

UPDATE OF THE BALANCE OF PAYMENTS MANUAL, FIFTH EDITION (*BPM5*)

The Balance of Payments Manual is being updated under the auspices of the International Monetary Fund's Committee on Balance of Payments Statistics (Committee), a continuing body consisting of experts from national compiling bodies and international organizations. The edition being updated is the fifth edition, which was released in 1993 and marked the harmonization of balance of payments statistics with the *System of National Accounts, 1993 (1993 SNA)*. As such, the *BPM5* update is closely aligned with the update of the *1993 SNA* with a view to maintaining the harmonization. Many of the major issues that have emerged or have become more important in international transactions and positions also arise in the SNA process.

The Committee nominated about twenty issues adopted for the current review of the SNA and the new Manual is consistent with the agreements reached. The update also takes into account the methodological progress made in recent years on international reserves, international trade in services, and external debt¹.

Detailed listings of changes from *BPM5* are provided at the end of each chapter of the draft manual. Abstracting for specific issues, three main themes can be identified from the new manual: globalization, the increased emphasis on balance sheet issues, and financial innovation.

Globalization has brought several issues to greater prominence. An increasing number of individuals and companies have connections to two or more economies, so that additional guidance needs to be provided on the residence concept. In particular, there has been increasing interest in information on migrant workers and their associated remittances flows. As well, globalized production processes have become more important, so treatments have been developed to provide a fuller and more coherent picture of outsourced physical processes (goods for processing) and sales or management of manufacturing that are separated from physical possession (merchandising). Guidance will also be provided on the residence and activities of special purpose entities and other legal structures that are used for holding assets and that have little or no physical presence. For the first time, there will be specific guidance on the treatment of currency unions, which is provided in a separate appendix.

The new manual reflects increased interest in **balance sheet analysis** for understanding international economic developments in terms of vulnerability and sustainability. The new manual provides considerably more detailed guidance on the international investment position, which is a country's balance sheet of external financial assets and liabilities. It also provides much greater discussion of revaluations and other volume changes and their impact on assets and liabilities. Specific publications have been developed over the last decade on

¹ The work incorporated *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template (2001)*, *Manual on Statistics on International Trade in Services (2002)*, and *External Debt Statistics: Guide for Compilers and Users (2003)*, respectively.

international investment position, external debt, financial derivatives, and reserve assets. The results of this detailed work are incorporated into the new manual. In recognition of the emphasis on balance sheet aspects, it is entitled the new edition Balance of Payments and International Investment Position Manual, although the acronym *BPM6* will be adopted.

Financial innovation includes the growth of new financial instruments and arrangements among institutional units. Examples of instruments include financial derivatives, index-linked securities, and gold accounts, and of special purposes entities as institutional arrangements. While the basic concepts of direct investment remain essentially unchanged, with growth of complex crossborder company structures, there is a need to provide guidelines on identifying direct investment in cases of long and complex chains of ownership. The direct investment treatments are being revised in conjunction with the OECD, which is also revising its Benchmark Definition of Foreign Direct Investment at the same time.