



Balance of Payments Statistics Workshop

Nassau, Bahamas

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Capital Account

I. Introduction

- The **Capital Account** records the operations between residents and nonresidents corresponding to: i) the acquisition and disposal of nonproduced, nonfinancial assets; and, (ii) capital transfers.
- The sum of the current and capital account balances shows the nonfinancial transactions as a balancing item, which is labeled as net lending (+)/net borrowing (-). That sum is also conceptually equal to net lending (+)/net borrowing (-) from the financial account (although they may differ in practice). The financial account shows how net lending or borrowing is allocated or financed.
- This balancing item is conceptually the same as the aggregate of net lending/net borrowing of the domestic sectors in the SNA.

I. Introduction

Overview of the Capital Account

Credits

Debits

Current Account Balance

Acquisitions (DR)/disposals (CR) of nonproduced, nonfinancial assets

Natural resources

Contracts, leases and licenses

Marketing assets

Capital transfers

Debt forgiveness

Other

Capital Account Balance

Net lending (+) / Net borrowing (-)

[sum of current and capital accounts]

I. Introduction

- The SNA capital account shows capital formation for the full range of produced and nonproduced assets. The capital account of the international accounts show only transactions in nonproduced, nonfinancial assets. Transactions in produced assets are included in the goods and services account, which does not distinguish whether those goods or services are destined for capital or current purposes.

II. Nonproduced, Nonfinancial Assets

- These assets consist of: i) Natural resources; ii) Contract, leases and licenses; and iii) Marketing assets (and goodwill).
 - i. **Natural Resources.** These include land, mineral rights, forestry rights, water, fishing rights, air space, and electromagnetic spectrum.
- International transactions in land and other natural resources:
 - They do not usually arise because notional resident units are generally identified as the owners of these assets (As a result, these operations are generally resident-to-resident transactions; not BOP transactions).
 - International transactions in land arise when there are acquisitions and disposals of land for enclaves of international organizations and foreign governments; or when there are voluntary changes of sovereignty over a particular area. If it is possible, the value of any associated buildings and equipment would be shown separately in the goods and construction services accounts.

II. Nonproduced, Nonfinancial Assets

ii. Contracts, leases and licences. These assets are creations of society and its legal system (sometimes they are called “intangible assets”).

- Marketable operating leases.
- Permissions to use natural resources.
- Permissions to undertake certain activities.
- Entitlements to purchase a good or service on an exclusive basis.

Holdings of these assets are not recorded in the IIP because there is no counterpart liability.

II. Nonproduced, Nonfinancial Assets

- **Marketable operating leases** may be classified as assets only when the lease specifies a predetermined price for the use of an asset that differs from the price the asset could be leased for at the current time. **Flows are recorded in the capital account when the lessee sells the right and thus realizes the price difference** (include property, time-share accommodation, equipment, and other produced assets).
- **Permissions to use natural resources.** When the right of use constitutes an economic asset, but not direct property of the underlying asset (it includes long-term use rights of natural resources, radio spectrum, etc.).

II. Nonproduced, Nonfinancial Assets

- **Permissions to undertake certain activities.** Usually, the number is limited (taxis, gambling) and they may be resold by the holder.
- **Entitlements to purchase a good or service on an exclusive basis.** The transfer fees paid by one sporting club to another for the transfer of a player; and a transferable contract to acquire a good or service at a fixed price (an option).

II. Nonproduced, Nonfinancial Assets

- iii. **Marketing assets (and goodwill).** Consist of items such as brand names, mastheads, trademarks, logos, and domain names. When sold separately from the entity that owns them.

NOTE: Goodwill is the excess value (premium) that a buyer of a company pays above the net value of its assets and liabilities. This reflects the value of corporate structures and the value for the business of the management and workforce, the culture of the company, the distribution of networks and the customer base. **If it is separated from other assets, goodwill has no value, but jointly increases the value of those assets.**

III. Capital Transfers

- **Capital transfers** are those that:
 - Involve the change of ownership of an asset (other than cash or inventories).
 - They are conditioned on the acquisition or disposal of an asset.
 - A liability is forgiven by the creditor.
- The foregoing implies that capital transfers cause a variation in the holdings of assets of one or both parties to the transaction.
- **Governments, households, and nonprofit institutions undertake capital transfers.** Commercial entities do not generally have the motivation to transfer resources to other entities for no return.

III. Capital Transfers

- **Debt forgiveness.** It is the voluntary cancellation of all or part of a debt obligation within a contractual agreement between a creditor and a debtor. The contractual arrangement cancels or forgives all or part of the principal amount outstanding, including interest arrears (interest payments that fell due in the past) and any other interest costs that have accrued. The agreement has the intention to convey a benefit. **It is different from debt write-offs, which is a unilateral recognition by the creditor that the amount can no longer be collected.**
- **Other Capital Transfers.**
 - **Investment grants.** Transfers in cash or in kind made by governments or international organizations to other institutional units to finance all or part of the costs of their acquiring fixed asset.

III. Capital Transfers

Grants for investment made by organizations other than general government and international organizations are recorded as Other Capital Transfers.

Investment Grants in kind include military equipment, transport equipment, machinery and buildings.

- **One-off guarantees.** A transfer occur when a one-off guarantee is activated, and the guarantor acquires no claim on the debtor or a claim worth less than the value of the guarantee.

III. Capital Transfers

- **Nonlife insurance claims.** These are normally classified as current transfers. For exceptionally large claims (a catastrophe), some part of the claims may be recorded as capital transfers. However, it may be difficult for the parties to identify these events consistently.

So, as simplifying convention, regardless of the amount or importance with respect to normal compensation, they will only be recorded as other capital transfers when it is necessary to maintain consistency with national accounts.

III. Capital Transfers

- **Capital taxes.** Taxes levied at irregular and infrequent intervals on the values of the assets or net worth owned by institutional units or on the values of assets transferred between institutional units (legacies, gifts).

Recurrent taxes on income and wealth as well as taxes on financial and capital transactions are classified as current transfers.

- **Other capital transfers.**
 - ✓ Major nonrecurrent payments in compensation for extensive damages or serious injuries not covered by insurance policies.
 - ✓ large gifts and inheritances (legacies), including those to nonprofit institutions to finance fixed capital formation (building libraries, laboratories, etc.).

III. Capital Transfers

- ✓ Cash grants from donor governments or multilateral financial institutions to the debtor economy to be used to repay debt.
- ✓ A capital contribution to an international organization or nonprofit institution if it does not give rise to equity for the provider of the contribution.
- ✓ As part of a bailout is that a government may buy assets for more than their market value. The sale and purchase of the asset should be recorded at the market value and a capital transfer from the government to the seller of the claim should be recorded for the difference between the market price and the total amount paid.

IV. Time of Recording

- **Capital transfers.** They are recorded when all requirements and conditions for receiving them are satisfied and the receiving unit has an unconditional claim. In some cases, the transfer recipient never has a claim on the donor and it should be attributed to the time at which the cash payment is made, the asset is conveyed, or liability is canceled.
- **Acquisition/disposal of nonproduced, nonfinancial assets.** They are recorded at the time of change of ownership.
- **The recording of these operations is done on a gross basis.**

V. Information Sources

- **Marketing Assets (and goodwill).** Questions about buying and selling of the Marketing Assets can be added in the surveys aimed at capturing information about the services associated with those assets such as: use of franchises or brand names, registered trademarks, logos, domain names on the internet, etc.
- **Contracts, leases and licenses.** Also in this case, questions could be added to existing surveys that capture the part of the corresponding services. E.g., in surveys of companies that operate *Marketable Operating Leases*; to authorities that grant *Permits (and / or to companies that own them) for the Use of Natural Resources and Permits* to carry out specific activities; to entities that grant *Exclusive Rights to Purchase Goods or Services* (sports clubs).

V. Information Sources

- **Natural resources.** Information on international transactions in natural resources usually can be sourced from government records.
- **Capital transfers.** Information can be obtained from the entities that makes/receive them: governments, international organizations, NPISH, etc.
- **Nonlife Insurance Claims.** Through information requirements to insurance corporations.