

Balance of Payments and International Investment Position: main concepts and definitions

This section presents the main methodological aspects and data sources that underlie the balance of payments and international investment position series included in this publication. Methodology broadly follows the International Monetary Fund *Balance of Payments and International Investment Position Manual, Sixth Edition (2009)*^{1/}, with some minor deviations due mostly to limitations in data sources.

A. CURRENT ACCOUNT

1. Goods, services and current transfers

The current account divides transactions into goods, services, income (primary income) and current transfers (secondary income).

2. Goods

2.1 Types of goods transactions

BPM6 recommends that goods be presented as one item called general merchandise, which includes all components that involve a change of ownership between residents and nonresidents. Thus, goods procured in ports by carriers (fuel, provisions, stores) and nonmonetary gold^{2/} from now on belong to the general merchandise category and are no longer separately identified within goods. The same treatment applies to goods traded through “free zones”, which were separately identified in balance of payments statistics.

2.2 Data sources for “goods”

Exports of goods are estimated mainly on the basis of a Customs document called *Single Export Declaration (DUS)*^{3/}. Data obtained from these documents are adjusted mainly for coverage and valuation to include all transactions between

residents and nonresidents and to better reflect market prices. These adjustments include adding goods re-exported from free zones, adjusting values of exports shipped at provisional prices, eliminating resident to resident transactions from data on goods supplied to carriers, and eliminating services from export declarations reported to customs. Re-exports from free zones are estimated on the basis of data provided by the free zones.

Exports are mostly recorded at the legalization date contained in the export declaration (*DUS*). However, a decision has been made to move forward in terms of recording exports at the time of shipment. This date, which is also reported in the export declaration, is now used to record copper exports. The shipment date is deemed to reflect more closely the economic reality underpinning companies’ production and marketing chain. This allows a better tuned measurement of the sequence of production, exports and changes in inventories, thus improving international and national accounts estimations.

The basic data source for imports is the *Single Import Declaration (DIN)*^{4/}. This document provides information that is adjusted mainly for coverage. Additions include imports to free zones and military imports derived from off-budgetary and central government sources. Other imports are subtracted, such as purchases by international organizations and other purchases of goods already included in services (under Travel and Government Services).

Following recommendations of the *IMF Manual*, measures of goods imports now also incorporate specific transactions carried out under financial leasing arrangements.

The customs import declaration includes both *cif* and *job* values, thus allowing freight and insurance values to be estimated for imports not covered by that document.

^{1/} BPM6 or the *Manual*

^{2/} This item covers exports and imports of gold not under Central Bank control as reserve assets. Nonmonetary gold may be held as a store of value or destined to other uses (industrial).

^{3/} Declaración Única de Salida.

^{4/} Declaración Única de Ingreso.

Other data sources for exports and imports of goods are resident transport companies and representatives of nonresident companies that provide international freight services. These companies supply data used to estimate “Goods procured in ports by carriers”.

3. Services

3.1 Transport

This category covers all services provided under any mode of transport by residents of Chile to nonresidents, or vice versa, that involve carriage of people or goods (freight), rental of carriers with crews and related supporting and auxiliary services.

3.1.1 Sea, air and other modes of transport

This category presents sea transport separately from other transport. Both groups are broken down by type of service into the following:

3.1.1.1 Passenger

Credits cover international passenger services provided to nonresident passengers by resident companies, for travel both from and to Chile as well as between foreign cities and countries. Likewise, debits include international transport services provided to passengers resident in Chile by nonresident companies. In practice, it is assumed that all international transport passenger services sold abroad by resident companies are credits, and that all services contracted out in Chile to representatives of nonresident companies are debits.

Data are obtained quarterly from sea and air international transport companies resident in Chile, and from agencies or representatives of nonresident shipping companies and airlines. They are supplemented by data provided by the immigration authorities (*Policía Internacional*) on passengers crossing border checkpoints.

The basis for estimating international passenger land transport is a benchmark survey^{3/} of a sample of domestic companies and representatives of foreign companies operating in Chile, as well as a Customs report containing data on land traffic by border checkpoint, covering inbound and outbound number of vehicles transporting freight and cargo.

^{3/} Survey conducted with a lower periodicity than balance of payments calculation. Parameters used to estimate other periods are inferred from that survey.

3.1.1.2 Freight

This category covers international freight of goods, including loading and unloading of goods on/from carriers if so agreed between the purchaser and the service provider. It is assumed by convention that the cost of freight is borne by the importing economy. Thus, transactions between residents and nonresidents recorded as credits are those freight services provided by resident companies on account of exports, and debits are freight services provided by nonresident companies on account of imports. Credits also include freight services provided by resident companies beyond the customs frontier (freight between third countries).

The basis for these estimations is quarterly information provided by sea and air transport companies resident in Chile, and also Customs data on exports and imports.

3.1.1.3 Other transport services

This category covers services that nonresident carriers (ships, airplanes and other means of transport) demand while they are in Chile (credits), and also those that resident carriers demand while abroad (debits). Examples of this type of service are: cargo loading and unloading, packing, repackaging, towing, pilotage and navigation aid, maintenance and cleaning of ships, lighthouses and buoys, airport apron fees and parking duties, rescue operations, commissions and agents' fees, etc.

The data are obtained from reports filed by international transport companies resident in Chile and by agencies or representatives of nonresident ones.

The basis for estimating international cargo and passenger land transport is a survey of a sample of agencies of foreign companies operating in Chile, as well as a Customs report on land traffic by border checkpoint covering outbound number of vehicles transporting freight and cargo. Estimation of debits is based on historical records for this item.

3.2 Travel

This item includes all goods and services that nonresident travelers acquire during visits to the compiling economy (credits), and residents' expenses while visiting other economies (debits). It includes business as well as personal expenses incurred during the visits, and also education and health-related expenditure. It excludes fares for international travel.

The basis for estimating these data is a survey conducted by the *National Tourism Service (Sernatur)*^{6/}, and monthly reports provided by immigration authorities (*Policia Internacional*) on number of foreign visitors and Chilean travelers who enter and exit the country.

In order to adjust balance of payments data to a new methodology implemented by *Sernatur*, the Travel series has been changed beginning with statistics for 2008. The main change is further refining of the residence concept. Thus, for example, outbound tourism now excludes Chileans residing abroad and includes foreigners residing in Chile. Likewise, inbound tourism now excludes foreigners residing in Chile and includes Chileans residing abroad.

Average expenditure and length of stay have also been re-estimated. Since 2010, Business Travel incorporates expenditure of crew members.

3.3 Communication Services

This item covers transactions between residents and nonresidents involving postal, courier and telecommunications services.

The main source of information is an annual survey to companies operating in this area, covering both transmission and reception services.

3.4 Insurance Services

This item covers exports and imports of international insurance and reinsurance services undertaken by individuals and insurance companies. The general definition for cost of insurance services is premiums less claims.

This category includes several types of insurance such as: freight, accident, marine and fire insurance, reinsurance, life insurance, and also pension services and annuities provided commercially. Up to now, international pension and annuity transactions identified in Chile are negligible so are not being estimated.

The methodology in force since 2000 consists of calculating premiums (ceded and accepted) plus an intermediation fee. Thus, imports of reinsurance services are calculated as premiums ceded abroad minus claims arising from them plus intermediation results of accepted premiums. The main data source has been information on resident insurance and

reinsurance companies contained in an aggregate income statement for the industry, and, since 2002, quarterly forms provided directly by them to the Central Bank of Chile. Beginning with statistics for 2001, this item includes not only reinsurance services but also direct freight and other insurance.

3.5 Computer and information services

This item includes activities related to databases, data processing, customized software development, network design, implementation and connectivity, systems integration, technical support, consultancy and training in computer-related matters.

Information services are those supplied by news agencies, including photographs and articles for the media. The basis for measuring exports (credits) is information provided by Customs on services exports. Public sector taxation data (additional tax) is used to calculate imports (debits).

3.6 Royalties and license fees

This item includes transactions between residents and nonresidents for the authorized use of intangible nonfinancial nonproduced assets and property rights such as registered trademarks, royalties, patents, authors' rights, processes, techniques, designs, production rights, concessions, etc.

It also includes the use, by license agreement, of originals and produced prototypes such as manuscripts and films, among others.

Data for this sector is based on two benchmark surveys. One survey is applied to companies that surrender or buy foreign exchange associated to royalties in the so-called "formal" exchange market (banks and authorized exchange offices). The other is sent to resident publishing companies that represent Chilean authors or purchase rights to publish foreign authors. Companies that sell in Chile rights to exhibit movies and videos and those that have registered rights to use, embargoes, prohibitions and transfers in the *Office for Trademarks and Patents (Oficina de Marcas y Patentes)*, were also surveyed.

The basis for estimating credits is data taken from the surveys, which are supplemented by the foreign exchange reporting system. Estimation of debits relies on public sector taxation data (additional tax), which is cross-checked with that of the foreign exchange reporting system.

^{6/} Currently, results are reported three times a year and include quarterly and monthly data.

3.7 Other business services

This category includes: trade-related services (commissions on goods and services transactions payable to merchants); leasing of ships, aircraft and transport equipment without crew^{7/}; other services such as legal, accounting, consulting, advertising, market research, public opinion polling, research and development, architectural, engineering, agricultural, mining and on-site transformation services, etc.

The basis for estimating commissions received from abroad is information contained in two benchmark surveys. One is applied to companies that are paid commissions for their role as intermediaries in import transactions. It provides data on average rates applied to imports, broken down by chapter of the foreign trade coding system. The other survey is applied to customs agents, and is used to estimate “derived” imports (imports of products represented by agents in Chile), broken down by chapter of the foreign trade coding system. Commissions paid abroad for exports are derived from data in the Customs export declaration.

Credit and debit entries for leasing of transport equipment are estimated on the basis of the foreign exchange transaction reporting system and data provided by resident transport companies. The latter is also used to estimate credits of Other business services.

Professional services credits, mainly fees, are based on the foreign exchange reporting system and Customs data. Debits for this item are calculated using data on the (additional) tax that affects those transactions.

3.8 Personal, cultural and recreational services

This category includes audiovisual and connected services, and other services.

The first of these are services and rights related to production of films or videotapes; radio and television programs; productions for the theater, musicals, sports events, circuses and musical recordings. Likewise, it includes the corresponding distribution rights sold to the media for a limited number of appearances in specific areas.

The basis for estimating these services is Customs information on exports, and revenue from the additional tax that affects imports of these services.

^{7/} Excluding financial leasing.

3.9 Others

3.9.1 Financial services

This category covers intermediary and auxiliary services associated to cross-border financial operations, such as charges and commissions on loans, investments, lines of credit and others. It includes commissions and other charges related to securities transactions such as brokerage, underwriting, subscriptions, repayments, swaps, services related to asset management, custody services, etc.

Financial services transactions with nonresidents are closely linked to financial flows from and to Chile. Thus, the methodology involves estimating service charges paid and received on the basis of direct data or on average rates for commissions associated to each type of flow. The basic data are taken from balance of payments financial flows and from detailed information provided to the Central Bank. These data are supplemented by information provided by regulatory authorities - Pensions Superintendency and Superintendency of Banks and Financial Institutions - which collect data directly from the entities under their supervision.

Following *BPM6* recommendations, from this date services measures include financial intermediation services indirectly measured (FISIM).

Financial intermediaries do not generally charge explicitly for the services they provide, which must therefore be measured indirectly. In practice, the service charge is included in interest received and paid by intermediaries, thus raising the cost of financing that they provide in the case of loans, or lowering the interest that they pay their depositors.

Therefore, a key element in the methodology for measuring these services is identifying a reference rate that reflects the pure cost of the transaction. Consequently, FISIM is calculated as the difference between actual interest rates applied by intermediaries (borrowing and lending) and pure interest. Average rates of interbank borrowing and lending have been used in balance of payments calculations, along the same lines as national accounts estimations.

3.9.2 Repairs on goods

This item covers the value of repair services provided by residents to nonresidents or vice versa, performed on goods such as ships, aircraft and others that enter and then leave a country. Only the value of the service, not of the goods, is recorded here.

BPM6 establishes a convention which classifies repairs on goods as services. This differs from the recommended treatment in the previous edition of the *Manual*, which classified them under goods^{8/}.

Data sources for both exports and imports of this category are resident transport companies and representatives of nonresident companies that provide international freight services, as well as surveys conducted for national accounts purposes.

3.9.3 Government services

Government services comprise goods and services not included elsewhere acquired by diplomatic representatives and international organizations operating in the country (credits), and expenditure of Chilean embassies, consular staff and other official government agencies located abroad (debits).

Official sources^{9/} are used to estimate debits. Credits are also based on them and additionally on information contained in an annual survey to international organizations located in Chile.

4. Income (Primary income)

This account records income arising from the provision of labor and capital. Its main component is investment income.

The latter comprises income receivable and payable on external financial assets and liabilities. It is broken down by instrument in a way similar to the financial account disaggregation. Holding gains and losses are excluded.

4.1.1 Classification

The main breakdowns shown in this publication are:

4.1.1.1 Income on Direct Investment

4.1.1.1.1 Income on equity

4.1.1.1.1.1 Abroad

4.1.1.1.1.1.1 Dividends and distributed earnings

4.1.1.1.1.1.2 Reinvested earnings of investment abroad

4.1.1.1.1.2 In Chile

4.1.1.1.1.2.1 Dividends and distributed earnings

4.1.1.1.1.2.2 Reinvested earnings of investment in Chile

4.1.1.1.2 Income on debt (interest)

4.1.1.2 Income on Portfolio Investment

4.1.1.2.1 Income on equity (Dividends)

4.1.1.2.2 Income on debt (interest)

4.1.1.2.2.1 Bonds and notes

4.1.1.2.2.2 Others

4.1.1.3 Income on Other Investment

Broken down by term for the Central Bank and other sectors.

4.1.2 Data sources

Estimations of reinvested earnings on direct investment are based on detailed data of earnings of direct investment companies in Chile and earnings of direct investors in the case of direct investment abroad. The main sources are: annual surveys, forms submitted to the Central Bank, data on foreign exchange transactions and company financial statements. The most recent figures on income of investment in Chile and abroad, that is, those for 2011, are estimations of accrued earnings based on financial statements and on data of earnings distributed either sent abroad or returned to Chile.

Reinvested earnings of direct investment in Chile are calculated mostly by subtracting distributed earnings from accrued ones. The former are taken from company financial statements or the annual survey. When that information is not available, data on distributed earnings and on earnings sent abroad, taken from the foreign exchange transactions reporting system, are used as proxies.

Accrued earnings are derived from accounting concepts, and undergo some specific adjustments to eliminate holding gains/losses and price changes.

Quarterly accrued earnings of mining companies are estimated using a model that makes them consistent with sales recorded as exports in the current account^{10/}. The procedure

^{8/} The same situation affects the goods processing activity (which covers transformation, assembly, labeling and packing, among others), which now should be classified under services. However, this had been previously assessed and found not significant in Chile.

^{9/} Annual execution of public sector budget.

^{10/} This is because earnings in company accounts are lagged with respect to exports in the balance of payments.

involves a statistical process of temporal disaggregation which uses exports by company as indirect indicators. This adjustment changes the quarterly distribution of earnings but not their annual values, which are consistent with company accounting data.

For direct investment in Chile, estimations of earnings for companies not included in the sample rely on information contained in it and also consider the economic sectors of the direct investment enterprises. Direct investment income on direct investment in Chile is expressed in gross values, i.e., before deduction of the additional tax imposed on earnings and dividends sent abroad by foreign investors.

Reinvestment of earnings on direct investment abroad are calculated subtracting from accrued earnings, those reported by the foreign exchange transaction system as returned to Chile.

The main sources of information for income accrued on direct investment abroad are forms submitted to the Central Bank and the foreign exchange transactions reporting system. They are supplemented by estimations for investment not covered by the sample, based on the countries where they are located.

The starting point for estimating accrued earnings is also the accounting concept, which is subject to adjustments such as those already mentioned.

Portfolio investment income calculation is mostly on a cash basis and includes some adjustments to eliminate holding gains/losses (as in investment funds). For income on assets, the Central Bank uses data sent by banks and institutional investors compiled according to general methodological guidelines, i.e., following the accrual principle.

Income generated by investment of Chilean pension funds in mutual funds is significant and is recorded following a methodology consistent with the national accounts. In this case the current account records an imputed income and the financial account an offsetting entry representing “reinvestment” of earnings in the same instruments. The International Investment Position shows this in the “transactions” column.

Interest on external debt liabilities is also recorded on an accrual basis. The main information sources for interest are forms established within the framework of regulations for the foreign exchange system.

5. Current transfers (Secondary income)

The characteristic of transfers is that they do not have a quid pro quo. In other words, one party provides real or financial

resources to another one, without receiving something of economic value in return. These transfers are split up into current transfers, recorded in the current account, and capital transfers, recorded in the capital account. The difference between current and capital transfers is that the latter involve transfer of ownership of a fixed asset by one of the parties, or forgiveness of a liability by the creditor. In Chile, the nature of most transfers that have been identified have led to classifying them as current transfers.

Current transfers are disaggregated into “General Government” and “Other sectors”, depending on whether the government of the compiling economy -Chile - is involved in the transaction or not. Transfers under “General Government” are mainly taxes collected by the government from nonresidents on account of direct investment earnings, followed by a smaller amount of taxes paid on external loans and services provided by nonresidents. Transfers under “Other sectors” are mainly grants and donations received in kind or in cash (credits). Gross values of these transfers include insurance claims received and paid as well as their corresponding financing, so that net values do not change. Included in this category are food allowances, dependents’ pensions, child support payments, and, beginning with statistics for 2006, personal transfers^{11/}.

The main data sources are Customs, the foreign exchange reporting system, forms submitted to the Central Bank by resident insurance companies, and information provided by public sector agencies (*Foreign Investment Committee, Internal Revenue Service, and the National Comptroller’s Office*). The data source for personal transfers, which were introduced in Chile’s statistics beginning with those for 2006, is an annual survey to remittance companies^{12/} that was initiated in 2007.

B. CAPITAL ACCOUNT

This account comprises capital transfers and transactions in nonproduced nonfinancial assets.

Up to now, Chile’s balance of payments has only included credits under *Capital Transfers*, mainly on account of external debt forgiveness, donations of goods and migrants’ transfers. Offsetting entries were debits recorded in the corresponding liability, in goods imports or in some financial asset. The remaining capital account components, in particular, debits, have not been estimated but are deemed non-significant.

^{11/} Figures approximate Personal Transfers defined in the IMF *Balance of Payments and International Investment Position Manual*, sixth edition.

^{12/} Personal Transfers are a component of Personal Remittances, which in Chile are channeled mainly by remittance companies.

The main data sources for this account are the information system set up for external debt statistics, Customs data, and the foreign exchange transactions reporting system.

C. FINANCING CAPACITY / NEED

Aligned with the 2008SNA^{13/}, *BPM6* introduces a balancing item for “net lending / net borrowing”, called Financing Capacity/ Need in Chile’s balance of payment statistics. This entry is equal to the sum of the current and capital account balances.

The identification of “Financing Capacity / Need” provides a clearer link to this balance in the capital account of the system of national accounts. In fact, in the national accounts system, the capital account reflects to what extent saving and capital transfers allow financing both capital formation and capital consumption (gross capital formation). “Net lending/ borrowing” is the overall accounting balance on this account.

In this way, net lending means that an economy supplies funds to the rest of the world in net terms (there are “surplus” resources to be lent), considering both acquisition and disposal of financial assets as well as incurrence and repayment of liabilities. Net borrowing is the opposite (it reflects resources that have to be “acquired” as liabilities).

D. FINANCIAL ACCOUNT

BPM6 changes the Financial Account presentation, which now shows net acquisition of assets and net incurrence of liabilities. This change also affects presentation of direct investment, where the directional principle (direct investment abroad and in the reporting economy) is dropped. The directional presentation is indicative of gross flows derived from debit and credit entries both of assets and liabilities.

On the same subject, presentation of assets and liabilities incorporates a sign convention consistent with the IIP (a positive sign represents an increase and a negative sign a reduction). Therefore, balances are calculated subtracting liabilities from assets instead of adding both. The resulting values do not change because of this.

For this reason, the net balance on the financial account has the opposite sign of the previous presentation based on *BPM5*^{14/}. The same is true for its components.

This account is disaggregated into five functional categories: direct investment, portfolio investment, financial derivatives, other investment and reserve assets.

Within each category, the *Manual* gives greater importance to the type of transaction or instrument than to the domestic sector or the (original) term. Note that the Central Bank also prepares, in addition to the standard institutional classifications of the *Manual*, a financial account series further broken down by resident institutional sector. This classification presents data for the General Government, *Financial institutions* and *Other sectors*, including the following groups under Financial institutions: Central Bank; commercial banks; pension funds; mutual funds and insurance companies. In this classification, the *Other sectors* category includes parts of financial institutions as well as nonfinancial corporations and households.

2.1 Direct investment

Direct investment is defined as that in which a resident of an economy makes an investment whose purpose is to have a lasting interest in a nonresident company. A lasting interest means that a long-term relationship is established between the direct investor and the direct investment company, and that the investor has a significant participation and influence in management. In operational terms, a direct investment relationship is established when voting power is at least 10%.

The main classification of direct investment in the balance of payments is between assets/liabilities. Within each of these categories, a distinction is made between equity, reinvestment of earnings and debt instruments.

By introducing *BPM6* recommendations, transactions have been reclassified and the scope of direct investment expanded, basing it on the so-called Framework for Direct Investment Relationships (*FDIR*). This framework provides criteria for determining whether a financial operation affecting cross-border property is a direct investment relationship or not.

Although the new *Manual* maintains the same basic components of direct investment as before, within each one it identifies categories according to the relationship between the investor and the direct investment enterprise. These relationships are:

- a) Direct investor in its direct investment enterprise (either immediate or indirect).
- b) Direct investment enterprise in its (immediate or indirect) direct investor (reverse investment). This occurs when a direct investment enterprise lends funds to or acquires equity in its immediate or indirect direct investor, as long as it does not own equity worth over 10% of voting power in that direct investor.

^{13/} System of National Accounts 2008.

^{14/} IMF *Balance of Payments Manual*, fifth edition, 1993

- c) Investment between resident and nonresident fellow enterprises. Fellow enterprises have the same immediate or indirect direct investor, but do not have immediate or indirect direct investment relationships with each other.

In other words, direct investment includes transactions between related companies that in former measures were part of portfolio or other investment (mainly bonds, loans, deposits and trade credits)^{15/}.

Integration of these types of transactions is valid only for enterprises other than banks. For them, the new framework that defines the scope of influence of direct investment establishes that these reclassifications are not applicable.

2.1.1 Assets

Chile includes assets vis a vis nonresidents in the form of equity, reinvestment of earnings and debt instruments, covering all three categories mentioned above.

2.1.1.1 Equity

The main data sources are data delivered to the Central Bank through the foreign exchange transactions reporting system^{16/} and financial statements of some companies.

2.1.1.2 Reinvestment of earnings

The sources are financial statements of some companies and other data provided to the Central Bank through the banking system or directly by investors, in addition to estimations.

2.1.1.3 Debt instruments

This information is collected by the Central Bank through the banking system or directly from investors^{17/}.

2.1.2 Liabilities

Chile includes liabilities vis a vis nonresidents in the form of equity, reinvestment of earnings and debt instruments, covering all three categories mentioned above.

The Central Bank compiles data for this category based on information provided by banks or by direct investment companies, on financial statements of companies and on annual surveys, all of which are supplemented by information provided by the Foreign Investment Committee.

2.1.2.1 Equity

The main sources for this item are transactions data submitted to the Central Bank, surveys of direct investment in Chile, financial statements of some companies and information provided by the Foreign Investment Committee.

2.1.2.2 Reinvestment of earnings

The data sources for this component are surveys of direct investment abroad, financial statements of some companies, the foreign exchange reporting system and estimations for companies not included in the samples for which information is available. As mentioned in section A.4.2.2, a model is applied to estimate quarterly accrued earnings of mining companies so that they are consistent with the corresponding exports recorded in the current account.

2.1.2.3 Debt instruments

Information for this component is collected by the Central Bank external debt information system. So-called “Loans associated to Decree Law 600” are a significant part of this item.

2.2 Portfolio investment

This item records transactions of external assets and liabilities that are undertaken as portfolio investment.

It is broken down into two main categories: assets and liabilities. Within each, equity and debt securities are separately identified. According to the recommended treatment, equity is classified as portfolio investment when it gives rise to voting power lower than 10%. Debt securities are negotiable instruments that are broken down into bonds and notes and money market instruments. Each type of instrument is disaggregated by domestic sector involved.

2.2.1 Assets

This entry records net portfolio investment transactions by residents of Chile in instruments issued by nonresidents. Outstanding among them are investments by pension funds and also those of the General Government and other sectors.

^{15/} This procedure means that the Financial Account is affected only by reclassifications within it. In other words, the overall balance on the Financial Account does not change.

^{16/} Information taken from Chapter XII of the *Compendium of Foreign Exchange Regulations (CNCI)* and then refined, plus data reported by banks through the daily foreign exchange reporting system.

^{17/} By provisions of Chapter XII of the *Compendium of International Exchange Regulations (CNCI in Spanish)*

The data sources for these transactions are banks, investors, the General Government and regulatory authorities (Superintendencies of Banks and Financial Institutions, of Pensions, and of Securities and Insurance).

Data for transactions of other sectors come from information submitted to the Central Bank by banks or directly by investors (refined data submitted under provisions of Chapter XII of the *Compendium of Foreign Exchange Regulations (CNCI)*).

Banks submit monthly information to the Central Bank. Lastly, it is important to note that in 2006 the General Government began a significant process of investing abroad. These investments are regularly reported to the Central Bank. Methods for refining data have been introduced. Thus, data on acquisition of bonds issued abroad by residents and acquired by other residents are taken out in the case of pension funds, mutual funds, insurance companies and banks.

2.2.1.1 Equity

This item covers investment in shares, certificates representing shares, mutual funds and investment funds.

2.2.1.2 Debt instruments

This component includes investment in instruments such as bonds, notes, certificates of deposit and Treasury bills.

2.2.1.2.1 Bonds and notes

This category includes preferred shares, convertible bonds, negotiable certificates of deposit over one year, zero coupon bonds, among others.

2.2.1.2.2 Money market instruments

This component includes investment in Treasury bills, commercial and financial paper, short-term notes and others.

2.2.2 Liabilities

This item covers portfolio investment of nonresidents in negotiable liabilities issued by residents of Chile. Credits and debits are recorded in gross values, both for primary and secondary issues (inflows and flowbacks)^{18/}. Sources are information of transactions

^{18/} Inflow: acquisition (by nonresidents) of shares in the local stock exchange, to later convert them into ADRs, thus creating an inflow of foreign exchange and a credit entry in the financial account. Flowback: sale (by nonresident holders) of shares in the local stock exchange, thus creating an outflow of foreign exchange and a debit entry in the financial account.

provided regularly to the Central Bank under foreign exchange regulations and other statistical requirements.

2.2.2.1 Equity

It covers ADRs issued by companies resident in Chile, foreign capital investment funds and other investment^{19/}.

2.2.2.2 Debt instruments

2.2.2.2.1 Bonds and notes

This category covers bonds issued abroad by public or private sector residents. It does not include bonds issued by agencies of Chilean companies incorporated abroad. It also includes bonds that foreign investors buy in the local market with funds that enter the country under provisions of Chapter XIV of the Central Bank *Compendium of Foreign Exchange Regulations (CNCI)*.

2.2.2.2.2 Money market instruments

This group includes debt instruments with original maturity under 12 months, issued abroad by residents of the public or private sector. It also includes debt instruments with original maturity under 12 months that foreign investors buy in the local market with funds that enter the country under provisions of Chapter XIV of the Central Bank *Compendium of Foreign Exchange Regulations (CNCI)*.

2.3 Financial derivatives

These transactions are in a separate category. It covers compensation of contracts upon settlement and also premiums paid at inception of options. Currently, banks and companies directly provide information for this component.

This category covers financial derivatives whose underlying items are currencies, interest rates and commodities.

2.4 Other investment

2.4.1 Classification

This category identifies the following types of transactions: trade credits, loans, currency and deposits, SDR allocations^{20/} and others.

^{19/} Reported under provisions of Chapter XIV of the *Compendium of International Exchange Regulations (CNCI in Spanish)*.

^{20/} Treating SDR allocations as transactions that have an offsetting entry is a recommendation of BPM6.

It continues disaggregating by the domestic sector involved (Central Bank, General Government, Banks and Other sectors), and finally, by original term of instruments (short and long term).

2.4.2 Main categories

2.4.2.1 Assets

2.4.2.1.1 Trade credits

2.4.2.1.2 Loans

2.4.2.1.3 Currency and deposits

2.4.2.1.4 Other assets

2.4.2.2 Liabilities

2.4.2.2.1 Trade credits

2.4.2.2.2 Loans (including IMF loans)

2.4.2.2.3 Currency and deposits

2.4.2.2.4 Other liabilities

2.4.2.2.5 Allocation of SDRs

Trade credits: they represent flows of direct external financing that arise between suppliers and buyers when they trade goods. They include advance payments. Trade credits can be assets or liabilities.

The trade credit series has been changed for two reasons. The first is the new criterion for recording copper exports at the time of shipment (See section A.2.2). This requires that a statistical adjustment be made in order to maintain consistency with associated trade credit assets.

The second reason is that data on imports carried out using the documentary collection system, including their payment structure, which are provided by the *National Customs Bureau*, have been further refined in order to improve quality of trade credit estimations. This has allowed the trade credit series to be re-estimated, improving the alignment of actual transactions (exports and imports) with corresponding payments, made or received depending on whether they are liabilities or assets.

Loans: these instruments cover financial assets in which a creditor lends funds directly to a debtor, who either does not receive a certificate in exchange, or receives a non-negotiable document.

Currency and deposits: this category includes notes and coins used to make payments and also deposits. Assets include notes and coins issued by nonresidents and held by residents (excluding those in reserve assets), as well as deposits by residents in nonresident entities. Liabilities of this category comprise deposits of nonresidents in resident banks, and also domestic currency (notes and coins) held by nonresidents.

Others: this is a residual category covering any other external asset or liability.

Allocations of SDRs: they are transactions in liabilities that reflect allocations/cancellations of Special Drawing Rights (SDRs) that the International Monetary Fund grants the country. In order to supplement member countries' international reserves levels, in 1969 the IMF created SDRs. SDRs are allocated to countries and represent unconditional rights to obtain foreign exchange or other reserve assets from other IMF member countries. SDR allocations are recorded as external liabilities because under certain circumstances they must be paid and because interest is accrued on them. They are considered a liability of the Central Bank with countries participating in the IMF SDR Department, not with the IMF itself. Since their creation, SDRs have been allocated on rare occasions, the last time in 2009.

2.4.3 Data sources

Information on flows of Other Investment comes from the external debt data system developed in the Central Bank, accounting records of the Central Bank^{21/}, information provided by banks, the foreign trade payment system, and data supplied directly by companies, the General Government and regulatory institutions.

Trade-related liabilities and assets such as payables arising from imports under the documentary collection modality, export advances and export receivables, are estimated by linking flows of goods and corresponding payments according to data on actual lags of export returns and import payments. Since 2004 Chile's main exporters and importers submit to the Central Bank data on their outstanding positions and flows of trade credits, allowing the quality of this estimation to improve.

2.5 Reserve assets

This component covers external assets under control of the Central Bank and available for immediate use for directly financing external disequilibria, intervening in the foreign exchange market or for other purposes.

^{21/} In turn, based mainly on the foreign exchange reporting system and other forms submitted to the Central Bank.

Reserve assets include accrued interest and are therefore coherent with income, which is recorded on an accrual basis.

2.5.1 Categories included in reserve assets calculation

2.5.1.1 Monetary gold

2.5.1.2 SDRs

2.5.1.3 Reserve position in the IMF

2.5.1.4 Foreign exchange

2.5.1.4.1 Currency and deposits

2.5.1.4.2 Securities

2.5.1.5 Other assets (reciprocal credit agreements, in Chile's case)

2.5.2 Data source

The main source is the Central Bank balance sheet.

E. INTERNATIONAL INVESTMENT POSITION (IIP)

The Central Bank of Chile disseminates in this publication the country's yearend positions of external assets and liabilities for 2003-2011. The difference between outstanding assets and liabilities is the Net External Position.

Beginning with statistics for 2006, complete IIP tables^{22/} are shown, compiled following recommendations of the *Balance of Payments and International Investment Position Manual, sixth edition*. These tables show positions at two points in time, and also transactions and other changes that explain the difference between them. Other changes include: price changes, exchange rate changes and other adjustments.

The presentation of assets and liabilities in the IIP includes the same categories as those in the financial account of the balance of payments, except that the IIP gives the highest rank to the asset-liability classification and then to the functional categories: direct investment, portfolio investment, financial derivatives, other investment and reserve assets.

Components presented in the IIP tables are the following:

- Transactions, which are the same as flows recorded in the balance of payments.

- Changes in prices, which show unrealized changes in prices of assets and liabilities that occur between the beginning and the end of the period considered in the table, affecting the level of the corresponding item. This category is particularly significant in the case of negotiable assets and liabilities recorded under portfolio investment.

Exchange rate changes, which reflect the impact of changes in parities of the US dollar vis a vis other currencies. These changes are not recorded as transactions in the financial account, but give rise to changes in asset or liability positions. This category has a special impact on direct investment liabilities, which most direct investment companies record in Chilean pesos.

Other adjustments, item which includes changes in positions not explained by any of the above. Examples of other adjustments are reclassifications, adjustments due to methodological changes, and unilateral cancellation of debt by creditors.

Sources of information for the International Investment Position are basically the same as those used for financial account and investment income compilation. Particularly important are data provided by regulatory authorities, the General Government, forms developed under exchange regulations and surveys.

In some cases, such as direct investment, it has been necessary to estimate data for companies for which no information is available. Financial derivatives positions, which began to be measured in February 2005, covered those whose underlying items were currency and interest rates. Now commodity-linked derivative positions have been added.

It is also important to note that the *Manual* recommends that positions be valued at market prices. The Central Bank has now moved forward in that direction by incorporating market valuation for direct investment companies listed in the Stock Exchange, both for assets and liabilities.

Besides presenting the main IIP categories as set forth in the *Manual*, the Central Bank has prepared another series in which the criteria for disaggregation, after identifying assets and liabilities, are first the domestic institutional sector, then the functional category and finally other breakdowns. The domestic sector is that of the debtor for liabilities and of the creditor for assets. This breakdown of domestic sectors is greater than in the conventional presentation, which only identifies the following sectors: Central Bank, General Government, Banks

^{22/} Biannually for 2006 and 2007, and quarterly beginning in 2008.

and Other sectors. The institutional sector breakdown in this presentation is General Government, Financial Institutions and Other Sectors. The same as in the case of the financial account breakdown by institutional sector^{23/}, the Other Sectors category includes not only non-financial companies and households but also financial institutions not included elsewhere. For assets, Financial Institutions are further broken down into Central Bank, Banks, Pension funds, and Mutual funds and Insurance companies.

1. International Investment Position categories

Overall, the standard IIP presentation follows breakdowns of the *Manual* and applies them both to assets and liabilities, except for “Reserve assets”. Within each of these categories there are additional breakdowns, for instance, according to the domestic sector, original term or other criteria.

1.1 1.1 Direct investment assets/liabilities

1.1.1 1.1.1 Equity and reinvestment of earnings

1.1.2 Debt instruments

1.2 Portfolio investment

1.2.1 Equity (by institutional sector)

1.2.2 Debt instruments

1.2.2.1 Bonds and notes (by institutional sector)

1.2.2.2 Money market instruments (by institutional sector)

1.3 Financial derivatives

1.4. Other investment

1.4.1 Trade credits (by sector and term)

1.4.2 Loans (by sector and term)

1.4.3 Currency and deposits (by sector and term)

1.4.4 Other assets (by sector and term)

1.4.5 Allocation of SDRs

1.5. Reserve assets

1.5.1 Monetary gold

1.5.2 Special Drawing Rights (SDRs)

1.5.3 Reserve position in the IMF

1.5.4 Foreign exchange

1.5.4.1 Currency and deposits

1.5.4.2 Securities

1.5.5 Other assets (reciprocal credit agreements, in Chile’s case)

2. International Investment Position: data sources

2.1 Assets

2.1.1 Direct Investment assets

The series was constructed including equity, reinvestment of earnings and debt instruments with affiliated and related companies, all of which are external assets.

Assets both in the form of equity and debt instruments that resident direct investment enterprises hold in direct investors or in related nonresident enterprises are also included, when they occur.

The main data sources are forms and other information on transactions reported to the Central Bank under provisions of Chapter XII of the *Compendium of Foreign Exchange Regulations* and financial statements of some companies.

2.1.1.1 Equity and reinvestment of earnings

This item covers equity capital contributions and reinvestments. The methodology is based on linking accumulated equity capital contributions, excluding reinvestment of earnings, with data on ownership equity positions, for the sample of companies for which data on both variables are available. The ratio between both variables was applied to accumulated equity capital contributions in companies where there were no data on positions. Whenever information was available, the 10% voting power rule was adopted. To obtain price and exchange rate changes, measures of yields on investments were constructed broken down by recipient economy and exchange rate variations of currencies in those countries vis a vis the US dollar were calculated.

2.1.1.2 Debt instruments

The main components of this category are bonds, deposits, trade credits and intercompany loans between head offices or related companies resident in Chile and direct investment enterprises abroad.

^{23/} See section B.2

Data sources are the *Compendium of Foreign Exchange Regulations* and information on foreign exchange transactions reported by banks.

2.1.2 Portfolio investment

This group includes portfolio investment held by residents of Chile in instruments issued by nonresidents. It covers equity in which voting power is lower than 10%, as well as negotiable securities such as bonds and notes and money market instruments.

Price and exchange rate variations are estimated on the basis of public information or on data provided directly to the Central Bank by regulatory authorities or by investors, according to current regulations, plus investment position and flow data disaggregated by currency.

2.1.2.1 Equity

This item mostly covers investment in shares, certificates representing shares (ADRs of other countries), mutual funds and investment funds.

In Chile, a significant amount of investment by pension funds, insurance companies, mutual funds and investment funds is in these types of instruments, which are recorded at market values.

The main data source is information provided by the Superintendency of Pensions, and public information disseminated by the Securities and Insurance Superintendency. The data are refined by excluding holdings of ADRs of Chilean companies.

Positions of other sectors (other financial institutions, nonfinancial institutions and households) are calculated by accumulating net balance of payments flows obtained from data submitted to the Central Bank^{24/}, refined and corrected by applying an estimated average annual yield.

2.1.2.2 Debt instruments

2.1.2.2.1 Bonds and notes

This component includes preferred shares, convertible bonds, negotiable certificates of deposit over one year, zero coupon bonds, among others

In Chile, data on positions of pension funds, mutual funds and insurance companies is valued at market prices. Information from regulatory authorities is the data source for them.

Positions of banks are taken from forms submitted to the Central Bank, and reflect close to market values.

^{24/} By provisions in Chapter XII of the *Compendium of Foreign Exchange Regulations* (CNCI in Spanish)

For position statistics from 2000 on, the data are refined to exclude holdings of bonds issued abroad by companies resident in Chile and held by residents.

Positions of other sectors are calculated by accumulating net flows and adjusting them by an estimated market value differential.

Beginning in 2006, the General Government began to invest abroad more regularly, both in money market instruments as well as bonds, and has provided this information to the Central Bank.

2.1.2.2.2 Money market instruments

This category includes investment in Treasury bills, commercial and financial paper, short-term notes and other instruments.

2.1.3 Financial derivatives

Items measured in this category are mainly forwards, swaps and futures linked to currencies, interest rates and commodities, all valued at market prices. The main data sources are notional values provided to the Central Bank under foreign exchange regulations, valued at market prices. Positions are valued using discount and spot exchange rates (by term) at dates of measurement and maturity. Exchange rate and price variations are obtained by subtracting from the change in positions (final minus opening), transactions of the period. To calculate the exchange rate variation, notional values at the close of the period are revalued at the exchange rate of the beginning of the period.

2.1.4 Other investment

2.1.4.1 Trade credits

This component reflects direct asset positions between suppliers and buyers arising from foreign trade transactions (export receivables plus import advances).

In Chile, it covers a measure based on Customs data of sales under the documentary collections modality, in this case applied to exports.

As these types of assets are mostly expressed in US dollars and are not negotiable, it is assumed that they only change due to transactions. Thus, no price or exchange rate variations are calculated for them.

2.1.4.2 Loans

This component shows positions of loans from residents to nonresidents. In Chile, it covers loans given by banks. The source is information provided by them on forms submitted directly to the Central Bank.

As these types of loans are mostly expressed in US dollars and of a very short-term nature, it is assumed that they only change due to transactions. Thus, no price or exchange rate variations are calculated for them.

2.1.4.3 Currency and deposits

This item shows holdings of foreign currency notes and coins and also deposits held abroad that are not part of reserve assets.

In Chile, data on deposits of banks and companies is taken directly from forms sent by them under provisions of the *Compendium of Foreign Exchange Regulations*.

No price variation is calculated for this component because it is recorded in nominal value.

2.1.4.4 Other assets

This category records contributions to international organizations other than the IMF. Specially significant are capital contributions to the Bank for International Settlements. Outstanding in 2010 is the level of receivables associated to compensations paid by insurance companies on account of the earthquake that struck Chile in February of that year. These positions will continue to fall vis a vis actual receipts of foreign exchange from compensations coming from abroad.

The exchange rate variation is calculated using data on parities and the Central Bank accounts.

2.1.5 Reserve assets

This item covers the Central Bank's international reserve assets. The figures include accrued interest. The data are taken from the Central Bank accounting records, which followed a conservative approach until 2008, i.e., market value was recorded only if lower than book value. Starting with statistics for 2009, IFRS market valuation is adopted. Exchange rate and price variations are estimated on the basis of the Central Bank accounts and market exchange rates.

Reserve assets are broken down into the following categories:

2.1.5.1 Monetary gold

2.1.5.2 SDRs

2.1.5.3 Reserve position in the IMF

2.1.5.4 Foreign exchange

2.1.5.4.1 Currency and deposits

2.1.5.4.2 Securities

2.1.5.5 Other assets (reciprocal credit agreements)

2.2 Liabilities

2.2.1 Direct Investment in Chile

This category shows the value of direct investment holdings by nonresidents. It covers not only the current value of equity but also that of all financial flows between the direct investment enterprise and the direct investor and affiliated nonresident enterprises.

Liabilities both in the form of equity and debt instruments that nonresident affiliates owe to direct investors or to related enterprises resident in Chile, are also included, when they occur.

2.2.1.1 Equity and reinvestment of earnings

Positions are estimated on the basis of an annual direct investment survey conducted by the Central Bank, on financial statements of companies, flows of equity capital contributions in the balance of payments, and detailed data provided by the *Foreign Investment Committee* on investment under *DL600* provisions. The methodology links accumulated equity capital contributions received by direct investment companies with data on their ownership equity positions. This is done for a sample of companies of each industry defined. The data are based on surveys and companies' financial statements.

The position of direct investment in Chile by institutional sector also separately identifies direct investment in banks and insurance companies.

Estimates of price and exchange rate variations are based on the peso/US dollar exchange rate of the period, outstanding positions and flows. Price variations are obtained residually, as changes in positions minus transactions, exchange rate changes and other adjustments.

2.2.1.2 Debt instruments

This category usually includes bonds, trade credits, deposits and loans that direct investment enterprises obtain from direct investors or related nonresident companies. The main data sources are forms submitted under provisions of the *Compendium of Foreign Exchange Regulations*.

2.2.2 Portfolio investment

This category brings together liabilities with nonresidents holding portfolio investment in assets issued by residents of

Chile. It covers equity in which voting power is lower than 10% as well as negotiable securities classified as bonds and notes, and money market instruments.

In Chile it includes equity (*ADRs* and foreign capital investment funds or *FICES*), as well as negotiable debt securities (bonds and notes).

Estimation of price and exchange rate variations for this category rely on data of stock exchange market quotations, exchange rates, and information disseminated by the Securities and Insurance Superintendency (statement of changes in equity).

2.2.2.1 Equity

This category records equity not in direct investment (i.e., portfolio investment equity). The series estimated for Chile includes:

- *ADRs* issued by Chilean companies, valued at market prices according to listed prices of shares of those enterprises. Sources are data collected by the Central Bank under provisions of the *CNCI*, and market quotations.

- Foreign capital investment funds (*FICES*) are based on data from the Securities and Insurance Superintendency (statement of changes in equity), plus accumulated flows of other funds that report to the Central Bank (under provisions of Chapter XIV of the *CNCI*).

2.2.2.2 Debt instruments

2.2.2.2.1 Bonds and notes

This category includes bonds and notes issued by residents and held by nonresidents. It is classified by issuer sector.

In Chile, data are taken from the external debt data system, adjusted to bring them to market valuation, and refined in order to take out securities issued abroad by residents and held by resident institutional investors and banks. Yearend market prices of these securities were taken from Bloomberg.

2.2.3 Financial derivatives

Instruments measured in this category are mainly forwards, swaps and futures linked to currencies, interest rates and commodities, all valued at market prices. The main data source is information on notional values provided to the Central Bank under foreign exchange regulations, which are valued at market prices. Positions are valued using discount and spot exchange rates (by term) at dates of measurement and maturity. Exchange rate and price variations are obtained by subtracting transactions during the period from changes in positions (final

minus opening positions). Exchange rate variation is obtained by revaluing notional values at the close of the period using the exchange rate of the beginning of the period.

2.2.4 Other investment

2.2.4.1 Trade credits

They reflect direct liability positions between suppliers and buyers arising from foreign trade transactions (mainly import payables plus export advances).

In Chile, it covers a measure based on Customs data of sales under the documentary collections modality, in this case applied to imports.

As these types of liabilities are mostly expressed in US dollars and are not negotiable, it is assumed that they only change due to transactions. Thus, price and exchange rate variations are not calculated for them.

2.2.4.2 Loans

This category includes loans with the IMF and other external loans, which are classified by debtor sector and term. The Central Bank balance sheet and the external debt data system, which is based mainly on data collected under provisions of the *CNCI*, are the main data sources.

Exchange rate variation is calculated for this component on the basis of data on the currency breakdown of the loans. The non-negotiable nature of these loans means that price variation is not calculated.

2.2.4.3 Currency and deposits

This component refers to Chilean currency held by nonresidents and deposits that nonresidents make in resident banks.

The series presented now only includes deposits received by resident banks from nonresidents. The data come from forms provided by resident banks.

Exchange rate variations of this component are deemed negligible because those deposits are mostly denominated in US dollars. No price variation is calculated because they are expressed in nominal values.

2.2.4.4 Other liabilities

This is a residual category, where liabilities with nonresidents not included elsewhere are recorded. They are broken down by debtor sector and by term.

In Chile, this component includes Central Bank liabilities related to reciprocal credit agreements under the Latin American Integration Association (*LAIA*, or *ALADI* in Spanish).

No price or exchange rate variation is calculated for this component, because it is denominated in US dollars and expressed at nominal value.

2.2.4.5 Allocation of SDRs

This item shows the Central Bank liabilities arising from allocations of Special Drawing Rights (SDRs) by the IMF. SDR allocations are recorded as external liabilities because under certain circumstances they must be paid and because interest accrues on them. They are deemed to be liabilities of the Central Bank with IMF member countries.