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## Chapter 12. Capital Account

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### A. Concept and Coverage

12.1 This section will introduce the function of this account, that is, to show the process of accumulation (other than of financial assets/liabilities) and capital transfers. The capital account in the *1993 SNA* shows how savings is used to finance accumulation of nonfinancial assets and how capital transfers are made to fund acquisition of assets or forgive liabilities. In the case of international accounts, the capital account does not cover the accumulation of nonfinancial produced assets. Instead, it covers the acquisition and disposal of nonfinancial nonproduced assets and other capital transfers, notably the forgiveness of debt. This section will contrast accumulation with other economic processes. The section will state the meaning of the balancing item to this account, and the cumulative balance of the current and capital accounts, namely, the net lending by the total economy (the net borrowing by the rest of the world); or the net borrowing by the total economy (the net lending by the rest of the world).

12.2 The section will show the relationship of the capital account, and its balancing item, to other international accounts. It will note that transactions in fixed capital and valuables appear in the goods and services account in the international accounts and that transactions in financial assets and liabilities appear in the financial account.

12.3 This section will also discuss the relationship of the capital account to the *1993 SNA*. (The capital account plays an important role in relation to the *1993 SNA* balance sheets. International flows of nonfinancial assets change national balance sheets but not IIP, because only financial assets can have cross-border elements.)

12.4 A table will show the components and layout of the capital account with a numerical example, similar to the following table.

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**Table 12.1. Overview of Capital Account**

	Credits	Debits
<i>Current account balance</i>		
Acquisitions (DR.)/disposals (CR.) of nonfinancial nonproduced assets		
Land and other tangible nonproduced assets		
Intangible nonproduced assets		
Capital transfers		
General government		
Debt forgiveness		
Other		
Other sectors		
Debt forgiveness		
Other		
<i>Capital account balance</i>		
<i>Net lending/borrowing</i>		

### **B. Scope and Characteristics**

#### **1. Transactions in nonfinancial nonproduced assets**

12.5 This section will define nonfinancial nonproduced assets and give examples (land, patents, leases, and licenses). It will note cases outside this category, for example, computer software and artistic originals are included in goods and services.

12.6 In connection with land and subsoil assets, this section will explain the guideline of imputation of a resident (direct investment) unit to own immovable assets, which prevents most of these purchases from being international transactions. However, there are a few cases where land changes economic territory as a result of a transaction, namely., sale of land for an embassy or military base, and voluntary transfer of sovereignty over a particular area. It will be explained that in those cases, the value of any associated buildings and equipment would be shown separately in the goods and services account. (Cases where the transfer occurs for other reasons, such as a seizure, would be classified as other changes in the volume of assets.)

12.7 Other nonproduced intangible assets include leases, transferable contracts, licenses, patents, and internet domain names. The borderline issues between a current right to use (a service or property income) and when the right to use becomes an asset will be discussed, along the lines of Dippelsman and Maehle. Length of the right and cancellability are among the most important factors to be considered.

*[Question: Should the treatment of land also be extended to acquisition of interests in land through long-term leases? And should it be extended to related interests such as rights to extract minerals from the land or fish from the sea?]*

## **2. Capital transfers**

12.8 This section will define transfers in more detail (citing *BPM5* paras. 344–345 and *1993 SNA* paras. 8.27), contrasting transfers with other types of transactions. It will then state the distinction between current and capital transfers, namely, that capital transfers are linked acquiring an asset or forgiving of a liability. It will give criteria for making the distinction based on *1993 SNA* paras. 8.31–8.33 and *BPM5* para. 295. It will note that only current transfers affect income. Examples of different kinds of transfers will be given. The case of transfers viewed as current by one party and capital by the other party will be discussed.

12.9 To avoid duplication, the current/capital split for transfers will be dealt with at greater length in Chapter 11 Secondary Distribution of Income Account, with a brief introduction and cross-reference in this chapter.

12.10 There will be paragraphs on different categories of capital transfers:

- (a) Capital transfers in cash and in kind will be distinguished, as in *1993 SNA* para. 10.132.
- (b) Different types of capital transfers will be discussed:
  - i. Investment grants will be defined and explained, as in *BPM5* paras. 349 and 357 and *1993 SNA* paras. 10.137–138.
  - ii. Capital taxes will be introduced and distinguished from current taxes on wealth as in *1993 SNA* para. 10.139.
  - iii. Debt forgiveness will be explained and contrasted with debt write-off and bad debt provisions, based on *BPM5* para. 348 and *GFSM 2001* Appendix 2 paras. 9–10 (debt forgiveness). The *1993 SNA* paras. 10.139–140 contrast debt reductions that are capital transfers with those that are write-offs. It will be noted that debt forgiveness is limited to the value of the liability (principal and accrued interest). It will note that interest is recorded on an accrual basis and is capitalized as a part of the financial instrument. Debt forgiveness covering both original principal and accrued interest is treated as capital transfer. No entry is made for interest not yet accrued (as in *BPM5* para. 532).

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- iv. Debt restructuring (also called “debt reorganization”) may give rise to a capital transfer, to the extent that there is an element of transfer.
  - v. Other cases that will be mentioned include compensation for losses of assets, whether ordered by courts or settled out of court, and legacies or large gifts to individuals or nonprofit institutions, as in *BPM5* paras. 349 and 357 and *1993 SNA* paras. 10.139–141.
  - vi. “Migrants’ transfers” will be stated as not being transactions and, consequently, shown in the other changes in financial assets and liabilities account rather than as a capital transfer. (The discussion of this proposal occurs in Chapter 3 Accounting Principles and Chapter 8 Other Changes in Financial Assets and Liabilities Account.)
  - vii. Inheritance taxes will be treated as capital transfers, following *1993 SNA* para. 8.33.
  - viii. OECD DAC Reporting Statistical Directives will be referred to in order to distinguish between current and capital transfers.
- (c) Classification by the institutional sector will be discussed. The standard components will show the institutional sector of recipient (for credits) and sector of provider (for debits). In the standard components, the sector split will be limited to “general government” and “other,” but a full institutional sector split should be collected for other purposes. In some cases, there may also be interest in compiling data classified by sector of provider for credits and sector of recipient for debits.

12.11 For economies that are major recipients of assistance, the manual will suggest that it would be desirable to show current and capital transfers with consistent classifications to allow them to be compared.

### C. Timing

12.12 There will be a discussion of timing issues that arise specifically for capital account items, as in *GFSM* paras. 5.79 and 6.66.

### D. Valuation Principles

12.13 The valuation issues for capital transfers in kind will be discussed with references to the discussion of general principles in Chapter 3 Accounting Principles.

## References

1993 SNA Chapter 8, 10.

*BPM5* paras. 311–312 (on the capital account as such); para. 295 also deals with the current/capital transfer split; Chapter XVII deals with the components of the capital account.

*BPT* paras. 437–444

*GFSM* paras. 5.77–79, 6.64–66 (capital transfers) Appendix 2 paras. 9–10 (debt forgiveness)

R. Dippelsman and N. Maehle, *Treatment of Mobile Phone Licenses in the National Accounts*, IMF Working Paper 01/72

## Changes from *BPM5*

(a) *Changes proposed:*

This chapter proposes to present the capital account as a separate account with its own balancing item. *BPM5* sometimes treats capital and financial accounts in conjunction (Table 12.1).

Intangible assets are discussed at greater length and detail. Although no new principles are introduced, new situations will be discussed (para. 12.7).

Migrants' transfers will be removed from the capital account, based on the definition of a transaction (para. 12.10(b)).

## Glossary

Capital account  
Capital taxes  
Capital transfers  
Debt forgiveness  
Debt restructuring/reorganization  
Intangible assets  
Net lending/borrowing  
Nonproduced assets  
Transfers  
Tangible assets