income (see below for definitions).

Primary income

Compensation of employees
Investment income
 Direct investment
 Portfolio investment
 Other investment
 Reserve assets
Other primary income

Box 4

Reinvested earnings

Reinvested earnings are the undistributed share of after-tax operating income from subsidiaries and equity interests attributable to the direct investor. In accounting terms, reinvested earnings are the share of current net income from direct investment enterprises attributable to the parent company for an accounting period, minus dividends paid to the parent company for the same period. By definition, they do not give rise to payments between residents and non-residents.

Insofar as the reinvested earnings in a foreign subsidiary of a French enterprise constitute income for the resident enterprise, they are recorded as a receipt of direct investment income in the current account, even though the income is not distributed. Furthermore, since reinvested earnings increase residents' foreign assets, their counterpart is recorded as French direct investment abroad and the transaction is denoted as a "reinvestment of earnings" since the term "reinvested earnings" denotes income in the strictest sense. Similar entries are recorded in the opposite direction for the reinvested earnings of French subsidiaries of foreign enterprises. The same reasoning applies to operating losses of foreign subsidiaries of French enterprises, with a negative amount being recorded as a receipt of direct investment income and the counterpart being recorded as a decrease in French direct investment abroad, or operating losses of French subsidiaries of foreign enterprises. Consequently, reinvested earnings have symmetrical effects on the current account balance and in the direct investment balance.

For example, French enterprise A owns an 80% stake in its foreign subsidiary B. Enterprise B posted after-tax earnings of 100 for the year, of which 80 is attributable to enterprise A, which decides to receive a dividend of 20. The following accounting entries are recorded in the balance of payments:

Current account		
	Receipts	Payments
Direct investment income	+80	
Dividends	+20	
Reinvested earnings	+60	
Financial account		
	Assets	Liabilities
Direct investment	+60	
Reinvested earnings	+60	
Other investment ^{a)}	+20	

a) If the parent enterprise decides to repatriate its dividend to its bank account.

Direct investment income includes dividends, reinvested earnings (see Box 4) and interest on lending and borrowing between affiliates, which primarily concerns intercompany lending within multinational firms.

Other investment income specifically includes "pure" interest receipts and payments by financial intermediaries, meaning the share of interest that does not represent FISIM (see above). A large share of this income comes from international bank loans.

Other primary income includes subsidies, net of taxes, on production and products. These flows are primarily to and from European institutions. They include receipts of subsidies under the Common Agricultural Policy (CAP) and, payments of the customs duties owed to the European Union.

1|3|2 Recording procedures

Statistical sources

Receipts corresponding to compensation of cross-border workers are estimated using mirror data from neighbouring countries.¹⁶ Payments corresponding to compensation of cross-border workers are estimated from data provided by the French social security administration.

¹⁶ Mirror data are the bilateral data for France in the balances of payments of the other countries in the world. These data are relevant for French border workers. Their compensation is reported to the tax or social security administrations by their non-resident employers. This reporting ensures that the countries hosting these workers (primarily Switzerland, Germany, Luxembourg and Belgium) have a clearer idea of their number and their compensation.

Direct investment income in the form of dividends (income from equity securities) is recorded on the date the dividends are payable, while direct investment income in the form of interest (income from claims), are recorded on the accruals basis (see Part 1, Section 3). Reinvested earnings are estimated using statistical processes (see below).

Portfolio investment income is calculated by applying a rate of return to securities positions at market value. This rate of return is defined as the ratio between interest accruals (see Box 5) or dividends paid during the accounting period and the market value of the securities. In keeping with the BPM6, methodology, the impact of index-linked returns on certain government securities is considered for liabilities, but not for assets.¹⁷ Income flows from debt securities are determined on the base of positions in such securities and the application of the interest paid on each security or the aggregate interest for a class of instruments, depending on the data available.

Banks' income from "Other investment" stems primarily from quarterly data gathered from the unified financial reporting system, SURFI, operated jointly by the Banque de France and the Prudential Supervision and Resolution Authority (ACPR) (see Part 1, Section 4), along with data on income from "Other investment" in other sectors, which are calculated on the basis of positions in financial assets and liabilities measured by the survey of financial assets and liabilities vis-à-vis non-residents (EFI) (see Part 1, Section 4). The share of banks' income from FISIM is allocated to financial services (see Box 3).

Box 5

Interest accruals

In order to comply with the principle of recording transactions on the accruals basis, the adjustment of portfolio investment for accrued coupons consists of extracting the interest accruals included in the trade prices actually paid during the accounting period from the flow of trades in negotiable securities (money market securities, bonds and bills). Subtracting the accrued coupons adjusts portfolio investment so that it matches the market value of the capital traded between residents and non-residents. At the same time, allocating accrued coupons to investment income approximates the concept of measuring income on the accruals basis. This means that transactions are recorded in the financial account of the balance of payments without interest accruals. The latter are then recorded as investment income. On the other hand, the international investment position includes interest accruals.

¹⁷ Analysis has shown that the impact of index-linking is primarily significant for liabilities.

Monthly estimates of banks' receipts and payments of income from "Other investment" are based on the calculations of apparent interest rates on lending and borrowing positions made for the compilation of the monthly balance of payments.

Estimating reinvested earnings

Since no data on reinvested earnings are available during the reference year, the preliminary figures are statistical estimates. Dividends paid by resident foreign direct investment enterprises to non-resident direct investors and, more especially, dividends that non-resident foreign direct investment enterprises pay to resident direct investors in a given year, are known, at least in part, in the weeks following their payment. However, this is not the case for reinvested earnings, where the amount cannot be determined until French companies have published their annual financial statements and disclosed the earnings of their foreign subsidiaries and equity interests. This means that the final data on total direct investment income cannot be established until 15 months or so after the end of the reference year.

Pending the publication of the financial statements of French and foreign direct investment enterprises, the reinvested earnings and dividends of enterprises that are not direct reporters are estimated on the basis of the earnings forecasts of the leading French groups. These groups account for a very large share of income from French direct investment abroad and their earnings are made up primarily of profits from their foreign subsidiaries.

1|4 Secondary income

1|4|1 Definition

Secondary income records current transfers between residents and non-residents. A transfer is an entry that corresponds to the provision of a good, service, financial asset or another non-produced asset without receiving something of economic value in exchange. Current transfers are all transfers that are not capital transfers (see "Capital account" below for a definition of capital transfers). Secondary income is allocated by institutional sectors.

Current taxes on income, wealth, etc. consist primarily of taxes levied by the French central government on income earned by non-residents for the provision of their labour or financial assets (and vice versa). Taxes on capital gains arising from non-residents' assets are also included. On the other hand, this category does not include taxes on capital, which are recorded in the capital account (see below). Current taxes are paid to the French and foreign governments by "Other sectors" (households, non-financial corporations, NPISHs).

Secondary income

Current taxes on income, wealth, etc.
 Social contributions
 Social benefits
 Net premiums on nonlife insurance and standardised guarantees
 Nonlife insurance claims and calls under standardised guarantees
 Current international cooperation
 Own resources of the European Union
 Miscellaneous current transfers
Personal transfers

Social contributions are the actual or imputed contributions made by households to social insurance schemes to make provision for social benefits to be paid.

Social benefits include benefits payable under social security and pension schemes. They include pensions and non-pension benefits regarding events or circumstances such as sickness, unemployment, housing and education, and they may be in cash or in kind. As is the case with social contributions, social benefits are flows between resident governments and non-resident households, and vice versa.

Net nonlife insurance premiums consist of both the gross premiums payable by policyholders to obtain insurance during the accounting period (premiums earned) and the premium supplements payable out of the investment income attributable to insurance policyholders, after subtracting the services provided by the insurance corporation. The service charges corresponding to the purchase of services by policyholders are recorded as "Insurance and pension services" (see above). The net premiums paid into standardised guarantee schemes, however, are recorded in secondary income.

Nonlife insurance claims are the amounts payable in settlement of claims during the current accounting period. The claims become due at the moment when the eventuality occurs that gives rise to a valid claim, in accordance with the accruals principle (see Part 1, Section 3). Claims payable under standardised guarantee schemes are also recorded under this item.

Current international cooperation consists of current transfers in cash or in kind between the governments of different countries, or between governments and international organisations. Therefore, France's contributions to finance the expenditure of international organisations are recorded under this item. A share of current international cooperation concerns European Union institutions.

The Miscellaneous current transfers item records current transfers to NPISHs, current transfers between households and other current transfers, including fines

and penalties, a share of amounts paid for lottery tickets or placed in bets, and payments of compensation.

Miscellaneous current transfers include workers' remittances, which are personal transfers made by resident migrant workers to non-resident households and vice versa.

The own resources of the European Union, based on VAT and GNI, are current transfers that the governments of each Member State make to European Union institutions.

On the other hand, foreigners who work and stay in France for less than one year are still considered to be non-residents. Their compensation is recorded as payments under the "Compensation of employees" item as part of primary income (see above).

1|4|2 Recording procedures

Receipts of current taxes on income, wealth, etc. are reported directly by the Banque de France, which manages the Treasury's accounts, giving it access to the necessary information. Payments of these taxes by residents to foreign governments are tracked by means of surveys of enterprises concerning the amounts that they pay and by data provided by the Ministry of Finance on the amounts paid by the French government.

Information on social contributions are linked to estimates of cross-border workers' income (included in the "Compensation of employees" item), whereas social benefit receipts and payments data come from the Centre for European and International Liaisons for Social Security (Cleiss), the French body responsible for ensuring the continuity of social protection for workers moving between countries.

Net unemployment insurance premiums and benefits, along with flows related to standardised guarantees, are estimated on the basis of reporting by enterprises and insurance corporations that are direct reporters or respondents to the Supplementary Survey on International Trade in Services (ECEIS).

The Banque de France, which manages the Treasury's accounts, reports the flows relating to current international cooperation. Some information is also provided by the Ministry of Finance, such as the French contribution to the European Development Fund (EDF).

French contributions to the own resources of the European Union are reported by the Ministry of Finance. The data are cross checked against fiscal data from the European Commission.

Box 6

Outward workers' remittances

Collecting data from financial institutions, even the ones specialising in international remittances, does not provide satisfactory coverage of workers' remittances originating in France. The assessment of the amounts workers transfer abroad from France is based on a methodology developed by the World Bank. The assessment is based on mirror data, meaning the receipts that other countries record in their balances of payments. Countries that receive large amounts of workers' remittances (relative to their GDP) from abroad are well equipped to assess this item.

With data on the total amount of workers' remittances receipts reported by each country to the International Monetary Fund and the number of migrants born in one country and living in another, the method is based on the assumption that the amount $F_{j \rightarrow i}$ sent from country i to country j is:

$$F_{i \rightarrow j} = \frac{P_{j \rightarrow i}}{\sum_k P_{j \rightarrow k}} \times R_j$$

where $P_{j \rightarrow i}$ is the number of migrants from country j living in country i and R_j is the total receipts of country j . The amount received by country j is then divided between all countries in proportion to the number of migrants from country j living in each of the countries. This method can be used to calculate France's payments of workers' remittances to each country.

The method has been adapted in consideration of three factors:

- *the World Bank data do not make an adequate distinction between the "Workers' remittances" and "Compensation of employees" items for the countries bordering on France;*
- *data may be missing for some of the countries receiving remittances;*
- *the method may show average amounts remitted per person that are particularly high.*

To cope with these limitations, the total amount of some countries' receipts has been corrected, either in accordance with the data published by the country, when they are more accurate than the data used by the World Bank, or in accordance with the data collected by the Banque de France for countries where receipts data are not available or show smaller amounts than the amounts reported. The average amount of remittances per person has also been restated for countries that showed obviously erroneous values.

Personal transfers consist primarily of remittances sent by foreign workers. The amount of workers' remittances is approximated using a method inspired by the World Bank (see Box 6).

1|5 Capital account

The capital account does not play a large role in the French balance of payments. For example, over the last ten years, the capital account represented an average of 0.3% of receipts and 0.1% of payments on the current account and the capital account.

The capital account records:

- capital transfers, which are transfers in which ownership of a fixed asset is transferred or where a liability is forgiven by the creditor without anything being received in return;
- acquisitions and disposals of non-produced, non-financial assets.

Capital transfers are broken down into debt forgiveness and other transfers.

- Debt forgiveness is allocated by the sector of the resident debtor or creditor. Debt forgiveness granted by the French general government sector to a foreign country is a transfer to a non-resident agent. Accordingly, it is recorded as a debit from the capital account. The counterpart to debt forgiveness is a decrease in general government assets recorded in the financial account under "other investment".

- Other capital transfers include investment grants received from or paid to other countries as part of development assistance. Transfers made to the French general government sector come mainly from European institutions (notably from the European Regional Development Fund – ERDF). These transfers also include taxes on capital transfers, such as death duties.

Acquisitions and disposals of non-produced, non-financial assets refer to natural resources (land and subsoil assets, water resources, forests, etc.) contracts, leases and licences, along with marketing assets (registered trademarks and designs, logos, domain names, etc.).

Capital account

Capital transfers

Debt forgiveness

Other transfers

Acquisitions and disposals of non-produced, non-financial assets

2 | THE FINANCIAL ACCOUNT OF THE BALANCE OF PAYMENTS AND THE INTERNATIONAL INVESTMENT POSITION

The financial account of the balance of payments and the international investment position are both structured according to the “functional categories” of investments, which are direct investment, portfolio investment, financial derivatives, other investment and reserve assets.

Financial account

Direct investment
Portfolio investment
Financial derivatives
Other investment
Reserve assets

2|1 Direct investment

2|1|1 Definition

As required by the fourth edition of the *OECD Benchmark Definition of Foreign Direct Investment* and in accordance with international recommendations (IMF, Eurostat, ECB), direct investment covers transactions by investors resident in one economy to acquire, increase or dispose of a lasting interest in an enterprise resident in another economy and to hold or dispose of influence over its management. Therefore, the notion of direct investment is broader than that of control.

Direct investment

Equity capital
Reinvested earnings
Other transactions (intercompany lending)

By convention, a direct investment relationship exists when an individual or a legal entity (investor) holds at least 10% of the voting rights or, failing that, 10% of the equity capital in a “direct investment enterprise”.

Direct investment creates relationships between fellow enterprises, meaning relationships:

- between a “direct investor” (parent company) and one or more direct investment enterprises, which may be branches, subsidiaries or other affiliated enterprises;
- between mutually “invested enterprises” (fellow enterprises).

Direct investment concerns more than just the initial transaction that establishes the relationship between the investor and the investment enterprise. It also encompasses all of the later transactions between them and with other fellow enterprises (loans, cash flows and, more generally speaking, all financial transactions, with the exception of transactions between credit institutions and affiliated financial intermediaries). Residents’ real-estate investment in other countries or non-residents’ real-estate investment in France are also considered to be direct investment.

According to BPM6, two methods can be used to account for direct investment: either the “asset/liability” presentation, or the extended directional principle¹⁸ (see Box 7).

¹⁸ In contrast, BPM5 recommended the basic directional principle presentation (see Box 7).

Box 7

Direct investment presentation principles

Different principles may be used to account for and present intercompany lending flows and positions. The chosen presentation format may have symmetrical effects on flows and positions of inward and outward direct investment, without affecting the aggregate balance.

*The **asset/liability presentation** adds up all of the lending within an international group based on the direction of the loans: a loan from a subsidiary to the parent is considered to be an investment by the subsidiary in its parent. The asset/liability presentation is the standard for presentation of the balance of payments in BPM6. It is simpler to use and therefore likely to be easier for most countries to produce. Therefore, the use of this presentation facilitates international comparisons. In addition, the flows are presented according to the immediate counterparty, as is the case for the other components of the financial account.*

*The **directional principle** aims to analyse flows according to the economic decision-making centre: lending between enterprises belonging to the same international group is not classified according to the direction of the loans, but according to the country of residence of the parent company. The home country of the group*

.../...

is determined by the residence of the ultimate controlling parent. When it is applied jointly with the ultimate controlling parent rule, the directional principle presents two variants:

- the **“basic” directional principle** concerns only “parent-subsidiary” relationships. The idea is that a loan by a subsidiary to its parent, which can be called a “reverse investment”, must actually be considered to be the result of a decision made by the parent. Therefore, it is reclassified as a disposal of the parent’s investment in the subsidiary;
- the **extended directional principle**: the same principle is applied to relationships between “fellow enterprises”, meaning enterprises belonging to the same international group, but with no direct ownership links between them. Under the extended directional principle, a loan granted by one subsidiary to another affiliated company in the same international group must be recorded as a loan granted by the parent company of the group. Therefore, it is restated as a disposal of the parent company’s assets in the lending subsidiary and a new investment by the parent company in the subsidiary receiving the loan.¹

The Banque de France uses both the “asset/liability” presentation and the “directional principle” presentation for direct investment. The Banque de France favours the directional principle presentation and implements the extended directional principle, which means that flows and positions of cross-border lending within the same group offset each other. This substantially reduces the overall volume of flows and positions of inward and outward direct investment compared to the asset/liability presentation. This facilitates the economic interpretation of direct investors’ behaviour.

¹ However for French direct investment abroad, the reclassification is made according to the country of the immediate counterparty and not according to the ultimate controlling parent.

2|1|2 Recording procedures

Statistical sources

The largest flows are tracked as a result of the requirement that outward and inward direct investment transactions in excess of EUR 15 million be reported to the Banque de France.¹⁹

The equity capital positions of outward direct investment come from the annual survey of resident enterprises (industrial and commercial enterprises, financial intermediaries or insurance corporations): any non-resident subsidiary in which a resident direct investor holds an equity capital stake in excess of EUR 5 million, or where the acquisition cost was greater than EUR 5 million, must be reported in the survey.

The equity capital positions of inward direct investment are based primarily on the identification of non-residents’ holdings of more than 10% of the equity capital in any resident enterprise. This information comes from:

- the Banque de France,²⁰ through the Banking Data Base on Companies (FIBEN),²¹ which tracks the

non-resident owners of French enterprises that are not in the banking or insurance sectors;

- the Prudential Supervision and Resolution Authority (ACPR), which provides information about financial links between residents and non-residents in the banking sector;
- Insee,²² whose ESANE data base of annual business statistics is used to supplement the FIBEN data base.

Positions are also tracked using the accounting data of the direct investment enterprises identified. The data sources depend on the sector of the direct investment enterprise:

- industrial and commercial sector: Banque de France (Companies Directorate) and Insee (Business Statistics Directorate);
- banking and finance: Prudential Supervision and Resolution Authority;
- insurance: Banque de France (Monetary and Financial Statistics Directorate).

Both assets and liabilities arising from lending between fellow enterprises are measured using the “affiliates” Section of the Banque de France EFI survey of foreign financial assets and liabilities (see Part 1, Section 4).

The real-estate investment position is calculated through cumulative flows.

¹⁹ Decision 2007-01 of the Monetary Committee of the Banque de France General Council on the collection of statistics for the compilation of France’s balance of payments and international investment position of France, the euro area and the European Community.

²⁰ Balance of Payments Directorate and Surveys and Sectoral Statistics Directorate.

²¹ Managed by the Companies Directorate.

²² Business Statistics Directorate, Registers, Infrastructures and Structural Statistics Department.

Geographical breakdown

The geographical breakdown of inward and outward direct investment is determined on the basis of the immediate country of origin or destination of the funds. Therefore, it does not necessarily reflect the location of the ultimate controlling parent for the investment. For example, if a British subsidiary of a Japanese enterprise owns a French enterprise, the direct investment position concerned will be allocated to the United Kingdom and not to Japan.

However, additional breakdowns are also disseminated, based on the country of residence of the ultimate controlling parent, which is defined as the entity at the head of the chain of financial links (stakes in excess of 50%) that makes up the group. The ultimate controlling parent is identified to give a clearer idea of the entity that ultimately owns and controls a resident enterprise investing abroad or a resident direct investment enterprise.

Breakdown by the nature of the transaction

Outward and inward direct investment is broken down by the nature of the transactions:

- *Equity capital transactions per se*, meaning start-ups, acquisitions or expansion of enterprises in the form of acquisitions of securities or productive assets, equalisation subsidies and conversion of loans into equity;
- *Acquisitions of real estate*;
- *Reinvestment of earnings*, which corresponds to the share of current net income from direct investment enterprises attributable to the parent company during an accounting period, minus dividends paid to the parent company for the same period.
- *“Other transactions”*, which cover short and long-term loans, advances and deposit transactions between companies in direct investment relationships, with the exception of loans and deposits between resident banks or financial intermediaries and their foreign correspondents, which are classified as “other investment”.

2|1|3 Valuation of direct investment in the international investment position

Direct investment positions may be valued at mixed value, book value or market value (see table below). The shares and investment certificates of companies owned by foreign direct investors are rarely listed on stock exchanges, which means that it is the book value that is available and the market value that is estimated.

Summary table: Valuation of direct investment positions by type of enterprise

	Book value	Market value	Mixed value
Unlisted company	Exists	Estimated	Book value
Listed company	Exists	Exists	Market value

The mixed value is a middle ground between the book value and the market value.

Book value

The book value of direct investment equity capital positions is the value that enterprises report in their financial statements. It can be determined:

- on the basis of the balance sheets of foreign companies in which residents are direct investors or, failing that, on the basis of the tables showing subsidiaries and interests in the notes to the annual financial statements of resident companies;
- on the basis of the balance sheets of resident direct investment enterprises owned by non-resident direct investors.

The amount of each inward or outward direct investment is calculated by multiplying the direct investor's stake in the enterprise by its equity capital.²³ Then, lending by all resident enterprises to their non-resident fellow enterprises is added and borrowing by all resident enterprises from their non-resident fellow enterprises is subtracted, based on the assets/liabilities presentation or the extended directional principle (see Box 7).

Real-estate investment, calculated on the basis of cumulative flows, is valued on the basis of historical cost.

The final figures are published approximately 18 months after the end of the accounting period due to collection and processing lags for the accounting data used to calculate the final positions. Enterprises annual financial statements are required to determine the final direct investment positions.

Provisional data are estimated using the available accounting data, updated on the basis of balance of payments flows related to both inward and outward direct investment.

The direct investment position at book value, which is available by sector and by counterparty country, should

²³ The equity capital is calculated as the sum of share capital, reserves and retained earnings, along with the current year's profit or loss. These data can be found on the liabilities side of the direct investment enterprises' balance sheets.

be used for bilateral and international comparisons, since most of France's leading trading partners publish book value data only.

Market value

The IMF and the OECD recommend valuing direct investment positions at market value to enhance consistency between balance of payment flows and the positions that make up the international investment position. Furthermore, the other negotiable assets and liabilities in the international investment position are recorded at market value.

The market value of equity holdings in direct investment enterprises is calculated directly from the share prices in the case of listed enterprises. However, listed enterprises are a minority. Direct investment in unlisted enterprises accounts for some 90% of France's outward and inward direct investment positions at book value. Therefore, the market value of direct investment in unlisted enterprises is estimated.

The methods used to determine the market value of direct investment were revised in 2009 to provide a common conceptual framework for the valuation of outward and inward direct investment in unlisted companies. The valuation method based on calculating the ratio of market capitalisation to book value for listed enterprises and applying it to unlisted enterprises is now used, in keeping with the recommendations of the IMF and the OECD.

Capitalisation ratios are calculated by comparing the market capitalisation at the end of the year to the equity attributable to the group,²⁴ as shown in consolidated financial statements of the enterprises in the reference population.²⁵ Market capitalisation, which is the market value of a listed enterprise, seems to be a judgment about the value of all of a group's businesses rather than just the value of the listed parent.

The median capitalisation ratio is determined for each business sector. A 25% discount is applied to the median sector ratios to account for the lesser liquidity of unlisted companies. The ratios obtained are then applied to the book value of direct investment in the equity capital of unlisted companies, which are allocated using the same classification to the same business sectors.

²⁴ The own funds attributable to the group shown in the consolidated financial statements exclude own funds attributable to minority interests.

²⁵ The reference populations are drawn from listed enterprises in France where the long data series needed to calculate capitalisation ratios are available. These populations are the CAC 40 enterprises for French outward direct investment and the SBF 250 enterprises, minus those in the CAC 40, for inward direct investment.

Cumulative real-estate investment at historical cost is updated each year using various indices that measure changes in the prices of commercial real-estate in France and abroad in order to estimate real-estate investment positions at market value.

Assets and liabilities relating to loans and deposits are recorded at their nominal value.

Following the implementation of the Macroeconomic Imbalance Scoreboard under the aegis of the European Commission, the Banque de France has preferred to calculate "mixed value" data (see below) to ensure the comparability of its international investment position data with those of other countries. It continues to produce market value data occasionally to supplement the mixed value data. The market value data are reported exclusively for aggregate positions in real-estate investment and equity capital investment. No sector or geographical allocations are provided.

Mixed value

Inward and outward direct investment positions are recorded at mixed value, meaning that positions in listed securities are recorded at market value and positions in unlisted assets and liabilities are recorded at their book value.

The Banque de France uses mixed value for its reference publications, since this is the value used by most other countries and it allows for uniform international comparisons.

Some divergences may arise between the positions recorded at mixed value and the balance of payments flows (see Box 8).

Box 8

Differences between the annual variation in direct investment positions at mixed value and balance of payments flows

Differences are likely to arise between balance of payments flows and the annual variation in positions at mixed value. Positions at mixed value are calculated as discussed above, whereas balance of payment flows record transaction amounts, which correspond to market value. The divergences between the two valuations can be substantial in some cases. These divergences notably stem from goodwill (outlook for business growth and estimated value of certain intangible assets), which is a component of market value but not of book value.

2|2 Portfolio investment

2|2|1 Definition

Portfolio investment covers all transactions in negotiable securities between residents and non-residents, including purchases of new issues, trading and redemptions, other than transactions included in direct investment, reserve assets or financial derivatives. On the other hand, portfolio investment does not cover temporary transactions with no change in economic ownership of identified securities, such as repurchase agreements or securities lending. When temporary transactions include a movement of cash, they are recorded under “other investment”. Short positions arising from short-selling of borrowed securities are deducted from portfolio investment in accordance with the IMF’s prescriptions.

Portfolio investment concerns transactions and positions in equities, mutual fund shares and units, and short and long-term debt securities.

Equities are securities that represent a share of the issuer’s equity capital, paying a dividend that is indeterminate by contract. However, the dividend is a direct function of the issuers’ earnings. Therefore, equities are described as variable-income securities. Equities can be divided into exchange-listed equities and unlisted equities.

Other equity interests that also entitle the holder to a share of an enterprise’s residual value but are not represented by a security are recorded under “Other investment” (see below).

Investment fund shares/units are securities issued by investment funds. These funds are financial undertakings that take funds from the public and invest them in money markets, financial markets and real estate. Investment funds include money market funds, which are part of the monetary financial institutions sector. Investment fund units/shares are the securities issued by these funds and not the securities that are eligible investments for the funds.

Debt securities are negotiable instruments representing debt. They give the holders an unconditional right to receive a fixed sum or variable payments stipulated by contract. These securities are classified by maturity.

Portfolio investment

Equity securities and investment fund shares/units
Long-term debt securities
Short-term debt securities

Short-term debt securities, including Treasury bills, certificates of deposit, promissory notes, commercial bills and other commercial paper, are debt securities with an initial maturity of less than one year.

Long-term debt securities, including bonds, are securities with an initial maturity of more than one year.

2|2|2 Recording procedures

Flows in the balance of payments and positions in the international investment position are divided into assets (transactions between residents and non-residents in securities issued by non-residents) and liabilities (transactions between residents and non-residents in securities issued by residents). Both of these items are then broken down by the type of securities exchanged, i.e. equity securities and investment fund shares/units, long-term debt securities and short-term debt securities. The flows or positions in each category of instrument are then broken down by the resident sector holding them (for assets) or issuing them (for liabilities).

Statistical sources

The main source of statistics on securities holdings is the monthly collection of statistics on individual securities from resident custodians (PROTIDE). Custodians report their own portfolio investment positions in each security, along with those of their resident and non-resident customers. The PROTIDE statistics also cover registered shares administered by intermediaries and temporary securities transactions (repurchase agreements and securities received or delivered under repurchase agreements), which are restated to balance reports between counterparty countries.

Other sources are used to supplement these statistics in order to estimate certain items or to validate the PROTIDE statistics. These sources include the securities data base, along with various other sources:

- data on investment funds from the Banque de France;²⁶
- statistics from the Banque de France²⁷ on securities issuance by residents;
- data on MFIs’ and investment firms’ securities portfolios from the unified financial reporting system, SURFI, operated jointly by the Banque de France and the Prudential Supervision and Resolution Authority (ACPR).

²⁶ Monetary and Financial Statistics Directorate.
²⁷ Balance of Payments Directorate.

The securities position is compiled quarterly. Direct reporting of securities flows was eliminated in 2009 because it was expensive to manage and inaccurate given the high turnover in portfolios. Since then, the flows are calculated on the basis of monthly variations in positions for some 85% of positions and quarterly variations for the rest. The flows are adjusted for valuation effects (changes in exchange rates and market value) and for statistical reclassifications (change of investor sector following a reporting error, change of custodians, etc.). The flows determined in this manner or recorded are without interest accruals (see Box 5).

Calculating portfolio investment positions

Portfolio investment positions are recorded at market value on the reporting date and interest accruals are included in the value of debt securities. Non-residents' positions in securities issued by residents (liabilities) are calculated using a special treatment. Since the statistics do not track non-residents' positions in French securities held abroad, liabilities in the form of corporate securities are calculated as the difference between the issuance amount and the amounts held by residents with resident custodians. The statistical bias is considered to be minor in the case of government securities (bonds and Treasury bills) and non-residents' holdings are determined directly on the basis of the positions reported.

2|3 Financial derivatives

2|3|1 Definition

A derivative is a financial instrument linked to another instrument, a financial indicator or a specific commodity that makes it possible to trade specified financial risks on the financial markets. The specific financial risks could be interest rate risk, currency risk or credit risk, or else price risks for equities or commodities, etc.

There are two main categories of financial derivatives: options and forwards.

Under an option contract, the option seller sells the buyer the right to buy (call) or sell (put) an underlying asset at an agreed price (strike price) on or before a specified date. The underlying asset may be a physical asset or a financial asset.

Forwards are contracts whereby the two parties agree to an unconditional exchange of a specified quantity of an underlying physical or financial asset at a price set by contract (strike price), on a specified date. This category includes futures contracts and swap contracts. The term "forwards" is used because the

term "futures" often has a narrower meaning on financial markets that excludes swaps in many cases.

Generally speaking, financial derivatives are subject to a net cash settlement rather than delivery of the underlying instrument. Once a financial derivative reaches its settlement date, any unpaid amounts are reclassified as receivables or payables (see "Other investment" below).

In the balance of payments, the "Financial derivatives" item includes premiums on options and forwards bought and sold by resident banks and by other sectors, along with margin calls, adjustment payments and interest payments on swaps. This item tracks the flows of cash related to transactions in financial derivatives. These flows show the scale of cross-border transactions in such instruments. They do not provide any information about the risks or benefits associated with such transactions.

2|3|2 Recording procedures

Transaction reports (CRTs) relating to financial derivatives filed with the Banque de France make it possible to identify transactions relating to trading (e.g. buying and selling derivatives on foreign markets) and transactions arising from changes in value. These transactions are also reported by market (over-the-counter or organised markets) and by product. This collection of statistics makes the link between balance of payment flows and the positions at market value reported in France's international investment position and ensures coherence between the two. Transaction reports concerning financial derivatives make it possible to determine whether the derivative should be recorded as an asset (in-the-money) or a liability (out-of-the-money) on the financial intermediary's balance sheet. They also identify the type of instrument used (options, swaps or forwards) and whether the instrument was traded on an organised market or on the over-the-counter market.

2|4 Other investment

2|4|1 Definition

The "other investment" item covers all of the transactions with non-residents in financial assets and liabilities that are not included under another financial account item.

The item is split into residents' assets and liabilities vis-à-vis non-residents. Then, it is broken down by the type of transaction (trade credits, lending and borrowing, other assets and liabilities). Finally, it is broken down by the sectors of the resident debtors or creditors.

Other investment

Other equity
Currency and deposits
Loans
Trade credit and advances
Other accounts payable/receivable
Special Drawing Rights (SDRs) allocation

“Other investment” covers other equity, currency and deposits, loans, trade credit and advances, other accounts receivable/payable, insurance provisions and reserves, and Special Drawing Rights (SDRs) allocations.

Other equity covers equity that is not in the form of securities. This may be equity in quasi-corporations, such as branches, trust companies, limited companies or unincorporated funds. This category also covers participation in many international organisations (that is not in the form of equity securities), including France’s participation in multilateral development organisations (e.g. the International Bank for Reconstruction and Development—IBRD and the International Development Association—IDA). France’s subscription to the capital of the European Stability Mechanism²⁸ has been included in this category since 2012. The Banque de France’s stake in the capital of the ECB is also included in this category.

The *Currency* category covers banknotes and coins with fixed face values issued or authorised by central banks or central governments. Flows and positions in euro banknotes within the Economic and Monetary Union are recorded using a special double-entry accounting treatment. The first entry is the difference between the theoretical issuance amount allocated to the Banque de France²⁹ and the euro banknotes that are actually put into circulation. The second entry records the difference between the theoretical issuance amount allocated to the Banque de France and residents’ holdings of euro banknotes. The net position corresponds to the difference between residents’ holdings of euro banknotes and the banknotes put into circulation by the Banque de France.

Deposits cover all of the claims on the central bank and monetary financial institutions evidenced by proof of deposit. In addition, flows and positions on transaction accounts that central banks from the franc zone³⁰ hold with the French Treasury are recorded as liabilities under general government deposits.

Loans are financial assets that arise when a creditor lends funds directly to a debtor. They are evidenced by non-negotiable documents.³¹ The distinction between loans and deposits is based on the type of counterparty.³²

Loans of the Banque de France

This item covers the Banque de France’s assets and liabilities in euro or in other currencies, regardless of maturity, vis-à-vis non-residents. More specifically, this item covers the assets and liabilities in euro vis-à-vis the ESCB (European System of Central Banks) recorded in the Banque de France balance sheet as intra-ESCB transactions handled by the TARGET2 payment system (Trans-European Automated Real-time Gross settlement Express Transfer), as well as foreign currency placed with non-resident banks in the euro area. In keeping with the common methodology of the member countries of the Economic and Monetary Union, the latter assets are not counted as reserve assets.

Loans of monetary financial institutions

This item covers credit institutions’ and money market funds’ long-term or short-term assets and liabilities in euro and other currencies vis-à-vis non-residents.

Loans of general government

General government assets include long-term loans granted under bilateral and multilateral assistance arrangements or under Paris Club bilateral consolidation agreements. Since 2010, this category has also included the French contribution to European assistance plans for euro-area countries (bilateral loans, contribution to the European Financial Stability Facility³³). On the other hand, France’s stake in the capital of the European Stability Mechanism is recorded under “Other equity” (see above).

Loans of other sectors

This item measures changes in long-term and short-term assets and liabilities in euro or other currencies of non-monetary financial intermediaries (investment firms

28 The European Stability Mechanism (ESM) is a permanent mechanism for managing financial crises. It was set up in September 2012 to replace the European Financial Stability Facility (EFSF).

29 This amount is calculated on the basis of its share of the ECB’s capital.

30 Banque centrale des États d’Afrique de l’Ouest, Banque des États de l’Afrique centrale and Banque centrale des Comores.

31 To be exact, loans may be negotiable, but their legal form is not designed for this purpose, in contrast to debt securities.

32 This distinction may be expressed in terms of the assets and liabilities of resident non-financial agents:

- their assets vis-à-vis non-resident MFIs should be recorded as deposits, whereas their assets vis-à-vis other non-resident agents should be recorded as loans; this distinction means that all transactions between resident and non-resident MFIs should be recorded as deposit transactions;
- their liabilities vis-à-vis non-residents should always be identified as loans from non-residents; general government may be the exception to the rule and incur liabilities in the form of deposits.

33 The EFSF was established in May 2010 to provide financial assistance for economically troubled countries in the euro area. It granted loans to Greece, Ireland and Portugal.

and non-money-market investment funds), along with industrial and commercial enterprises and insurance corporations.

The transactions of the clearinghouse LCH.Clearnet are recorded under this item.

Trade credits and advances arise from credits granted by resident enterprises to non-resident customers (assets) or credits granted by non-residents to resident customers (liabilities), regardless of their maturity. This item also covers advances. However, trade credits arranged between enterprises belonging to the same international group are recorded under "Direct investment".

Other accounts receivable/payable includes liabilities for taxes, purchase and sale of securities, securities lending fees and gold loan fees, wages and salaries, and social contributions that have accrued but not yet been paid.

Insurance provisions and reserves are the liabilities of the insurer or the issuer of standardised guarantees, and the corresponding assets for the policyholders or the other beneficiaries. Insurance technical reserves need to be booked because of the accruals principle (see Part 1, Section 3). In the example of nonlife insurance, the provisions and reserves include premium reserves, meaning the prepaid premiums from policyholders that must be considered to be acquired by insurance companies gradually, as the policy term progresses. On the other hand, the reserves also include claim reserves, which are the indemnity amounts that insurance corporations will have to pay for eventualities that have already occurred, but for which the claims have not yet been paid.

Special Drawing Rights (SDRs, see below for the definition) allocations from the IMF to France are also covered by Other investment. SDRs allocations must be distinguished from SDRs assets held by a country, which are recorded as reserve assets (see below). On the contrary, the country receiving SDRs allocations considers them to be liabilities, because it may be required to repay them in certain circumstances. Furthermore, interest accrues on the allocations.

2|4|2 Recording procedures

Other equity

This item is compiled from the reports by the Banque de France and the general government.

Currency

This item is compiled from reports by the Banque de France. Non-residents' holdings of euro banknotes

issued by the Banque de France are determined by collecting data on cross-border flows of banknotes from the Banque de France's Directorate of Cash Management and the major operators in the sector.

Deposits and Loans

MFIs' deposit and loan positions are compiled from the position data reported each quarter through the SURFI reporting system (see Part 1, Section 4). Data from other sectors come from investment firms' and clearinghouses' reports (based on the position data reported through SURFI) and from the reports filed by non-money-market investment funds. Flows are determined from variations in positions after factoring in the impact of exchange-rate fluctuations. The deposit and loan positions of industrial and commercial enterprises and insurance corporations vis-à-vis non-residents are assessed by means of the EFI survey (see Part 1, Section 4), whereas flows are determined by changes in positions, after factoring in valuation effects. On the other hand, there is no collection of data for assessing the deposits and loans of households and NPISHs.

Trade credits

Trade credits are assessed by means of the ECO survey (see Part 1, Section 4).

Insurance provisions and reserves

These positions are assessed using the EPA statistics (see Part 1, Section 4). Methodological work is under way to ensure full use of these statistics.

Special Drawing Rights allocation

SDRs allocations are tracked through the Banque de France balance sheet.

2|5 Reserve assets

2|5|1 Definition

Reserve assets are external assets that are readily available to the Central Bank. Since the creation of the euro area, France's balance of payments records only transactions in the foreign exchange reserves that have not been transferred to the ECB and are still managed by the Banque de France. Furthermore, the countries belonging to the Monetary Union have adopted a common methodology under which only claims on non-residents outside of the euro area are recorded, which means that this item excludes foreign currencies placed with non-resident banks located inside the euro area.

Reserve assets

Monetary gold
 Special drawing rights
 Reserve position in the IMF
 Other reserve assets

Reserve assets are made up of gross assets in monetary gold, special drawing rights (SDRs), France's net position in the IMF and other reserve assets.

Monetary gold is gold to which the monetary authorities have title and is held as reserve assets.

Special drawing rights (SDRs) are international reserve assets created by the IMF and allocated to its members to supplement their existing official reserves. SDRs holdings represent unconditional rights to obtain foreign exchange or other reserve assets from other IMF members. SDRs holdings recorded as reserve assets have a liability counterpart recorded as SDRs allocations under "Other investment" (see above).

The *reserve position in the IMF* is the sum of a) the "reserve tranche", meaning the foreign currency (including SDRs) that a member country may draw from the IMF at short notice,³⁴ and b) any indebtedness of the IMF (under a loan agreement) in the General Resources Account that is readily available to the member country.

Other reserve assets mainly include holdings of foreign securities, currency and deposits with foreign institutions (including the European Central Bank).

2|5|2 Recording procedures

Reserve asset positions, along with transactions in this category of assets, are reported by the Banque de France.

Reserve assets are valued at the end of each month on the basis of the following prices:

- gold is valued at the price on the last day of the month;
- SDRs and the net reserve position in the IMF are valued at the most recent SDR exchange rate calculated by the IMF at the reporting date;

- currencies are recorded at the exchange rate observed on the reporting date.

3| EXTERNAL DEBT

Banque de France also produces and disseminates external debt statistics, in accordance with the principles set out in the IMF External Debt Statistics Guide (link: <https://www.imf.org/external/np/sta/ed/ed.htm>). External debt consists of gross or net borrowing by resident economic agents from non-residents.

Gross external debt, at any given time, is the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to non-residents by residents of an economy. Therefore, gross external debt consists exclusively of financial liabilities in the form of debt instruments, meaning:

- debt securities (e.g. bonds),
- loans,
- currency and deposits,
- trade credits and advances,
- insurance technical reserves,
- SDR allocations.

The debt is gross debt in that French residents' financial assets are not subtracted from their liabilities. In contrast, their assets are subtracted to calculate the net external debt, which is the net position in debt instruments.

In contrast to the international investment position, external debt excludes positions in financial derivatives, equity securities, equity capital and reinvested earnings from direct investment, because these items are not debt instruments.

³⁴ Reserve-tranche positions in the IMF are liquid claims of members on the IMF that arise not only from the reserve asset payments for quota subscriptions, but also from the sale by the IMF of their currencies to meet demand for use of IMF resources by other members in need of balance of payments support.

APPENDICES

APPENDIX I

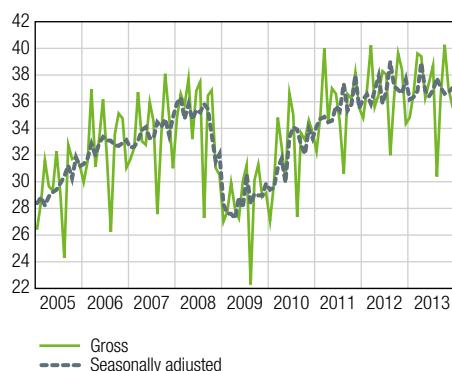
SEASONALLY ADJUSTED CURRENT ACCOUNT STATISTICS

Variations, such as the lull in economic activity caused by the closure of many enterprises in August or during the holiday season at the end of the year, make economic interpretation of the balance of payments statistical series difficult, particularly in the case of current account statistics. Such variations obscure the effects of the economic trends the statistics are supposed to highlight. Statistical seasonal adjustment techniques can filter out these artefacts, as long as they occur with a degree of regularity.

Activity in goods and services (Chart 1 and Chart 2) display peaks and troughs at the same times each year. Therefore, these series are seasonally adjusted. In the case of general merchandise, which is a sub-component of goods, the Banque de France uses seasonal adjustments (and working day adjustments) calculated by the Customs administration.¹ For services, the Banque de France uses the X12 procedure, based on a moving average filter.

C1 Goods – Receipts

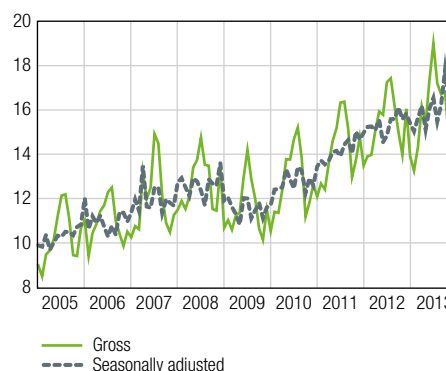
(EUR billions)



Source: Banque de France.

C2 Services – Receipts

(EUR billions)



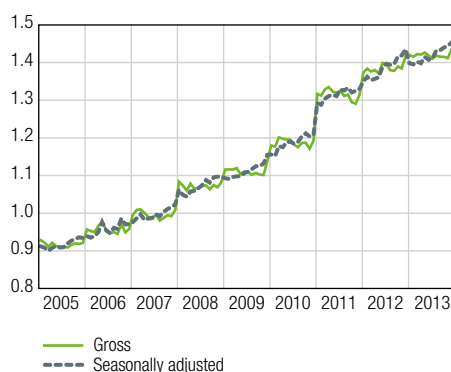
Source: Banque de France.

¹ For more information, see http://lekiosque.finances.gouv.fr/portail_default.asp, menu "Concepts et méthodes du Commerce extérieur" (in French).

The seasonal variations of primary income and secondary income are less regular from year to year. Therefore the seasonal adjustment methods are chosen on a case-by-case basis. For example, the Banque de France uses the X12 procedure for the compensation of border workers recorded as primary income since the seasonal profile is sufficiently apparent (see Chart 3). On the other hand, under the convention applied for secondary income, which consists primarily of occasional transfers, the seasonally adjusted monthly series corresponds to the average monthly amount for the year (see Chart 4).

C3 Compensation of border workers – Receipts

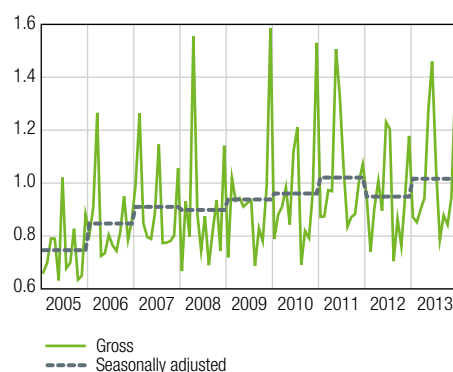
(EUR billions)



Source: Banque de France.

C42 Secondary income Receipts

(EUR billions)



Source: Banque de France.

CHANGES IN THE DATA COLLECTION SYSTEM FOR THE BALANCE OF PAYMENTS AND THE INTERNATIONAL INVESTMENT POSITION

Historically, data gathering relied mainly on the rule requiring residents to report their transactions with non-residents to the Banque de France. The bulk of these transactions were conducted through resident banks, which meant that the reporting requirement was actually incumbent upon the banks, by means of “payment reports”. This reporting system was a legacy from the age of foreign exchange controls. It was based on comprehensive reporting of cross-border transactions that banks were required to provide in exchange for authorisation to make international funds transfers. It started to evolve in 1989, as reporting and survey data were gradually substituted for “payment reports”.

But it was primarily the move towards greater financial integration in the euro area that made a large contribution to changing the data collection system, particularly after the recent establishment of the Single Euro Payments Area (SEPA). A payment between two SEPA² countries is now just as easy as a domestic payment. Under the circumstances, the banks’ international payment reporting requirements were greatly reduced.³

The “payment reports” system became obsolete as international transaction volumes increased and the complexity of some of these transactions made them especially difficult to track with precision. Furthermore, major enterprises now have more opportunities to use non-resident banks that are not subject to the same reporting requirements vis-à-vis the national statistical systems.

Since 2011, the data collection system has increasingly relied on direct reporting by the economic players instigating the flows, rather than reporting by the financial intermediaries that handle the payments. The following surveys and sources were incorporated into the data collection system in 2011:

- The “Complementary Survey on International Trade in Services” (ECEIS), which is used to collect data about international trade in services from non-financial corporations that are not direct reporters;
- The “Survey of trade receivables and payables vis-à-vis non-residents” (ECO) and the “Survey of financial assets and liabilities vis-à-vis non-residents” (EFI) are used to track the commercial and financial assets and liabilities of resident industrial and commercial enterprises and insurance corporations vis-à-vis non-resident entities;
- The “transaction report” (CRT), which tracks the transactions that all financial intermediaries⁴ carry out on their own account. This information had previously been obtained from “payment reports”.

Nevertheless, the indirect reporting system has not disappeared completely. In order to identify the non-financial corporations to be included in the survey samples (particularly surveys tracking foreign trade in services), a screening arrangement to identify enterprises with significant international transactions has been maintained.

² The list of SEPA countries can be found on the website of the European Payments Council <http://www.europeanpaymentscouncil.eu/index.cfm/knowledge-bank/epc-documents/epc-list-of-sepa-scheme-countries/epc409-09-epc-list-of-sepa-scheme-countries-v2-0-january-2011>

³ Reporting thresholds were phased in. The current thresholds are set by Regulation EU 260/2012 at EUR 50,000 for transactions with European Union counterparties. The Member States must abolish all reporting requirements by 1 February 2016. Furthermore, the use of generic codes and simplified codes has been allowed since 2008 for receipts and since 2010 for payments in the case of transactions with an EU counterparty.

⁴ A financial intermediary is an individual or a legal entity (credit institution, investment company, payment institution or financial holding company) that is authorised by the competent authorities (Prudential Supervision and Resolution Authority or the Financial Market Authority, as the case may be) to act as a go-between for economic agents to bring capital supply and demand together or to act as a custodian or manager of securities entrusted to it by third parties.

The new data collection system for this purpose is the “customer payments statement” (RPC). It is a simplified version of the former “payment reports”⁵ system.

The Banque de France continues to upgrade its data collection system to ensure a high degree of accuracy and quality of international statistics. Such statistics also meet the central bank’s needs, for monetary and financial stability diagnosis, and economic policymakers’ needs. The improvement of balance of payments and international investment position statistics has kept pace with the improvement of the international banking statistics disseminated by the Bank for International Settlements under the *Data Gaps Initiative* started by the G20 Pittsburgh Summit in 2009, or by the International Monetary Fund with the *Coordinated Direct Investment Survey* (CDIS) and the *Coordinated Portfolio Investment Survey* (CPIS).

⁵ Payments of more than EUR 50,000 in euros or foreign currencies with countries outside the SEPA.

GLOSSARY

B

■ Banknotes

Within the context of the Economic and Monetary Union, flows and positions in euro banknotes are recorded using a special double-entry accounting treatment. The first entry is the difference between the theoretical issuance amount allocated to the Banque de France (based on the ECB capital share mechanism) and the euro banknotes that are actually put into circulation by the Banque de France. The second entry records the difference between the theoretical issuance amount allocated to the Banque de France and residents' holdings of euro banknotes. The net position corresponds to the difference between residents' holdings of euro banknotes and the banknotes put into circulation by the Banque de France.

■ Book value

The book value of direct investment positions is the value that enterprises report in their financial statements. In the case of outward direct investment, this value is shown in the tables recording subsidiaries and equity interests that are appended to companies' annual financial statements. In the case of inward direct investment, this value is shown on the balance sheets of resident companies affiliated with non-resident direct investors.

C

■ Capital account

The capital account records capital transfers, meaning transactions involving transfers of ownership on fixed assets or cancellation of liabilities by creditors without any counterparts being received in return (debt forgiveness, write-offs, investment grants, etc.) and purchases and sales of non-produced, non-financial assets (see definition).

■ Capital transfers – debt forgiveness

Debt forgiveness granted by the French general government sector to a foreign country is a transfer to a non-resident agent.

Accordingly, it is recorded as a debit from the capital account. On the other hand, the debt forgiveness decreases general government assets and is therefore recorded as a credit to the financial account under "other investment".

■ Capital transfers – other transfers

Other capital transfers include investment grants received from or paid to other countries as part of development assistance. Transfers made to the French general government sector come mainly from European institutions (ERDF and EARDP).

■ Current account

The current account records flows of goods, services and primary and secondary income between France and the rest of the world. The current account balance is the difference between exports and income receivable and the income payable by residents.

D

■ Direct investment

Direct investment covers transactions by investors resident in one economy to acquire, increase or dispose of a lasting interest in an enterprise resident in another economy and to hold or dispose of influence over its management.

E

■ **Errors and omissions**

The “net errors and omissions” item is a balancing item that exists because, unlike a simple double-entry accounting system, debits and credits in the balance of payments are not recorded simultaneously for each transaction. Instead they are recorded from reports and surveys using different sources. By construction, the errors and omissions item is equal to the difference between the financial account balance, on the one hand, and the sum of the capital account balance and the current account balance, on the other hand.

■ **Extended directional principle (direct investment – other transactions – intercompany lending)**

Under the BPM6 format, the extended directional principle provides a supplementary measurement of direct investment data. Under this principle, lending between fellow enterprises belonging to the same international group are not classified according to the direction of the loans, but according to the country of residence of the parent company.

■ **External debt**

Gross external debt comprises solely financial liabilities to non-residents in the form of debt instruments (money market securities, bonds and loans), which excludes notably equities and financial derivatives. This debt is gross in that the financial assets of French residents are not deducted from liabilities. However, these assets are deducted when calculating net external debt, which comprise net positions in debt instruments.

F

■ **Financial derivatives**

This item includes premiums on options and futures bought and sold by resident banks and by other sectors, along with margin calls, adjustment payments and interest payments on swaps.

■ **Financial intermediation services indirectly measured (FISIM)**

FISIM are the services that financial intermediaries provide without charging customers. Financial intermediaries pay themselves for these services through an interest rate margin on customer deposits and loans.

■ **Foreign exchange reserves**

See Reserve assets.

■ **France**

For the purposes of the balance of payments, France includes the departments in metropolitan France, the overseas departments (Guadeloupe, French Guyana, Martinique, Réunion and Mayotte), and the collectivities of Saint-Barthelemy, Saint-Martin and Saint-Pierre and Miquelon, along with the Principality of Monaco. All other countries, territories and institutions, including the European Central Bank (ECB), are regarded as non-residents.

G

■ **General government**

The general government sector includes central government, various central administration bodies (universities, regional health agencies, the national meteorological office, etc.), local governments and social security organisations.

■ **Goods**

Goods are physical, produced assets over which ownership rights can be established and whose economic ownership can be transferred from one institutional unit to another by engaging in transactions.

■ **Goods for processing**

See *Manufacturing services on physical inputs owned by others*.

■ Goods procured in ports by carriers

This item covers purchases of goods, such as fuel, stores and provisions in foreign ports and airports by resident carriers and by foreign carriers in France. It does not cover related services, such as towing and warehousing, which are recorded as transport services.

I

■ Integration of flows and positions

Changes in the international investment position between two dates stem from:

- balance of payments flows;
- changes in exchange rates and the prices of listed shares;
- and other changes, including reclassification of items, changes in methodology and statistical discrepancies between two reporting dates.

■ Intercompany lending (direct investment)

The “other transactions” item under direct investment includes all short-term and long-term loans, advances and deposits between companies in direct investment relationships, with the exception of loan and deposit transactions between resident banks and other monetary financial institutions and non-resident banks and monetary financial institutions belonging to the same group, which are classified as “other investment”.

■ Interest

Interest is property income received by owners of certain financial assets (deposits, securities other than equities, credits and other receivables). Interest is recorded on an accrual basis.

■ Investment income

Investment income corresponds to receipts or payments relating to external financial assets and liabilities. They are broken down by the nature of the related financial transactions: direct investment income, portfolio investment income, other investment income and reserve asset income. Investment income is a component of the current account.

L

■ Long term

For the purposes of balance of payment statistics, long term refers to initial maturities of more than one year.

M

■ Manufacturing services on physical inputs owned by others

This category is now classified with services (it was previously classified with goods in the 5th edition of the *Balance of Payments Manual*). It records transactions involving processing, assembly, labelling, packaging, etc. provided by enterprises that do not own the goods in question.

■ Market value

Outward and inward direct investment positions are recorded at market value, which is estimated jointly with national accounts staff, but only for equity capital. Only aggregated positions at market value are disseminated. Consequently, no breakdowns by company, country or sector are available.

■ Merchanting

Merchanting covers transactions related to residents' purchases and resale of foreign goods to non-residents when the goods are not imported into France's customs territory, and to non-residents' purchases and resale to non-residents of French goods that stay within France's customs territory.

■ Mixed value

Inward and outward direct investment positions are recorded at mixed value, meaning that positions in listed securities are recorded at market value and positions in unlisted assets and liabilities are recorded at their book value.

■ Monetary financial institutions (MFIs)

The monetary financial institutions (MFI) sector, excluding the central bank, includes resident credit institutions, as defined in European legislation, and all other resident financial institutions whose business is to receive deposits (or close substitutes for deposits) from entities other than MFIs and, for their own account, to grant credit and/or make investments in securities. This category also includes electronic monetary institutions, meaning those that engage in financial intermediation primarily by issuing electronic currency. The Caisse des Dépôts et Consignations, money market funds and the Caisse Nationale d'Épargne are also part of the MFI sector. On the other hand, payment institutions are not part of this sector.

N

■ Non-produced non-financial assets

This category corresponds to purchases and sales of natural resources (land, mineral rights, water and forests), along with contracts, leases and licences, and marketing assets (registered trademarks and models, logos, domain names, etc.).

O

■ Other investment (loan-deposit position)

The “other investment” component of the financial account includes all transactions in financial assets and liabilities with non-residents that do not concern direct investment, portfolio investment, financial derivatives or reserve assets. In practice, this mainly concerns bank deposits and interbank lending, as well as loans and deposits made by insurance corporations and all kinds of investment companies and funds.

■ Other sectors

“Other sectors” records transactions by economic agents that are not monetary authorities, general government nor monetary financial institutions. This category covers other financial corporations (insurance corporations, investment companies, investment funds, except money market funds, which are classified as monetary financial institutions), industrial and commercial companies, households and unincorporated enterprises. This residual sector also includes non-profit institutions serving households, such as associations or foundations.

P

■ Portfolio investment

Portfolio investment covers all transactions in negotiable securities between residents and non-residents, including purchases of new issues, trading and redemptions, other than transactions included in direct investment, reserve assets or financial derivatives.

■ Primary income

Primary income refers to the flows received by economic agents for their participation in the production process (“compensation of employees”) or for the provision of financial assets (“investment income”) or for renting natural resources (“rent”). Taxes and subsidies on products and production are also included in primary income.

R

■ Reinvested earnings

Reinvested earnings are the undistributed share of after-tax operating income from subsidiaries and equity interests attributable to the direct investor. These earnings are allocated to the company's reserves.

■ Reinvestment of earnings

See Reinvested earnings

■ Reserve assets

Reserve assets are external assets that are readily available to the Central Bank. Reserve assets are made up of gross assets in monetary gold and foreign currencies, including securities issued by non-residents, special drawing rights (SDRs) and France's net position in the IMF.

■ Resident economic sectors

The amounts recorded under many balance of payments items are classified according to the institutional sector of the resident party to the transaction. The institutional sectors are (see the definition of each sector):

- the Banque de France;
- general government;
- monetary financial institutions;
- "other sectors".

■ Residents/non-residents

Residents are:

- natural persons having their centre of predominant economic interest in France, regardless of their nationality, except for foreign civil servants and military personnel assigned to France, who remain non-residents;
- civil servants and other French government employees posted to other countries or seconded to international organisations or other non-resident employers;
- French and foreign legal entities, for their establishments in France, except for foreign diplomatic missions and international organisations based in France, when there is a real economic activity carried out in France by autonomous production units, regardless of their legal form (subsidiary, branch, agency, office, etc.).

Non-residents are:

- foreign and French individuals who live abroad, meaning who are actually located abroad, with the exception of French diplomatic missions and French civil servants posted abroad;
- foreign and French legal entities, for their establishments abroad, when they have a real economic activity performed abroad by autonomous production units, regardless of their legal form.

S

■ Secondary income

Secondary income records current transfers between residents and non-residents. A transfer is an entry that corresponds to the provision of a good, service, financial asset or another non-produced asset without receiving something of economic value in exchange. Current transfers refers to all transfers that are not capital transfers (see "Capital account").

■ Services

Services constitute the second main component of the current account. Unlike goods, where production and marketing are clearly separate activities, trade in services is closely linked to their production. Trade in services includes transport services and travel.

■ Short term

For the purposes of balance of payment statistics, short term refers to initial maturities of one year or less. The initial maturity is that stipulated when a financial transaction is initiated and is distinct from the notion of "residual maturity".

■ Sign conventions

By convention, all current account transactions have a positive sign, with a few exceptions, including acquisitions for merchanting, reinvested earning in the event of operating losses, which are registered as credits or debits, as the case may be, with a negative sign. A positive balance (credits minus debits) on the current account and the capital account indicates that receipts are greater than payments, resulting in net lending.

In the case of assets and liabilities on the financial account, a positive figure indicates an increase in assets or liabilities and a negative figure indicates a decrease in assets or liabilities. A positive balance of flows on the financial account indicates an increase in France's net assets, and a negative balance indicates a decrease in net assets. A simultaneous increase of assets and liabilities by the same amount does not change the balance of the financial account.

T

■ Trade credits and advances

Trade credits and advances arise from credits granted by resident enterprises to non-resident customers (assets) or credits granted by non-residents to resident customers (liabilities), regardless of their maturity. This item also covers advances. Trade credits between companies in a direct investment relationship are recorded under "direct investment". Other trade credits are recorded under "other investment".

■ Transport services

This item records transactions reported for goods and passenger transport, along with the related expenses, except for goods procured in ports by carriers (see definition), and the estimated shipping expenses included in trade in goods. Transport services receipts and payments related to international travel, such as the air fare for tourists travelling between their home countries and France, are not recorded under the "travel" item, but under transport services instead. On the other hand, non-residents' use of domestic transport services in France, and French residents' use of domestic transport services in a foreign country, are recorded under "travel".

■ Travel

The "travel" item records natural persons' expenditure when travelling abroad.

Travel receipts record all spending in France by non-resident individuals staying in France for less than one year, along with expenses incurred for personal services (healthcare, tuition, etc.) purchased from residents.

Travel payments record similar spending by residents abroad.

Transport services receipts and payments for international travel are not recorded under the "travel" item, but under "transport services" instead. On the other hand, "travel" does include non-residents' use of domestic transport services in France and French residents' use of domestic transport services in a foreign country.

W

■ Workers' remittances

Workers' remittances are the amounts transferred abroad by resident workers and vice versa. Workers' remittances are recorded under "secondary income".

LIST OF ABBREVIATIONS

ACPR	Prudential Supervision and Resolution Authority (<i>Autorité de contrôle prudentiel et de résolution</i>)
BPM6	Balance of Payments Manual (6 th edition)
CDIS	Coordinated Direct Investment Survey (IMF)
CIF	Cost, Insurance, Freight
CLEISS	Centre for European and International Liaisons for Social Security
CPIS	Coordinated portfolio investment survey (IMF)
CRC	Credit card statements
CRT	Transaction report
DDG	Direct reporting (or direct reporter, as the case may be)
DGDDI	Directorate General Customs and Excise (<i>direction générale des Douanes et des Droits indirects</i>)
EARDF	European Agricultural and Rural Development Fund
ECB	European Central Bank
ECEIS	Complementary survey on international trade in services
ECO	Survey of trade receivables and payables vis-à-vis non-residents
EDF	European Development Fund
EDPE	Foreign Business Travel Spending Survey
EFI	Survey of financial assets and liabilities vis-à-vis non-residents
EFSF	European Financial Stability Facility
EPA	Statement of technical reserves of insurance corporations
ERDF	European Regional Development Fund
ESANE	Annual business statistics collection
ESCB	European System of Central Banks
ESM	European Stability Mechanism
EU	European Union
EVE	Foreign visitor survey
FIBEN	Banking data base on companies (<i>Fichier bancaire des entreprises</i> , Banque de France)
FISIM	Financial intermediation services indirectly measured
FOB	Free on board
GDI	Gross domestic income
GDP	Gross domestic product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund

INSEE	National Statistical Institute (<i>Institut national de la statistique et des études économiques</i>)
ISIN	International securities identification number
MFIs	Monetary financial institutions
n.i.e.	not included elsewhere
NPISH	Non-profit institutions serving households
OAT	Treasury bond
OECD	Organisation for Economic Cooperation and Development
PROTIDE	Collection of securities holding statistics
RPC	Customer payments statement
SDRs	Special drawing rights
SDT	Tourism demand survey
SURFI	Unified financial reporting system
TARGET2	Trans-European real-time gross settlement express transfer system
VAT	Value added tax

REPRODUCTION AUTHORISED
WITH CREDIT

Publisher

Jacques FOURNIER
Director General of Statistics,
Banque de France

Production

Economic Publications Division
Press and Communication Directorate

The methodology of France's balance of payments
and international investment position is available
free of charge on the Banque de France website:

*[https://www.banque-france.fr/en/economics-
statistics/database/methodology/methodology-
for-the-balance-of-payments-and-international-
investment-position.html](https://www.banque-france.fr/en/economics-statistics/database/methodology/methodology-for-the-balance-of-payments-and-international-investment-position.html)*

