

# A

## Acceptances

See 'Bills and acceptances'.

## Accrued interest

A method of recording transactions to relate them to the period when the exchange of ownership of the goods, services or financial asset applies. For example, value added tax accrues when the expenditure to which it relates takes place, but HM Revenue and Customs (HMRC) receive the cash some time later. The difference between accruals and cash results in the creation of an asset and liability in the financial accounts, shown as amounts receivable or payable.

## Advance and progress payments

Payments made for goods in advance of completion and delivery of the goods.

## Affiliates

Branches, subsidiaries or associate companies.

## Allocation of SDRs

See 'Special Drawing Rights'.

## Arbitrage

A technique of deriving profit with little or no risk of loss by exploiting temporary misalignments in the price of financial instruments, or of one instrument in different markets.

## Assets

This term commonly refers to financial assets that are claims on non-residents, from whose point of view the same item is a liability to a UK resident. Among reserve assets, however, gold and SDRs have a value which exists independently of any corresponding liabilities. Real assets such as merchandise, although they may be entered in company accounts as assets, are seldom described as assets in balance of payments analysis.

## Associated companies

Companies in which the investing company has a substantial equity interest (usually this means that it holds between 10 per cent and 50 per cent of the equity share capital) and is in a position to exercise a significant influence on the company.

See also 'Subsidiary'.

# B

## Balancing item

See 'Net errors and omissions'.

## Bank of England – Issue Department

This part of the Bank of England deals with the issue of bank notes on behalf of central government. It was formerly classified to central government though it is now part of the central bank/monetary authorities sector. Its activities include, inter alia, market purchases of commercial bills from UK banks.

## Bank for International Settlements (BIS)

An international organisation which fosters international monetary and financial co-operation and serves as a bank for central banks.

The BIS fulfils this mandate by acting as:

- a forum to promote discussion and policy analysis among central banks and within the international financial community
- a centre for economic and monetary research
- a prime counterparty for central banks in their financial transactions
- agent or trustee in connection with international financial operations

Established on 17 May 1930, the BIS is the world's oldest international financial organisation, which has its head office based in Basel, Switzerland.

The most recent BIS data used within the UK balance of payments accounts covers non-bank borrowing from banks in the following countries: Algeria, Argentina, Australia, Austria, Belgium, Bosnia and Herzegovina, Brazil, Bulgaria, Canada, Chile, China, Colombia, Croatia, the Czech Republic, Denmark, Estonia, European central bank, Finland, France, Germany, Greece, Hong Kong SAR, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Macedonia (FYR), Malaysia, Mexico, the Netherlands, New Zealand, Norway, Peru, the Philippines, Poland, Portugal, Romania, Russia, Saudi Arabia, Serbia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, United Arab Emirates, the United Kingdom and the United States, plus the European Central Bank.

The data used for balance of payments purposes are locational banking statistics on a residence basis.

## Banking statistics

A term used in this publication to denote an integrated set of returns, covering all UK banks, and collected by the Bank of England. The returns were first introduced in late 1974 and during 1975. Since then, various reviews of the requirements of data from banks have been conducted and forms amended, introduced or dropped as necessary. The data collected cover all listed banks up to the end of 1981 and the revised group of institutions classified as UK banks from 1982 onwards. It collects, on a regular basis, extensive information relating to the levels of, and changes in, assets and liabilities. Revised banking returns were introduced from the end of 1997 to reflect the requirements of the IMF Balance of Payments Manual 5th edition and to remove the Channel Islands and the Isle of Man from the definition of the economic territory of the UK.

## Banks (UK)

Banks are defined as all financial institutions recognised by the Bank of England as UK banks. For statistical purposes, this includes:

- institutions which have a permission under Part 4 of the Financial Services and Markets Act 2000 (FSMA) to accept deposits, other than:
  - credit unions
  - firms which have a permission to accept deposits only in the course of carrying out contracts of insurance in accordance with that permission,
  - friendly societies
  - building societies
- European Economic Area credit institutions with a permission under Schedule 3 to FSMA to accept deposits through a UK branch
- the Banking and Issue Departments of the Bank of England (the latter from April 1998)

Prior to December 2001, banks were defined as all financial institutions recognised by the Bank of England as UK banks for statistical purposes, including the UK offices of institutions authorised under the Banking Act 1987, the Banking and Issue Departments of the Bank of England (the latter from April 1998), and deposit-taking UK branches of 'European Authorised Institutions'. This includes UK branches of foreign banks, but not the offices abroad of these or of any British owned banks.

An updated [list of banks](#) appears on the Bank of England Prudential Regulation Authority website.

## Bills and acceptances

A bill is an unconditional order in writing addressed by the drawer to the drawee to pay the drawer a fixed sum on a specified date. A UK resident may draw a bill in sterling on a foreign resident representing credit extended by the UK resident to the foreign resident. If the UK resident sells the bill to a UK bank, generally at a price less than the nominal value of the bill, the bank is said to discount the bill, and the claim on the foreign resident is transferred to the UK bank.

A bill is known as an acceptance when the drawee accepts the bill. A UK bank may accept a bill on behalf of a foreign resident in which case the UK resident draws the bill on the UK bank and not on the foreign resident. The accepting bank has a claim on the foreign resident and expects to be paid by him before the bill matures.

## Bond

A financial instrument that usually pays interest to the holder. Bonds are issued by governments as well as companies and other institutions, for example, local authorities. Most bonds have a fixed date on which the borrower will repay the holder. Bonds are attractive to investors since they can be bought and sold easily in a secondary market. Special forms of bonds include deep discount bonds, equity warrant bonds, Eurobonds, and zero coupon bonds.

## BPM5

The Balance of Payments Manual, fifth edition, published in 1993 by the IMF.

## BPM6

The Balance of Payments Manual, sixth edition, published in 2009 updates the fifth edition, published in 1993. It serves as the standard framework for statistics on the transactions and positions between an economy and the rest of the world. A copy of the sixth edition can be found at:

[www.imf.org/external/pubs/ft/bop/2007/pdf/chap4.pdf](http://www.imf.org/external/pubs/ft/bop/2007/pdf/chap4.pdf)

## Branch

An unincorporated enterprise, wholly or jointly owned by a direct investor.

## British government stocks

Securities issued or guaranteed by the UK government; also known as gilts.

## Building societies

Building societies are mutual institutions specialising in accepting deposits from members of the public and in long-term lending to members of the public, mainly to finance the purchase of dwellings; such lending being secured on dwellings. Their operations are governed by

special legislation which places restrictions on their recourse to other sources of funding and other avenues of investment.

## C

### Capital account

The capital account consists of capital transfers (see 'Capital') and acquisition/disposal of non-produced, non-financial assets (see 'Non-produced, non-financial assets').

### Capital transfers

Transfers which are related to the acquisition or disposal of assets by the recipient or payer. They may be in cash or kind and may be imputed to reflect the assumption or forgiveness of debt.

### Certificate of deposit

A short-term interest-paying instrument issued by deposit-taking institutions in return for money deposited for a fixed period. Interest is earned at a given rate. The instrument can be used as security for a loan if the depositor requires money before the repayment date.

### c.i.f. (cost, insurance and freight)

The basis of valuation of imports for Customs purposes, it includes the cost of insurance premiums and freight services. These need to be deducted to obtain the free on board valuation consistent with the valuation of exports which is used in the economic accounts.

### Collective investment institution (CII)

Incorporated (investment companies or investment trusts) and unincorporated undertakings (mutual funds or unit trusts) that invest the funds, collected from investors by means of issuing shares/units (other than equity), in financial assets (mainly marketable securities and bank deposits) and real estate.

See also 'Trusts'.

### Commercial paper

This is an unsecured promissory note for a specific amount and maturing on a specific date. The commercial paper market allows companies to issue short-term debt direct to financial institutions who then market this paper to investors or use it for their own investment purposes.

### Commodity gold

See 'Gold'.

## Commonwealth Development Corporation

A public corporation which finances development projects abroad.

## Compensation of employees

Total remuneration payable to employees in cash or in kind, and includes the value of social contributions payable by the employer. In the international accounts, compensation of employees is recorded when the employer (the producing unit) and the employee are resident in different economies.

## Consolidated Accounts

Those accounts which are drawn up to reflect the affairs of a group of entities. For example, a ministry or holding company with many different operating agencies or subsidiary companies may prepare consolidated accounts reflecting the affairs of the organisation as a whole, as well as accounts for each operating agency/subsidiary

## Coordinated Portfolio Investment Survey (CPIS)

A survey coordinated and disseminated by the International Monetary Fund (IMF). Participants in the CPIS collect a geographical breakdown of their portfolio investment assets.

## Counterpart items

Certain items in the balance of payments exist only as counterpart items, introduced to balance the inclusion of other items that do not fall naturally into the double-entry system. The allocation of Special Drawing Rights (SDRs) is an example of an artificial counterpart item introduced into the balance of payments to offset the corresponding increase in SDR holdings within official reserves (as SDRs are no one sector's liabilities).

See also 'Special Drawing Rights'.

## Credits

Credits in the Balance of Payments are exports of goods and services, income receivable, reduction in assets, or increase in liabilities.

## Cross-trades

The provision of transportation services by resident operators between two foreign economies.

## Currency swaps

A currency swap, also known as a cross-currency interest-rate swap contract, consists of an exchange of cash flows related to interest payments and, at the end of the contract, an exchange of principal amounts in specified currencies at a specified exchange rate.

## Current account

The account of transactions in respect of trade in goods and services, primary income (previously called 'income') and secondary income (previously called 'current transfers').

## Current balance

The balance of current account transactions.

## Current transfers

See 'Secondary income'.

# D

## Debits

Debits in the Balance of Payments are imports of goods and services, income payable, increase in assets, or reduction in liabilities.

## Debt forgiveness

The voluntary cancellation of all or part of a debt within a contractual arrangement between a creditor in one country and a debtor in another country.

## Debt securities

Debt securities cover bonds, debentures, notes etc., and money market instruments. These are split into long and short (up to one year) term, based on original maturity.

## Derivatives

See 'Financial derivatives'.

## Direct investment

Net investment by UK/foreign companies in their foreign/UK branches, subsidiaries or associated companies. A direct investment in a company means that the investor has a significant influence on the operations of the company, defined as having an equity interest in an enterprise resident in another country of 10 per cent or more of the ordinary shares or voting stock. (See 'Branch', 'Subsidiary' and 'Associated companies'.) Investment covers not only acquisition of fixed assets, stock building and stock appreciation, but also all other financial transactions, such as: additions to or payments of working capital; other loans and trade credit; and acquisitions of securities. Estimates of investment flows allow for depreciation in any undistributed profits. Funds raised by the subsidiary or associate company in the economy in which it operates are excluded as they are locally raised and not sourced from the parent company.

## Disbursements

Operating expenses.

## Dividend

A payment made to company shareholders from current or previously retained profits. Dividends are recorded when they become payable.

# E

## Employee stock options

An employee stock option is an agreement made on a given date (the “grant” date) under which an employee may purchase a given number of shares of the employer’s stock at a stated price (the “strike” price) either at a stated time (the “vesting” date) or within a period of time (the “exercise” period) immediately following the vesting date.

## Enterprise

An institutional unit producing market output. Enterprises are found mainly in the non-financial and financial corporation’s sectors but exist in all sectors. Each enterprise consists of one or more kind-of-activity units.

## ESA

European System of National and Regional Accounts. An integrated system of economic accounts which is the European version of the System of National Accounts (SNA).

## Equity

Equity is ownership of a residual claim on the assets of the institutional unit that issued the instrument. Equities differ from other financial instruments in that they confer ownership of something more than a financial claim. Shareholders are owners of the company whereas bond holders are outside creditors.

## Equity securities

Equity securities are shares issued by companies to shareholders. Purchases of equity securities in which the purchaser does not have any significant degree of control over the company (that is, less than 10 per cent of the equity capital) fall within portfolio investment; otherwise it falls within direct investment. Equity securities include mutual fund shares.

## Euro area

The euro area encompasses those member states of the European Union in which the euro has been adopted as the single currency and in which a single monetary policy is conducted under the responsibility of the decision-making bodies of the European Central Bank. As



from 1 January 2014 the euro area comprises of 19 member states; Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, the Slovak Republic, Slovenia and Spain.

### Eurocurrency market

All borrowing and lending by banks in currencies other than that of the country in which the banks are situated.

### Euro/European Currency Unit (ECU)

The ECU was officially introduced in 1979 in connection with the start of the European Monetary System (EMS). In the EMS, the ECU served as the basis for determining exchange rate parities and as a reserve asset and means of settlement. It was a composite currency which contained specified amounts of the currencies of the member states of the European Union. The currencies making up the ECU were weighted according to their economic importance and use in short-term finance. As from September 1989 the weightings of the ECU were revised to include both the Spanish peseta and Portuguese escudo. The ECU was converted into the euro at the start of European Monetary Union on 1 January 1999, with Greece joining on 1 January 2001. From 1 January 2003, the euro became the currency of the member states of the European Monetary Union.

### European Central Bank (ECB)

The Monetary Authority for the euro currency, based in Frankfurt. The ECB, together with the national central banks of the member states, manages monetary policy and the banking system across the European Monetary Union area.

### European Investment Bank (EIB)

This was set up to assist economic development within the European Union. Its members are the member states of the EU.

### European Monetary System (EMS)

The EMS was established in March 1979. Its most important element was the mechanism known as the ERM (Exchange Rate Mechanism) whereby the exchange rates between the currencies of the participating member states were kept within set ranges. The UK joined the ERM on 8 October 1990. On 16 September 1992 the UK's membership of the ERM and the EMS was suspended. The EMS was superseded by the single currency when 11 of the participating member states joined European Monetary Union on 1 January 1999. Since then Greece joined on 1 January 2001, Slovenia joined on 1 January 2007, Cyprus and Malta joined on 1 January 2008, Slovakia joined on 1 January 2009, Estonia joined on 1 January 2011, Latvia joined on 1 January 2014 and Lithuania joined on 1 January 2015.

## Eurosystem

The Eurosystem comprises the European Central Bank (ECB) and the national central banks of the member states which have adopted the euro in Stage Three of Economic and Monetary Union (EMU). In 2014 there are 19 national central banks in the Eurosystem. The Eurosystem is governed by the Governing Council and the Executive Board of the ECB and has assumed the task of conducting the single monetary policy for the euro area since 1 January 1999. Its primary objective is to maintain price stability.

## Exchange control

A legal control imposed by governments on the ability of persons, businesses and others to hold, receive and transfer foreign currency. The extent of the Exchange Control Act of 1947 was considerably reduced in June and July 1979 and the Act was repealed in 1987.

## Exchange cover scheme (ECS)

A scheme first introduced in 1969 whereby UK public bodies raise foreign currency from abroad, either directly or through UK banks, and generally surrender it to the EEA (see below) in exchange for sterling for use to finance expenditure in the UK. HM Treasury sells the borrower foreign currency to service and repay the loan at the exchange rate that applied when the loan was taken out. The transactions relate to net borrowing by British Nuclear Fuels plc and repayment by HM Government following the privatisation of other former public corporations.

See also 'Novations'.

## Exchange Equalisation Account (EEA)

The government account with the Bank of England in which transactions in reserve assets are recorded. These transactions are classified to the central government sector. It is the means by which the government, through the Bank of England, influences exchange rates.

## Export credit

Credit extended abroad by UK institutions, primarily in connection with UK exports but also including some credit in respect of third-country trade.

## Export credit Guarantee Department (ECGD)

A non-ministerial government department, classified to the public corporations sector, the main function of which is to provide insurance cover for export credit transactions.

## External debt

A measure of balance sheet liabilities owing to non-residents. Liabilities relating to trade credit, debt securities, and loans and deposits (including inter-company liabilities within direct investment) are included; equity liabilities are excluded.

# F

## Financial account

The financial account records transactions in the net acquisition of financial assets and net incurrence of liabilities of the UK, for example, the acquisitions and disposals of foreign shares by UK residents. The financial account consists of direct investment, portfolio investment, other investment, financial derivatives and employee stock options and reserve assets.

## Financial auxiliaries

Auxiliary financial activities are ones closely related to financial intermediation but which are not financial intermediation themselves, such as the repackaging of funds, insurance broking and fund management. Financial auxiliaries therefore include insurance brokers and fund managers.

## Financial corporations

All bodies recognised as independent legal entities whose principal activity is financial intermediation and/or the production of auxiliary financial services.

## Financial derivatives

Any financial instrument that derives its value from other financial instruments (known as the underlying), events or conditions. Financial derivatives include options (on, for example, currencies, interest rates, commodities, and indices), traded financial futures, warrants, and currency and interest swaps. Under BPM6, transactions in derivatives are treated as separate transactions, rather than being included as integral parts of underlying transactions to which they may be linked as hedges. Estimates for foreign exchange, interest rate, equity and commodity and credit derivatives are included.

## Financial gold

See 'Gold'.

## Financial intermediation

Financial intermediation is the activity by which an institutional unit acquires financial assets and incurs liabilities on its own account by engaging in financial transactions on the market. The assets and liabilities of financial intermediaries have different characteristics so that the funds are transformed or repackaged with respect to maturity, scale, risk, etc., in the financial intermediation process.

## Financial leasing

See 'Leasing'.

## Financial surplus or deficit (FSD)

The former term for Net lending(+)/Net borrowing(-), the balance of all current and capital account transactions for an institutional sector or the economy as a whole.

## FISIM

FISIM is an acronym for Financial Intermediation Services Indirectly Measured. It represents the implicit charge for the service provided by monetary financial institutions paid for by the interest differential between borrowing and lending rather than through fees and commissions.

## Fixed assets

Produced assets that are themselves used repeatedly or continuously in the production process for more than one year. They comprise buildings and other structures, vehicles and other plant and machinery, and also plants and livestock which are used repeatedly or continuously in production, for example fruit trees or dairy cattle. They also include intangible assets such as computer software, research and development and artistic originals.

## Flows

Economic flows reflect the creation, transformation, exchange, transfer, or extinction of economic value. They involve changes in the volume, composition, or value of an institutional unit's assets and liabilities. They are recorded in the financial account.

## f.o.b. (free on board)

A f.o.b. price excludes the cost of insurance and freight from the country of consignment but includes all charges up to the point of the exporting country's customs frontier. Trade in goods exports are valued on an f.o.b. basis in the balance of payments accounts.

## Foreign

In this publication 'foreign' denotes residence outside the UK rather than nationality. In some contexts 'external', 'abroad' or 'non-resident' are used with the same meaning.

See also 'Residency'.

## Forwards

In a forward contract, the counterparties agree to exchange, on a specified date, a specified quantity of an underlying item (real or financial) at an agreed-upon contract price (the strike price). If a future exchange of currencies is carried out in a forward contract, the counterparties exchange, in accordance with prearranged terms, cash flows based on the reference prices of the underlying items. Forward rate agreements and forward foreign exchange contracts are common types of forward contracts.

## Futures

Futures are forward contracts traded on organised exchanges. They give the holder the right to purchase a commodity or a financial asset at a future date.

## G

### Gilts

Bonds issued or guaranteed by the UK government. Also known as gilt-edged securities or British government securities.

### Gold

The SNA and the IMF (in the sixth edition of the Balance of Payments Manual) recognise three types of gold:

- monetary gold, treated as a financial asset
- gold held as a store of value, to be included in valuables
- gold as an industrial material, to be included in intermediate consumption or inventories

The present treatment is as follows:

- in the accounts a distinction is drawn between gold held as a financial asset (financial gold) and gold held like any other commodity (commodity gold). Commodity gold in finished manufactured form, together with net domestic and overseas transactions in gold moving into or out of the UK in finished manufactured form (i.e for jewellery, dentistry, electronic goods, medals, and proof, but not bullion, coins) is recorded in exports and imports of goods.
- all other transactions in gold (that is those including bullion, bullion coins or banking-type assets and liabilities denominated in gold, including official reserve assets) are treated as financial gold transactions and included in the financial account of the Balance of Payments.

The United Kingdom has adopted different treatment to avoid distortion of its trade in goods account by the substantial transaction of the London bullion market.

## Grants

Voluntary transfer payments. They may be current or capital in nature. Grants from government or the European Union to producers are subsidies.

## Gross

The separate identification of both credit/debit, export/import for any particular transaction.

## Gross domestic product (GDP)

The total value of output in the economic territory. It is the balancing item on the production account for the whole economy. Domestic product can be measured gross or net. It is presented in the accounts at market (or purchasers') prices.

## Gross national income (GNI)

GNI is gross domestic product less net taxes on production and imports, less compensation of employees and property income payable to the rest of the world plus the corresponding items receivable from the rest of the world.

# H

## Hedging

Hedging is accomplished by the temporary purchase or sale of futures/swaps contracts to offset movements in the position or anticipated position in the cash markets. For example, this may benefit banks, financial institutions, pension funds and corporate treasuries who hold interest rate, exchange rate or stock price sensitive assets or liabilities.

## Holding companies

A holding company is a company that usually confines its activities to owning stock in and supervising management of other companies. A holding company usually owns a controlling interest in the companies whose stock it holds. Holding companies exist for legal, commercial and tax reasons. In line with international standards, holding companies are classified as other financial intermediaries.

## Holding gains or losses

Profit or loss obtained by virtue of the changing price of assets being held. Holding gains or losses may arise from either physical or financial assets.

## Households

Individuals or small groups of individuals as consumers and in some cases as entrepreneurs producing goods and market services, (where such activities cannot be hived off and treated as those of a quasi-corporation).

## I

## Import credit

Credit extended to UK institutions by non-residents, primarily in connection with UK imports.

## Imputation

The process of inventing a transaction where, although no money has changed hands, there has been a flow of goods or services. It is confined to a very small number of cases where a reasonably satisfactory basis for the assumed valuation is available.

## Income

See 'Primary income'.

## Inter-company accounts

Accounts recording transactions between parent and subsidiary or associated companies, and balances owed by one to the other.

## Interest rate swaps

An obligation between two parties to exchange interest-related payments in the same currency from fixed rate into floating rate, or vice versa, or from one type of floating rate to another. A swap can be used to reshape the coupon payments of either new or existing debt. The only movement of funds is a net transfer of interest payments between the two parties. The interest payments are calculated on an agreed principal amount, which is not exchanged. The settlement receipts/payments on UK banks' interest rate swaps appear in the financial account under financial derivatives.

## International investment position (IIP)

The international investment position records end of period balance sheet levels of UK external assets and liabilities. The IIP consists of direct investment, portfolio investment,

other investment and reserve assets. In the 2010 and 2011 editions, for the first time, financial derivatives business of UK banks and securities dealers respectively have been incorporated into the main aggregates of the IIP. Data for insurance companies, pension funds, unit trusts, investment trusts, open-ended investment companies, finance leasing companies, credit grantors, factoring companies and building societies are not included in the main aggregates for the UK's international investment position. The financial derivatives and employee stock option balance sheet for all sectors is published separately in table 8.10 (previously in table FD) of the Pink Book.

### International Monetary Fund (IMF)

A Fund set up as a result of the Bretton Woods Conference of 1944 and which began operations in 1947. It includes most of the major countries of the world. The Fund was set up to supervise the fixed exchange rate system agreed at Bretton Woods and to make available to its members a pool of foreign exchange resources to assist them when they have balance of payments difficulties. (See also 'Special Drawing Rights'). It is funded by member countries' subscriptions according to agreed quotas.

### Intervention Board for Agricultural Produce (IBAP)

The UK government agency which used to operate the support arrangements of the EU Common Agricultural Policy within the UK. It has now been replaced by the Rural Payments Agency (RPA).

### Investment

In a balance of payments context this is categorised as either direct, portfolio or other investment. See appropriate headings for definitions.

### Investment income

All investment income accruing to UK residents from non-residents or payable abroad by UK residents after allowing for depreciation. The balance on credits and debits equals 'net property income from abroad' as shown in the national accounts.

### Investment trust

See 'Trusts'.

## L

### Leasing

In the balance of payments accounts all financial leases and some long-term operating leases (for example, for aircraft) are regarded as loans to finance the purchase of goods. The lessor thus makes a loan to the lessee who subsequently repays this with interest. The lessee is regarded as the purchaser of the goods.



## Liabilities

In balance of payments terminology, liabilities are the financial claims of non-residents on the UK.

## LIBOR

London Interbank Offered Rate. The rate of interest at which banks borrow funds from other banks, in marketable size, in the London Interbank market.

## Local authorities

Elected councils responsible for the administration of certain services in particular areas within the UK.

# M

## Merchanting

Merchanting is defined as the purchase of a good by a resident from a non-resident and the subsequent resale of the good to another non-resident, without the good entering the compiling economy. The difference between the purchase and sale price is recorded as the value of merchanting services provided.

## Monetary authorities

Institutions (usually central banks) which control the centralised monetary reserves and the supply of currency in accordance with government policies, and which act as their governments' bankers and agents. In the UK this is equivalent to the Bank of England and part of the Treasury (the Exchange Equalisation Account). Data is not separately available in the UK accounts for monetary authorities.

## Monetary financial institutions (MFIs)

Banks and building societies.

## Monetary gold

See 'Gold'.

## Money market

The market in which short-term loans are made and short-term securities traded. 'Short term' usually applies to periods up to one year but can be longer in some instances.

## Money market instruments

Money market instruments, within portfolio investment, generally give the holder the unconditional right to receive a stated, fixed sum of money on a specified date. These are short-term instruments usually traded at a discount; the discount being dependent upon the interest rate and the time remaining to maturity. Included are such instruments as acceptances, treasury bills, commercial paper and certificates of deposit.

## MTIC

VAT missing trader intra-community fraud. A systematic, criminal attack on the VAT system, which has been detected in many EU member states. In essence, fraudsters obtain VAT registration to acquire goods VAT free from other member states. They then sell on the goods at VAT inclusive prices and disappear without paying over the VAT paid by their customers to the tax authorities.

## N

### Navy, Army and Air Force Institute (NAAFI)

A body which provides goods and services for use by the UK Armed Forces abroad.

## Net

In this presentation of the balance of payments accounts, the term 'net' is generally applied only to transactions in financial assets or liabilities. Purchases of assets are recorded net of sales; similarly with liabilities. In the current and capital accounts, where the operations of UK and foreign residents are taken together in particular transactions areas, the term 'balance' is used.

### Net errors and omissions

The item included to bring the sum of all balance of payments entries to zero. Also known as the balancing item.

### Non-monetary gold

See 'Gold'.

### Non-produced, non-financial assets

Non-produced, non-financial assets, within the capital account, include land purchased or sold by a foreign embassy, patents, copyrights, trademarks, franchises and leases and other transferable contracts, but not finance leasing. Only the purchase and sale of such assets are recorded in the capital account; earnings from them are presented under trade in services.

## Novations

This term defines the reassignment of debt (for balance of payments, usually foreign debt) of public corporations to central government following the privatisation of the public corporation. This does not normally change the overall balance of payments situation as the debt is still regarded as a UK liability.

## NPISH

Non-profit institutions serving households. These include bodies such as charities, universities, churches, trade unions and members' clubs.

## O

### Official reserves

See 'Reserve assets'.

### Offshores

The economic territory of a country consists of the geographic territory administered by a government; within this territory, persons, goods, and capital circulate freely. In the context of the UK, the offshore islands of the Channel Islands and the Isle of Man are subject to their own fiscal authorities and have their own tax systems, there are impediments to taking up residency, and they are not part of the EU. They are therefore not recognised as part of the economic territory of the UK for balance of payments purposes and are classified as non-resident in the UK.

### Operating leasing

Operational leasing (rental) covers resident/non-resident leasing (other than financial leasing), charter of ships, aircraft and transportation equipment without crew. Leasing of ships, aircraft and transportation equipment where crew are included in the transportation account.

### Ordinary share

The most common type of share in the ownership of a corporation. Holders of ordinary shares receive dividends.

See also 'Equity'.

### Other financial intermediaries (OFIs)

A diverse group of units constituting all financial corporations other than depository corporations, insurance corporations, pension funds, and financial auxiliaries. They generally raise funds by accepting long-term or specialised types of deposits and by issuing securities and equity. These intermediaries often specialise in lending to particular types of borrowers

and in using specialised financial arrangements such as financial leasing, securitised lending, and financial derivative operations.

### Other investment

Investment other than direct and portfolio investment. Includes trade credit, loans, currency and deposits and other assets and liabilities.

## P

### Parent

In a balance of payments context this means a company with direct investments in other countries.

### Pension funds

The institutions that administer pension schemes. Pension schemes are significant investors in securities. Self-administered funds are classified in the financial accounts as pension funds. Those managed by insurance companies are treated as long-term business of insurance companies.

### Personal transfers

Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from non-resident households. Personal transfers thus include all current transfers between resident and non-resident individuals. They cover all current transfers that are sent by individuals to individuals.

### Portfolio investment

Investment in equity and debt securities issued by registered companies, other than that classed as direct investment, and in equity and debt securities issued by governments. A portfolio investment, unlike a direct investment, does not entitle the investor to any significant influence over the operations of the company or institution, and represents less than 10% of the equity capital.

### Preference share

This type of share guarantees its holder a prior claim on dividends. The dividend paid to preference shareholders is normally more than that paid to holders of ordinary shares. Preference shares may give the holder a right to a share in the ownership of the company (participating preference shares). However in the UK they usually do not, and are therefore classified as bonds.

### Primary income (previously called 'income')

The primary income account forms part of the current account and consist of compensation of employees, investment income and other primary income.

### Principal

The lump sum that is lent under a loan or a bond.

### Private sector

Private non-financial corporations, financial corporation's other than the Bank of England, households and the NPISH sector.

### Promissory note

A security which entitles the bearer to receive cash. These may be issued by companies or other institutions.

See also 'Commercial paper'.

### Public corporations

These are public trading bodies which usually have a substantial degree of financial independence from the public authority which created them. A body is normally treated as a trading body when more than half its income is financed by fees. A public corporation is publicly controlled to the extent that the public authorities appoint a majority of the board of management or when public authorities can exert significant control over general corporate policy through other means. Since the 1980s many public corporations, such as British Telecom, have been privatised and reclassified within the accounts as private non-financial corporations. Public corporations can also exist in the financial sector.

### Public sector

Central government, local authorities and public corporations.

## R

### Refinanced export credit

Identified long-term credit extended for UK exports initially by banks and refinanced with the ECGD, the Trustee Savings Banks and the Central Trustee Savings Bank.

### Reinvested earnings

The direct investor's share of earnings not distributed as dividends (by subsidiaries) or branch profits. As this income remains with the foreign subsidiary or branch (it is reinvested by the parent) an amount will appear in the financial account equal to (and with opposite sign) the corresponding entry within direct investment income.

## Related companies

Branches, subsidiaries, associates or parents.

## Related import or export credit

Trade credit between related companies, included in direct investment.

## Remittances

Remittances represent household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies. They largely consist of funds and noncash items sent or given by individuals who have migrated to a new economy and become residents there, and the net compensation of border, seasonal, or other short-term workers who are employed in an economy in which they are not resident. The two items in the balance of payments framework that substantially related to remittances are 'compensation of employees' and 'personal transfers'.

See also 'Compensation of employees' and 'Personal transfers'.

## Rental

The amount payable by the user of a fixed asset to its owner for the right to use that asset in production for a specified period of time. It is included in the output of the owner and the intermediate consumption of the user.

## Repo/reverse repo

This is short for 'sale and repurchase agreement'. One party agrees to sell bonds or other financial instruments to other parties under a formal legal agreement to repurchase them at some point in the future - usually up to six months - at a fixed price. Reverse repos are the counterpart asset to any repo liability. Repo/ reverse repo transactions are generally treated as borrowing/lending within other investment, rather than as transactions in the underlying securities. The exception being for banks, where repos are recorded as deposit liabilities. Banks' reverse repos are recorded as loans, the same as for all other sectors. Legal ownership does not change under a 'repo' agreement. It was previously treated as a change of ownership in the UK financial account but under the System of National Accounts (SNA) is treated as a collateralised deposit.

## Reserve assets

Short-term assets which can be very quickly converted into cash. They comprise the UK's official holdings of gold, convertible currencies, Special Drawing Rights, and changes in the UK reserve position in the IMF. Also included between July 1979 and December 1998 are European Currency Units acquired from swaps with the European Cooperation Fund, EMI and the ECB. Reserve assets were referred to as 'official reserves' in editions of the Pink Book prior to 1998.

## Reserve position in the Fund

The UK's position in the IMF's General Resources Account. This position is the sum of the UK's reserve tranche purchases, and any indebtedness to the Fund (under a loan agreement) that is readily payable to the UK.

## Residency

UK residents are those with a centre of economic interest within the UK of at least one year's duration - nationality does not play a part in determining residency status. There are a number of exceptions to the standard residency classification: regardless of length of stay, UK personnel of UK embassies and military bases abroad are deemed to be residents of the UK (conversely foreign personnel of other nations' embassies and military bases in the UK are classed as non-residents), as are students studying abroad or patients being treated abroad who are normally resident in the UK.

See also 'Offshores'.

## Rest of the world (RoW)

The RoW consists of all non-resident units that enter into transactions with the units of the reporting economy.

See also 'Residency'.

## Royalties

These form part of trade in services. They represent payments for services by, or to, UK residents in respect of the right to use processes and other information, for example, licences to use patents, trade marks, designs, or copyrights. Sales and purchases of patents are included within the capital account.

## Rural Payments Agency (RPA)

The UK government agency which operates the support arrangements of the EU Common Agricultural Policy within the UK. This replaced the Intervention Board for Agricultural Produce (IBAP).

# S

## Securities dealers

Securities and futures dealers are those institutions whose main activity is dealing in securities and futures either on their own account or on behalf of customers and clients. This activity also includes stock exchange money brokers, inter-dealer brokers and dealing in commodities for investment purposes. They should not be confused with monetary financial institutions (banks and building societies) that are licensed as able to take deposits.

## Secondary income (previously called 'current transfers')

See 'Transfers'

## Security

Security against loans involves the depositing of a document or asset which is retained by the bank as a charge for an advance. This form of security may include stocks and share certificates, debentures, and insurance policies.

## Smuggling

Smuggling is the importation of goods acquired duty free or duty paid in another country for re-sale in the UK without payment of UK duty and (where appropriate) VAT.

See also 'MTIC'.

## Special Drawing Rights (SDRs)

These are reserve assets created and distributed by decision of the members of the IMF. Participants accept an obligation to provide convertible currency, when designated by the IMF to do so, to another participant, in exchange for SDRs. Only countries with a sufficiently strong balance of payments are so designated by the IMF. SDRs may also be used in certain direct payments between participants in the scheme and for payments of various kinds to the IMF.

## Spread earnings

Net spread earnings are the part of market making activities that represent payment for the provision of a service. The value of the spread earning for each transaction is calculated as the margin earned between the transaction price and the mid-market price at the time of the transaction. This represents the 'added value' gained from market making activities. Spread earnings can be made on, for example, foreign exchange, securities and derivatives transactions.

## Standardised Guarantees

Standardised guarantees are normally issued in large numbers, usually for fairly small amounts, along identical lines. There are three parties involved in these arrangements, the debtor, the creditor and the guarantor. Either the debtor or creditor may contract with the guarantor to repay the creditor if the debtor defaults. The classic examples are export credit guarantees and student loan guarantees.

## Stock lending

Lending of securities by long-term holders or custodians such as banks, pension funds or insurance companies when securities are in short supply.



## Subsidiary

A registered company in which another registered company has ownership of the majority of the voting share capital, that is, greater than 50%.

## Subsidies

Current unrequited payments made by general government or the EU to enterprises. Those made on the basis of a quantity or value of goods or services are classified as 'subsidies on products'. Other subsidies based on levels of productive activity (for example, numbers employed) are designated 'Other subsidies on production'.

## Swaps

See 'Interest rate swaps' and 'Currency swaps'.

## System of National Accounts (SNA)

SNA, the internationally agreed standard system for macroeconomic accounts.

# T

## Taxes

Compulsory unrequited transfers to central or local government or the European Union.

## Technical reserves (of insurance companies)

These reserves consist of pre-paid premiums, reserves against outstanding claims, actuarial reserves for life insurance and reserves for with-profit insurance. They are treated in the economic accounts as the property of policy-holders.

## Trade credit

See 'Export credit' and 'Import credit'.

## Trade in goods

Trade in goods covers general merchandise, goods for processing, repairs on goods, goods procured in ports by carriers and commodity gold (see 'Gold'). General merchandise is defined for balance of payments purposes as covering, with a few exceptions, all movable goods for which actual or imputed changes of ownership occur between residents and non-residents. Further information can be found in the [UK Trade overview](#).

## Trade in services

Provision of services between UK residents and non-residents, and transactions in goods which are not freighted out of the country in which the transactions take place, for example purchases for local use by foreign forces in the UK and by UK forces abroad, and purchases by tourists. Transactions in goods which are freighted into/ out of the UK are included under trade in goods. Further information can be found in the [UK Trade overview](#).

## Transfers

A transfer is an entry that corresponds to the provision of a good, service, financial asset, or other non-produced asset by an institutional unit to another institutional unit when there is no corresponding return of an item of economic value. When something of economic value (e.g goods, services, or a financial asset) is provided without a corresponding return of an item of economic value, the corresponding entry is made as a transfer.

## Travel

The travel account gives the earnings from, and expenditure on, international tourism and business and other travel, but excludes transport between the UK and other countries (included within the transportation account). An international traveller is defined as a resident of one country who visits another country and stays there for a period of less than 12 months. This definition excludes travellers who visit another country to take up pre-arranged employment or education there, military and diplomatic personnel, merchant seamen and airline crews on duty.

## Treasury bills

Short-term securities or promissory notes that are issued by government in return for funding from the money market. In the UK every week, the Bank of England invites tenders for sterling Treasury bills from the financial institutions operating in the market. ECU/euro-denominated bills were issued by tender each month but this programme has now wound down; the last bill was redeemed in September 1999. Treasury bills are an important form of short-term borrowing for the government, generally being issued for periods of 3 or 6 months.

## Trusts (unit and investment)

Unit trusts are institutions through which investors pool their funds to invest in a diversified portfolio of securities. Individual investors purchase units in the fund representing an ownership interest in the large pool of underlying assets, that is, they have an equity stake. The selection of assets is made by professional fund managers. Unit trusts therefore give individual investors the opportunity to invest in a diversified and professionally-managed portfolio of securities without the need for detailed knowledge of the individual companies issuing the stocks and bonds. Unit trust units are issued and bought back on demand by the managers of the trust, the value of the unit reflecting the value of the underlying pool of securities.

Investment trusts are institutions that invest capital in a wide range of other companies' shares. Investment trusts issue shares (which are listed on the stock market) to raise this capital. The price of shares is driven by the usual market forces.

Unit trusts are 'open-ended funds' which means the fund gets bigger as more people invest and gets smaller as people withdraw their money. Investment trusts are 'close-ended funds' because there are a set number of shares and this number does not change regardless of the number of investors.

See also 'Collective investment institutions'.

## U

### UK Export Finance

A non-ministerial government department, classified to the public corporations sector, the main function of which is to provide insurance cover for export credit transactions.

### United Kingdom (UK)

Broadly, in the accounts, the United Kingdom comprises Great Britain plus Northern Ireland and that part of the continental shelf deemed by international convention to belong to the UK. It excludes the Channel Islands and the Isle of Man.

## V

### Very short-term financing facility (VSTFF)

This is a facility available within the EMS where a central bank makes short-term credit facilities in its own currency available to another central bank.