

# Capital Account

## A. Concepts and Coverage

Reference:

2008 SNA, Chapter 10, The Capital Account.

**13.1** *The capital account in the international accounts shows (a) capital transfers receivable and payable between residents and nonresidents and (b) the acquisition and disposal of nonproduced, nonfinancial assets between residents and nonresidents.*

**13.2** An overview of the capital account is shown in Table 13.1. The balance on the capital account shows the total credits less debits for capital transfers and nonproduced, nonfinancial assets. In addition, the sum of the current and capital account balances can also be shown as a balancing item. The balancing item is labeled as net lending (+)/net borrowing (–) from the capital and current accounts. That sum is also conceptually equal to net lending (+)/net borrowing (–) from the financial account, as discussed in paragraph 8.4. Although conceptually equal, they may differ in practice. The current and capital accounts show nonfinancial transactions, with the balance requiring net lending or net borrowing, while the financial account shows how net lending or borrowing is allocated or financed.

**13.3** In economic literature, “capital account” is often used to refer to what is called the financial account in this *Manual* and in the *SNA*. The term “capital account” was also used in the *Balance of Payments Manual* prior to the fifth edition. The use of the term “capital account” in this *Manual* is designed to be consistent with the *SNA*, which distinguishes between capital transactions and financial transactions.

**13.4** The *SNA* capital account shows capital formation for the full range of produced and nonproduced assets (shown in Table 5.1). The corresponding parts 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.

**13.5** The value of net lending/net borrowing in the international accounts is conceptually the same as the aggregate of net lending/net borrowing of the domestic sectors in the *SNA*. This is because all the resident-to-resident flows cancel out. It is also equal to the opposite of net lending/net borrowing of the rest of the world sector in the *SNA*. The relationship between saving and net lending/net borrowing is shown in the capital account of the *SNA* as:

$$\begin{aligned} & \text{Net lending (+)/net borrowing (–)} \\ &= \text{Saving;} \\ & - \text{Acquisition of nonproduced, nonfinancial assets;} \\ & + \text{Disposal of nonproduced, nonfinancial assets;} \\ & + \text{Capital transfers receivable;} \\ & - \text{Capital transfers payable.} \end{aligned}$$

**13.6** Acquisition and disposal of nonproduced, nonfinancial assets are recorded at the time of change of ownership, in line with the general principles in paragraphs 3.41–3.59. Capital transfers are recorded when all requirements and conditions for receiving them are satisfied and the receiving unit has an unconditional claim. Determining this time can be complex if there is a wide variety of eligibility conditions that have various legal powers. In some cases, a potential transfer recipient has a legal claim when certain conditions are satisfied, such as the prior incurrence of expenses for a specific purpose, or the passage of legislation. In other 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.

**13.7** Acquisition and disposals of nonproduced, nonfinancial assets and capital transfers receivable and payable are recorded separately on a gross basis, rather

**Table 13.1. Overview of the Capital Account**

	Credits	Debits
<b>Current account balance</b>		
Acquisitions (DR.)/disposals (CR.) of nonproduced, nonfinancial assets		
Natural resources		
Contracts, leases, and licenses		
Marketing assets		
Capital transfers		
Debt forgiveness		
Other		
<b>Capital account balance</b>		
<b>Net lending (+)/net borrowing (-) (from current and capital accounts)</b>		

Note: This table is expository; for Standard Components, see Appendix 9.

than netted. Gross data are important in the context of cross-border analysis and allow the derivation of net flows, if needed. Principles for the recording and valuation of current and capital transfers are stated in paragraphs 12.16–12.19.

## B. Acquisitions and Disposals of Nonproduced, Nonfinancial Assets

Reference:

2008 SNA, Chapter 10, The Capital Account, and Chapter 13, The Balance Sheet.

**13.8** Nonproduced, nonfinancial assets consist of:

- (a) natural resources;
- (b) contracts, leases, and licenses; and
- (c) marketing assets (and goodwill).

### I. Natural resources

**13.9** *Natural resources include land, mineral rights, forestry rights, water, fishing rights, air space, and electromagnetic spectrum.* International transactions in land and other natural resources do not usually arise because notional resident units are generally identified as the owners of these immovable assets. (The identification of notional units is discussed in paragraphs 4.34–4.40.) As a result, purchases and sales of these assets are generally resident-to-resident transactions. In contrast to a change of ownership of the resource, the right to use a natural resource on a temporary basis is classified as rent (as discussed in paragraphs 11.85–11.90) or a contract, lease, or license, if

it amounts to an economic asset in its own right (as discussed in paragraph 13.11).

**13.10** International transactions in land arise when there are acquisitions and disposals of land for enclaves of international organizations and foreign governments. (International organizations are defined in paragraphs 4.103–4.107.) International transactions also occur when there are voluntary changes of sovereignty over a particular area, whether for payment or as a transfer. The value of any associated buildings and equipment would be shown separately in the goods and services account, if practical.

### 2. Contracts, leases, and licenses

**13.11** *Contracts, leases, and licenses covers those contracts, leases, and licenses that are recognized as economic assets.* These assets are creations of society and its legal system, and are sometimes called intangible assets. Examples include marketable operating leases, permissions to use natural resources that are not recorded as outright ownership of those resources, permissions to undertake certain activities (including some government permits), and entitlements to purchase a good or service on an exclusive basis. Transactions in these assets are recorded in the capital account, but holdings of these assets are not recorded in the IIP because there is no counterpart liability. (These assets are recorded in the national balance sheet.)

**13.12** A marketable operating lease can be transferred or subleased. It may be treated as an asset 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. They could

cover property, time-share accommodation, equipment, and other produced assets. Marketable operating lease asset flows are recorded in the capital account when the lessee sells the right and thus realizes the price difference.

**13.13** Some leases and licenses are not nonproduced, nonfinancial assets and, therefore, are not covered in the capital account. Examples include the following:

- If the right to use land or another natural resource is provided on a short-term, nontransferable basis, then amounts payable are classified as rent (discussed in paragraphs 11.85–11.90).
- If a government provides permission to undertake an activity, unrelated to its ownership of an underlying asset or a service, and the permit does not meet the definition of an economic asset, then a tax is recorded (discussed in paragraphs 10.180–10.181 and 12.30). An example could arise when a government issues a restricted number of gambling licenses.
- If ownership of intellectual property products, such as research and development, computer software and databases, and entertainment, literary, and artistic originals, is provided, then a service is recorded. Similarly, the provision of temporary right to use or reproduce intellectual property products is shown as a service. In contrast, the sale of franchises or trademarks is included under marketing assets. (The treatment of these items is elaborated in Table 10.4.)
- A financial lease gives rise to a loan and a change of economic ownership of the leased asset to the lessee (discussed in paragraphs 5.56–5.60). An operating lease for use of a produced asset gives rise to a service (discussed in paragraphs 10.153–10.157).

**13.14** According to general principles, various arrangements involving emissions permits can be classified in the balance of payments in different ways, including the following:

- If a nonresident enterprise purchases an emission permit from a resident government, the payment is classified as a cross-border tax on production in most circumstances. However, if the payment is part of the cost of establishing a direct investment enterprise in the resident economy, it is rerouted as a resident-to-resident transaction, with the payment by the nonresident enterprise recorded as an equity investment in its direct investment enterprise (see

paragraph 4.47). Also, if the issuing government provides extensive services for the purchaser, the payment is instead classified in services (see paragraphs 10.180–10.181).

- If the permit is tradable (as most are), then it is an economic asset. A resale of this asset by a resident to a nonresident enterprise is recorded under contracts, leases, and licenses in the capital account (if it does not involve direct investment, as described in the previous bullet).

International expenditures associated with cleaning up or improving the environment are recorded consistent with general balance of payments classification principles, usually as services (see paragraph 10.152). (See *2008 SNA*, Chapter 17, for further information.)

**13.15** Entitlements to future goods and services on an exclusive basis may be an asset under contracts, leases, and licenses. Examples include 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, which may be called an option. Very rarely, such an asset may have a negative value (e.g., where the contract has an obligation to purchase at one price, and the market price has fallen below that, so the purchaser under the contract may have to pay another party to take up the obligation).

**13.16** Another example of contracts, leases, and licenses can arise with time-share arrangements (see paragraph 10.100(c)).

### 3. Marketing assets (and goodwill)

**13.17** *Marketing assets consist of items such as brand names, mastheads, trademarks, logos, and domain names.* When sold separately from the entity that owns them, they are recorded as acquisitions and disposals of nonproduced, nonfinancial assets. (Marketing assets is included with goodwill in the *2008 SNA* asset categories. However, goodwill arises separately only in domestic accounts.)

**13.18** Internet domain names are recognized as a marketing asset in some cases. However, normal registration fees payable to a domain authority represent a service, because the fees are in return for work done. In contrast, where the domain name has a premium value (i.e., in excess of the basic registration fee) because of its scarcity, it is a kind of license included under marketing assets. Similarly, the fee for designing a new logo is a business service, whereas an amount to acquire an existing logo would be included under marketing assets.

## C. Capital Transfers

Reference:

2008 SNA, Chapter 10, The Capital Account.

**13.19** *Capital transfers are transfers in which the ownership of an asset (other than cash or inventories) changes from one party to another; or which obliges one or both parties to acquire or dispose of an asset (other than cash or inventories); or where a liability is forgiven by the creditor.* The definition of transfers and the distinction between current and capital transfers are given in paragraphs 12.12–12.15. Governments, households, and nonprofit institutions undertake transfers to convey a benefit to another party.

**13.20** Transfers from enterprises consist of compulsory transfers to governments or other units under court orders, or voluntary transfers to nonprofit institutions and other entities. Unlike governments, households, or nonprofit institutions, commercial entities do not generally have the motivation to transfer resources to other entities for no return, so there are only limited cases where a commercial entity provides a capital transfer to another commercial entity, and some cases of debt assumption and activation of one-off guarantees (as discussed further in paragraphs 8.42–8.45).

**13.21** There may be imputed capital transfers as a result of government use for fiscal purposes of entities resident in other economies, as discussed in paragraphs 8.24–8.26.

### I. Debt forgiveness

Reference:

IMF and others, *External Debt Statistics: Guide for Compilers and Users*, Chapter 8, Debt Reorganization.

**13.22** *Debt forgiveness is the voluntary cancellation of all or part of a debt obligation within a contractual agreement between a creditor and a debtor.*<sup>1</sup> With debt forgiveness, 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. Debt forgiveness does not arise from the

<sup>1</sup>This includes forgiveness of some or all of the principal amount of a credit-linked note arising from an event affecting the entity on which the embedded credit derivative was written, and forgiveness of principal that arises when a type of event contractually specified in the debt contract occurs—for example, forgiveness in the event of a type of catastrophe.

cancellation of future interest payments that have not yet fallen due and have not yet accrued.

**13.23** Debt forgiveness is distinguished from debt write-off and is treated as a capital transfer transaction. In contrast to debt write-offs, debt forgiveness arises from an agreement between the parties to the debt and it has the intention to convey a benefit, rather than unilateral recognition by the creditor that the amount can no longer be collected. Debt forgiveness is unlikely to arise between commercial entities; more commonly there are debt write-offs (as discussed in paragraphs 9.8–9.11). (Appendix 1 on exceptional financing and Appendix 2 on debt reorganization provide additional information.)

### 2. Nonlife insurance claims

**13.24** Nonlife insurance claims are normally classified as current transfers. For exceptionally large claims, such as those following a catastrophe, some part of the claims may be recorded as capital transfers rather than as normal current transfers. It may be difficult for the parties to identify these events consistently, so, as a simplifying convention, all cross-border nonlife insurance claims are classified as current transfers, unless it is necessary to record a capital transfer to be consistent with the national accounts. To allow comparability with partner data, a supplementary item should be provided for insurance claims included in capital transfers. For current transfers relating to insurance premiums and claims, see paragraphs 12.41–12.46.

### 3. Investment grants

**13.25** Investment grants consist of capital 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 assets. The recipients may be other governments or other entities. The recipients are obliged to use investment grants received in cash for purposes of gross fixed capital formation, and the grants are often tied to specific investment projects, such as large construction projects. Grants for investment made by organizations other than general government and international organizations are other capital transfers (see paragraph 13.29). In contrast to investment grants, a foreign government may also fund an investment project as a direct investor (see paragraph 6.22), in which case the amount invested is classified as equity in a direct investment enterprise. A direct investment stake is distinguished from a project funded by a capital transfer in that the direct investor owns voting

power in the enterprise and has a right to future benefits, such as dividends or the right to sell the asset.

**13.26** If the investment project continues over a long period of time, an investment grant in cash may be paid in installments. Payments of installments continue to be classified as capital transfers even though they may be recorded in a succession of different accounting periods. Investment grants in kind consist of transfers of transport equipment, machinery, and other equipment by governments to nonresident units and also the direct provision of buildings or other structures for nonresident units. Investment grants include transfers of military equipment in the form of weapons or equipment that are classified as fixed assets.

#### 4. One-off guarantees and other debt assumption

**13.27** Capital transfers 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. The treatment is the same for other cases of debt assumption where the assumer is not a guarantor.

- If the original debtor still exists, the capital transfer is from the debt assumer to the debtor.
- If the original debtor no longer exists, the capital transfer is from the debt assumer to the creditor.

The value of any claim the debt assumer receives from the debtor (e.g., a promise of reimbursement) is regarded as a financial account transaction between the guarantor and the debtor. The treatment of one-off guarantees and other cases of debt assumption is described in more detail in paragraphs 8.42–8.45, including the circumstance when the guarantor is in a direct investment relationship with the debtor. Different types of guarantees are distinguished in paragraph 5.68.

#### 5. Taxes

Reference:

IMF, *Government Finance Statistics Manual 2001*, Chapter 5, Revenue.

**13.28** Capital taxes consist of 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 as a result of legacies, gifts inter vivos, or other transfers. They include:

- (a) Capital levies. Capital levies consist of taxes on the values of the assets or net worth owned by

institutional units levied at irregular, and very infrequent, intervals of time; and

- (b) Taxes on capital transfers. These consist of taxes on the values of assets transferred between institutional units. They consist mainly of inheritance taxes (death duties) and gift taxes, including those on gifts made between living members of the same family to avoid, or minimize, the payment of inheritance taxes. They do not include taxes on sales of assets.

Recurrent taxes on income and wealth as well as taxes on financial and capital transactions are classified as current transfers (see paragraphs 12.28–12.31). Detail on the classification of taxes can be found in *Government Finance Statistics Manual 2001*.

#### 6. Other capital transfers

**13.29** Major nonrecurrent payments in compensation for extensive damages or serious injuries not covered by insurance policies are included in capital transfers. The payments may be awarded by courts of law or by arbitration, or settled out of court. They include payments of compensation for damages caused by major explosions, oil spillages, the side effects of pharmaceutical products, and so forth. However, if an amount payable under a court order or settlement is identifiable to a specific unpaid debt, it should be recorded under the relevant financial account item. See also paragraphs 12.55–12.56 for payments of compensation included in current transfers.

**13.30** Assets of persons changing their economic territory of residence are other changes in volumes, and not imputed as being a transfer, as discussed in paragraphs 9.21–9.22.

**13.31** Capital transfers include large gifts and inheritances (legacies), including those to nonprofit institutions. These capital transfers could be made under wills or when the donor is still living. Capital transfers include exceptionally large donations by households or enterprises to nonprofit institutions to finance gross fixed capital formation, such as gifts to universities to cover the costs of building new residential colleges, libraries, and laboratories. Capital transfers also include cash grants from donor governments or multilateral financial institutions to the debtor economy to be used to repay debt (see paragraph A1.7).

**13.32** A capital contribution to an international organization or nonprofit institution is a capital transfer

if it does not give rise to equity for the provider of the contribution.

**13.33** As discussed in paragraphs 3.79, 12.51, and A2.67–A2.68, there is a transfer element with respect to concessional lending. The transfer element of concessional loans can be shown as supplementary data.

**13.34** A bailout is a loosely defined term meaning a rescue from financial distress. One action that may occur 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.

**13.35** Household-to-household capital transfers may be identified separately when they are significant. They are included in the supplementary item personal remittances, as discussed in Appendix 5.