

# **INTERNATIONAL MONETARY FUND**

## **Statistics Department**



### ***Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7)***

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# Foreword

[The foreword will be included in the final *BPM7*, which will also incorporate language edits and an index.]

# Preface

## INTRODUCTION

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1. The release of the seventh edition of the *Integrated Balance of Payments and International Investment Position Manual* (BPM7, the *Manual*) marks the culmination of several years of work by the IMF Statistics Department and the IMF Committee on Balance of Payments Statistics (BOPCOM), with support from the global balance of payments community. This update, which builds on the sixth edition published in 2009, provides guidance to IMF member countries on compiling balance of payments (BOP) and integrated international investment position (IIP) data.
2. The update process began in 2020, when BOPCOM recognized that, while the *BPM6* framework remained a strong foundation, numerous improvements, clarifications, and methodological updates were needed to address changes in international trade and financial markets since the publication of *BPM6*. The aim was also to strengthen the theoretical foundations and linkages to other macroeconomic statistics. The production of *BPM7* was conducted in close coordination with the update of the *System of National Accounts 2008* (2008 SNA) and the *OECD Benchmark Definition of Foreign Direct Investment, fourth edition* (BD4), to ensure consistency among these standards.

## UPDATE PROCESS

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3. The *BPM6* update was carried out in two phases:
  - Phase I: Finalizing detailed research on identified issues, presenting outcomes in the form of Guidance Notes (GNs), and discussing their impact on *BPM7*.
  - Phase II: Releasing an Annotated Outline (AO), drafting chapters and annexes, and conducting extensive consultations on the proposed changes.

### **Task Teams**

4. BOPCOM established task teams to address detailed methodological challenges and prepare GNs with recommendations. These task teams focused on general principles, structural and crosscutting issues (Balance of Payments Task Team, or BPTT), current account (Current Account Task Team, or CATT), and direct investment (Direct Investment Task Team, or DITT). Additionally, BOPCOM and the Advisory Expert Group on National Accounts (AEG) formed joint task teams to tackle issues related to financial and payment

systems (Financial and Payments Systems Task Team, or FITT), globalization (Globalization Task Team, or GZTT), informal economy (Informal Economy Task Team, or IETT), Islamic finance (Islamic Finance Task Team, or IFTT), and communication (Communications Task Team, or CMTT). The AEG task teams on digitalization (Digitalization Task Team, or DZTT) and wellbeing and sustainability (Wellbeing and Sustainability Task Team, or WSTT) also addressed relevant external accounts issues.

5. These task teams comprised representatives from both member countries and international organizations, including specialists in external sector statistics, national accounts, environmental accounts, government finance statistics, and monetary and financial statistics. While the BPTT was operational throughout the update process, other task teams were mostly active during Phase I. The DITT, due to its specificity, closely coordinated with the OECD Working Group on International Investment Statistics (WGIIS) as its work also informed the update of the *OECD Benchmark Definition of Foreign Direct Investment, fourth edition (BD4)*. The GNs underwent global consultation<sup>1</sup> prior to being discussed and approved by BOPCOM and the AEG, with respondents from more than 160 IMF member countries participating in at least one consultation.

6. In addition, other specialized groups provided input on topics such as merchandise trade, trade in services,<sup>2</sup> tourism, remittances, debt statistics, and fiscal statistics. International organizations participated in all stages of the process, directly and as members of specialized groups.

### **Annotated Outline**

7. The AOs of chapters and annexes were prepared based on the recommendations of the GNs, along with other Issue Notes (INs),<sup>3</sup> as well as Clarification Notes prepared by BOPCOM before the process commenced. They were endorsed by BOPCOM—and the AEG in the case of common chapters—and benefited from stakeholder (e.g., government finance, monetary and financial, and environmental-economic accounting statisticians) and global consultations. The consolidated AO of *BPM7*, incorporating the final versions of the

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<sup>1</sup> Global consultation respondents included the national and international organizations' compilers and users of external sector and other areas of macroeconomic statistics.

<sup>2</sup> This included the Task Team on International Trade Statistics (TT-ITS) established under the UN Committee of Experts on Business and Trade Statistics (UNCEBTS) to oversee the updates of the *Manual on International Merchandise Trade Statistics (IMTS)* and the *Manual on Statistics of International Trade in Services (MSITS)*.

<sup>3</sup> Most of them were jointly prepared by the BPM and SNA editorial teams.

AOs of individual chapters and annexes, was posted on the *BPM6* update website in September 2023.

### **BPM7 Outreach Workshops**

8. From May 2023 to April 2024, eight regional *BPM7/2025 SNA* joint workshops were conducted with support from key regional stakeholders. These workshops aimed to raise global awareness of the updates to *BPM6* (and the *2008 SNA*), explain the proposed changes, and engage with compilers. Representatives from the IMF member countries and international organizations participated, providing essential feedback.

### **Preparation of BPM7**

9. The draft chapters and annexes of *BPM7* were prepared based on the consolidated AO and followed a process agreed upon by the BPM and SNA editorial teams. The individual chapters and annexes were approved by BOPCOM (and the AEG for common chapters) following global consultations. The draft consolidated *BPM7* (chapters only) underwent global consultation from July to September 2024, receiving over 400 comments from more than 100 respondents.<sup>4</sup> It was endorsed by BOPCOM at its November 2024 meeting. Most annexes were also subjected to global consultation, and all of them were endorsed by BOPCOM. At the end of the process, the *BPM7* lead editors and project manager conducted an overall review of the draft *Manual* to identify any inconsistencies or omissions in the document, and to preserve consistency with the draft *2025 SNA*. Following an internal IMF review, a white cover (pre-edited) version was published in March 2025, while the final version, including the foreword, index, and language edits, was published in xx, 2025/2026.

### **Major Changes Introduced**

10. While the overall framework of *BPM7* remains largely unchanged from *BPM6*, several significant updates have been made:

- **Integrated IIP:** Has become central to the *Manual* and has been included in *BPM7*'s standard components, showing the reconciliation of the opening and closing values of the IIP through transactions, revaluations, and other changes in volume;
- **Net International Reserves (NIR):** A standard statistical definition is introduced;

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<sup>4</sup> Includes the comments on common *BPM7/2025 SNA* chapters received during the global consultation of the *2025 SNA*.

- **Service Categories:** Additional first-level standard service categories are added to improve correspondence between the BOP classification and the Central Product Classification (CPC);
  - **Crypto Assets:** Guidance on the typology and classification of crypto assets is provided. Crypto assets without a counterpart liability designed to act as a medium of exchange (e.g., Bitcoin) are treated as nonproduced nonfinancial assets and recorded separately in the capital account; those with a corresponding liability are treated as financial assets;
  - **Special Purpose Entities (SPEs):** An internationally agreed definition is introduced;
  - **Institutional Sector Breakdowns:** More disaggregated breakdowns are included as standard components, with separate identification of:
    - Nonfinancial corporations; and
    - Households and nonprofit institutions serving households;
  - **Direct Investment Presentation:** Standard components are broken down by instruments/sectors, replacing the relationship-based presentation in *BPM6*;
  - **Equity Valuation for Unlisted Corporations:** Reduction in the number of recommended valuation methods; and
  - **Common Chapters with the 2025 SNA:** Seven common chapters are developed, including new themes such as digitalization and globalization, to strengthen harmonization between these standards.
11. A detailed list of changes from *BPM6* is provided in Annex 13 of the *Manual*.

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### *IMF Staff*

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---

**Chair: Louis Marc Ducharme (2020–22) and Bert Kroese (2022–)**

**Secretariat: Evrim Bese Goksu and Venkat Josyula<sup>6</sup>**

***Members:***

Armenia	Mher Barseghyan <sup>7</sup>	Lebanon	Iman AbouHassan
Bhutan	Yangchen Tshogyel	Malaysia	Norhayati Razi
Brazil	Fernando Rocha	Morocco	Mounir Rhandi
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Indonesia	Pujiastuti Abassuni	Thailand	Angsupalee Wacharakiat
Japan	Haruko Kato	Uganda	Kenneth Egesa

---

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<sup>7</sup> Until July 2021, and IMF since then.

	Masako Kominami	United Kingdom	Perry Francis
	Yutaka Matsushita	United States	Paul Fareello
	Hirofumi Morishita	Zambia	Wilson Phiri <sup>8</sup>
	Shinya Nakamura		
	Kaname Yunokawa		

### ***Representatives of International Organizations***

<i>Bank for International Settlements (BIS)</i>	Branimir Gruic	<i>Organization for Economic Cooperation and Development</i>	Nadim Ahmad
	Patrick McGuire		Annabelle Mourougane
<i>European Central Bank (ECB)</i>	Olga Monteiro	<i>United Nations Conference on Trade and Development</i>	Astrit Sulstarova
<i>Eurostat</i>	Lena Frej Ohlsson		
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<i>International Monetary Fund</i>	Carlos Sánchez--Muñoz	<i>World Bank</i>	Evis Rucaj
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#### ***Balance of Payments Task Team (BPTT)***

Chair: Carlos Sánchez-Muñoz (IMF)

Secretariat: Evrim Bese Goksu (IMF) and Venkat Josyula<sup>10</sup>

Members: Amanda Seneviratne (Australia); Fernando Rocha (Brazil); Éric Boulay (Canada); Hu Hong (China); Ursula Schipper (Germany); Fabienne Fortanier (the Netherlands); Robert Pupynin (Russia); Paul Farello (United States); Wilson Phiri (Zambia); Olga Monteiro (ECB); Philippe de Rougemont, Lena Frej Ohlsson, and Robert Leisch (Eurostat); Gustavo Adler, David Bailey, Jannick Damgaard, Sagé de Clerck, Marcelo Dinenzon, Hector Hernandez, Cyril Rebillard, Jennifer Ribarsky, and Niamh Sheridan (IMF); Nadim Ahmad and Annabelle Mourougane (OECD); and Herman Smith (UNSD).

#### ***Current Account Task Team (CATT)***

Co-Chairs: Maria Borga (IMF)<sup>11</sup> and Lena Frej Ohlsson<sup>12</sup> and Cristina Pereira De Sá (Eurostat)

Secretariat: Silvia Matei (IMF) and Robert Leisch (Eurostat)

---

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Members: Silvia Amiel (Argentina); Baby Mogapi (Botswana); Thiago Said Vieira (Brazil); Denis Caron (Canada); Casper Winther (Denmark); Jens Walter (Germany); Andrea Carboni (Italy); Esmond McLean (Jamaica); Gerardo Durand Alcántara (Mexico); Angela GhermanCernei (Moldova); Mounir Rhandi (Morocco); Consuelo Soto (Peru); Robert Pupynin (Russia); Angsupalee Wacharakiat (Thailand); Patricia Abaroa (United States); Laura Wahrig (Eurostat); Joao Fonseca (IPSASB); Thomas Alexander, David Bailey, Malik Bani Hani, Borys Cotto, Kenneth Egesa, Kristy Howell,<sup>13</sup> and Jennifer Ribarsky (IMF); David Brackfield, Antonella Liberatore, and Rodolfo Ostolaza (OECD); Markie Muryawan (UNSD); and Bedri Zymeri (Kosovo).<sup>14</sup>

### ***Direct Investment Task Team (DITT)***

Co-Chairs: Maria Borgia (IMF)<sup>15</sup> and Krzysztof Makowski (Chair of the WGIIS from the National Bank of Poland)

Secretariat: Padma Hurree Gobin<sup>16</sup> and Rita Mesias (IMF) and Francesca Spinelli (OECD)<sup>17</sup>

Members: Michael Abbondante (Australia); Fernando Lemos (Brazil); Éric Simard (Canada); Yang Can (China); Bertrand Pluyaud (France); Mirco Lattwein (Germany); Mei Ling Tjung (Indonesia); Stefano Federico (Italy); Sakiko Ohtsuka (Japan); Paul Feuvrier (Luxembourg); Fedor Kharlashin (Russia); Fernando Nieto (Spain); Lee Mallet (United Kingdom); Jessica Hanson and Raymond Mataloni (United States); Pieter Swart (South Africa); Wilson Phiri (Zambia); Carmen Picón Aguilar (ECB); Philippe de Rougemont and Irene Madsen (Eurostat); Fadhila Alfaraj, Emma Angulo, Thomas Elkjaer, Artak Harutyunyan, and Bruno Rocha (IMF); and Astrit Sulstarova (UNCTAD).

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***Communications Task Team (CMTT)***

Chair: Sanjiv Mahajan (United Kingdom)

Secretariat: Eric Metreau (World Bank), and Francien Berry, Margarida Martins, Lisbeth Rivas, and Jim Tebrake (IMF).<sup>18</sup>

Members: Luz Garcia Balcarce and Pedro Lines (Argentina); Amanda Seneviratne (Australia); Rebeca Palis (Brazil); Erith Nghogue (Cameroon); Matthew MacDonald (Canada); Henry Vargas Campos (Costa Rica); Albert Braakmann (Germany); S V Ramana Murthy (India); Michael Connolly (Ireland); Yuko Ueno (Japan); Peter Hein van Mulligen (Netherlands); Andrey Tatarinov (Russia); Karen Kuhn (South Africa); Kwangwon Lee (Korea); Claire Evans, and Luke Croydon (United Kingdom); Dave Wasshausen (United States); Litia Simbangala and Wilson Phiri (Zambia); Charles Sessede and Tabo Symphorien (AfDB); Ibrahima Sory (Afristat); Nahashon K. Mutai (EAC); Celestino Girón and Daniel Suranyi (ECB); Iana Marinova, John Verrinder, Nicola Massarelli, and Orestis Tsigkas (Eurostat); Thomas Alexander, David Bailey, Jannick Damgaard, Kenneth Egesa, Vanda Guerreiro, Emmanuel Manolikakis, Brent Moulton, Yoges Rajah, and Michael Stanger (IMF); João Carlos Fonseca (IPSASB); David Barraclough, Martine Zaïda, and Jorrit Zwijnenburg (OECD); Peter van de Ven (SNA Lead Editor); Jonathan Gessendorfer, Hernan Hernandez, Benson Sim, and Herman Smith (UNSD); and Bala Bhaskar Naidu Kalimili (World Bank).

***Financial and Payments Systems Task Team (FITT)***

Co-Chairs: Artak Harutyunyan (IMF) and Celestino Girón (ECB)

Secretariat: Borys Cotto, Kenneth Egesa, Joji Ishikawa, Rita Mesias, and Wilson Phiri (IMF)

Members: Mher Barseghyan (Armenia); Pujiastuti Abassuni (Indonesia); Gabriele Semeraro (Italy); Masako Kominami (Japan); Paula Menezes (Portugal); Maja Gavrilovic (Serbia); Barend De Beer (South Africa); Simon Bösenberg (Switzerland); Emmanuel Ssemambo (Uganda); Perry Francis (United Kingdom); Ruth Judson (United States); Branimir Gruic and Patrick McGuire (BIS); Prunela Charles-Williams (ECCB); Martim Assuncao, Philippe de Rougemont, Floris Jansen, Enrico Infante, and John Verrinder (Eurostat); Esti Kemp and Takao Miyamoto (FSB); João Carlos Fonseca (IPSASB); Nabila Akhazzan, Meraj Allahrakha, David Bailey, Francien Berry, Evrim Bese Goksu, Antonio Galicia-Escotto,

---

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### ***Globalization Task Team (GZTT)***

Co-Chairs: Michael Connolly (Ireland) and Branko Vitas (Australia)<sup>19</sup>

Secretariat: Kristy Howell, Padma Hurree Gobin, Margarida Martins, and Jennifer Ribarsky (IMF)

Members: Grace Kim and Paul Roberts (Australia); Roberto Luís Olinto Ramos (Brazil); Jennifer Withington (Canada); Yang Can (China); Stefan Hauf and Jens Walter (Germany); Satoru Hagino (Japan); Paul Feuvrier (Luxembourg); Norhayati Razi (Malaysia); Leyva Marin Lizbeth (Mexico); Lamia Laabar (Morocco); Dirk van den Bergen, Joseph Haynes, and Leo Hiemstra (Netherlands); Ann Lisbet Brathaug (Norway); Natalia Kuprianova and Andrey Tatarinov (Russia); Sanjiv Mahajan (United Kingdom); Dylan Rassier (United States); María Lourdes Erro Azcarate (Uruguay); Themba Munalula (COMESA); Celestino Girón (ECB); Martim Assuncao, Filippo Gregorini, Floris Jansen, Laura Wahrig, and Steinar Todsén (Eurostat); Francien Berry, Kenneth Egesa, Rita Mesías, and Philip Stokoe (IMF); Nadim Ahmad (OECD); Tihomira Dimova Rodde and Rami Peltola (UNECE); and Herman Smith (UNSD).

### ***Informal Economy Task Team (IETT)***

Co-Chairs: Chris Mukiza (Uganda) and Thomas Alexander (IMF)

Secretariat: Jonathan Gessendorfer (UNSD) and Gregory Legoff (IMF)

Members: Ricardo Valencia Ramírez (Colombia); Levan Karsaulidze (Georgia); Norhayati Razi (Malaysia); Francisco Guillén (Mexico); Vivian Ilarina (Philippines); Anastasia Aleksandrova (Russia); Ibrahima Tall (Senegal); Matt Hughes (United Kingdom); Sarah Atkinson (United States); Jose Roserio (FAO); Michael Frosch (ILO); Theodore Bikoi (IMF); John Mitchell (OECD); Peter van de Ven (SNA Lead Editor); Tihomira Dimova Rodde (UNECE); Edem Kossi Kludza, and Herman Smith (UNSD); and Jose Pablo Valdes Martinez (World Bank).

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Co-Chairs: Amina Khasib (West Bank and Gaza) and Mounir Rhandi (Morocco)

Secretariat: Wafa Aboul Hosn and Omar Hakouz (UNESCWA); and Benson Sim (UNSD)

---

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Members: Muhammad Amir Hossain (Bangladesh); Pujiastuti Abassuni, Diana Bhakti, Nurul Ainun Nisa, Hana Dwi Kristanti, Siti Muarofah, and Suswandi (Indonesia); Muhammad Abd Alhaleam Aldmour (Jordan); Ragheed Imad Moghrabi (Lebanon); Khairul Aidah Samah, Mohd Fahmi Mohd Arupin, Norhayati Razi, Siti Sarah Che Dan, and Mohd Yazid Kasim (Malaysia); Jihane Bennani and Bouchra Farghsaoui (Morocco); Husniye Aydin, Tawfik Azrak, and Derya Baş Sonbul (Turkey); Abd El Shafi El Ashmawy (United Arab Emirates); Perry Francis and Michael Lyon (United Kingdom); Russell Krueger (United States); Farida Cassim, Mohammad Majd Bakir, Rizwan Malik, and Omar Mustafa Ansari (AAOIFI); Muhammad Bilal and Rachid Ettaai (CIBAFI); Ahmed Al Farid, Asiya Al Ghafri, Khairallah Al Marzoug, and Charitha Rakkitha (GCC); Malik Bani Hani, Levan Gogoberishvili, Artak Harutyunyan, and Samah Torchani (IMF); Ali Rashed, Ousmane Seck, Areef Suleman, and Abu Camara (IsDB); Abideen Adeyemi Adewale and Aminath Amany Ahmed (IFSB); Rodolfo Ostolaza (OECD); Atilla Karaman and Abdulhamit Ozturk (SESRIC); Alick Nyasulu (ESCAP); and Herman Smith (UNSD).

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Bert Kroese

*Chief Statistician and Data Officer, and Director, Statistics Department*  
International Monetary Fund

## List of Abbreviations

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ADR	American Depository Receipts
AEG	Advisory Expert Group on National Accounts
AI	Artificial Intelligence
AMNE	Activities of Multinational Enterprises
AO	Annotated Outline
BBA	Bilateral borrowing agreements
BCEAO	Banque Centrale des États de l'Afrique de l'Ouest
<i>BD5</i>	<i>OECD Benchmark Definition of Foreign Direct Investment, fifth edition (2025)</i>
BEAC	Banque des États de l'Afrique Centrale
BIS	Bank for International Settlements
BOT	Build, operate, transfer
BOOT	Build, own, operate, transfer
BOP	Balance of Payments
BOPCOM	IMF Committee on Balance of Payments Statistics
<i>BPM5</i>	<i>Balance of Payments Manual, fifth edition (1993)</i>
<i>BPM6</i>	<i>Balance of Payments and International Investment Position Manual, sixth edition (2008)</i>
<i>BPM7</i>	<i>Integrated Balance of Payments and International Investment Position Manual, seventh edition (2025)</i>
BPTT	Balance of Payments Task Team
BSA	Balance sheet approach
CATT	Current Account Task Team
CBDC	Central Bank Digital Currency
CCP	Central clearing counterparty

CCRT	Catastrophe Containment and Relief Trust
CDIS	Coordinated Direct Investment Survey
CDR	Credit default risk
CDS	Credit default swap
CEMAC	Central African Economic and Monetary Community
CIBAFI	General Council for Islamic Banks and Financial Institutions
CIF	Cost, insurance, and freight
CIRR	Commercial Interest Reference Rate
CMA	Common monetary area
CMTT	Communications Task Team
CPC	Central Product Classification
CPIS	Coordinated Portfolio Investment Survey
CR.	Credit
CU	Currency union
CUCB	Currency union central bank
CUNCB	Currency union national central bank
DBFO	Design, build, finance, operate
DBMS	Database management system
DBO	Design, build, operate
DGI	Data Gaps Initiative
DI	Direct investment
DIP	Digital Intermediation Platform
DITT	Direct Investment Task Team
DLT	Distributed Ledger Technology
DQAF	Data Quality Assessment Framework
DR.	Debit



DR	Depository Receipt
DTC	Deposit Taking Corporation
e-GDDS	Enhanced General Data Dissemination System
EBOPS	Extended Balance of Payments Services (Classification)
EC	Extension of capacity
ECB	European Central Bank
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Economic and Currency Union
ECF	Extended Credit Facility
EcUn	Economic union
EDS	External debt statistics
EEZ	Exclusive Economic Zone
EFF	General Resources Account
ENCORE	Exploring Natural Capital Opportunities, Risks and Exposure
ESA	European System of Accounts
ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
ESCWA	United Nations Economic and Social Commission for Western Asia
ESG	Environmental, Social, Governance
ESO	Employee stock option
ESRB	European Systemic Risk Board
FATS	Foreign Affiliates Statistics
FCA	Free carrier
FCD	Foreign currency drains
FCL	Flexible Credit Line
FD	Financial derivatives (other than reserves) and employee stock options
FDIR	Framework for Direct Investment Relationships

FISIM	Financial intermediation services indirectly measured
FOB	Free on board
FPI	For-profit institutions
FSB	Financial Stability Board
GAB	General Arrangements to Borrow
GATS	General Agreement on Trade in Services
GCC	Gulf Cooperation Council
GDP	Gross domestic product
GDPR	General Data Protection Regulation
GFS	Government Finance Statistics
<i>GFSM</i>	<i>Government Finance Statistics Manual</i>
GI	Greenfield investment
GN	Guidance Note
GNDI	Gross national disposable income
GNI	Gross national income
GRA	General Resources Account
GVC	Global value chain
GZTT	Globalization Task Team
HH	Households
HS	Harmonized Commodity Description and Coding System
HIPC	Heavily indebted poor country
IaaS	Infrastructure-as-a-Service
IC	Insurance corporations
ICPF	Insurance corporations and pension funds
ICT	Information and communications technology
IEFF	Informal Economy Task Team

IFDI	Islamic Finance Development Indicator
IFRS	International Financial Reporting Standards
IFSB	Islamic Financial Services Board
IFTT	Islamic Finance Task Team
IIE	Immediate investing economy
IIP	International investment position
ILO	International Labour Organization
IMF	International Monetary Fund
IMTS	International merchandise trade statistics
IO	International Organization
IPP	Intellectual Property Product
IPSAS	International Public Sector Accounting Standards
<i>IRTS 2008</i>	<i>International Recommendations for Tourism Statistics 2008</i>
IRFCL	International Reserves and Foreign Currency Liquidity
IsDB	Islamic Development Bank
<i>ISIC</i>	<i>International Standard Industrial Classification of All Economic Activities</i>
ISIN	International Securities Identification Number
ISWGNA	InterSecretariat Working Group on National Accounts
ITRS	International Transactions Reporting System
LCT	Low Carbon Technology
MFS	Monetary and financial statistics
<i>MFSMCG</i>	<i>Monetary and Financial Statistics Manual and Compilation Guide</i>
MMF	Money market fund
MNE	Multinational Enterprise
<i>MSITS</i>	<i>Manual on Statistics of International Trade in Services</i>
n.a.	not applicable

NAB	New Arrangements to Borrow
NAFA	Net acquisition of financial assets
NDF	Nondeliverable forward
NDP	Net domestic product
NFC	Nonfinancial corporations
NFTs	Nonfungible tokens
NGO	Nongovernmental organization
n.i.e.	not included elsewhere
NIL	Net incurrence of liabilities
NIR	Net international reserves
NNDI	Net national disposable income
NNI	Net national income
NPI	Nonprofit institution
NPISH	Nonprofit institution serving households
NSDP	National Summary Data Page
ODCs	Other Depository Corporations
OECD	Organization for Economic Cooperation and Development
OFBV	Own funds at book value
OFCs	Other financial corporations
OI	Other investment
OTC	Over the counter
PaaS	Platform-as-a-Service
P/B	Price-to-book value
PCL	Precautionary and Liquidity Line
PF	Pension funds
PFI	Private finance initiative

PI	Portfolio investment
PIF	Participants' Investment Fund
PIM	Perpetual inventory method
PLL	Precautionary and Liquidity Line
PO	Proportional ownership
PPP	Public-private partnerships
PRF	Participants' Risk Fund
PRGT	Poverty Reduction and Growth Trust
RA	Reserve assets
RCF	Rapid Credit Facility
RFI	Precautionary and Liquidity Line
ROSC	Report on the Observance of Standards and Codes
ROW	Rest of the world
RRL	Reserve-related liabilities
RST	Resilience and Sustainability Trust
SaaS	Software-as-a-Service
SCF	Standby Credit Facility
SDDS	Special Data Dissemination Standard
SDMX	Statistical Data and Metadata eXchange
SDR	Special Drawing Right
SEEA CF	System of Environmental-Economic Accounting Central Framework
SESRIC	Statistical, Economic and Social Research and Training Centre for Islamic Countries
SITC	Standard International Trade Classification
SLL	Short-term Liquidity Line
SMEs	Small and medium-sized enterprises
SNA	<i>System of National Accounts</i>

SPE	Special purpose entity
STEC	Services trade by enterprise characteristics
SWF	Sovereign wealth fund
TEC	Trade by enterprise characteristics
TFP	Total factor productivity
TiVA	Trade in Value Added
TO	Tour operator
TT-ITS	Task Team on International Trade Statistics
UCP	Ultimate controlling parent
UDP	Ultimate directional principle
UHE	Ultimate host economy
UIE	Ultimate investing economy
UN	United Nations
UNECE	United Nations Economic Commission for Europe
UNFCCC	United Nations Framework Convention on Climate Change
UNSD	United Nations Statistics Division
VAT	Value Added Tax
WAEMU	West African Economic and Monetary Union
WGIIS	Working Group on International Investment Statistics
WSTT	Wellbeing and Sustainability Task Team
WTA	Winner takes all

# Chapter 1. Introduction

## A. PURPOSES OF THE *MANUAL*

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**1.1** The seventh edition of the *Integrated Balance of Payments and International Investment Position Manual* (BPM7, the *Manual*) serves as the standard framework for statistics on the positions, transactions, and other changes in financial assets and liabilities between an economy and the rest of the world.

**1.2** The main objectives of this *Manual* are as follows:

- (a) To provide and explain concepts, definitions, classifications, and conventions for statistics on the external accounts, i.e., the international investment position (IIP), the balance of payments (BOP), and other changes in financial assets and liabilities;
- (b) To enhance international comparability of data through the promotion of guidelines adopted internationally;
- (c) To show the links of the external accounts to other macroeconomic statistics and promote consistency between different data sets;
- (d) To provide a brief introduction to uses of data on the external accounts of an economy; and
- (e) To provide principles and guidelines to improve the way the external accounts are communicated and disseminated.

**1.3** Data collection and other compilation procedures are not generally within the scope of a conceptual manual such as this one. Decisions on such issues should take into account circumstances, such as practical and legal constraints, that need to be judged in each economy and that may explain departures from guidelines. The IMF's *Balance of Payments and International Investment Position Compilation Guide* provides information on these issues.

**1.4** The *Manual* provides a framework that is applicable for all economies, from the smallest to the largest economies and from the least developed to the most advanced economies. As a result, it is recognized that some items may not be relevant in all cases (see also paragraphs 1.17–1.18). It is the responsibility of national compilers to apply international guidelines in a way appropriate to their own circumstances. In implementing this *Manual*, compilers are encouraged to assess the materiality and practicality of particular items according to their own circumstances and are further encouraged to revisit these

decisions from time to time to see whether circumstances have changed. Such decisions necessarily rely on the professionalism and expert knowledge of the compilers.

**1.5** Factors to take into account when determining the items to be collected and the techniques used include whether or not foreign exchange controls exist, the relative importance of particular types of economic activities, as well as the diversity of institutions and the range of instruments used in financial markets. In addition, data collection for some items in the framework may be impractical if the item is small and the data collection cost is high. Conversely, compilers may wish to identify other items of particular economic interest in their economy for which additional detail may be required by policymakers and analysts.

**1.6** This *Manual* is harmonized with the *System of National Accounts 2025 (2025 SNA)*, which was updated in parallel. Relevant elements of the *Government Finance Statistics Manual 2014* and *Monetary and Financial Statistics Manual and Compilation Guide 2016* will be revised to maintain their harmonization with the two updated standards. Conceptual interlinkages mean that external accounts compilers should consult with other statisticians to ensure consistent definitions and provide data that can be reconciled where they overlap. As part of the update of the macroeconomic statistical standards, a common glossary of terms and definitions in macroeconomic statistics has been developed to facilitate harmonization across statistical domains.

**1.7** The definitions and classifications in this *Manual* do not purport to give effect to, or interpret, various provisions (which pertain to the legal characterization of official action or inaction in relation to such transactions) of the Articles of Agreement of the International Monetary Fund.

## B. STRUCTURE OF THE *MANUAL*

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**1.8** The *Manual* has 20 chapters and 15 annexes. The introductory chapters deal with issues that cut across the accounts (Chapters 1–6) and are followed by chapters that cover respectively each main account (Chapters 7–14). The next chapters address topical issues (Chapters 15–18) and analytical use of data (Chapter 19), before the *Manual* closes with a chapter on communication and dissemination of data (Chapter 20). Seven of these chapters have been developed as common chapters with the 2025 SNA.<sup>1</sup> The *Manual* outlines general principles designed to be applicable in a variety of circumstances. It also applies these principles to specific topics that have been identified as needing additional guidance.

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<sup>1</sup> For the most part, the common chapter text is identical across the two standards. The versions of the common chapters included in the *Manual* contain additional details relevant for the external accounts while the versions included in the 2025 SNA contain additional details relevant for the national accounts.



Definitions are given throughout the text, shown in italics, and are aligned with the common glossary.

**1.9** Consistent with this structure, different aspects of a topic are dealt with in different chapters to minimize repetition. For example, the classification of portfolio investment is a cross-cutting issue (Chapter 6), as are valuation and timing issues (Chapter 3). The position, transaction, other changes, and income aspects are dealt with in Chapters 7, 8, 9, and 12, respectively. Linkages are emphasized by extensive cross-references. In addition, for certain topics such as direct investment, insurance, and pensions, annexes have been included to allow the reader to see the linkages among the different accounts for that topic. A separate annex on integrating measures of sustainable finance and climate change into external sector statistics is included to support compilers on the type of data they can provide to users on these topics.

## 1. INTRODUCTORY CHAPTERS

**1.10** The introductory chapters (Chapters 1–6) cover the following:

- (a) Chapter 1 gives background to the *Manual*.
- (b) Chapter 2 covers the accounting and dissemination frameworks.
- (c) Chapter 3 deals with accounting rules (common chapter with the *2025 SNA*).
- (d) Chapter 4 examines issues associated with residence, institutional units, and sectors (common chapter with the *2025 SNA*).
- (e) Chapter 5 deals with the classifications of financial assets and liabilities.
- (f) Chapter 6 explains the functional categories.

## 2. CHAPTERS FOR EACH ACCOUNT

**1.11** Chapters 7–14 deal with the main accounts of the framework. Each account reflects a single economic process or phenomenon and has a single chapter. The order of chapters is a matter of convention; as in the previous edition, the integrated IIP appears first to reflect the increased emphasis on its compilation and analysis. This arrangement also allows for explaining financial assets and liability positions before addressing the investment income they generate.

**1.12** Each chapter starts with a statement of general economic principles. Each chapter also includes a simplified table that provides an overview of the account. The text provides general definitions for account items. Specific cases are presented as examples to illustrate the application of these definitions and to resolve ambiguities. A full understanding of each

account also requires applying broader principles that apply across several accounts, such as valuation, timing, residence, and classification, as discussed in the introductory chapters.

### 3. TOPICAL CHAPTERS

**1.13** Chapters 15–18 are new chapters that include in-depth descriptions of statistical issues related to globalization, digitalization, Islamic finance, and informal activities. They are common chapters with the 2025 SNA.

### 4. ANALYSIS

**1.14** Chapter 19 provides an introduction to the analysis of data, with particular reference to macroeconomic relationships as a whole.

### 5. COMMUNICATION AND DISSEMINATION

**1.15** Chapter 20 deals with communication and dissemination of macroeconomic statistics. It is a new chapter that has been developed as a common chapter with the 2025 SNA.

### 6. ANNEXES

**1.16** Annexes provide more details on specific issues that span several accounts, including exceptional financing, debt reorganization, currency unions, remittances, cross-border trade, direct investment, selected financial issues (i.e., financial derivatives and reverse transactions), insurance and pensions, positions and transactions with the IMF, sustainable finance and climate change, data by partner economy, links between external accounts and other main sets of macroeconomic statistics, changes from *BPM6*, a listing of standard components and selected other items, as well as the post-2025 SNA/BPM7 research agenda.

### 7. STANDARD AND SUPPLEMENTARY ITEMS

**1.17** A list of standard items for presenting and reporting the external accounts is given in Annex 14. Standard items consist of standard components and memorandum items.

- (a) *Standard components are items that are fully part of the framework and contribute to the totals and balancing items.*
- (b) *Memorandum items are additional items of special analytical interest, which are added to the presentation, but do not impact the totals and balancing items derived from the macroeconomic system.* For example, whereas nominal value is used for

loans in the standard components, memorandum items provide additional information on loans at fair value, as discussed in paragraphs 7.50–7.51.

In addition,

- (c) *Supplementary items are outside the standard presentation and are compiled based on the specific circumstances of the economy, taking into account the interests of policymakers and analysts as well as resource costs* (see the items in italics in Annex 14).

**1.18** The list of standard items should not inhibit compilers from publishing additional data of importance to their economy. IMF requests for information will not be limited to standard items when further details are required to understand the circumstances of particular economies or to analyze new developments. IMF staff will occasionally consult with authorities to decide on the reporting of additional details. Few economies are likely to have significant information to report for every standard item. Furthermore, data for several components may be available only in combination, or a minor component may be grouped with one that is more significant. Nevertheless, the standard items should be reported to the IMF as completely and accurately as possible in accordance with the compilation framework.

## C. HISTORY OF THE *MANUAL*

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**1.19** Each new edition of the *Manual* is introduced in response to economic and financial developments, changes in analytical interests, and accumulation of experience by compilers.

**1.20** The IMF showed early interest in statistical methodology with its publication of the first edition of the *Balance of Payments Manual* in January 1948. The primary objective of that first *Manual* was to provide a standardized framework for compiling and reporting countries' BOP statistics to the IMF, tracking all economic transactions between residents of a country and the rest of the world. The *Manual* was a continuation of work started by the League of Nations to develop guidelines for BOP statistics. Economists and other specialists from many countries contributed to the *Manual*, and representatives of some 30 countries and international organizations met in Washington, D.C., in September 1947 to finalize the first draft of the *Manual*.

**1.21** The first edition of the *Manual* introduced key concepts such as the definition of BOP and the distinction between the current account and the capital account. The *Manual* detailed the types of transactions to be recorded, including goods and services, income flows, capital movements, and transfers. It emphasized the use of a double-entry accounting

system where every transaction is recorded twice—once as a credit (e.g., export of goods) and once as a debit (e.g., payment received for those goods). It outlined that transactions should be recorded based on the residence of transacting parties rather than their nationality. The *Manual* provided guidelines on how data should be compiled, classified, and presented for international comparison purposes. While this first edition was a major step toward harmonizing global economic statistics, it consisted primarily of tables for reporting data and brief instructions for completing them. No general discussion of BOP concepts or compilation methods was included, so it can be said that the *Manual* grew out of the listing of standard components.

**1.22** The second edition was published in 1950, greatly expanding the material describing the concepts of the system and providing greater detail on the classification of various types of external transactions, particularly those related to services, transfers, and income flows. *BPM2* included more precise guidelines and explicit instructions on recording official reserves, central bank transactions, and movements of gold, which were critical in the post-World War II international monetary system.

**1.23** The third edition was issued in 1961. It moved beyond the previous editions by providing both a basis for reporting to the IMF and a complete set of BOP principles that could be used by countries to serve their own needs. *BPM3* expanded and more fully described the basic concepts and accounting principles common to the BOP and other social accounts. This transformed the *Manual* from a reporting guide to a statistical standard on BOP accounting principles.

**1.24** The fourth edition was published in 1977. *BPM4* introduced several fundamental changes to improve the clarity, flexibility, and relevance of BOP statistics. One major change was the expanded material, which provided more detailed explanations of critical concepts such as residence, valuation, timing, the unit of account and conversion, and other accounting principles. Another significant change was the revised classification scheme, which redefined standard components to allow for various presentations focusing on different analytical balances. The reorganization of the capital account introduced functional categories such as reserves and portfolio capital, moving away from the sectoral approach of previous editions. Additionally, the *Manual* offered guidance on residence and direct investment, providing a rule of thumb for determining the residence of individuals in borderline cases and offering a more comprehensive explanation of the concept of direct investment. This was critical during a time when multinational enterprises were expanding their global operations, driving an increase in direct investment, particularly between developed economies.

**1.25** The fifth edition was published in 1993 and reflected the significant global economic developments in the 1980s and 1990s, particularly the liberalization of financial markets,

globalization of trade, innovations in financial instruments and markets, new approaches to restructuring external debt, and data compilation methodologies. One of the most significant changes in *BPM5* was the introduction of an articulated set of external accounts encompassing the measurement of cross-border transactions (BOP) and the position of external financial assets and liabilities (IIP). *BPM5* also detached the capital account from the new financial account. In previous versions, these two components had been treated together under the (former) capital account. In *BPM5*, the capital account primarily focused on capital transfers—for the first time excluded from the current account—and the acquisition/disposal of nonproduced nonfinancial assets (such as patents and trademarks). The newly created financial account dealt with transactions involving financial assets and liabilities, including direct investment, portfolio investment, other investments (such as loans and trade credits), and reserve assets. The current account distinguished more clearly among goods, services, income, and current transfers. The *Manual* also introduced considerable disaggregation in the classification of international services transactions. Additionally, *BPM5* introduced microfoundations of units and sectors, consistent with the *SNA*, rather than treating the economy as a single unit. The *Manual* also emphasized the importance of recording transactions on a gross basis rather than netting them, meaning that inflows and outflows should be recorded separately in the current account. Finally, *BPM5* was harmonized with the *System of National Accounts 1993* (1993 *SNA*). This harmonization ensured consistency between BOP and national accounts statistics, making it easier for countries to produce integrated economic accounts.

**1.26** The sixth edition significantly modernized the external accounts framework to reflect the dramatic changes in the global economy since the publication of *BPM5* in 1993, particularly in financial globalization, the rise of global value chains, and advances in data collection and statistical methodologies. The *Manual* was drafted in parallel with the 2008 *SNA* and was issued in 2009. While the overall structure of the framework and broad definitions remained mostly unchanged, this edition placed much greater emphasis on balance sheet statistics and understanding a country's IIP, which was more central to the framework. It provided considerably more detailed guidance on the IIP and much greater discussion of revaluations and other changes in volume as well as on their impact on the values of external financial assets and liabilities. The increased focus on positions was reflected in the amended title as *Balance of Payments and International Investment Position Manual*. Additionally, this edition provided new guidelines for capturing the effects of global value chains (GVCs) and the fragmentation of production across borders. It recognized the growing role of multinational enterprises (MNEs) in global trade and introduced methodologies for better tracking of goods for processing and merchanting activities, which were previously inadequately covered. For example, it reclassified transactions where goods are processed abroad without changing ownership from the goods to the services account. Similarly, merchanting transactions—i.e., the sale of goods

by a resident to a nonresident where the goods do not enter the merchant's country—were reclassified from the services to the goods account, again properly reflecting changes in economic ownership. These changes aligned the treatment of international trade with modern global production processes. *BPM6* also provided enhanced guidance on new financial arrangements, such as describing special purpose entities (SPEs), and financial instruments, such as financial derivatives, securitization, index-linked securities, and gold accounts. Another important change was the introduction of the terms *net acquisition of financial assets* and *net incurrence of liabilities* that replaced *credit* and *debit* in the standard presentation of the financial account and thereby inverted the sign of the financial account balance.

**1.27** The IMF subsequently published the *Government Finance Statistics Manual 2014* and the *Monetary and Financial Statistics Manual and Compilation Guide 2016*. These manuals also brought about further harmonization of the macroeconomic statistical standards, reflecting increasing concerns about the ability to link different statistical data, minimizing data inconsistency, and enhancing analytical potential.

**1.28** The foundation of the IMF Committee on Balance of Payments Statistics (BOPCOM) in 1992 further complemented these efforts. The launch of BOPCOM as a permanent body for consultation with national compilers and international organizations led to the establishment of procedures for partial revisions of statistical standards between major revisions, as was done in the late 1990s for financial derivatives and aspects of direct investment.

**1.29** A number of related publications have been developed since the 2009 edition. An updated version of the *Balance of Payments and International Investment Position Compilation Guide* was published in 2014. The *Guide* complemented *BPM6* by providing practical advice on the collection and compilation of statistics.

**1.30** Some aspects of external sector statistics with particular interest were covered in specialized guides.<sup>2</sup> Those guides—most of which were updated following the publication of *BPM6*—are the *Coordinated Direct Investment Survey Guide* (2015), *Coordinated Portfolio Investment Survey Guide* (2017), *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template* (2013), *International Merchandise Trade Statistics: Concepts and Definitions* (2010), *Guide to Measuring Global Production* (2015), *Manual on Statistics of International Trade in Services* (2010), *Handbook on Measuring Digital Trade* (2023), *External Debt Statistics: A Guide for Compilers and Users* (2013), *Handbook on*

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<sup>2</sup> “External sector statistics” encompass a broader range of data than “external accounts.” While external accounts primarily refer to the BOP and the integrated IIP, external sector statistics also include additional datasets related to the external accounts as described in the specialized guides.

*Securities Statistics (2015), Reporting Guidelines for the BIS International Banking Statistics (2019), International Transactions in Remittances: Guide for Compilers and Users (2009), and the OECD Benchmark Definition of Foreign Direct Investment (2008).* Relevant elements of these specialized guides will be revised to maintain their harmonization with the updated *Manual*.

## D. THE 2025 REVISION

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**1.31** In March 2020, the IMF—in consultation with BOPCOM—decided to initiate an update of the *Manual*, targeting the publication of the seventh edition in 2025. Although the overall framework of the sixth edition remained fully relevant, an updated *Manual* would need to address significant changes in the global economy, including globalization, digitalization, and innovations in financial markets and instruments, as well as develop measures of sustainable finance to integrate the impact of climate change into external sector statistics.

**1.32** The update was conducted in parallel with the updates of the *2008 SNA* and the *OECD Benchmark Definition of Foreign Direct Investment, fourth edition*. For the first time, the *Manual* and *SNA* update processes were fully coordinated. BOPCOM and the Advisory Expert Group on National Accounts (AEG) organized several joint meetings to reach agreement on cross-cutting issues, while the *BPM7* and *2025 SNA* editorial teams collaborated and coordinated closely throughout the process. Seven chapters were prepared as common chapters for the seventh edition of the *Manual* and the *2025 SNA*, and a common glossary of terms and definitions in macroeconomic statistics was developed to ensure maximum consistency across statistical domains.

**1.33** BOPCOM established research groups (task teams) to thoroughly examine and make recommendations on general principles, current account, and direct investment research topics. In addition, BOPCOM and the AEG set up joint task teams to address matters related to financial and payments systems, globalization, the informal economy, Islamic finance, and communication. AEG task teams on digitalization as well as wellbeing and sustainability also addressed issues that were relevant to the external accounts. These task teams' recommendations underwent global consultation with worldwide compilers and users before being discussed and approved by BOPCOM and the AEG.

**1.34** Draft versions of the *BPM7* chapters and annexes were posted on the IMF website for global consultation from December 2023 to January 2025, inviting worldwide comments. To explain the *Manual's* changes to external and national accounts compilers and solicit their feedback, a series of regional outreach seminars was conducted between May 2023

and April 2024.<sup>3</sup> This process culminated in a revised version of the *Manual* submitted to BOPCOM for endorsement in November 2024. A white cover (pre-edited) version was published in March 2025, and the final version, including the foreword, index, and language edits, was released in xx, 2025/2026.

**1.35** Four major themes that have emerged from the revision are external sector sustainability; globalization; financial innovation and digitalization; and sustainable finance and climate change.

**1.36** The *Manual* addresses the increased need for data to assess **external sector sustainability**. It emphasizes the importance of understanding changes in financial positions to provide a comprehensive view of external sector sustainability and vulnerability. The stock/flow reconciliation—also known as the integrated IIP—is central to *BPM7*, with additional focus on the currency breakdowns of both the BOP and IIP. For the first time, other changes in financial assets and liabilities are included in the standard components broken down into other changes in volume, exchange rate changes, and other price changes. The move to a fully integrated view of transactions, other changes, and positions is reflected in the amended title: *Integrated Balance of Payments and International Investment Position Manual*. Additionally, the *Manual* includes supplementary breakdowns of trade by currency to show how trade flows respond to exchange rate movements. It also introduces a standardized statistical definition of net international reserves (NIR), a key indicator of an economy's external vulnerability.

**1.37 Globalization** challenges traditional macroeconomic statistics, which rely on the fundamental principles of residence and economic presence. In a world where MNEs operate seamlessly across borders and production is fragmented in global value chains, supplementary presentations are needed to provide alternative views or additional details that complement traditional macroeconomic statistics. The *Manual* introduces new data series such as separate identification of goods traded within a global manufacturing arrangement (e.g., factoryless goods production) and a breakdown of data by domestically and foreign-controlled corporations. It also includes a harmonized definition of SPEs and encourages compilers to identify such entities where their activities are significant for their economies.

**1.38 Financial innovation and digitalization** have led to new financial instruments and services, such as crypto assets with and without corresponding liabilities. Since crypto assets without a corresponding liability designed to act as a medium of exchange do not fit into any existing *BPM6* category of assets, they are treated as nonproduced nonfinancial

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<sup>3</sup> [A second series of regional outreach seminars focusing on implementation was conducted after the release of the white cover (pre-edited) version of the *Manual*.]



assets in a separate category within the capital account. The *Manual* also introduces supplementary “of which” categories for fintech companies and fintech-related financial instruments and services when relevant. It also provides guidance on digital intermediation platforms, cloud computing, nonfungible tokens, and other digitalization-related issues.

**1.39** The growing demand for data on **sustainable finance and climate change** has led the *Manual* to include a new annex. The annex offers initial ideas for organizing external sector statistics to support analysis of climate change risks as well as sustainable finance activities. New supplementary items include ESG (Environmental, Social, Governance) and green financial instruments. The annex also identifies key areas where detailed external accounts data can support policy work on environmental and climate risks, such as direct investment by counterparty economy and industrial sector, and international cooperation grants for climate change mitigation and adaptation. Additionally, it presents data items that could inspire compilers to assess environmental and climate change-related risks based on national circumstances.

**1.40** The overall structure of the accounts and broad definitions are largely unchanged in this edition. Changes reflect economic and financial developments and evolving economic policy concerns, with clarifications provided. A list of changes is included as Annex 13.

## E. RESEARCH AGENDA

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**1.41** A joint post-2025 *SNA/BPM7* research agenda has been identified by BOPCOM and the AEG for future work. The research agenda is presented in Annex 15.

# Chapter 2. Overview of the Integrated Framework

## A. INTRODUCTION

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**2.1** This chapter first describes and illustrates how the external accounts are an integral conceptual part of the broader system of national accounts. It then covers important aspects of statistics such as time series.

## B. STRUCTURE OF THE ACCOUNTS

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References:

- 2025 SNA, Chapter 3, Overview of the Integrated Framework, and Chapter 19, Summarizing, Integrating and Balancing the Accounts.

### 1. OVERALL FRAMEWORK

**2.2** The external accounts for an economy summarize the economic relationships between residents of that economy and nonresidents. The external accounts framework is composed of three major interconnected elements: (a) the IIP; (b) the (BOP); and (c) the other changes in financial assets and liabilities accounts.

- (a) The IIP is a statement that shows at a point in time the value of financial assets of residents of an economy that are claims on nonresidents or are gold bullion held as reserve assets and of the liabilities of residents of an economy to nonresidents;
- (b) the BOP is a statement that summarizes economic transactions between residents and nonresidents during a specific time period; and
- (c) the other changes in financial assets and liabilities accounts is a statement that shows other flows, that reconciles the BOP and IIP for a specific period, by showing changes due to economic events other than transactions between residents and nonresidents (i.e., revaluations and other changes in the volume of assets and liabilities).

The BOP financial account, revaluations, and other changes in volume of financial assets and liabilities account taken together are accumulation accounts (further explained in paragraph 2.21) that explain the changes between the values in the opening and closing

positions of the IIP. Taken as a whole, the combination of the opening IIP, accumulation accounts, and the closing IIP is referred to as the integrated IIP (see paragraph 2.10).

**2.3** The external accounts provide an integrated framework for the analysis of an economy's international economic relationships, including its international economic performance, exchange rate policy, reserves management, and external vulnerability. A detailed study of the use of external accounts data is provided in Chapter 19.

**2.4** The framework provides a sequence of accounts, each one encompassing a separate economic process or phenomenon, and shows the linkages between them. While each account has a balancing item, the account also gives a full view of its components.

**2.5** The concepts of the external accounts are harmonized with the *System of National Accounts* (SNA), so they can be compared or aggregated with other macroeconomic statistics. The framework for macroeconomic statistics used in the SNA and external accounts is shown in Figure 2.1.

**2.6** The external accounts framework is the same as the SNA framework. However, some accounts, which are shaded in Figure 2.1, are not applicable. Further, in the case of external accounts, the scope of accumulation accounts is limited to the financial account and the other changes in financial assets and liabilities accounts as the IIP relates only to external financial assets and liabilities.<sup>1</sup>

**2.7** The framework is designed so that the core concepts can be used to develop additional data sets, as discussed in Chapter 20.

## 2. INTERNATIONAL INVESTMENT POSITION

**2.8** The IIP is a statistical statement that shows at a particular point in time the value of financial assets of residents of an economy that are claims on nonresidents or are gold bullion held as reserve assets<sup>2</sup> and of the liabilities of residents of an economy to nonresidents. The difference between the assets and liabilities is the net position in the IIP and, except for the portion of the difference reflecting gold bullion held as reserve assets, represents either a net claim on or a net liability to the rest of the world.

**2.9** The IIP represents a subset of the assets and liabilities included in the national balance sheet. In addition to the IIP, the national balance sheet incorporates nonfinancial

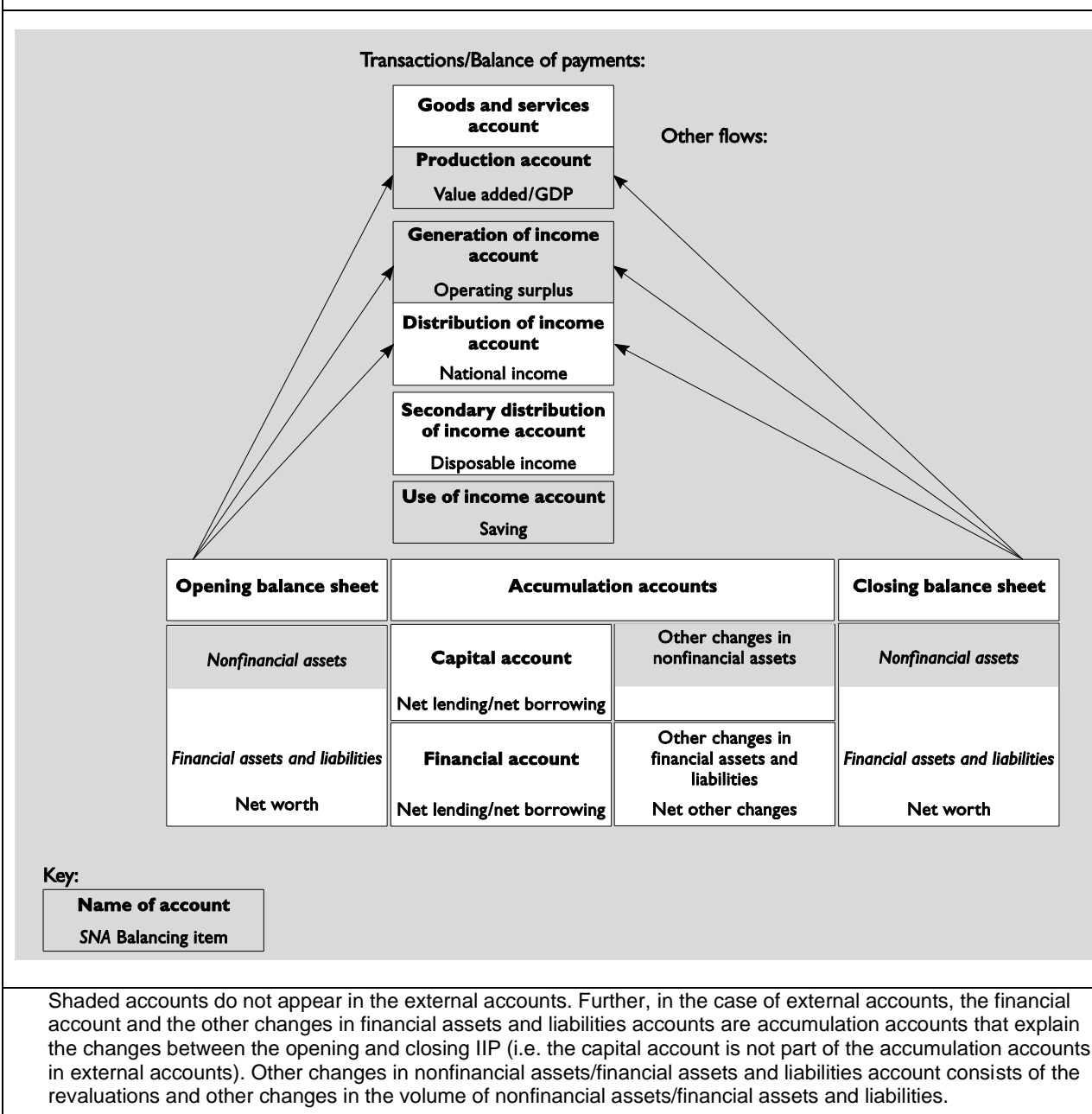
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<sup>1</sup> While the transactions between residents and nonresidents in produced assets are covered in goods and services account and nonproduced nonfinancial assets in the capital account, there is no external balance sheet of nonfinancial assets as they are always considered domestic assets (i.e., owned by residents). See paragraph 4.106-4.107, 2025 SNA on the asset boundary.

<sup>2</sup> Gold bullion held as reserve asset is the only financial asset without a corresponding liability.

assets as well as financial assets and liability positions between residents. The IIP is described further in Chapter 7.

**Figure 2.1. Overview of the *System of National Accounts* as a Framework for Macroeconomic Statistics Including External Accounts**



**2.10** Whereas the IIP relates to a point in time, the integrated IIP statement relates to different points in time, and it has an opening value (as at the beginning of the period) and a closing value (as at the end of the period). The integrated IIP statement reconciles the

opening and closing values of the IIP through the accumulation accounts (i.e., the financial account (flows arising from transactions) and the other changes in financial assets and liabilities account (revaluations and other changes in volume)). So, the values in the IIP at the end of the period result from transactions and other flows in the current and previous periods. A shorter version of Table 7.1 (the integrated IIP statement) is presented in Table 2.1. For further details refer to Chapter 7 (Table 7.1).

**Table 2.1. Integrated International Investment Position Statement**

Beginning of period IIP	Accumulation accounts							End of period IIP
	Transactions from BOP's financial account	Other changes in financial assets and liabilities accounts						
		Revaluations			Other changes in volume			
		Total	Exchange rate changes	Other price changes	Total	Of which: cancellations and write-offs of debt *	Of which: reclassifications*	
Standard components listed in Annex 14								
* Supplementary items								

**2.11** The highest level of classification used in the IIP, financial account, and other changes in assets and liabilities account is the functional classification, which is covered in Chapter 6. The functional categories group together financial instruments based on economic motivations and patterns of behavior to assist in the analysis of cross-border transactions and positions. These categories are direct investment, portfolio investment, financial derivatives (other than reserves) and employee stock options, other investment, and reserve assets. The *SNA* does not have such categories, and records financial account activity by type of instrument alone (although direct investment is a memorandum item to the *SNA* instrument classification). Chapter 5 covers the classification of financial instruments.

### 3. BALANCE OF PAYMENTS

**2.12** *The BOP is a statistical statement that summarizes transactions between residents and nonresidents during a specific time period. It consists of three main accounts: (i) the current account (which includes the goods and services account, the earned income account, and the transfer income account), (ii) the capital account, and (iii) the financial account.* Under the double-entry accounting system that underlies the BOP, each transaction is recorded as consisting of two entries, and the sum of the credit entries and the sum of the debit entries is the same. As indicated in Box 2.1, while credits and debits are used in general to reflect inflows and outflows, the terms credits/revenues and

debits/expenditures are used specifically in the current and capital accounts (See Box 2.1 for further elaboration on these terms and double-entry accounting system.)

**2.13** The different accounts within the BOP are distinguished according to the nature of the economic resources provided and received.

### ***Current Account***

**2.14** *The current account covers transactions in goods, services, earned income, and transfer income between residents and nonresidents. The current account is an important grouping of accounts within the BOP. Its components are dealt with in the following chapters:*

- Chapter 10 discusses the goods account. This account shows transactions in goods.
- Chapter 11 discusses the services account. This account shows transactions in services.
- Chapter 12 discusses the earned income account. This account shows amounts payable and receivable in return for providing temporary use to another unit of labor, financial resources, or nonproduced nonfinancial assets.<sup>3</sup>
- Chapter 13 discusses the transfer income account. This account shows redistribution of income, that is, when resources for current purposes are provided by one party without anything of economic value being supplied as a direct return to that party. Examples include personal transfers and current international assistance.

**2.15** The balance on these accounts is known as the current account balance. The current account balance shows the difference between the sum of exports and income receivable and the sum of imports and income payable (exports and imports refer to both goods and services, while income refers to both earned and transfer income). As shown in Chapter 19, the value of the current account balance equals the saving-investment gap for the economy. Thus, the current account balance is equally important for understanding domestic transactions.

### ***Capital Account***

**2.16** The capital account shows credits/revenues and debits/expenditures for nonproduced nonfinancial assets and capital transfers between residents and nonresidents. It records acquisitions and disposals of nonproduced nonfinancial assets, such as land sold

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<sup>3</sup> Allowing another unit to use produced assets gives rise to a service (see paragraph 11.113). In contrast, allowing another unit to use nonproduced nonfinancial assets gives rise to rent (paragraph 12.103) and allowing another unit to use financial assets gives rise to investment income, such as interest, dividends, and reinvested earnings (see paragraph 12.3).

to embassies and sales of leases and licenses, crypto assets without a corresponding liability designed to act as a medium of exchange, as well as capital transfers, that is, the provision of resources for capital purposes by one party without anything of economic value being supplied as a direct return to that party. The capital account balance shows the difference between the sum of disposals of nonproduced nonfinancial assets and capital transfers receivable and the sum of acquisition of nonproduced nonfinancial assets and capital transfers payable. This account is described further in Chapter 14.

### ***Financial Account***

**2.17** The financial account shows net acquisition and disposal of financial assets and liabilities. This account is described in Chapter 8. Financial account transactions appear in the BOP and, because of their effect on the stock of assets and liabilities, also in the accumulation accounts of the integrated IIP statement. The financial account balance shows the difference between the net acquisition of financial assets and the net incurrence of liabilities resulting from transactions between residents and nonresidents.

**2.18** The sum of the balances on the current and capital accounts represents the net lending (surplus) or net borrowing (deficit) by the economy with the rest of the world. This is conceptually equal to the financial account balance. In other words, the financial account measures how the net lending to or borrowing from nonresidents is financed. The financial account plus the other changes account, jointly referred to as accumulation accounts (see paragraph 2.20), explain the change in the IIP between beginning- and end-periods.

#### **Box 2.1. Double-Entry Basis of Balance of Payments Statistics**

##### **Recording for Individual Transactions**

The recording of credits and debits underlies the accounting system at the level of individual transactions. Each transaction in the BOP is recorded as consisting of two equal and opposite entries, reflecting the inflow and outflow element to each transaction. For each transaction, each party records a matching credit and debit entry:

- Credit (CR.)—exports of goods and services, income receivable, reduction in assets, or increase in liabilities.
- Debit (DR.)—imports of goods and services, income payable, increase in assets, or reduction in liabilities.

##### **Examples**

a) A simple example is for sale of goods to a nonresident for 100 in currency. For the resident seller:

Exports	100 (CR.)
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Currency	100 (DR.—Increase in financial assets)
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(The transaction involves the provision of physical resources to nonresidents and a compensating receipt of financial resources from nonresidents.)

b) An example of a transaction involving only financial asset entries is the sale of shares for 50 in currency. For the resident seller:

Shares and other equity	50 (CR.—Reduction in financial assets)
-------------------------	--

Currency	50 (DR.—Increase in financial assets)	(The selling party provides shares and receives currency in return.)
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c) An example involving the exchange of an asset for the creation of a liability is where a borrower receives a loan of 70 in cash. For the resident borrower:

Loan	70 (CR.—Increase in liabilities)
------	----------------------------------

Currency	70 (DR.—Increase in financial assets)
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d) An example involving the humanitarian aid (export of goods) of 100. For the exporting economy:

Exports	100 (CR.)
---------	-----------

Current transfer	100 (DR.)
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(There are some more complex cases when three or more parties are involved, e.g., the case of debt assumption shown in Box 8.1.)

### Aggregate Recording

In BOP aggregates, the current and capital account entries are totals, while financial account entries show for each category/instrument the net transactions in assets and liabilities, respectively (as explained in paragraph 3.96). Chapter 3, Section E, provides further information on the accounting system used in BOP statistics.

As a result of the two-entry nature of each transaction, the difference between the sum of credit entries and the sum of debit entries is conceptually zero in the national BOP of a country, that is, in concept, the accounts as a whole are in balance. As discussed in paragraphs 2.25–2.27, measurement problems cause discrepancies in practice.

The two-entry nature of the BOP can be presented in aggregate data in different ways. A presentation where the nature of the entries is conveyed by the column headings (namely, credits/revenues, debits/expenditures, net acquisition of financial assets, and net incurrence of liabilities) is adopted in Table 2.3. This presentation is considered to be easily understood by users. Another presentation is where credit entries are shown as positive and debit entries as negative. This presentation is useful for calculating balances, but requires more explanation for users (e.g., increases in assets are shown as a negative value).



In the *SNA* presentation, a credit/revenue for the compiling economy in the BOP current account is called “expenditure” by the rest of the world sector (e.g., exports by a resident result in expenditure for the rest of the world). Similarly, a debit/expenditure for the compiling economy in the BOP current account is called “revenue” by the rest of the world sector in the *SNA* (e.g., imports by a resident result in revenue for the rest of the world). Because the *SNA* rest of the world accounts use the point of view of the nonresidents, assets of the compiling economy in the external accounts are shown as liabilities of the rest of the world sector in the *SNA*.

### **Gross and Net Recording**

**2.19** The current and capital accounts show transactions in gross terms. In contrast, the financial account shows transactions in net terms, which are shown separately for financial assets and liabilities (i.e., net transactions in financial assets shows the acquisition of assets less the reduction in the relevant assets, not assets net of liabilities; and net transactions in liabilities shows the incurrence of liabilities less the reduction in the relevant liabilities). For resources that enter and leave an economy (such as re-exported goods, and funds in transit), it may be analytically useful to present net flows as well. Each of the accounts and the borderlines between them are discussed in more detail in the specific chapters.

## **4. ACCUMULATION ACCOUNTS**

**2.20** As shown in Figure 2.1, in the *SNA* framework, accumulation accounts are those that record flows that effect the entries in the balance sheets at the start and end of the accounting period. There are four accumulation accounts—the capital account, the financial account, the revaluation account, and the other change in the volume of assets and liabilities account (paragraph 1.30, *2025 SNA*).

**2.21** In contrast, for external accounts as shown in Table 2.1, accumulation accounts explain the changes between opening and closing IIP (external balance sheet) and only comprise the BOP financial account, and other changes in financial assets and liabilities accounts. They show the accumulation (i.e., acquisition and disposal) of financial assets and liabilities through transactions and other changes that affect them. Accordingly, they explain changes between the opening and closing IIP. Whereas the current account is concerned with resource flows oriented to the current period, the accumulation accounts deal with the provision and financing of assets and liabilities, which are items that will affect future periods.

**2.22** The financial account shows the net acquisition of financial assets and net incurrence of liabilities during the specified period. In contrast, the other changes in financial assets and liabilities account shows flows that do not result from BOP transactions. The other changes in financial assets and liabilities account covers revaluations due to exchange

rate changes and other price changes and other changes in volume (e.g., write-offs and cancellations of debt, reclassifications). This account is described further in Chapter 9.

## 5. INTEGRATED RECORDING OF POSITIONS AND TRANSACTIONS

**2.23** As highlighted in the previous sections, the external accounts, inclusive of the IIP, BOP, and the other changes in financial assets and liabilities accounts consist of a set of accounts that are integrated at two levels. First, while the accounts represent a great mass of detailed information on interaction between the different economic agents, their recording is based on the double-entry system of accounting, as set out in Box 2.1.

**2.24** Second, the system calls for consistent reporting by the resident and the nonresident parties to each financial claim, transaction, and other flow. This consistency helps to promote comparability across economies as well as the use of counterpart data as data sources or for data validation.

## 6. STATISTICAL DISCREPANCY

**2.25** Although the BOP accounts are, in principle, balanced, imbalances result in practice from imperfections in source data and compilation. This imbalance, a usual feature of BOP data, is labeled statistical discrepancy and should be identified separately in published data. It should not be included indistinguishably in other items. In the BOP, it is used to show the difference between net lending/net borrowing derived from the financial account and net lending/net borrowing from the current and capital accounts.<sup>4</sup> Therefore, a positive statistical discrepancy indicates an overall tendency that:

- (a) the value of credits/revenues in the current and capital accounts is too low; and/or
- (b) the value of debits/expenditures in the current and capital accounts is too high; and/or
- (c) the value of net acquisition of assets in the financial account is too high; and/or
- (d) the value of net incurrence of liabilities in the financial account is too low.

(For a negative statistical discrepancy, these tendencies are reversed.)

**2.26** The statistical discrepancy should be analyzed by compilers. The size and trends may help identify data problems, such as coverage or misreporting. Patterns in statistical discrepancy may provide useful information on data problems. For example, a consistent sign indicates a bias in one or more components. A persistent positive statistical

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<sup>4</sup> For example, if net lending/net borrowing measured from the current and capital accounts is 29, while net lending/net borrowing measured from the financial account is 31, then statistical discrepancy is +2.

discrepancy suggests that credit entries have been understated or omitted or debit entries have been overstated. In contrast, a volatile pattern may suggest timing problems. However, although statistical discrepancy can help point to some problems, it is an incomplete measure because discrepancies in opposite directions offset each other. The term statistical discrepancy should not be interpreted as meaning errors on the part of compilers; it is far more common that this discrepancy is caused by other factors, such as incomplete data sources and poor-quality reporting.

**2.27** A large or volatile statistical discrepancy hampers interpretation of the BOP statistics. While it is not possible to give guidelines on an acceptable size of statistical discrepancy, it can be assessed (where possible) by compilers in relation to other items, such as gross domestic product (GDP), positions data, and gross flows. Discrepancies also can arise in the IIP statement. Closing values are by definition equal to the opening values plus net transactions plus net other changes during the period. However, if these components are independently measured, discrepancies may arise because of data imperfections.

## 7. LINKAGES WITHIN THE EXTERNAL ACCOUNTS

**2.28** Some of the important linkages within the external accounts are as follows:

- (a) The end of period values of the IIP are the sum of the beginning of period values of the IIP, BOP financial account transactions, and other changes in financial assets and liabilities.
- (b) The current, capital, and financial account entries are jointly in balance, in principle.
- (c) Consequent to (b), the balance on the sum of the current and capital accounts is equal to the balance on the financial account. This balance is called net lending/net borrowing, whichever way it is derived.
- (d) Consequent to (b), the current account balance is equal to the financial account balance less the capital account balance.
- (e) Financial assets and liabilities generally give rise to investment income. Table 5.2 shows the link between financial instruments and their corresponding income. The income rate of return is derived as the ratio of income to the corresponding stock of assets or liabilities. (Rates of return might also take into account holding gains or losses for some analysis.)

**2.29** Because of the harmonization of macroeconomic statistical standards, it is also possible to look at residents' transactions and positions with nonresidents in relation to the transactions and positions between residents. For example:

- (a) the external financing can be compared with domestic lending and borrowing; and

- (b) the IIP can be compared with the national balance sheet and with monetary and financial statistics.

Chapter 19 has a wider discussion of interrelationships between the external accounts and other macroeconomic data.

## 8. LINKAGES AND CONSISTENCY WITH OTHER MACROECONOMIC DATA SETS

**2.30** Placing the external accounts in the SNA framework shown in Figure 2.1 helps identify linkages among macroeconomic data sets (see also Annex 12 for more details on these linkages). Specific aspects of the external accounts are provided, for instance, in reporting statements on merchandise trade, international trade in services, direct investment, external debt, and international reserves. Additionally, items involving flows and positions between residents and nonresidents that appear in the national accounts, monetary and financial statistics, and government finance statistics correspond exactly to external accounts items.

**2.31** The following paragraphs list data items that should be consistent with the external accounts. Data compilers should reconcile these overlapping items, with a view toward eliminating or explaining any differences. Data consistency is particularly important for comprehensive macroeconomic analysis, in order to allow the different datasets to be combined coherently. For example, if data are consistent, it is possible to understand how a government is financing a deficit from external and domestic sources, or show how the saving-investment balances of individual sectors contribute to the national current account balance.

### ***National Accounts***

**2.32** The external accounts correspond to the rest of the world accounts of the SNA. They differ in that the BOP is from the perspective of the resident sectors, whereas national accounts data for the rest of the world are from the perspective of nonresidents. The SNA items that are equivalent to BOP items include (i) exports and imports of goods and services; and (ii) earned income, transfer income, current external balance, balance on the capital account, and net lending/net borrowing of the rest of the world account.

**2.33** Another important difference between the national accounts and the external accounts is the difference in the presentation of financial account and balance sheet. While national accounts use the instrument classification, BOP financial account and IIP are presented by functional categories. Table 2.5 provides further details on the link between instrument and functional categories.

***Monetary and Financial Statistics***

**2.34** Balance sheets for deposit-taking and other financial corporations can be compared with the relevant parts of the IIP. In particular:

- foreign assets and liabilities of the central bank; and
- foreign assets and liabilities of other deposit-taking corporations

should be consistent with the corresponding external accounts items. Because the IIP data are organized primarily on a functional category basis, the instrument and sector data from different functional categories need to be combined if they are to be linked with monetary and financial statistics. Other adjustments may be needed for any deposit-taking corporations whose liabilities are excluded from broad money (e.g., offshore banks in some cases) or for other types of corporations included in broad money (such as money market funds) and thus are included with the deposit-taking corporations subsector in monetary statistics.

**2.35** In cases in which monetary statistics also include flows, they can be compared with the BOP. BOP transactions for a period may differ from the transactions in foreign assets and liabilities in the monetary statistics to the extent that BOP statistics exclude transactions in foreign assets and liabilities between residents. See also paragraphs 19.26–19.28 on the possibility of linking these transactions through the monetary presentation of the BOP.

***Government Finance Statistics***

**2.36** The following items that appear in government finance statistics should be consistent with their external accounts equivalents:

- interest payable on general government external debt;
- interest or dividends receivable on general government holdings of external assets;
- grants or other transfers by general government to nonresidents;
- grants or other transfers to general government from nonresidents;
- net external financing; and
- external assets and liabilities.

***External Debt Statistics***

**2.37** The following items that appear in external debt statistics (EDS) should be consistent with the relevant items in IIP liabilities. While in the IIP, positions of financial assets and liabilities are in general valued at market value on the balance sheet reporting date (except for the nonnegotiable instruments such as loans, deposits, trade credit and advances, and

other accounts receivable/payable which are valued at nominal value), the EDS Guide recommends that the debt instruments be valued at nominal value and for debt securities at market value as well. Therefore, the gross external debt position (with debt securities valued at market value) equals the debt liabilities in the IIP statement, i.e., the gross external debt position equals total IIP liabilities excluding all equity (equity shares and other equity) and investment fund shares/units and financial derivatives and employee stock options (ESOs). For additional details on the linkages between external debt statistics and IIP refer to Appendix 4, *EDS Guide 2013*, and Annex 12 of *BPM7*.

**Table 2.2. Corresponding Items between EDS and IIP**

External Debt Statistics	IIP Liabilities
DI: Intercompany lending	Direct investment—debt instruments
Debt securities	Portfolio investment—debt securities
Currency and deposits	Other investment—currency and deposits
Loans	Other investment--loans
Trade credit and advances	Other investments—trade credit and advances
Other debt liabilities	Other investments—insurance, pension, and standardized guarantee schemes Other investments—other accounts payable
SDR allocations	Other investment—SDR allocations

## 9. NUMERICAL EXAMPLE

**2.38** Table 2.3 provides a numerical overview of the external accounts, using data drawn from the SNA framework presented in Appendix 2.1. (The numerical example helps show interrelationships between items.)

**2.39** The external accounts data have the same scope as the rest of the world sector in the *SNA*. However, the external accounts are expressed from the perspective of the resident units, but in the *SNA*, the data for the rest of world sector are expressed from the perspective of the nonresident units. So, the current account balance of 13 in Table 2.3 is presented as a current external balance for the rest of the world sector of –13 in the table in

Appendix 2.1. Similarly, closing assets of 1,347 in the IIP are shown as the liabilities of 1,347 of the rest of the world sector in the *SNA*.

<b>Table 2.3. Overview of External Accounts</b> <i>(Consistent with Data in Appendix 2.1)<sup>1</sup></i>			
<b>Balance of Payments</b>	<b>Credits/ Revenues</b>	<b>Debits/ Expenditures</b>	<b>Balance</b>
Current account			
Goods and services	540	499	41
Goods	462	392	70
Services	78	107	–29
Earned income	50	40	10
Remuneration of employees	6	2	
Interest and similar returns	13	21	
Dividends and withdrawals from income of quasicorporations	17	17	
Reinvested earnings	14	0	
Rent	0	0	
Transfer income	17	55	–38
Current taxes on income, wealth, etc.	1	0	
Social contributions less service charges	0	0	
Social benefits	0	0	
Nonlife insurance premiums less service charges	2	11	
Nonlife insurance claims	12	3	
Current international cooperation	1	31	
Miscellaneous current transfers	1	10	
Adjustment for change in pension entitlements			
Current account balance			13



Capital account			
Acquisitions/disposals of nonproduced nonfinancial assets	0	0	
Capital transfers	1	4	
Capital account balance			–3
Net lending (+)/net borrowing (–) (from current and capital accounts)			10
Financial account (by functional category)	Net acquisition of financial assets	Net incurrence of liabilities	Balance
Direct investment	8	11	
Portfolio investment	18	15	
Financial derivatives (other than reserves) and ESOs	3	0	
Other investment	21	22	
Reserve assets	8		
Total changes in assets/liabilities	58	48	
Net lending (+)/net borrowing (–) (from financial account)			10
Statistical discrepancy			0

International Investment Position:	Opening Position	Accumulation Accounts					Closing Position
		Transactions (Fin. Acc.)	Other Changes in Financial Assets and Liabilities Accounts				
			Revaluations			Other Changes in Volume	
			Total	Exchange Rate Changes	Other Price Changes		
Assets (by functional category)							
Direct investment	78	8	1	1	0	0	87
Portfolio investment	190	18	2	1	1	0	210
Financial derivatives (other than reserves) and ESOs	7	3	0	0	0	0	10
Other investment	166	21	0	0	0	0	187
Reserve assets	833	8	12	0	12	0	853
Total assets	1,274	58	15	2	13	0	1,347
Liabilities (by functional category)							
Direct investment	210	11	2	2	0	0	223
Portfolio investment	300	15	5	0	5	0	320
Financial derivatives (other than reserves) and ESOs	0	0	0	0	0	0	0
Other investment	295	22	0	0	0	0	317

Total liabilities	805	48	7	2	5	0	860
Net IIP	469	10	8	0	8	0	487
<p>Note: ESO = employee stock option.</p> <p><sup>1</sup>The <i>SNA</i> tables in Appendix 2.1 use instruments rather than functional categories. At the end of Appendix 2.1, external accounts data are presented in terms of instruments and the derivation of functional category data from instrument data is shown.</p>							

### Box 2.2. Data Quality Assessment Framework

This table shows the two-digit level of the IMF's Data Quality Assessment Framework (DQAF), based on 2012 version of DQAF for Balance of Payments and International Investment Position. More detail of the framework on the specific aspects for BOP is available on the IMF website. New versions will be posted on the IMF website as they are developed.

Quality Dimensions	Elements	
0. Prerequisites of quality	0.1	Legal and institutional environment—The environment is supportive of statistics.
	0.2	Resources—Resources are commensurate with needs of statistical programs.
	0.3	Relevance—Statistics cover relevant information on the subject field.
	0.4	Other quality management—Quality is a cornerstone of statistical work.
1. Assurances of integrity <i>The principle of objectivity in the collection, processing, and dissemination of statistics is firmly adhered to.</i>	1.1	Institutional integrity—Statistical policies and practices are guided by professional principles.
	1.2	Transparency—Statistical policies and practices are transparent.
	1.3	Ethical standards—Policies and practices are guided by ethical standards.
2. Methodological soundness <i>The methodological basis for the statistics follows internationally accepted standards, guidelines, or good practices.</i>	2.1	Concepts and definitions—Concepts and definitions used are in accord with internationally accepted statistical frameworks.
	2.2	Scope—The scope is in accord with internationally accepted standards, guidelines, or good practices.
	2.3	Classification/sectorizations—Classification and sectorization systems are in accord with internationally accepted standards, guidelines, or good practices.
	2.4	Basis for recording—Flows and stocks are valued and recorded according to internationally accepted standards, guidelines, or good practices.
	3.1	Source data—Source data available provide an adequate basis to compile statistics.

3. Accuracy and reliability <i>Source data and statistical techniques are sound and statistical outputs sufficiently portray reality.</i>	3.2	Assessment of source data—Source data are regularly assessed.
	3.3	Statistical techniques—Statistical techniques employed conform to sound statistical procedures.
	3.4	Assessment and validation of intermediate data and statistical outputs—Inter-mediate results and statistical outputs are regularly assessed and validated.
	3.5	Revision studies—Revisions, as a gauge of reliability, are tracked and mined for the information they may provide.
4. Serviceability <i>Statistics, with adequate periodicity and timeliness, are consistent and follow a predictable revisions policy.</i>	4.1	Periodicity and timeliness—Periodicity and timeliness follow internationally accepted dissemination standards.
	4.2	Consistency—Statistics are consistent within the data set, over time, and with major data sets.
	4.3	Revision policy and practice—Data revisions follow a regular and publicized procedure.
5. Accessibility <i>Data and metadata are easily available and assistance to users is adequate.</i>	5.1	Data accessibility—Statistics are presented in a clear and understandable manner, forms of dissemination are adequate, and statistics are made available on an impartial basis.
	5.2	Metadata accessibility—Up-to-date and pertinent metadata are made available.
	5.3	Assistance to users—Prompt and knowledgeable support service is available.

## C. METADATA, DISSEMINATION STANDARDS, DATA QUALITY, AND TIME SERIES

### References:

- IMF, *Dissemination Standards Bulletin Board* at [www.imf.org](http://www.imf.org).
- IMF, *The Enhanced General Data Dissemination System: Guide for Participants and Users*.
- IMF, *Special Data Dissemination Standard*.
- IMF, *Special Data Dissemination Standard Plus*.

## 1. METADATA, DISSEMINATION STANDARDS, AND DATA QUALITY

**2.40** *Metadata are systematic, descriptive information about data content and organization, providing information on the concepts, sources, and methods underlying the data and therefore help users to understand and assess the characteristics of the data.*

Statistical compilers should provide metadata to their users because metadata are an integral part of the publication of statistics.

**2.41** Good dissemination practices are essential in addition to good data compilation. As well as provision of metadata, aspects of good dissemination practices include predictable release schedule, availability of publications, and identification of internal government access to statistics before public release. In recent years, international guidelines have been developed on good data dissemination practices, namely, the IMF's Enhanced General Data Dissemination System, Special Data Dissemination Standard, and Special Data Dissemination Standard Plus.

**2.42** The IMF's DQAF identifies aspects of data quality, including the definitions and sources of data as well as the dissemination and institutional aspects. Box 2.2 shows the broadest headings of the framework. In addition, Chapter 20, Section VII discusses a Framework for Measuring Alignment with the International Macroeconomic Statistical Standards and refers to the IMF's DQAF.

## 2. TIME SERIES

Reference:

- IMF, *Quarterly National Accounts Manual, 2017 Edition*, Chapter 7, Seasonal Adjustment, and Chapter 12, Revisions.

**2.43** While the tables included in the *Manual* have been designed to highlight classifications and interrelationships, tabulations for users will generally use time series. Good practices in the compilation of external accounts for time series analysis include the following:

- (a) Consistency over time in concepts and compilation practices to minimize “breaks” and “steps” in the series—where changes in definitions and techniques are implemented, they should be clearly identified to data users and the effect should be quantified, where practical, preferably with an overlapping period;
- (b) A transparent way of handling of revisions—revisions to data are necessary to account for revised methods and more recent information. The revision of data should be dealt with through a predictable and documented policy. The causes and sizes of significant individual revisions should be identified. Revision studies should

be made to identify the size and any bias of past revisions. This will help to refine preliminary data and to define the optimum revision cycle that is largely driven by the availability of major data sources; and

- (c) Consistency of available annual, quarterly, and monthly data—the monthly values should sum to the corresponding quarterly values, which should sum to the corresponding annual values.

**2.44** Seasonal adjustment of monthly and quarterly data is potentially useful for time series data in both analysis and compilation. However, some external accounts items, especially in the financial account, may not be suitable for seasonal adjustment because of the high degree of irregularity associated with large, one-time transactions. Refer to Chapter 7, *Quarterly National Accounts Manual*, for the main principles of seasonal adjustment procedures.

## APPENDIX 2.1. OVERVIEW OF INTEGRATED ECONOMIC ACCOUNTS

Table 2.4. Overview of Integrated Economic Accounts (from 2025 SNA)

<b>Production account</b>									
Expenditures									
<b>Transactions and Balancing Items</b>	<b>Nonfinancial Corporations</b>	<b>Financial Corporations</b>	<b>General Government</b>	<b>Households</b>	<b>NPISHs</b>	<b>Total Economy</b>	<b>Rest of the World</b>	<b>Goods and Services</b>	<b>Total</b>
Imports of goods and services								499	499
Imports of goods								392	392
Imports of services								107	107
Exports of goods and services							540		540
Exports of goods							462		462
Exports of services							78		78
Output								3,617	3,617
Intermediate consumption	1,477	52	220	115	17	1,883			1,881
Taxes on products								141	141
Subsidies on products (–)								–8	–8
Value added, gross/Gross domestic product	1,331	94	138	155	18	1,869			1,869
Depreciation	157	12	27	23	3	222			222



Depletion	30					30	30
<i>Value added, net/Net domestic product</i>	1,144	82	111	132	15	1,617	1,617
<b>Generation of Earned Income Account</b>							
Expenditures							
Remuneration of employees	986	44	98	11	11	1,150	1,150
Wages and salaries	841	29	63	11	6	950	950
Employers' social contributions	145	15	35	0	5	200	200
Taxes on production and imports						235	235
Taxes on products						141	141
Other taxes on production	88	4	1	0	1	94	94
Subsidies						–44	–44
Subsidies on products						–8	–8
Other subsidies on production	–35	0	0	–1	0	–36	–36
<i>Operating surplus, net</i>	105	34	12	69	3	223	223
<i>Mixed income, net</i>				53		53	53
<b>Allocation of Earned Income Account</b>							
Expenditures							
Remuneration of employees						6	6
Wages and salaries						6	6
Employers' social contributions						0	0
Taxes on production and imports							0
Taxes on products							0

Other taxes on production								0
Subsidies								0
Subsidies on products								0
Other subsidies on production								0
Property income	134	168	42	41	6	391	44	435
Investment income	103	168	35	14	6	326	44	370
Interest and similar returns	56	106	35	14	6	217	13	230
Income on equity	47	15				62	31	93
Dividends	39	15				54	13	67
Withdrawals from income of quasicorporations	8	0				8	4	12
Reinvested earnings on foreign direct inv.	0	0				0	14	14
Investment income disbursements	0	47				47	0	47
Rent	31	0	7	27	0	65		65
Depletion borne by the legal owner	-18			0		-18		-18
Balance of earned income, net / National income, net	61	15	189	1,358	4	1,627		1,627

<b>Production Account</b>									Revenues
Transactions and Balancing Items	Nonfinancial Corporations	Financial Corporations	General Government	Households	NPISHs	Total Economy	Rest of the World	Goods and Services	Total
Imports of goods and services							499		499
Imports of goods							392		392
Imports of services							107		107
Exports of goods and services								540	540
Exports of goods								462	462
Exports of services								78	78
Output	2,808	146	358	270	35	3,617			3,617
Intermediate consumption								1,881	1,881
Taxes on products						141			141
Subsidies on products (–)						–8			–8
<b>Generation of Earned Income Account</b>									Revenues
<i>Value added, net/Net domestic product</i>	1,144	82	111	132	15	1,617			1,617
Remuneration of employees									
Wages and salaries									
Employers' social contributions									
Taxes on production and imports									
Taxes on products									
Other taxes on production									
Subsidies									
Subsidies on products									
Other subsidies on production									
<b>Allocation of Earned Income Account</b>									Revenues
Operating surplus, net	105	34	12	69	3	223			223
Mixed income, net				53		53			53

Remuneration of employees				1,154		1,154	2	1,156
Wages and salaries				954		954	2	956
Employers' social contributions				200		200	0	200
Taxes on production and imports			235			235		235
Taxes on products			141			141		141
Other taxes on production			94			94		94
Subsidies			-44			-44		-44
Subsidies on products			-8			-8		-8
Other subsidies on production			-36			-36		-36
Property income	72	149	46	123	7	397	38	435
Investment income	55	146	22	102	7	332	38	370
Interest and similar returns	33	106	14	49	7	209	21	230
Income on equity	14	32	7	23	0	76	17	93
Dividends	10	25	5	13	0	53	14	67
Withdrawals from income of quasi-corp.			2	7		9	3	12
Reinvested earnings on foreign direct investment	4	7	0	3	0	14	0	14
Investment income disbursements	8	8	1	30	0	47	0	47
Rent	17	3	24	21	0	65		65
Depletion borne by the legal owner			-18			-18		-18

<b>Income Transfers Other Than Transfers in Kind Account</b>									
Expenditures									
Transactions and Balancing Items	Nonfinancial Corporations	Financial Corporations	General Government	Households	NPISHs	Total Economy	Rest of the World	Goods and Services	Total
Current transfers	98	277	248	582	7	1,212	17		1,229
Current taxes on income, wealth, etc.	24	10	0	178	0	212	1		213
Social contributions less service charges				333		333	0		333
Social benefits other than social transfers in kind	62	205	112	0	5	384	0		384
Other current transfers	12	62	136	71	2	283	16		299
Disposable income, net	35	13	308	1,196	37	1,589			1,589
<b>Use of disposable income account</b>									
Expenditures									
Final consumption expenditure		2	362	1,015	35	1,414			1,414
Adjustment for the change in pension and nonpension entitlements	0	11	0		0	11	0		11
<i>Current external balance</i>							-13		-13
<b>Capital account</b>									
Changes in assets									
Acquisitions less disposals of produced nonfinancial assets	141	-4	11	30	2	180			180
Gross fixed capital formation	257	8	35	44	5	349			349

Depreciation of produced nonfinancial assets (excluding natural resources)	-142	-12	-27	-20	-3	-204		-204
Changes in inventories	24	0	0	1	0	25		25
Acquisitions less disposals of valuables	2	0	3	5	0	10		10
Acquisitions less disposals of nonproduced nonfinancial assets (excluding natural resources)	-1	0	0	1	0	0	0	0
Acquisitions less disposals of natural resources	-8	0	-16	5	1	-18		-18
Capital transfers, receivable								
Capital transfers, payable								
<i>Net lending (+) / net borrowing (–)</i>	-80	-3	-77	174	-4	10		0
<b>Financial account</b>								
Changes in assets								
Net acquisition of financial assets	60	170	16	189	2	437	48	485
Monetary gold and SDRs		–1				–1	1	0
Monetary gold		0				0	0	0
SDRs		–1				–1	1	0
Currency and deposits	16	8	0	64	2	90	11	101
Debt securities	7	66	4	10	–1	86	10	96
Loans	19	53	3	3	0	78	4	82
Equity and investment fund shares/units	10	28	3	66	0	107	12	119
Insurance, pension, and standardized guarantee schemes	1	7	1	39	0	48	0	48

Financial derivatives and employee stock options	3	8	0	3	0	14	0	14
Other accounts receivable/payable	4	1	5	4	1	15	10	25

<b>Income Transfers Other Than Transfers in Kind Account</b>									Revenues
Transactions and Balancing Items	Nonfinancial Corporations	Financial Corporations	General Government	Households	NPISHs	Total Economy	Rest of the World	Goods and Services	Total
<i>Balance of earned income, net / National income, net</i>	61	15	189	1,358	4	1,627			1,627
Current transfers	72	275	367	420	40	1,174	55		1,229
Current taxes on income, wealth, etc.			213			213	0		213
Social contributions less service charges	66	213	50	0	4	333	0		333
Social benefits other than social transfers in kind				384		384	0		384
Other current transfers	6	62	104	36	36	244	55		299
<b>Use of Disposable Income Account</b>									Revenues
Disposable income, net	35	13	308	1196	37	1,589			1,589
Final consumption expenditure								1,414	1,414
Adjustment for the change in pension and nonpension entitlements				11		11	0		11
<b>Capital account</b>									Changes in liabilities and net worth
Saving, net	35	0	-54	192	2	175			175
Current external balance							-13		-13



Acquisitions less disposals of produced nonfinancial assets								
Gross fixed capital formation							349	349
Depreciation of produced nonfinancial assets (excluding natural resources)								
Changes in inventories							25	25
Acquisitions less disposals of valuables							10	10
Acquisitions less disposals of nonproduced nonfinancial assets (excluding natural resources)								
Acquisitions less disposals of natural resources							27	27
Capital transfers, receivable	33	0	6	23	0	62	4	66
Capital transfers, payable	-16	-7	-34	-5	-3	-65	-1	-66
Changes in net worth due to saving and capital transfers	52	-7	-82	210	-1	172	-10	162
<b>Financial Account</b>								Changes in liabilities and net worth
<i>Net lending (+)/net borrowing (-)</i>	-80	-3	-77	174	-4	10	-10	0
Net acquisition of liabilities	140	173	93	15	6	427	58	485
Monetary gold and SDRs								
Monetary gold								
SDRs								0
Currency and deposits		65	37			102	-1	101
Debt securities	7	30	38	0	0	75	21	96

44	Loans	21	0	9	11	6	47	35	82
	Equity and investment fund shares/units	83	22				105	14	119
	Insurance, pension, and standardized guarantee schemes		48	0			48	0	48
	Financial derivatives and employee stock options	3	8	0	0	0	11	3	14
	Other accounts receivable/payable	26	0	9	4		39	-14	25

<b>Other Changes in the Volume of Assets Account</b>									
Changes in Assets									
Other Flows	Nonfinancial Corporations	Financial Corporations	General Government	Households	NPISHs	Total Economy	Rest of the World	Goods and Services	Total
Economic appearance of assets	26	0	7	0	0	33			33
Produced nonfinancial assets (excluding natural resources)			3			3			3
Nonproduced nonfinancial assets (excluding natural resources)	4	0	0	0	0	4			4
Natural resources	22		4			26			26
Financial assets and liabilities						0			0
Economic disappearance of assets	-5	0	-1	0	0	-6			-6
Produced nonfinancial assets (excluding natural resources)						0			0
Nonproduced nonfinancial assets (excluding natural resources)	-3					-3			-3
Natural resources	-2		-1			-3			-3
Financial assets and liabilities						0			0
Catastrophic losses	-5	0	-6	0	0	-11			-11
Uncompensated seizures	-5	0	5	0	0	0			0
Other changes in volume n.e.c.	1	1	0	0	0	2			2
Changes in classification	6	-2	-4	0	0	0			0
Changes in sector classification and structure	6	0	-4	0	0	2			2
Changes in classification of assets and liabilities	0	-2	0	0	0	-2			-2
Total other changes in volume	18	-1	1	0	0	18			18
Produced nonfinancial assets	-2	-2	-3	0	0	-7			-7

Nonproduced nonfinancial assets	-2	0	1	0	0	-1	-1
Natural resources	20	0	3	0	0	23	23
Financial assets and liabilities	2	1	0	0	0	3	3
Monetary gold and SDRs						0	0
Currency and deposits						0	0
Debt securities						0	0
Loans						0	0
Equity and investment fund shares/units	2					2	2
Insurance, pension, and standardized guarantee schemes		1				1	1
Financial derivatives and employee stock options						0	0
Other accounts receivable/payable						0	0
<b>Revaluation Account</b>							
Changes in Assets							
Nonfinancial assets	144	4	44	80	8	280	280
Produced nonfinancial assets (excluding natural resources)	63	2	21	35	5	126	126
Nonproduced nonfinancial assets (excluding natural resources)	1	1				2	2
Natural resources	80	1	23	45	3	152	152
Financial assets and liabilities	8	57	1	16	2	84	91
Monetary gold and SDRs		11	1			12	12
Currency and deposits						0	0
Debt securities	3	30	0	6	1	40	44

Loans					0		0
Equity and investment fund shares/units	5	16	10	1	32	3	35
Insurance, pension, and standardized guarantee schemes					0		0
Financial derivatives and employee stock options					0		0
Other accounts receivable/payable					0		0

Other Changes in the Volume of Assets Account									Changes in Liabilities and Net Worth
Other Flows	Nonfinancial Corporations	Financial Corporations	General Government	Households	NPISHs	Total Economy	Rest of the World	Goods and Services	Total
Economic appearance of assets									0
Produced nonfinancial assets (excluding natural resources)									0
Nonproduced nonfinancial assets (excluding natural resources)									0
Natural resources									0
Financial assets and liabilities									0
0Economic disappearance of assets									0
Produced nonfinancial assets (excluding natural resources)									0
Nonproduced nonfinancial assets (excluding natural resources)									0
Natural resources									0
Financial assets and liabilities									0
Catastrophic losses									0
Uncompensated seizures									0
Other changes in volume n.e.c.	0	0	0	1	0	1			1
Changes in classification	0	0	0	1	0	1			1
Changes in sector classification and structure	0	0	2	0	0	2			2
Changes in classification of assets and liabilities	0	0	0	0	0	0			0
Total other changes in volume	0	0	2	1	0	3			3

Produced nonfinancial assets							
Nonproduced nonfinancial assets							
Natural resources							
Financial assets and liabilities	0	0	2	1	0	3	3
Monetary gold and SDRs							
Currency and deposits	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0
Equity and investment fund shares/units	0	0	2	0	0	2	2
Insurance, pension, and standardized guarantee schemes	0	0	0	1	0	1	1
Financial derivatives and employee stock options	0	0	0	0	0	0	0
Other accounts receivable/payable	0	0	0	0	0	0	0
<i>Changes in net worth due to other changes in volume of assets</i>	18	–1	–1	–1	0	15	15
<b>Revaluation Account</b>							Changes in liabilities and net worth
Nonfinancial assets	0	0	0	0	0	0	0
Produced nonfinancial assets (excluding natural resources)							

Nonproduced nonfinancial assets (excluding natural resources)									
Natural resources									
Financial assets and liabilities	18	51	7	0	0	76	15		91
Monetary gold and SDRs						0	12		12
Currency and deposits							0		0
Debt securities	1	34	7			42	2		44
Loans									
Equity and investment fund shares/units	17	17				34	1		35
Insurance, pension, and standardized guarantee schemes									
Financial derivatives and employee stock options									
Other accounts receivable/payable									
<i>Changes in net worth due to nominal holding gains/losses</i>	134	10	38	96	10	288	–8		280



Stocks and Changes in Assets	Nonfinancial Corporations	Financial Corporations	General Government	Households	NPISHs	Total Economy	Rest of the World Account	Goods and Services Account	Total
<b>Opening Balance Sheet</b>									
Nonfinancial assets	2,152	93	1089	1,431	159	4,924			4,924
Produced nonfinancial assets (excluding natural resources)	1,214	67	497	816	124	2,718			2,718
Nonproduced nonfinancial assets (excluding natural resources)	14	3	6	2	0	25			25
Natural resources	924	23	586	613	35	2181			2181
Financial assets/liabilities	982	3,421	396	3,260	172	8,231	805		9,036
Monetary gold and SDRs		690	80			770			770
Currency and deposits	382		150	840	110	1,482	105		1,587
Debt securities	90	950		198	25	1,263	125		1,388
Loans	50	1,187	115	24	8	1,384	70		1,454
Equity and investment fund shares/units	280	551	12	1,749	22	2,614	345		2,959
Insurance, pension, and standardized guarantee schemes	25	30	20	391	4	470	26		496
Financial derivatives and employee stock options	5	13	0	3	0	21	0		21
Other accounts receivable/payable	150	0	19	55	3	227	134		361
<b>Total Changes</b>									
Nonfinancial assets	292	-2	40	116	11	457			457

Produced nonfinancial assets (excluding natural resources)	202	-4	29	65	7	299		299
Nonproduced nonfinancial assets (excluding natural resources)	-2	1	1	1	0	1		1
Natural resources	92	1	10	50	4	157		157
Financial assets and liabilities	70	228	17	205	4	524	55	579
Monetary gold and SDRs	0	10	1	0	0	11	1	12
Currency and deposits	16	8	0	64	2	90	11	101
Debt securities	10	96	4	16	0	126	14	140
Loans	19	53	3	3	0	78	4	82
Equity and investment fund shares/units	17	44	3	76	1	141	15	156
Insurance, pension, and standardized guarantee schemes	1	8	1	39	0	49	0	49
Financial derivatives and employee stock options	3	8	0	3	0	14	0	14
Other accounts receivable/payable	4	1	5	4	1	15	10	25
<b>Closing Balance Sheet</b>								
Nonfinancial assets	2444	91	1129	1547	170	5381		5381
Produced nonfinancial assets (excluding natural resources)	1416	63	526	881	131	3017		3017
Nonproduced nonfinancial assets (excluding natural resources)	12	4	7	3	0	26		26
Natural resources	1016	24	596	663	39	2338		2338

Financial assets and liabilities	1052	3649	413	3465	176	8755	860	9615
Monetary gold and SDRs	0	700	81	0	0	781	1	782
Currency and deposits	398	8	150	904	112	1572	116	1688
Debt securities	100	1,046	4	214	25	1,389	139	1,528
Loans	69	1,240	118	27	8	1,462	74	1,536
Equity and investment fund shares/units	297	595	15	1,825	23	2,755	360	3,115
Insurance, pension, and standardized guarantee schemes	26	38	21	430	4	519	26	545
Financial derivatives and employee stock options	8	21	0	6	0	35	0	35
Other accounts receivable/payable	154	1	24	59	4	242	144	386

Stocks and Changes in Liabilities	Nonfinancial Corporations	Financial Corporations	General Government	Households	NPISHs	Total Economy	Rest of the World Account	Goods and Services Account	Total
<b>Opening Balance Sheet</b>									
Nonfinancial assets									
Produced nonfinancial assets (excluding natural resources)									
Nonproduced nonfinancial assets (excluding natural resources)									
Natural resources									
Financial assets and liabilities	3,221	3,544	687	189	121	7,762	1,274		9,036
Monetary gold and SDRs						0	770		770
Currency and deposits	40	1,281	102	10	38	1,471	116		1,587
Debt securities	44	1,053	212	2		1,311	77		1,388
Loans	897		328	169	43	1,437	17		1,454
Equity and investment fund shares/units	1,987	765	4			2,756	203		2,959
Insurance, pension, and standardized guarantee schemes	12	435	19		5	471	25		496
Financial derivatives and employee stock options	4	10				14	7		21
Other accounts receivable/payable	237		22	8	35	302	59		361
<i>Net worth</i>	-87	-30	798	4502	210	5393	-469		4,621
<b>Total Changes</b>									
Nonfinancial assets									
Produced nonfinancial assets (excluding natural resources)									

Nonproduced nonfinancial assets (excluding natural resources)								
Natural resources								
Financial assets and liabilities	158	224	102	16	6	506	73	579
Monetary gold and SDRs							12	12
Currency and deposits	0	65	37	0	0	102	–1	101
Debt securities	8	64	45	0	0	117	23	140
Loans	21	0	9	11	6	47	35	82
Equity and investment fund shares/units	100	39	2	0	0	141	15	156
Insurance, pension, and standardized guarantee schemes	0	48	0	1	0	49	0	49
Financial derivatives and employee stock options	3	8	0	0	0	11	3	14
Other accounts receivable/payable	26	0	9	4	0	39	–14	25
<i>Changes in net worth, total</i>	204	2	-45	305	9	475	–18	457
<i>Saving and capital transfers</i>	52	-7	-82	210	-1	172	-10	162
<i>Other changes in volume of assets</i>	18	-1	-1	-1	0	15	0	15
<i>Nominal holding gains/losses</i>	134	10	38	96	10	288	–8	280
<b>Closing Balance Sheet</b>								
Nonfinancial assets								
Produced nonfinancial assets (excluding natural resources)								
Nonproduced nonfinancial assets (excluding natural resources)								
Natural resources								

Financial assets and liabilities	3,379	3,768	789	205	127	8,268	1,347	9,615
Monetary gold and SDRs							782	782
Currency and deposits	40	1,346	139	10	38	1,573	115	1,688
Debt securities	52	1,117	257	2	0	1,428	100	1,528
Loans	918	0	337	180	49	1,484	52	1,536
Equity and investment fund shares/units	2,087	804	6	0	0	2,897	218	3,115
Insurance, pension, and standardized guarantee schemes	12	483	19	1	5	520	25	545
Financial derivatives and employee stock options	7	18	0	0	0	25	10	35
Other accounts receivable/payable	263	0	31	12	35	341	45	386
<i>Net worth</i>	117	–28	753	4,807	219	5,868	–487	5,381

<b>Table 2.5. Link between Instrument and Functional Categories</b> <b>Table 2.5a. Balance of Payments Financial Account by Instrument</b> (consistent with data in Table 2.3)			
Financial Account (by instrument)	Changes in Assets	Changes in Liabilities	Balance
Monetary gold and SDRs	0	1	
Currency and deposits	–1	11	
Debt securities	21	10	
Loans	35	4	
Equity and investment fund shares	14	12	
Insurance, pension, and standardized guarantee schemes	0	0	
Financial derivatives and ESOs	3	0	
Other accounts receivable/payable	–14	10	
Total changes in assets/liabilities	58	48	
Net lending (+)/net borrowing (–) (from financial account)			10
Note: ESO = employee stock option.			

**Table 2.5b. IIP by Instrument**  
(Consistent with data in Table 2.3)

International Investment Position	Opening Position	Transactions (fin. acc.)	Other Changes in Volume	Revaluation	Closing Position
<b>Assets (instrument split)</b>					
Monetary gold and SDRs	770	0	0	12	782
Currency and deposits	116	-1	0	0	115
Debt securities	77	21	0	2	100
Loans	17	35	0	0	52
Equity and investment fund shares	203	14	0	1	218
Insurance, pension, and standardized guarantee schemes	25	0	0	0	25
Financial derivatives and ESOs	7	3	0	0	10
Other accounts receivable/payable	59	-14	0	0	45
<b>Total</b>	<b>1,274</b>	<b>58</b>	<b>0</b>	<b>15</b>	<b>1,347</b>
<b>Liabilities (instrument split)</b>					
Monetary gold and SDRs	0	1	0	0	1
Currency and deposits	105	11	0	0	116
Debt securities	125	10	0	4	139
Loans	70	4	0	0	74
Equity and investment fund shares	345	12	0	3	360
Insurance, pensions, and standardized guarantee schemes	26	0	0	0	26
Financial derivatives and ESOs	0	0	0	0	0
Other accounts receivable/payable	134	10	0	0	144
<b>Total</b>	<b>805</b>	<b>48</b>	<b>0</b>	<b>7</b>	<b>860</b>
<b>Net IIP</b>	<b>469</b>	<b>10</b>	<b>0</b>	<b>8</b>	<b>487</b>



**Table 2.5c. Conversion of Data from Instrument Split to Functional Categories**  
(Consistent with data in Table 2.3)

	Functional Categories					
	DI	PI	FD	OI	RA	Total
<b>Financial account</b>						
<b>Assets (instrument split)</b>						
Monetary gold and SDRs						
Currency and deposits				-4	3	-1
Debt securities	2	14			5	21
Loans				35		35
Equity and investment fund shares	10	4				14
Insurance, pension, and standardized guarantee schemes						
Financial derivatives and ESOs			3			3
Other accounts receivable/payable	-4			-10		-14
<b>Total</b>	<b>8</b>	<b>18</b>	<b>3</b>	<b>21</b>	<b>8</b>	<b>58</b>
<b>Liabilities (instrument split)</b>						
Monetary gold and SDRs				1		1
Currency and deposits				11		11
Debt securities	4	6				10
Loans				4		4
Equity and investment fund shares	3	9				12
Insurance, pension, and standardized guarantee schemes						
Financial derivatives and ESOs						

Other accounts receivable/payable	4			6		10
Total	11	15	0	22	0	48
<b>IIP (opening)</b>						
<b>Assets (instrument split)</b>						
Monetary gold and SDRs					770	770
Currency and deposits				80	36	116
Debt securities	10	40			27	77
Loans				17		17
Equity and investment fund shares	53	150				203
Insurance, pension, and standardized guarantee schemes				25		25
Financial derivatives and ESOs			7			7
Other accounts receivable/payable	15			44		59
Total	78	190	7	166	833	1,274
<b>Liabilities (instrument split)</b>						
Monetary gold and SDRs						
Currency and deposits				105		105
Debt securities	15	110				125
Loans				70		70
Equity and investment fund shares	155	190				345
Insurance, pension, and standardized guarantee schemes				26		26
Financial derivatives and ESOs						
Other accounts receivable/payable	40			94		134

Total	210	300	0	295	0	805
<b>Revaluation</b>						
<b>Assets (instrument split)</b>						
Monetary gold and SDRs					12	12
Debt securities	1	1				2
Equity and investment fund shares		1				1
Total	1	2	0	0	12	15
<b>Liabilities (instrument split)</b>						
Debt securities	1	3				4
Equity and investment fund shares	1	2				3
Total	2	5	0	0	0	7
<b>IIP (closing)</b>						
<b>Assets (instrument split)</b>						
Monetary gold and SDRs					782	782
Currency and deposits				76	39	115
Debt securities	13	55			32	100
Loans				52		52
Equity and investment fund shares	63	155				218
Insurance, pension, and standardized guarantee schemes				25		25
Fin. deriv and ESOs			10			10
Other accounts receivable/payable	11			34		45
Total	87	210	10	187	853	1,347

<b>Liabilities (instrument split)</b>							
Monetary gold and SDRs				1			1
Currency and deposits				116			116
Debt securities	20	119					139
Loans				74			74
Equity and investment fund shares	159	201					360
Insurance, pension, and standardized guarantee schemes				26			26
Fin. deriv and ESOs							
Other accounts receivable/payable	44			100			144
Total	223	320	0	317	0		860
Note: DI = direct investment. PI = portfolio investment. FD = financial derivatives (other than reserves) and employee stock options. OI = other investment. RA = reserve assets							

## Chapter 3. Flows, Stocks, and Accounting Rules

This is a common chapter with Chapter 4 of the 2025 SNA, and for the most part, the text is identical in both the *Manual* and the 2025 SNA.

### A. INTRODUCTION

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**3.1** The external accounts are systems of accounts designed to measure stocks of, and changes in, economic value and to identify the person, group of persons, legal or social entity with claims on the economic value between residents and nonresidents. They provide a summary overview of the economic relationships between residents of an economy and nonresidents. This chapter discusses the concept of stocks of economic value, the flows that reflect changes in economic value and the accounting rules applied to the recording of stocks and flows. In order to portray stocks and flows in an accounting system, it is necessary to identify the parties with a claim to economic value measured in stocks or affected by flows. These parties are the persons, groups of persons, legal and social entities already referred to. They are described as institutional units in the *Manual* and are grouped into institutional sectors according to their economic objectives, functions, and behavior. Units and sectors are the subject of Chapter 4.

**3.2** Stocks measure economic value at a point in time. Flows measure changes in economic value over a period of time. Stocks appear in the international investment position (IIP). Flows appear in all the other accounts and tables of the external accounts. The flow accounts in external accounts consist of the current account, capital account, and the accumulation accounts (financial account and other changes in financial assets and liabilities account), which show all changes between two IIP statements.

**3.3** In order to have a system that is complete and consistent, all changes in economic value between IIP at two points in time must be captured in flows. The first requirement in specifying the accounting conventions is thus to define precisely what is meant by stocks and flows. Once that is done, the rules to set the changes in economic value within an accounting system need to be specified. These rules are defined to ensure that the external accounts are consistent in terms of value, time of recording and classification.

### 1. STOCKS AND FLOWS

**3.4** *Stocks refer to the levels of financial/nonfinancial assets or liabilities at a point in time. In the case of financial assets/liabilities, usually the term “positions” is used while for*

*levels of nonfinancial assets, the term "stocks" is often applied.* The stocks are recorded in the IIP in the case of external accounts, compiled in respect of the beginning and the end of the accounting period. However, stocks are connected with flows: they result from the accumulation of prior transactions and other flows, and they are changed by transactions and other flows in the period. They result in fact from a continuum of entries and withdrawals, with some changes in volume or in value occurring during the time a given asset or liability is held.

**3.5** *An asset is a store of value representing an economic benefit or series of economic benefits accruing to the economic owner by holding or using the item over a period of time. It is a means of carrying forward value from one accounting period to another. Assets may be financial in nature or not. For almost all financial assets, there is a corresponding liability. Liabilities are obligations where one unit (the debtor) is obliged, under specific circumstances, to provide funds or other resources to another unit (the creditor). These include shares and other equity in corporations.* An elaboration of these definitions and the concepts embodied in them as well as a typology of the different assets and liabilities in the external accounts is given in Section C of this chapter.

**3.6** *(Economic) flows are transactions and other flows reflecting the creation, transformation, exchange, transfer, or extinction of economic value; they typically involve changes in the volume, composition, or value of an institutional unit's assets, liabilities and net worth.* Mirroring the diversity of the economy, economic flows have specific natures such as wages, taxes, interest, capital flows, etc., most of which record the ways in which an institutional unit's assets and liabilities are changed.

**3.7** Economic flows consist of transactions and other flows. *Transactions are economic flows that are interactions between institutional units by mutual agreement or through the operation of the law, or actions within an institutional unit that are analytically useful to treat like transactions because the unit is operating in two different capacities.* The value of an asset or a liability may be affected by economic flows that do not satisfy the requirements of a transaction. Such flows are described as "other flows". *Other flows are changes in the value of assets and liabilities not due to transactions. They consist of other changes in the volume of assets and liabilities and revaluations. In the external accounts, the other changes in assets and liabilities are restricted to those relating to financial assets and liabilities.* Examples are losses due to natural disasters and the effect of price changes on the value of assets and liabilities. In the case of external accounts, these flows occur between a resident and a nonresident institutional unit.

**3.8** There is a discussion of the different types of economic flows in Section B of this chapter.

## 2. BALANCING ITEMS

**3.9** *A balancing item is an accounting construct obtained residually as the difference between the total value of the entries on one side of an account (credits/revenues, or net acquisition of financial assets) and the total value of the entries on the other side (debits/expenditures, or net incurrence of liabilities). It cannot be measured independently of the entries in the accounts.* There is also a balancing item for the IIP where the difference between assets and liabilities is known as net IIP.

**3.10** Balancing items are constructed because they convey interesting economic information. Many of the key aggregates of the external accounts actually emerge as balancing items. Balancing items are discussed in Section D.

## 3. GROUPING STOCKS AND FLOWS INTO ACCOUNTS

**3.11** The accounts and tables of the external accounts contain information relating to the economic actions or events that take place within a given period of time between residents and nonresidents and the effect of these events on the stocks of external assets and liabilities between the beginning and the end of that period.

**3.12** The flows and stocks are grouped according to the classification hierarchy of the external accounts. The classification of transactions and other flows has five headings at the highest level, dealing with transactions in goods and services, transactions showing how income is distributed and redistributed, transactions in nonproduced assets, transactions in financial assets and liabilities, and other accumulation entries. In the accumulation accounts, the hierarchy may show both the transaction and the type of asset it applies to.

**3.13** The flows and stocks of external assets and liabilities are entered in the accounts of the institutional units that issue liabilities (e.g., debt securities) or hold assets (e.g., deposits) and thus in the accounts of the sectors into which the institutional units are grouped. Institutional units and sectors are the subject of Chapter 4.

## 4. ACCOUNTING RULES

**3.14** All entries in the accounts have to be measured in monetary terms, and therefore the elements from which the entries are built up must be measured in monetary terms. In some cases, the amounts entered are the actual payments that form part of flows that involve money; in other cases, the amounts entered are estimated by reference to actual monetary values. Money is thus the unit of account in which all stocks and flows are recorded.

**3.15** In principle, any lapse of time may be chosen as the accounting period. Periods that are too short have the disadvantage that statistical data are influenced by incidental factors,

while long periods do not adequately portray changes going on in the economy. Merely seasonal effects can be avoided by having the accounting period cover a whole cycle of regularly recurrent economic phenomena. Most business and government accounting refers to complete years. In general, calendar or financial years or quarters are best suited for drawing up a full sequence of economic accounts for institutional sectors and external accounts.

**3.16** The external accounts cover all economic activity between residents and nonresidents in such a way that it is possible to derive current/capital account items and financial flows/stocks (functional categories/institutional sectors) by partner economy. To permit this, the accounting rules ensure consistency with respect to valuation, timing, classification and grouping of flows and stocks. These rules are summarized below to provide a context for the discussion of the nature of flows, stocks, and balancing items in Sections B, C and D.

- Flows and stocks must be recorded consistently with respect to their valuation. Entries are at current value on the market (that is, the amount agreed upon by knowledgeable, willing parties in a transaction at arm's length) or at its closest equivalent. The value on the market may need to be adjusted to the coverage of the flow or stock as defined in this *Manual* and expressed appropriately given the nature of the flow or stock with respect to taxes and subsidies on products, transport costs, and distribution margins.
- Flows and stocks must be recorded consistently with respect to timing. Flows are recorded at the moment of accrual within the accounting period (that is, the moment economic value is created, transformed, exchanged, transferred or extinguished). Stocks are recorded at the moment to which the account relates, typically the beginning or the end of the accounting period.
- Individual flow and stock entries must be recorded consistently with respect to their classification, both in respect of the categories in the classifications of transactions, other flows and assets and the categories in the classification of transactors as (sub)sectors (or industries).
- Depending on the character of the entry, a distinction should be made between credits/revenues and debits/expenditures or between assets and liabilities. In the process of grouping, netting is implicit for several items.

**3.17** The basic accounting framework of the external accounts is one of quadruple accounting. This implies that a transaction gives rise to two entries for each party to the transaction. There is vertical consistency within each unit and horizontal consistency



between the two units for each type of entry. The principles of quadruple accounting are explained in more detail in Section E in this chapter.

## B. FLOWS

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**3.18** Economic flows are of two kinds. The first kind consists of transactions. Flows that do not meet the characteristics of transactions as described below are called “other flows.” Transactions appear in all of the accounts and tables in which flows appear except the other changes in the volume of assets and liabilities account and the revaluation account. Other flows appear in only these two accounts. More meaning can be given to the definition of flows by describing the two kinds.

### 1. TRANSACTIONS

**3.19** *Transactions are economic flows that are interactions between institutional units by mutual agreement or through the operation of law, or actions within an institutional unit that are analytically useful to treat like a transaction because the unit is operating in two different capacities.*

**3.20** Institutional units, referred to in the definition, are the fundamental economic units used in the external accounts and other macroeconomic statistics. They are described and defined in Chapter 4. The following are the main attributes of institutional units that are relevant to their engaging in transactions:

- They are entitled to own assets in their own right, and therefore are able to exchange them;
- They are able to take economic decisions and engage in economic activities for which they are held to be directly responsible and accountable at law;
- They are typically able to incur liabilities on their own behalf, to take on other obligations or future commitments and to enter into contracts; in some exceptional cases units may qualify as institutional units, even though they may not be able to incur liabilities on their own behalf, an example being certain local government units.

**3.21** The definition of a transaction stipulates that an interaction between institutional units be by mutual agreement. When a transaction is undertaken by mutual agreement, the prior knowledge and consent of the institutional units is implied. This does not mean, however, that both units necessarily enter a transaction voluntarily, because some transactions are imposed by force of law, such as payments of taxes or other compulsory transfers. Although individual institutional units are not free to fix the amounts of taxes they pay, there is

nevertheless collective recognition and acceptance by the community of the obligation to pay taxes. Thus, payments of taxes are considered transactions despite being compulsory.

**3.22** In the external accounts, transactions are recorded between two institutional units, one of which is a resident of the compiling economy and the other a nonresident. By the nature of external accounts, intra-unit or internal transactions are not recorded.<sup>27</sup> The flows between the branch and its parent enterprise are shown as interactions between institutional units, with a branch recognized as a separate institutional unit (a quasi-corporation). Similarly, when a notional enterprise (a quasi-corporation) is created for holding land and associated buildings by nonresident owners, the flows between the nonresident owners and the notional enterprise are considered interactions between institutional units.

**3.23** Transactions between two resident institutional units in external assets are domestic transactions. Such transactions, however, affect the external asset positions of the two resident units involved. The external asset position of one resident unit is reduced and the position in the same external asset of another resident unit is increased, and thus leads to a change in domestic sectoral breakdown if the two parties are in different sectors. Such transactions result in changes in structure of external asset positions and should be recorded in the external accounts as a reclassification of sectors of holding (i.e., in the other changes in volume of assets and liabilities account).<sup>28</sup> If both units fall in the same institutional sector, such reclassification entries cancel each other out and thus have no effect on sectoral positions. Similarly, when financial instruments issued by residents are exchanged between nonresidents, no transactions are recorded in the BOP and there is no change in overall external liabilities.<sup>29</sup>

**3.24** The above recording of financial transactions is in line with the “transactor approach.” For primary market transactions, new issues of tradable securities and purchases of those issues are recorded on a net basis (i.e., gross new issues less redemptions/repurchases). In the case of secondary market transactions, the transactor approach means that transactions in securities are also shown net (i.e., purchases less sales) for each lending/borrowing (sub)sector. Changes in the counterparty (sub)sectors of the issuers are not recorded as financial transactions. This information is useful in identifying how net borrowing sectors finance their deficits and which net lending sectors provide the necessary funds. However,

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<sup>27</sup> In the national accounts, transactions cover also some actions within an institutional unit (intra-unit transactions) with the purpose of providing a more analytically useful picture of output, final uses, and costs. Examples include depreciation and depletion, changes in inventories, and production for own final use of goods by producers. For further details on intra-unit (internal) transactions refer to paragraphs 4.59–4.63, 2025 SNA.

<sup>28</sup> The resident-to-resident transaction between the buyer and seller is recorded in the sequence of economic accounts of the SNA.

<sup>29</sup> As discussed in paragraph A3.4, national contributions for compiling financial flows data in currency and economic unions may be allocated along the debtor-creditor approach as a way to ensure bilateral symmetry.

in the case of from-whom-to-whom matrices, which provide information on the relationships between debtor and creditor sectors, it may also be useful to apply the “creditor-debtor approach.” According to this approach, changes in the counterparty creditor (sub)sectors due to transactions in the secondary market are also shown as financial transactions in the accounts of the securities’ issuers.

**3.25** To establish whether a transaction involving an external financial asset is a transaction between a resident and a nonresident, the compiler must know the identities of both parties. The information available on transactions in claims constituting external assets may not, however, permit identification of the two parties to the transaction. That is, a compiler may not be able to ascertain whether a resident, who acquired or relinquished a claim on a nonresident, conducted the transaction with another resident or with a nonresident, or whether a nonresident dealt with another nonresident or with a resident. As a result, recorded external transactions may include not only those that involve assets and liabilities and take place between residents and nonresidents but also those that involve financial assets of economies and take place between two residents and, to a lesser extent, transactions that take place between nonresidents. See also paragraphs A11.33–A11.48 on the additional issues associated with partner attribution of transactions in financial instruments between residents and nonresidents. In addition, transactions between residents in external assets and liabilities may have to be taken into account for specific purposes, particularly as described in paragraph 19.27.

**3.26** Some mutual agreements involve three parties. For example, guarantees involve the guarantor, the debtor, and the creditor. Transactions occurring between two parties (e.g., between the guarantor and debtor, or between the guarantor and creditor, or between the debtor and creditor) should always be identified and recorded as such. For one-off guarantees, the activation of the guarantee gives rise to transactions and, in some cases, other flows between each of the three pairs of the three parties. For each pair of parties, transactions in the external accounts are recorded if one party is a resident and another party is a nonresident.

**3.27** Transactions take so many different forms that, even with these explanations, any general definition is inevitably rather imprecise. To give more precision, the various kinds of transactions have to be systematically described and classified. A first distinction is between monetary and nonmonetary transactions. Other distinctions, such as between transactions with and without a quid pro quo, are drawn within each of these kinds of transactions. Frequently the individual, identifiable transactions of everyday economic life are simply grouped together in the accounts; sometimes they are subdivided and rearranged in order to form the transaction categories of the external accounts.

## Monetary Transactions

**3.28** *Monetary transactions are transactions in which one institutional unit makes a payment (receives a payment) or incurs a liability (acquires a financial asset) stated in units of currency.* In the external accounts, all flows are recorded in monetary terms, but the distinguishing characteristic of a monetary transaction is that the parties to the transaction express their agreement in monetary terms. For example, a good is purchased or sold at a given number of units of currency per unit of the good, or labor is hired or provided at a given number of units of currency per hour or day.

**3.29** All monetary transactions are interactions between institutional units; that is, all monetary transactions are two-party transactions. The following is a list of common monetary transactions:

- Purchases of goods and services;
- Acquisitions of securities;
- Wages and salaries;
- Interest, dividends, and rent;
- Taxes;
- Social assistance benefits in cash.

### *Transactions With and Without a Recompense*

**3.30** The purchases of goods and services, the acquisitions of securities, wages and salaries, interest, dividends, and rent are two-party transactions in which one party provides a good, service, labor or asset to the other and receives a recompense of commensurate value in return. This kind of transaction is sometimes called a “something for something” transaction or a transaction with a quid pro quo. Such transactions are also referred to as exchanges.

**3.31** Taxes and social assistance benefits are examples of two-party transactions in which one party provides a good, service or asset to the other but does not receive a recompense in return. This kind of transaction, sometimes called a “something for nothing” transaction, or a transaction without a quid pro quo, is called a transfer in the external accounts.

**3.32** The scope of the recompenses mentioned in describing exchanges and transfers does not cover entitlement to contingent benefits or collective services. Such benefits are generally uncertain or not quantifiable, or both. Moreover, the amount of benefit that may eventually be received by an individual unit is not proportional to the amount of the previous payment and may be much greater or smaller than the latter. Thus, payments such as a social insurance contribution or a nonlife insurance premium may entitle the unit making the

payment to some contingent future benefits, and a household paying taxes may be able to consume certain collective services provided by government units, but these payments are regarded as transfers rather than exchanges.

**3.33** A distinction is made between current and capital transfers. *A capital transfer is an unrequited transfer, either in cash or in kind, linked to the acquisition, disposal, or transfer of an asset (other than cash or inventories); or where a liability is forgiven or assumed; or where the transfers are intended to address accumulated losses incurred over a multi-year period.* Capital transfers redistribute wealth but leave saving unaffected. They include, for example, capital taxes and investment grants. Other transfers are described as current. Current transfers redistribute income. They include, for example, taxes on income and social benefits. A fuller description of transfers appears in Chapter 13.

### *Rearrangements of Transactions for Statistical Purposes*

**3.34** Monetary transactions may not always be recorded in the external accounts and other macroeconomic accounts in the same way as they appear to the institutional units involved. The values of these actual, or observed, transactions are already available in the accounts of the units concerned, but in the external accounts certain transactions are rearranged to bring out the underlying economic relationships more clearly. There are three kinds of rearrangements that affect the channels through which the transactions are seen as taking place, the number of transactions that are seen as taking place, or the units that are seen as being involved. The three sections below illustrate the main characteristics of these rearrangements and the kind of analytical purpose they serve.

### *Rerouting Transactions*

**3.35** Rerouting records a transaction as taking place through channels that differ from the actual ones or as taking place in an economic sense when it does not take place in fact. In the first kind of rerouting, a direct transaction between unit A and unit C is recorded as taking place indirectly through a third unit B, usually, however, with some change in the transaction category. In the second kind of rerouting, a transaction of one kind from unit A to unit B is recorded with a matching transaction of a different kind from unit B to unit A.

**3.36** The recording of the payment of social security contributions is an example of the first kind of rerouting. In practice, employers typically deduct the contributions that the employees are obliged to make to social security funds from the employees' wages and salaries. In addition, the employers make contributions to social security funds from their own resources on behalf of the employees. Both contributions go directly from the employer to social security funds. However, in the external accounts, the employers' contributions are treated as part of remuneration of employees and are recorded as being paid to the employee. The employee is then recorded as making a payment to social security funds

consisting of both the employer's and employee's own contributions. Social security contributions are thus recorded strictly according to the general principles governing the recording of transactions in the external accounts to bring out the economic substance behind arrangements adopted for administrative convenience. As a result of the rerouting, employers' social contributions are included as a part of labor cost (see Chapter 13).

**3.37** Similarly, the transfer elements of lotteries and other gambling are transactions through the gambling operator, but they are rerouted to occur directly between those participating in the lottery or gambling, that is, between households and possibly to charities (see paragraphs 13.24–13.25).

**3.38** An example of the second kind of rerouting (also referred to as imputation in this *Manual*) is provided by the treatment of the retained earnings of direct investment enterprises. The retention of some or all of the earnings of a direct investment enterprise within that enterprise can be regarded as a deliberate investment decision by the foreign owners. Accordingly, the retained earnings are rerouted in the external accounts by showing them as first remitted to the foreign owners as property income and then reinvested in the equity of the direct investment enterprise (see paragraphs 12.42–12.49). Retained earnings of investment funds are also treated as if they were distributed to shareholders who are then deemed to reinvest them in the investment fund (see paragraphs 12.37–12.38).

**3.39** Similarly, the property income earned on the life insurance and annuity entitlements of life insurance corporations is deemed to be paid out to policyholders and then paid back again as premium supplements even though in actuality the property income is retained by the insurance corporations. As a result, the saving of persons or households includes the amount of the rerouted property income while the saving of insurance corporations does not. This alternative picture of saving, which better reflects economic reality, is the purpose of the rerouting (see paragraph 12.98 and Annex 8).

**3.40** Another example of the second kind of rerouting relates to government having a nonresident unit that undertakes fiscal functions related to government borrowing or incurring government outlays abroad between the government and the nonresident unit related to these fiscal activities. In these cases, transactions are imputed in the accounts of both the government and the nonresident unit to reflect the fiscal activities of the government (see paragraphs 8.21–8.23).

**3.41** A further example of this type of rerouting, i.e., the recording of implicit taxes or subsidies associated with a multiple exchange rate regime is discussed in paragraphs 8.99, 8.100, and 8.109, 2025 SNA.

*Partitioning Transactions*

**3.42** Partitioning records a transaction that is a single transaction from the perspective of the parties involved as two or more differently classified transactions. For example, the rental actually paid by the lessee under a financial lease is not recorded as a payment for a service; instead, it is partitioned into two transactions, a repayment of principal and a payment of interest. This partitioning of the rental payment is part of a treatment that implements an economic view of financial leasing in the external accounts. Financial leasing is viewed as a method of financing the purchase of a fixed asset and a financial lease is shown in the external accounts as a loan from the lessor to the lessee. (For a further elaboration, see Chapter 5)

**3.43** Another example is the treatment of certain financial services. For example, the external accounts prescribe partitioning interest payable by financial intermediaries on deposits and payable to financial intermediaries on loans into two components. One component represents interest as defined in the external accounts, while the remainder represents the purchase of financial intermediation services for which the intermediaries do not charge explicitly. The purpose of the partitioning is to make the service item explicit. In consequence, intermediate and final consumption of particular industries and institutional sectors as well as gross domestic product (GDP) are affected. However, the saving of all the units concerned, including the financial intermediaries themselves, is not affected (see paragraphs 11.82–11.88).

**3.44** Partitioning is also involved when a financial derivative is settled with the delivery of the underlying asset. This single event should be broken down into a transaction in the financial derivative and a separate transaction in the underlying asset.

**3.45** A final example of partitioning transactions concerns the recording of package tours offered by tour operators, where it is recommended to unbundle the total amounts paid into the various service components (see Box 11.2).

*Reassigning Transactions*

**3.46** Reassignment refers to the recording of a (financial) transaction arranged by a third party on behalf of others as taking place directly by the two principal parties involved. Many service activities consist of one unit arranging for a (financial) transaction to be carried out between two other units in return for a fee from one or both parties to the transaction. In such a case, the (financial) transaction is recorded exclusively in the accounts of the two parties engaging in the transaction and not in the accounts of the third party facilitating the transaction. Some service output may be recognized with the facilitator. For example, purchases a commercial agent makes under the orders of, and at the expense of, another

party are directly attributed to the latter. The accounts of the agent only show the fee charged to the principal for the facilitation services rendered.

**3.47** A second example is the collection of taxes by one government unit on behalf of another. The external accounts follow the guidance of the *GFSM 2014*. In general, a tax is attributed to the government unit that:

- exercises the authority to impose the tax (either as a principal or through the delegated authority of the principal), and
- has final discretion to set and vary the rate of the tax.

**3.48** Any amount retained by the collecting government unit, such as under a tax-sharing arrangement, should be treated as a current transfer. If the collecting government unit was delegated the authority to set and vary the rate, then the amount collected should be treated as tax revenue of this government unit.

**3.49** Where different government units jointly and equally set the rate of a tax and jointly and equally decide on the distribution of the proceeds, with no individual government unit having ultimate overriding authority, then the tax revenues are attributed to each government unit according to its respective share of the proceeds. If an arrangement allows one government unit to exercise ultimate overriding authority, then all of the tax revenue is attributed to that unit.

**3.50** There may also be the circumstance where a tax is imposed under the constitutional or other authority of one government unit, but other government units individually set the tax rate in their jurisdictions. The proceeds of the tax generated in each respective government unit's jurisdiction are attributed as tax revenues of that government unit.

**3.51** Similar principles are applied for the payment of subsidies or social benefits.

## **Nonmonetary Transactions**

**3.52** *Nonmonetary transactions are transactions that are not initially stated in units of currency.* The entries in the external accounts therefore represent values that are indirectly measured or otherwise estimated. In some cases, the transaction may be an actual one and a value has to be estimated to record it in the accounts. Barter is an obvious example. In other cases, the entire transaction must be constructed and then a value estimated for it. Depreciation is an example.

**3.53** The amounts of money associated with nonmonetary transactions are entries whose economic significance is different from cash payments as they do not represent freely disposable sums of money. The various methods of valuation to be employed for nonmonetary transactions are dealt with in the Section E on valuation.



**3.54** Nonmonetary transactions can be either two-party transactions or actions within an institutional unit. The two-party transactions consist of barter transactions, remuneration in kind, payments in kind other than remuneration in kind, and transfers in kind. These two-party transactions are discussed first, followed by a discussion of internal transactions.

**3.55** Although two-party transactions in kind do exist in practice, in the external accounts they are frequently recorded in the same way as a monetary transaction with an associated expenditure of the item provided in kind. This ensures that there is a change in wealth of the donor without the donor acquiring the product transferred while the recipient acquires the product without any change in wealth. There is further discussion on this in respect of current transfers in Chapter 13 and of capital transfers in Chapter 14.

#### *Barter Transactions*

**3.56** Barter transactions involve two parties, with one party providing a good, service, or asset other than cash to the other in return for a good, service, or asset other than cash. As mentioned above, barter is an example of an actual transaction for which a value must be estimated. Barter transactions in which goods are traded for goods have always been important. The barter of goods may be systematically organized on proper markets or, in some countries, may occur only sporadically on a small scale. Barter between nations, involving exports and imports, also occurs. As crypto assets without a corresponding liability designed to act as a medium of exchange are classified as nonproduced nonfinancial assets, any payments with these crypto assets are also barter transactions.

#### *Remuneration in Kind*

**3.57** Remuneration in kind occurs when an employee accepts payment in the form of goods and services instead of money or another financial asset. This practice is extensive in most economies for reasons ranging from the desire of employers to find captive markets for part of their output, to tax avoidance or evasion. Remuneration in kind takes various forms and the following list includes some of the most common types of goods and services provided without charge, or at reduced prices, by employers to their employees:

- Meals and drinks;
- Housing services or accommodation of a type that can be used by all members of the household to which the employee belongs;
- The services of vehicles provided for the personal use of employees;
- Goods and services produced as outputs from the employer's own processes of production, such as free transport services provided to employees of transport companies.

Further, in addition to goods and services, some employees may be willing, or obliged, to accept part of their remuneration in the form of financial or other assets.

### *Payments in Kind Other Than Remuneration in Kind*

**3.58** Payments in kind other than remuneration in kind occur when any of a wide variety of payments is made in the form of goods and services rather than money. For example, a doctor may accept payment in wine instead of money. Or, instead of paying rent or rentals in money, the user of land or fixed capital, respectively, may pay the owner in goods or services. In agriculture, for example, the “rent” may be paid by handing over part of the crops produced to the landlord. (This is known as share cropping.) Tax payments, also, may be paid in kind; for example, inheritance taxes may be paid by making donations of paintings or other valuables.

### *Transfers in Kind*

**3.59** As noted above, transactions in kind are normally recorded in the accounts as if they are monetary transfers followed by the expenditure by the recipient on the products concerned. This treatment applies to government international cooperation, gifts, and charitable contributions. Government international cooperation, gifts, and charitable contributions are often made in kind for convenience, efficiency, or tax purposes. For example, international aid after a natural disaster may be more effective and delivered faster if made directly in the form of medicine, food, and shelter instead of money. Charitable contributions in kind sometimes avoid taxes that would be due if the item in question were sold, and the money given to the charity.

**3.60** A special case of transfers in kind is that of social transfers in kind. These consist of goods and services provided by general government and nonprofit institutions serving households (NPISHs) that are delivered to individual households. Health and education services are the prime examples. Rather than provide a specified amount of money to be used to purchase medical and educational services, the services are often provided in kind to make sure that the need for the services is met. (Sometimes the recipient purchases the service and is reimbursed by the social insurance or social assistance scheme. Such a transaction is still treated as being in kind because the recipient is merely acting as the agent of the social insurance scheme.)

## **Externalities and Illegal Actions**

**3.61** The sub-sections above describe the kinds of actions that are considered transactions in the external accounts. This section focuses on externalities and illegal actions, explaining why externalities are not considered transactions and distinguishing among kinds of illegal actions that are and are not considered transactions.

*Externalities*

**3.62** Certain economic actions carried out by institutional units cause changes in the condition or circumstances of other units without their consent. These are externalities; they can be regarded as unsolicited services, or disservices, delivered without the agreement of the units affected. A negative externality is an uncooperative action with undesirable consequences, which is the antithesis of a market transaction. On the other hand, a positive externality is one where actions carried out by institutional units have a positive impact, for example more positive health outcomes related to expenditures to increase the level of education.

**3.63** It is necessary to consider, however, whether values should be assigned to such externalities. As externalities are not market transactions into which institutional units enter of their own accord, there is no mechanism to ensure that the positive or negative values attached to externalities by the various parties involved would be mutually consistent. Moreover, accounts including values for externalities could not be interpreted as representing equilibrium, or economically sustainable, situations. If such values were to be replaced by actual payments, the economic behavior of the units involved would change, perhaps considerably. See paragraphs 4.67–4.69xx, 2025 SNA for additional information.

*Illegal Actions*

**3.64** Macroeconomic statistics, including the integrated framework of national accounts and external accounts, cover all economic phenomena irrespective of whether they are illegal or legal. Illegal actions that fit the characteristics of transactions (notably the characteristic that there is mutual agreement between the parties) are therefore treated the same way as legal actions. The production or consumption, including exports and imports, of certain goods or services, such as narcotics, may be illegal, but market transactions in such goods and services have to be recorded in the accounts. It is important to note that the differences in the definition of illegal transactions between economies or within an economy over time would cause inconsistencies in the external accounts if illegal transactions were omitted. Furthermore, illegal transactions generally affect other legal transactions (e.g., certain legal financial assets may be purchased with income generated through illegal transactions). If expenditures on illegal goods or services by households were to be ignored on grounds of principle, household saving would be overestimated and households presumed to obtain assets that they do not in fact acquire. Similarly, if exports and imports of illegal goods and services were to be ignored, the external balance on goods and services would be misrepresented. Clearly, the accounts as a whole are liable to be seriously distorted if monetary transactions that in fact take place are excluded. It may be difficult to obtain high-quality estimates about illegal transactions, but in principle they should be included in the accounts if only to reduce error in other items, including balancing items.

**3.65** If thefts, or acts of violence (including war), involve significant redistributions, or destructions, of assets, it is necessary to take them into account. As explained below, they are treated as other flows, not as transactions.

## 2. OTHER FLOWS

**3.66** *Other flows are changes in the value of assets and liabilities not due to transactions. They consist of other changes in the volume of assets and liabilities and revaluations. In the external accounts, the other changes in assets and liabilities are restricted to those relating to financial assets and liabilities.* The reason that these flows are not transactions is linked to their not meeting one or more of the characteristics of transactions. For example, the institutional units involved may not be acting by mutual agreement, as with an uncompensated seizure of assets. Or the change may be due to a natural event such as an earthquake rather than a purely economic phenomenon. Alternatively, the value of an asset expressed in foreign currency may change as a result of an exchange rate change. In the context of the external accounts, other flows are recorded only for financial assets and liabilities that represent claims on and liabilities to nonresidents and gold bullion, because the IIP relates only to external financial assets and liabilities. The following text describes other flows in a broad sense.

**3.67** The entries for other flows appear in one of the two accounts that comprise the other changes in assets and liabilities accounts. The other changes in the volume of assets and liabilities account includes changes that lead to a change in value of an asset because of a change in the quantity or physical characteristics of the asset in question. The revaluation account includes changes in the value of assets, liabilities, and net worth due to only changes in the level and structure of prices, which are reflected in holding gains and losses.

### Other Changes in the Volume of Assets and Liabilities

**3.68** Other changes in the volume of assets and liabilities fall into three main categories.

**3.69** The first category relates to the appearance and disappearance of assets and liabilities other than by transactions. Some of these may relate to naturally occurring assets, such as mineral and energy resources, so that the entrances come about as interactions between institutional units and nature. Others relate to assets created by human activity, such as valuables. For valuables, for example, the capital account records their acquisition as newly produced goods or imports in transactions, and it records transactions in existing goods already classified as valuables. It is the recognition of a significant or special value for goods not already recorded in the balance sheets that is considered an economic appearance to be recorded as an other flow. These valuables may not be in the balance sheets for any of several reasons. For example, they may antedate the accounts or were originally recorded as consumption goods.

**3.70** Write-offs of claims by creditors, as well as monetization and demonetization of gold bullion, also typically feature under this first category. However, if debt forgiveness is provided, such as in a noncommercial setting, transactions are recorded. In the case of debt cancellations, it may sometimes be unclear whether they should be classified as transactions or other flows. In commercial settings, in the absence of specific information, debt cancellation can be treated as other changes in the volume of assets and liabilities. On the other hand, assumption of debts arising from the activation of guarantees and rescheduling of debts is typically the result of a mutual agreement between the parties involved, and, hence, should be classified as transactions (see Box 8.1 for more details).

**3.71** Crypto assets without a corresponding liability designed to act as a general medium of exchange, or designed to act as a medium of exchange within a platform or network only are treated as nonproduced nonfinancial assets. However, when these crypto assets are brought into circulation in exchange for production activities (e.g., proof-of-work, proof-of-stake, etc.), the emergence of the newly circulated crypto assets are not to be recorded as an other change in the volume of assets. Instead, the payments for the validation services are typically recorded, by convention, as cross-border transactions in crypto assets payable by the owners of the existing crypto assets to the producer of the services, with the new crypto assets, diluting the value of existing crypto assets. For a more elaborated example of the recording the validation of crypto assets, see Box 11.5. For more general information on the recording and classification of crypto assets, see chapter 22.

**3.72** The second category relates to the effects of externalities and disasters. One such event is one institutional unit's effectively removing an asset from its owner without the owner's agreement, an action that is not considered a transaction because the element of mutual agreement is absent. These events also include those that destroy assets, such as natural disaster or war. In contrast, transactions, such as depreciation, depletion, or change in inventories, refer to normal rates of loss or damage.

**3.73** The third category relates to changes in assets and liabilities that reflect changes in the classification of institutional units among sectors and in the structure of institutional units, or in the classification of assets and liabilities. For example, if an unincorporated enterprise becomes more financially distinct from its owner and takes on the characteristics of a quasicorporation, it and the assets and liabilities it holds move from the household sector to the nonfinancial corporations' sector and changes in the sector allocation of the assets and liabilities owned by the quasicorporation are recorded under this heading.

**3.74** Finally, changes in the status of existing financial claims and liabilities arising from the change in residence of individuals from one economy to another are treated as other changes in the volume of assets and liabilities. These flows result from a change in the

classification of the owner's residence status, and hence, they should not be classified as transactions (see also paragraphs 9.37–9.38).

### Revaluations (Holding Gains and Losses)

**3.75** Positive or negative nominal holding gains accrue during the accounting period to the owners of assets and liabilities as a result of a change in their prices. Holding gains are sometimes described as “capital gains,” but the term “holding gains” is preferred here because it emphasizes that holding gains accrue purely as a result of holding assets or liabilities over time without transforming them in any way. Holding gains include not only gains on “capital” such as fixed assets, land, and financial assets but also gains on inventories of all kinds of goods held by producers, including work-in-progress. Holding gains may accrue on assets held for any length of time during the accounting period, not only on assets held throughout the period and may thus appear for assets appearing on neither the opening balance sheet nor the closing balance sheet. In external accounts, revaluations are further classified into those that are due to exchange rate changes and those that are due to other price changes.

## C. STOCKS

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**3.76** Stocks, which in the case of financial assets and liabilities are also often referred to as positions, relate to the level of assets or liabilities at a point of time. In order to discuss stocks, it is necessary to define assets and liabilities, and these definitions depend crucially on the concepts of economic benefits and ownership. Once the definitions are clear, the way in which assets and liabilities are classified within a balance sheet are touched on as well as the way in which items enter and leave the balance sheet.

### 1. TYPES OF ASSETS AND LIABILITIES

**3.77** *Financial assets consist of all financial claims and gold bullion held by monetary authorities as a reserve asset.* Gold bullion held by monetary authorities as a reserve asset is treated as a financial asset (see paragraphs 6.69–6.75 for the definition of reserve assets) even though the holders have no claim over other designated units.

**3.78** The IIP covers financial assets and liabilities that have an external character. All financial claims involve two parties, so they have an external character if the claim is on a nonresident. Similarly, all liabilities involve two parties, so they have an external character if the obligation is to a nonresident. The gold bullion component of monetary gold is the only case of a financial asset with no counterpart liability; its external character arises from the historical role of gold in the international financial system. The IIP is described in Chapter 7.

**3.79** All items that meet the definition of an asset given above are included in the asset boundary of the integrated framework of the SNA and external accounts. Assets that are not financial assets are nonfinancial assets. In the case of nonfinancial assets, a distinction can be made between those that are produced and those that are nonproduced. In the balance sheet classification used in the sequence of economic accounts of the SNA, a similar distinction has been applied, although natural resources, both produced and nonproduced, have been grouped together to emphasize the special character of this group of nonfinancial assets.

## **2. ENTRY AND EXIT OF ASSETS FROM THE BALANCE SHEET**

**3.80** All assets owned by (notional) resident units appear on the balance sheet of the domestic economy. The first level of classification of assets distinguishes four types of assets: produced nonfinancial assets (excluding produced natural resources); nonproduced nonfinancial assets (excluding nonproduced natural resources); natural resources, and financial assets (and liabilities).

**3.81** Produced nonfinancial assets come into being via the production process or as imports. The same holds for produced natural resources, such as cultivated biological resources yielding repeat products. Produced nonfinancial assets leave the asset boundary by being exhausted or by being sold to resident units that will not continue to use the asset in production as a source of future economic benefits or by being sold to nonresident units.

**3.82** Nonproduced nonfinancial assets, excluding nonproduced natural resources, are of three types; contracts, leases, and licenses; crypto assets without a corresponding liability designed to act as a medium of exchange; and marketing assets. Contracts, leases, and licenses may represent an asset to the holder when the agreement restricts the general use or supply of products covered by the agreement and thus enhances the economic benefits accruing to the party to the agreement beyond what would accrue in the case of unrestricted supply. These assets come into existence when the agreement is made, and the enhanced economic benefits become apparent. They leave the balance sheet when the conditions restricting access are lifted or when there is no longer an economic benefit to be earned from having restricted access to the asset. Crypto assets without a corresponding liability designed to act as a medium of exchange come into circulation via the work of miners that use software to solve cryptographic puzzles (proof-of-work) and validate transactions on the blockchain. They may also be released via an explicit sale and/or as payment to validators that validate transactions in different ways than via proof-of-work (e.g., via proof of stake or proof of authority). However, these crypto assets are considered as nonproduced assets because the miners or validators, who may (partly) receive crypto assets in return, are considered to be producers of validation services, not as producers of the assets

themselves. Marketing assets are only recognized as assets in the external accounts when they are evidenced by a sale.

**3.83** Financial assets and liabilities come into being when a commitment is made by one unit to make a payment to another unit. They cease to exist when there is no longer a commitment for one unit to make payments to the other. This may be because the term of the agreement specified in the commitment has expired or for other reasons.

## D. BALANCING ITEMS

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**3.84** *A balancing item is an accounting construct obtained residually as the difference between the total value of the entries on one side of an account (credits, revenues, or changes in liabilities) and the total value of the entries on the other side (debits, expenditures, or changes in assets). It cannot be measured independently of the entries in the account.* It does not relate to any specific set of transactions, or any set of assets, and so it cannot be expressed in terms of its own price or quantity units.

### Balancing Items in the Flow Accounts

**3.85** Balancing items are not simply devices introduced to ensure that accounts balance. They are often used as key macroeconomic indicators to assess economic performance. They encapsulate a great deal of information and include some of the most important entries in the accounts.

**3.86** In the external accounts, some important measures derived as balances for the accounts containing flows are as follows:

- Balance on trade in goods;
- Balance on trade in services;
- Balance on goods and services;
- Balance on goods, services, and earned income;
- Current account balance;
- Net lending /net borrowing
  - from current and capital accounts
  - from financial account;
- Changes in net IIP arising from other flows (in total, and for each of other changes in volume, exchange rate changes, and other price changes).



## Balancing Items in the Balance Sheets

**3.87** In the external accounts, the main balancing item derived from stocks is the net IIP, which represents the total external financial assets minus total external liabilities.

**3.88** This list is not comprehensive; other balancing items can be derived as needed for analysis. For example, balances on components in the financial account may be of interest, such as net direct investment or net portfolio investment.

## E. ACCOUNTING RULES

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**3.89** This section covers the quadruple entry accounting principle, valuation, time of recording, classification of accounting entries and grouping of transactions. The application of each of these to the individual flows and stocks is explained in detail in the chapters that describe the entries in the various tables and accounts of the BOP and integrated IIP. The details on classifications of accounting entries are discussed, account by account, in Chapters 7–14.

### 1. QUADRUPLE-ENTRY ACCOUNTING

**3.90** The accounting system underlying the external accounts derives from broad bookkeeping principles. To understand the accounting system for the sequence of economic accounts, three bookkeeping principles can be distinguished:

1. Vertical double-entry bookkeeping, also known as simply double-entry bookkeeping used in business accounting,
2. Horizontal double-entry bookkeeping, and
3. Quadruple-entry bookkeeping.

### Vertical Double-Entry Bookkeeping – Corresponding Entries

**3.91** The main characteristic of vertical double-entry bookkeeping is that each transaction leads to at least two entries, traditionally referred to as a credit entry and a debit entry, in the books of the transactor. This principle ensures that the total of all credit entries and that of all debit entries for all transactions are equal, thus permitting a check on consistency of accounts for a single unit. Each transaction requires two entries. The external accounts for an economy are to be compiled on a vertical-double entry bookkeeping basis from the perspective of the residents of that economy.

**3.92** In the external accounts, net IIP provides a measure of net financial claims with nonresidents plus gold bullion held as monetary gold. This term is discussed in paragraph 7.1.

## Horizontal Double-Entry Bookkeeping – Counterpart Entries

**3.93** The concept of horizontal double-entry bookkeeping is useful for compiling accounts that reflect the mutual economic relationships between different institutional units in a consistent way. It implies that if unit A provides something to unit B, the accounts of both A and B show the transaction for the same amount: as a payment in A's account and as a receipt in B's account. Horizontal double-entry bookkeeping ensures the consistency of recording for each transaction category by counterparties. For example, dividends payable throughout the economy should be equal to dividends receivable throughout the economy once transactions with the rest of the world are taken into account. While the horizontal double entry applies to the national accounts of a particular country, similar principles apply to external accounts at a worldwide level: for example, at the worldwide level, dividends payable by all economies should be equal to dividends receivable by all economies.

## Quadruple-Entry Bookkeeping

**3.94** The simultaneous application of both the vertical and horizontal double-entry bookkeeping results in a quadruple-entry bookkeeping, which is the accounting system underlying the recording in the sequence of economic accounts in the national accounts and external accounts. Additionally, definitions, classifications, and accounting principles in the external accounts are derived from the viewpoint of conceptual symmetry as well as symmetric reporting by partner economies. The quadruple-entry system deals in a coherent way with multiple transactors or groups of transactors, each of which satisfies vertical double-entry bookkeeping requirements. A single transaction between two counterparties thus gives rise to four entries. In contrast to business bookkeeping, the sequence of economic accounts in the national accounts and external accounts deal with interactions among a multitude of units in parallel, and thus require special care from a consistency point of view. As a liability of one unit is mirrored in a financial asset of another unit, for instance, they should be identically valued, allocated in time, and classified to avoid inconsistencies in aggregating balance sheets of units (by sectors or for the total economy in the case of national accounts, or regional or global totals in the case of external accounts). The same is also true for all transactions and other flows that affect balance sheets of two counterparties.

## Types of Accounting Entries

**3.95** The external accounts use the following conventions and terminologies for recording transactions. In the current and capital accounts, a credit/revenue denotes entries from exports, earned income receivable, transfers receivable, and disposals of nonproduced nonfinancial assets. A debit/expenditure is used to record entries for imports, earned income payable, transfers payable, and acquisitions of nonproduced nonfinancial assets.

**3.96** In the case of transactions in financial assets and liabilities, the terms “net acquisition of financial assets” and “net incurrence of liabilities” are used. Financial account items are recorded on a net basis separately for each financial asset and liability (i.e., they reflect changes due to all credit and debit entries during an accounting period). The use of the terms “net acquisition of financial assets” and “net incurrence of liabilities” highlights the impact of the financial account on the IIP. The use of these terms also simplifies the interpretation of data. A positive change indicates an increase in assets or liabilities and a negative change indicates a decrease in assets or liabilities. The interpretation of increase or decrease under the credit or debit notion, however, depends on whether the increase or decrease refers to assets or liabilities (a debit for an asset is an increase; a debit for a liability is a decrease). Although the debit and credit presentation is not emphasized for the financial account transactions, it is important to recognize and maintain the accounting identities. For example, a credit is always conceptually matched with a corresponding debit, the latter relating to either an increase in an asset or a reduction in a liability (see Box 2.1). The conventions for aggregation, consolidation, and netting assets against liabilities are described further below.

## 2. VALUATION

### General Rules

**3.97** The power of the external accounts as analytical tools stems largely from their ability to link numerous, very varied economic phenomena by expressing them in a single accounting unit. The external accounts do not attempt to determine the utility of the flows and stocks that come within their scope. Rather, they measure the current exchange value of the entries in the accounts in monetary terms.

**3.98** In line with the above, the current exchange value, often labeled as the “market price”, refers to the value at which goods, services, labor, or assets are exchanged, or else could be exchanged, for cash (currency or transferable deposits). Exchange prices are the basis for valuation of transactions in the external accounts. This section describes the general principles for valuation of flows and positions.

### Valuation of Transactions

**3.99** Exchange prices for transactions are defined as amounts of money that willing buyers pay to acquire something from willing sellers; the exchanges are made between independent parties and on the basis of commercial considerations only, sometimes called “at arm’s length.” Thus, according to this strict definition, an exchange price refers only to the price for one specific exchange under the stated conditions. A second exchange of an identical unit, even under circumstances that are almost exactly the same, could result in a different exchange price. An exchange price defined in this way is to be clearly distinguished

from a price quoted in the market, a world market price, a going price, a fair market price, or any price that is intended to express the generality of prices for a class of supposedly identical exchanges rather than a price actually applying to a specific exchange.

Furthermore, an exchange price should not necessarily be construed as equivalent to a free market price; that is, a market transaction should not be interpreted as occurring exclusively in a purely competitive market situation. In fact, a market transaction could take place in a monopolistic, monopsonistic, or any other market structure. Indeed, the market may be so narrow that it consists of the sole transaction of its kind between independent parties.

**3.100** When a price is agreed by both parties in advance of a transaction taking place, this agreed, or contractual, price is the exchange price for that transaction regardless of the prices that prevail when the transaction takes place.

**3.101** The observed market transactions in most cases will represent exchange values as described in the preceding paragraph. Paragraphs 3.113–3.116 describe cases where actual exchange values may not represent market prices. Transactions that involve dumping and discounting represent exchange prices. Transaction prices for goods and services are inclusive of appropriate taxes and subsidies. An exchange price is the price payable by the buyer after taking into account any rebates, refunds, adjustments, etc. from the seller.

**3.102** Transactions in financial assets and liabilities are recorded at the prices at which they are acquired or disposed of. Transactions in financial assets and liabilities should be recorded exclusive of any commissions, fees, and taxes whether charged explicitly, included in the purchaser's price, or deducted from the seller's proceeds. This is because both debtors and creditors should record the same amount for the same financial instrument. The commissions, fees, and taxes should be recorded separately from the transaction in the financial asset and liability, under appropriate categories. The valuation of financial instruments, which excludes commission charges (to be recorded as transactions in services), differs from the valuation of nonfinancial assets, which includes any costs of ownership transfer.

**3.103** When exchange prices for transactions are not observable, valuation according to market price equivalents provides an approximation to exchange prices. In such cases, exchange prices of the same or similar items when such prices exist will provide a good basis for applying the principle of exchange prices. Generally, exchange prices should be taken from the markets where the same or similar items are traded currently in sufficient numbers and in similar circumstances. If there is no appropriate market in which a particular good or service is currently traded, the valuation of a transaction involving that good or service may be derived from the exchange prices of similar goods and services by making adjustments for quality and other differences.

**3.104** If there is no appropriate market from which the value of a particular item can be taken by analogy, its valuation may be derived from prices that are established in less closely related markets. Ultimately, some goods and services can only be valued by the amount that it would cost to produce them currently. Output valued in this way should include a mark-up that reflects the net return to capital used in the production of the relevant goods and services.

**3.105** More details on the methods for valuing transactions are provided in the appendix to this chapter, while the valuation of specific types of flows is discussed in further detail in relevant chapters.

### *Barter Transactions*

**3.106** The case of barter transactions requires specific consideration. The products bartered must be valued when produced as well as when acquired for consumption or for capital formation. While it may often be the case that for small scale barter transactions entered into by the producer, there are no taxes on products payable (or if they are nominally payable, the conditions of the barter mean they are avoided and not paid), there is no automatic exclusion of bartered products from liability to taxes on products. Subsidies on bartered products are possible conceptually but unlikely to be significant. By the nature of barter, there are no wholesale or retail margins applicable to bartered products. Goods subject to barter may, however, have associated transportation costs. If the unit providing the goods for barter also provides the transport, this will, in general, mean that the barter “package” includes some transportation services and the value to the recipient will be a purchaser’s price including this transportation cost. If the unit receiving the goods must provide the transport, this may reduce the valuation of the goods to the recipient.

**3.107** Barter transactions may concern new or existing goods acquired by one party to the barter in which case the value to that party will be the cost of acquisition (in the case of new goods) or the realizable value in the case of existing goods.

**3.108** Barter transactions necessarily involve two units and (at least) two products. Each unit may place a different value on either item being bartered. In such a case, since the accounting rules of the external accounts require a single value to be recorded for both parties, on pragmatic grounds a simple average of the different valuations (after allowing for any taxes and transportation costs) may be taken as the value of the transaction.

**3.109** Barter transactions do not always take place simultaneously. When this is not the case, an account receivable/payable should be recorded even though neither part of the barter transaction takes place in monetary terms.

*Quotation Prices*

**3.110** Market valuation also poses problems for transactions in goods in which the contracts establish a quotation period often months after the goods have changed hands. In such cases, the exchange value at the time of change of ownership should be estimated. The estimate should be revised with the observed exchange value, when known. The exchange value is given by the contract price even if it is unknown at the time of change of ownership.

*Valuation of Transfers in Kind*

**3.111** When nonfinancial resources are provided without a quid pro quo, such resources should be valued at the prices that would have been received if the resources had been sold in the market. In the absence of an observable market price, the donor's view of the imputed value of the transaction will often be quite different from that of the recipient. The suggested rule of thumb is to use the value assigned by the donor as a basis for recording.

*Acquisition of Goods Under Financial Lease*

**3.112** Acquisition of goods under financial lease should be valued at exchange prices at the time of acquisition, if such prices are available. When no price is determined, it may be necessary to use the estimated written-down current acquisition values of fixed assets or the present value of expected future economic benefits.

*Transfer Pricing*

**3.113** In some cases, observed exchange values may not represent market prices. Examples are transactions involving distorted transfer prices between affiliated enterprises, manipulative agreements with third parties, and certain noncommercial transactions, including concessional interest (that is, interest payable at a reduced rate as a matter of policy). Prices may be under- or over-invoiced, in which case an assessment of a market equivalent price needs to be made. Although adjustment should be made when the observed exchange values do not represent market prices, this may not be practical in many cases. Adjusting the actual exchange values to reflect market prices will have consequences in other accounts. Therefore, when such adjustments are made, corresponding adjustments in other accounts should also be made, for example, if prices of goods are adjusted, associated income account or financial account transactions or both should also be adjusted. Moreover, the adjustments need to be made consistently in the accounts of both units involved in the transaction. This may be difficult to apply in practice in the case the relevant units are resident in different countries, and the statistical offices responsible for making the adjustments represent different countries as well.

**3.114** Values put on an invoice may deviate systematically or to such a large extent from the prices paid in the market for similar items that it must be presumed that the sums paid cover more than the specified transactions. An example is so-called transfer pricing: affiliated enterprises may set the prices of the transactions among themselves artificially high or low in order to effect an unspecified income payment or capital transfer. Such transactions should preferably be made explicit if their value is considerable and would hinder a proper interpretation of the accounts. In some cases, transfer pricing may be motivated by income distribution or equity build-ups or withdrawals. Replacing book values (transfer prices) with market value equivalents is desirable in principle, when the distortions are large and when availability of data (such as adjustments by customs or tax officials or from partner economies) makes it feasible to do so. Selection of the best market value equivalents to replace book values is an exercise calling for cautious and informed judgment.

**3.115** The exchange of goods between affiliated enterprises may often be one that does not occur between independent parties (for example, specialized components that are usable only when incorporated in a finished product). Similarly, the exchange of services, such as management services and technical know-how, may have no near equivalents in the types of transactions in services that usually take place between independent parties. Thus, for transactions between affiliated parties, the determination of values comparable to market values may be difficult, and compilers may have no choice other than to accept valuations based on explicit costs incurred in production or any other values assigned by the enterprise. The valuation of management fees and other similar cases in the case of balance of payments is elaborated in paragraph 11.111.

**3.116** All in all, because of all the complexities involved to arrive at a consistent recording of the adjustments, not to mention the availability of relevant information on the distortions in the observed exchange values, national accounts and external accounts often refrain from trying to approximate true market prices. Here, one can also add that the observed exchange values, which may be motivated by global tax avoidance or other reasons, also represent an economic reality of its own, albeit not one which is based on market prices and other commercial considerations.

### *Concessional Pricing*

**3.117** While some noncommercial transactions, such as a grant in kind, have no exchange price, other noncommercial transactions may take place at implied prices that include some element of grant or concession so that those prices also are not market prices. Examples of such transactions could include negotiated exchanges of goods between governments and government loans bearing lower interest rates than those with similar grace and repayment periods or other terms for purely commercial loans. Concessional lending by governments is

described in Chapter 30, *2025 SNA*. Other examples of concessional lending may relate to the provision of loans at reduced interest rates by employers to their employees. In the sequence of economic accounts of national accounts and external accounts, adjustments for concessional lending are restricted to the latter; the provision of adjusted information on concessional lending in a nonmarket context by governments, central banks and international organizations is encouraged as supplementary items. See paragraph 14.41 for further guidance on the treatment and recording of concessional loans.

**3.118** Transactions by general government bodies and private nonprofit units not engaged in purely commercial undertakings are often subject to noncommercial considerations. However, transfers involving provision of goods and services may also be provided or received by other sectors of the economy.

### **Valuation of Assets and Liabilities**

**3.119** As a general principle, stocks of assets and liabilities should be valued as if they were being acquired on the date to which the balance sheet relates. This implies that when they are exchanged on a market, assets and liabilities are to be valued using a set of prices that are current on the date to which the balance sheet relates and that refer to specific assets.

**3.120** It is important though to make a clear distinction between the initial recognition of assets, and the subsequent valuation of assets. Regarding the initial recognition, i.e., the time at which the asset (or liability) enters the balance sheet, the valuation principles for valuing transactions are relevant. When it comes to the subsequent valuation, it is often not possible to use a set of prices that are current on the date to which the balance sheet relates, because there are no active markets in which the relevant assets are traded. This is not only true for most nonfinancial assets, certainly when taking into account the second-hand nature and the partial depreciation of these assets, but also for various financial instruments. As a consequence of the unavailability of observable market or near-market prices, alternative valuation methods need to be applied to arrive at an appropriate valuation.

**3.121** Many financial assets are traded in markets on a regular basis and therefore can be valued by directly using the price quotations from these markets. If the financial markets are closed on the balance sheet date, the market prices that should be used in the valuation are those that prevailed on the closest preceding date when the markets were open. Debt securities have a current market value as well as a nominal value, and it is recommended to compile supplementary data on the nominal values of positions of debt securities as well. (See paragraph 3.2344 in the Appendix to this chapter for the definition of nominal value.)



**3.122** Valuation according to market value equivalents is needed for valuing financial assets and liabilities that are not traded in financial markets or are traded only infrequently. For these assets and liabilities, it will be necessary to estimate fair values that, in effect, approximate market prices. The present value of future cash flows can also be used as an approximation to market prices, provided an appropriate discount rate can be used.

**3.123** For most nonnegotiable financial assets, particularly those with a face value applicable at some point in the future (e.g., loans, deposits, trade credit and advances, and other accounts receivable/payable), the present market value can be established as the face value discounted to the present by the market interest rate. In principle, therefore, if a reasonably robust estimate of the stream of future earnings to come from an asset can be made, along with a suitable discount rate, this allows an estimate of the present value of future economic benefits to be established. However, another principle for valuing stocks is the need for consistency in the valuation of debtor and creditor positions for financial instruments. This is one of the pragmatic reasons to apply nominal values for financial instruments, such as deposits and loans, which are nonnegotiable and not (actively) traded on the market. Moreover, conceptually, the nominal value of a debt instrument can also be calculated by discounting future interest and principal payments at the existing contractual interest rate(s) on the instrument; these interest rates may be fixed rate or variable rate. However, some would argue that such a valuation is somewhat inconsistent with a valuation at fair value of the relevant asset positions, while others would argue that nominal values, reflecting the actual payments of principal to be made in the future, including interest accrued to date, can be considered as a good approximation of the fair value. Nominal value is also considered useful because it shows the actual legal liability and the starting point of creditor recovery behavior. It is recognized, however, that nominal value provides an incomplete view of the financial position, particularly when the loans are nonperforming. Therefore, information on the nominal value of nonperforming loans should be included as a supplementary item (see paragraph 7.57 for specific details). Loans that have become negotiable de facto should be reclassified under debt securities (see paragraph 5.52).

**3.124** Positions on deposits, trade credit and advances, and other accounts receivable/payable are also recorded at nominal value. They give rise to the same issues of nominal and fair values as loans. Deposits at banks and other deposit-taking corporations in liquidation should also be recorded at their nominal value until they are written off. If significant, however, such deposits should be shown separately as a supplementary item. The same treatment is applicable for any other cases of impaired deposits (i.e., where the deposit-taking corporation is not in liquidation but faces liquidity issues).

**3.125** When securities are quoted on markets with a buy-sell spread, the midpoint should be used to value the instrument. The spread is an implicit service of the dealer, paid by buyers and sellers (see paragraphs 11.76–11.78). Similarly, positions in financial

assets and liabilities denominated in foreign currency should be valued using the midpoint at close of business between the buying and selling rates on the reference date.

**3.126** For a restricted group of financial instruments, the above valuation methods cannot be applied. Examples relate to unlisted equity and defined benefit pension entitlements. While for the latter the present value of future pension benefits is the generally accepted method for valuation, various approaches can be considered in the case of unlisted equity (see paragraphs 7.15–7.19).

**3.127** More details on the methods for valuing assets are provided in the appendix to this chapter, while the valuation of specific types of assets is discussed in further detail in Chapter 7.

**3.128** In conformity with the general rule, provision of assets, services, labor, or capital in exchange for foreign cash, or crypto assets, is recorded at the actual exchange value agreed upon by the two parties to the transaction. Flows and stocks concerning foreign currency and crypto assets are converted to their value in national currency at the rate prevailing at the moment they are entered in the accounts, that is, the moment the transaction or other flow takes place, or at the moment to which the balance sheet applies. The midpoint between the buying and selling rate should be used so that any service charge is excluded.

### *Business Accounting Valuation*

**3.129** Business accounts, tax returns, supervisory data, and other administrative records are main sources of data for drawing up macroeconomic statistics. One should be aware, however, that none of these necessarily satisfies the valuation requirements of macroeconomic statistics and that accordingly adjustments may have to be made. In particular, in the interest of prudence, business accounting often adopts valuations that are not appropriate for the macroeconomic statistics. Similarly, valuations for tax purposes often serve objectives that differ from those of macroeconomic analysis. For example, the depreciation methods favoured in business accounting and those prescribed by tax authorities almost invariably deviate from the concept of depreciation employed in the integrated framework of the SNA, particularly with their use of historical cost. (Further details on the commonalities and differences between the recording in macroeconomic statistics, particularly focusing on national accounts, and the recording in business accounting and public sector accounting are provided in Chapter 28, Nonfinancial Corporations, and Chapter 30, General government and the Public Sector, in the 2025 SNA).

**3.130** More generally, one can observe that the valuation of (financial) assets and liabilities in data reported by enterprises or other respondents, which are primarily based on

commercial, supervisory, tax, or other accounting standards, do not fully reflect the current exchange prices of the assets and liabilities. In such cases, the data should be adjusted to reflect, as closely as possible, the value of the (financial) assets and liabilities recommended in the external accounts.

### **Valuation of Partitioned Flows**

**3.131** Where a single payment refers to more than one transaction category (as they are defined in the macroeconomic statistics), the individual flows need to be recorded separately. In such a case, the total value of the individual transactions after partitioning must equal the observed exchange value that actually occurred. For example, actual exchange values involving foreign currency include commission for currency conversion. The portion related to currency conversion should be recorded separately as transactions in services. As another example, the *Manual* recommends dividing interest transactions with financial corporations between two transaction categories, one showing interest as understood in the external accounts (pure interest) and the other representing the implicit payment for financial intermediation services.

**3.132** A less obvious mingling of transactions occurs when the provision of an item and the related monetary payment or payments do not take place simultaneously. When the time gap becomes unusually long and the amount of trade credit extended is very large, the conclusion may be that implicitly an interest fee has been charged. This recording of interest becomes even more relevant in periods of high inflation and/or interest. In all these cases, the actual payment or payments should be adjusted for accrued interest in order to arrive at the correct value of the item transferred. Such adjustments are generally not recommended for normal trade credit.

### **Valuation of Rerouted Transactions**

**3.133** Values of rerouted transactions will have to be derived from values of other observed transactions to which they are related. For example, values of transactions in reinvested earnings are derived from the direct investors' shares (in terms of the equity held) of distributable income, less amounts declared for dividend distribution to the foreign direct investor, or less the withdrawals from income of the quasi-corporation by the foreign direct investor. (See paragraphs 8.15, 8.16, and 12.42–12.56)

### **Special Valuations Concerning Products**

**3.134** Imports and exports of goods are recorded in the external accounts at border values. Total imports and exports of goods are valued free-on-board (FOB, that is, at the exporter's customs frontier). As it may not be possible to obtain FOB values for detailed product breakdowns, the tables containing details on international trade show imports of goods valued at the importer's customs frontier (CIF, that is, cost, insurance and freight),

supplemented with global adjustments to FOB values. CIF values include the insurance and freight charges incurred between the exporter's frontier and that of the importer. The value on the commercial invoice may of course differ from both of these.

**3.135** As the overall balance of imports and exports must conform to actual circumstances, border valuation of goods has consequences for the recording of freight and insurance in the external accounts. Usually, the values of both imports and exports for these service items have to be adapted to compensate for the special conventions on goods traded with the rest of the world. Further details on this treatment are in Chapters 10 and 11.

**3.136** In relation to the valuation of exports and imports, it is generally acknowledged that a valuation at the observed exchange values, which is closely aligned to the invoice values, is the conceptually preferred method. Subject to further testing of the implementation in practice, it is intended to be introduced as the basic principle for valuing imports and exports in the next versions of the *Manual*.

## Valuation of Other Flows

### *Other Changes in the Volume of Financial Assets and Liabilities*

**3.137** In order to determine the valuation of the other changes in the volume of financial assets and liabilities, it is usually necessary to value the asset before and after the change in volume and take the difference that is not explained by any transaction and holding gains and losses as the value of the other change in volume.

**3.138** Other changes in the volume of financial assets and liabilities are recorded at the observable market prices of similar instruments. For writing-off of financial instruments that are valued at nominal values, the value recorded in the other changes in the volume of assets and liabilities account should correspond to their nominal value prior to being written off. For all reclassifications of assets and liabilities, values of both the new and old instruments should be the same.

### *Holding Gains and Losses*

**3.139** Holding gains and losses accrue continuously and apply to financial assets and liabilities. In general, they are estimated by deducting from the total change in the value of assets those that can be attributed to transactions and to other changes in volumes.

**3.140** Since most financial assets are matched by liabilities, either within the domestic economy or with the rest of the world, it is important that holding gains in one are matched by holding losses in the other and vice versa. A holding gain occurs when an asset increases in value or a liability decreases in value; a holding loss occurs when an asset decreases in value or a liability increases in value. The value of holding gains and losses during an accounting period shows the net changes of holding gains and holding losses for

an asset and a liability separately. In practice, the value of holding gains and losses is calculated for each asset and liability between two points in time: the beginning of the period or when the asset or liability is acquired or incurred and the end of the period or when the asset or liability is sold or extinguished.

**3.141** For loans, deposits, trade credit and advances, and other accounts receivable/payable sold at a discount, the transaction values recorded in the financial account may differ from the nominal values recorded in the IIP. Such differences are recorded as holding gains and losses in the other changes in financial assets and liabilities account (see also paragraph 9.16).

### 3. TIME OF RECORDING

#### Choice of Time of Recording

**3.142** When discussing timing in the external accounts, an essential distinction should be made between stock data as recorded in balance sheets, on the one hand, and flow data as recorded in the other accounts, on the other. Balance sheets, by definition, refer to specific points in time. In contrast, flows are aggregations, over some chosen accounting period, of individual transactions or other flows, which are themselves scattered over the accounting period.

**3.143** Thus, the external accounts do not show individual transactions or other flows, but there are four reasons why precise rules on their individual timing must be given. In the first place, rules have to be formulated to say in which accounting period the discrete flows are to be recorded. Secondly, an exact timing of individual flows within the accounting period is crucial to distinguish between changes in the IIP due to transactions and those due to other changes (e.g., other changes in volume and holding gains or losses). This distinction is particularly important in situations of high inflation. Thirdly, the integrated nature of the system means that the stocks recorded on the balance sheet are influenced by the timing of flows. Finally, the quadruple accounting system requires that entries for a transaction are made by the counterparties at the same time. This ensures the consistency of accounts for each party.

**3.144** One of the problems in pinning down the timing of transactions is that activities of institutional units often extend over periods in which several important moments can be distinguished. For instance, many commercial sales (in external accounts relating to exports and imports of goods) commence with the signing of a contract between a seller and a buyer, encompass a date of delivery (dates of crossing border in the case of exports/imports) and a date or dates on which payments become due and are only completed as of the date the last payment is received by the seller. Each of these distinct

moments in time is to some extent economically relevant and may result in multiple transactions in the integrated framework of national accounts and external accounts.

**3.145** Similarly, in analyzing government expenditure one can distinguish the day that a budget is voted upon by the legislature, the day on which the ministry of finance authorizes a department to pay out specified funds, the day a particular commitment is entered into by the departments, the day deliveries take place, and finally the day payment orders are issued and cheques are paid. With regard to taxes, for example, important moments are the day or the period in which the liability arises, the moment the tax liability is definitively assessed, the day that it becomes due for payment without penalty and the day the tax is actually paid or refunds are made.

**3.146** Clearly, making entries for all successive stages discernible within the activities of institutional units, although theoretically possible, would severely overburden the external accounts. A choice has to be made, recognizing (a) the needs of macroeconomic analysis, (b) microeconomic views, and (c) commonly available sources. Often, in this respect, a distinction is drawn between recording flows on a cash basis, due-for-payment basis, the commitment basis, and accrual basis. There may be other timing bases, such as physical movement or administrative process, used in some data sources. As explained in the following paragraphs, the external accounts and other macroeconomic statistics recommend recording each transaction on an accrual basis.

### **Choice for Recording on an Accrual Basis**

**3.147** Cash accounting records only cash payments and records them at the times these payments occur. This method is widely used for certain business purposes. A practical advantage is the avoidance of problems connected with valuing nonmonetary flows. Yet, cash accounting cannot be used generally for economic and national and external accounting as the times at which payments take place may diverge significantly from the economic activities and transactions to which they relate, and it is these underlying activities and transactions that the external accounts seeks to portray. Moreover, cash recording cannot be applied to the many nonmonetary flows included in the external accounts.

**3.148** Due-for-payment recording shows flows that give rise to cash payments at the latest times they can be paid without incurring additional charges or penalties and, in addition to these, actual cash payments at the moments they occur. The period of time (if any) between the moment a payment becomes due and the moment it is actually made is bridged by recording a receivable or a payable in the financial accounts. Due-for-payment recording furnishes a more comprehensive description of monetary flows than does cash accounting. A disadvantage is, of course, that the recording is still limited to monetary flows.

**3.149** Accrual accounting records flows at the time economic value is created, transformed, exchanged, transferred, or extinguished. This means that flows that imply a change of ownership are entered when the change occurs, services are recorded when provided, output at the time products are created and intermediate consumption when materials and supplies are being used. In other words, the effects of economic events are recorded in the period in which they occur, irrespective of whether cash was received or paid or was due to be received or paid. When an economic event is accompanied by a settlement at a later date, such as a purchase of goods financed by a trade credit, the time lag is bridged by recording each event separately, with the corresponding entry at the time of the change in ownership being trade credit payable. The integrated framework of the SNA and external accounts favours accrual accounting because:

- a. The timing of accrual accounting is in full agreement with the way transactions, other flows, and main economic aggregates (value added, external balance on goods and services, saving and net lending/net borrowing) are defined in the external accounts and sequence of economic accounts of the SNA. This agreement allows the profitability of productive activities to be evaluated correctly (that is, without the disturbing influence of leads and lags in cash flows) and a sector's net worth, or a country's IIP, to be calculated correctly at any point in time;
- b. Accrual accounting provides the most comprehensive information because all flows can be recorded consistently, including nonmonetary transactions, imputed transactions, and other flows.

**3.150** The change of economic ownership is central in determining the time of recording on an accrual basis for transactions in goods, nonfinancial assets and financial assets. A change in ownership from an economic point of view means that all risks, rewards, and rights and responsibilities of ownership in practice are transferred. In general, a change in legal ownership also involves a change in economic ownership. In some cases, a change of economic ownership takes place even though the legal ownership remains unchanged (e.g., financial leases and transactions between an enterprise and its foreign branches). In other cases, there is no change in economic ownership, even though there is a change in legal ownership. For example, for repurchase agreements involving the provision of securities for cash, the risks and rewards attached to the securities remain with the original holder (as discussed in paragraphs 5.59–5.6154) and the only transaction is a loan. Similarly, in the case of securities lending without cash collateral, there is no change in ownership of the securities, although securities lending fees may arise (see paragraphs 12.90 and 12.91).

**3.151** Usually, accrual accounting is the norm for the institutional units involved. Numerous transactions consist of an exchange between two enterprises of, say, goods for financial assets. In such an exchange, accounting entries will be made in the books of each

enterprise, showing the same dates for the acquisition of the goods and the surrender of the financial assets, on the one hand, and for the acquisition of the financial assets and the surrender of the goods, on the other. Sometimes, however, the two parties involved in a transaction will not perceive it as occurring at the same moment. Furthermore, some transactors, in particular government units, do not keep records of purchases on an accrual basis. In these cases, the rules of consistency in the external accounts and the integrated framework of the SNA require that efforts should be undertaken to correct basic statistics for major deviations and flaws. The application of the general rule of recording on an accrual basis to the most common circumstances is discussed below.

### **Time of Recording of Transactions in Goods**

**3.152** Transactions in goods should be recorded as of the time that the change of economic ownership takes place. Goods are considered to change economic ownership when the parties enter the goods in their books and make a corresponding change to their financial assets and liabilities. For high-value capital goods such as ships, heavy machinery, and other equipment, ownership changes are recorded at the time agreed between the parties as to when ownership changes (see paragraph 10.22). When a contract for building and other construction is agreed in advance, progressive change of ownership occurs for the work-in-progress, which may take several months or years to complete. When the contract calls for stage payments (progress payments), the transaction values may often be approximated by the value of stage payments made each period (see paragraphs 5.81 and 11.56). A difference in timing between the change of ownership and payments may give rise to trade credit and advances.

**3.153** The timing used in international merchandise trade statistics generally follows customs procedures, which are set up to record the movement of goods across borders. The time at which goods cross the border can be taken only as an approximation to the time when the change of economic ownership occurs. A customs-based collection system usually provides a choice of dates at which transactions may be recorded (e.g., lodgement of customs declaration, customs clearance of goods). The time of recording in the international guidelines for merchandise trade statistics is when the customs declaration is lodged. Ideally, for external accounts purposes, customs data should be adjusted (see paragraphs 3.178–3.183). Likewise, an exchange record system that reflects payments may not coincide in timing with the change in economic ownership of the goods.

**3.154** Goods on consignment (i.e., goods intended for sale but not actually sold when the goods cross the frontier) should be recorded only at the time economic ownership changes. Goods under financial lease arrangements are considered to change economic ownership at the inception of the lease (see paragraph 5.63 on the definition of a financial lease and paragraphs 7.62 and 10.12(f) for positions and transactions arising from financial leases).



Goods sent abroad for processing under the ownership of the same party are not treated as if they change economic ownership. Goods may move between a parent and its branch abroad. In that case, possibilities exist that either the goods have changed economic ownership, or they may have been sent for processing. The correct statistical treatment is to identify which location assumes the risks and rewards of ownership most strongly (e.g., from factors such as whether the goods are included in the accounts, and which location is responsible for subsequent sale of the goods). For goods under merchanting, purchases and resales are recorded at the time the change in economic ownership of goods occurs.

### **Time of Recording of Transactions in Services**

**3.155** Transactions in services are recorded when the services are provided. Some services, such as some transport or hotel services, are provided within a discrete period, in which cases there is no problem in determining the time of recording. Other services are supplied or take place on a continuous basis. For example, construction services, operating leasing, and insurance services are recorded continuously as long as they are being provided. When construction takes place with a prior contract, the ownership of the structure is effectively transferred progressively as the work proceeds. When services are provided over a period of time, there may be advance payments or settlements at later dates for such services (e.g., freight, insurance, port services). The provision of services should be recorded on an accrual basis in each accounting period (i.e., they should be recorded as they are rendered, not when payments are made). Entries for advance payments or settlements at later dates should be made in the appropriate accounts when they occur (as explained in paragraph 3.149 in the case of import of goods).

### ***Time of Recording of Distributive Transactions***

**3.156** Distributive transactions are recorded at the moment the related claims arise. As a result, for example, remuneration of employees, interest, social contributions, and benefits are all recorded in the period during which the amounts payable accrue. With respect to some distributive transactions, the time of accrual depends on the unit's decision as to when to distribute earned income or make a transfer.

**3.157** Interest is recorded as accruing on a continuous basis because the financial resources are provided for use on a continuous basis. For some financial instruments, the debtor does not make any payments to the creditor until the financial instrument matures, at which time a single payment discharges the debtor's liability; the payment covers the amount of funds originally provided by the creditor and the interest accumulated over the entire life of the financial instrument. Corresponding entries to the interest accruing in each period before maturity should be recorded as financial transactions that represent an additional acquisition of the financial asset by the creditor and an equal incurrence of a liability by the debtor.

**3.158** Dividends are recorded at the moment the shares go ex-dividend. Three dates are associated with dividends:

- a. the date they are declared;
- b. the date they are excluded from the market price of shares, known as the ex-dividend date. The recipients of the dividends are determined from the register of shareholders at this time and subsequent shareholders do not have a right to the dividends; and
- c. the date they are settled.

**3.159** Although dividends sometimes may be related to the enterprise's profits in the previous period, in other cases, they are only loosely related or not at all. The price of shares includes declared dividends up to the ex-dividend date, thus the holder of the shares before the ex-dividend date owns the share and does not hold a separate debt instrument reflecting declared and unpaid dividends. Between the ex-dividend date and actual settlement, the amount payable is recorded as other accounts receivable/payable. Withdrawals from income of quasi-corporations, including distributed branch profits, are recorded when they actually take place. Reinvested earnings are derived from retained earnings, and therefore they are recorded in the period in which retained earnings accrue. (See paragraphs 12.42–12.56 for issues in the calculation of reinvested earnings.)

**3.160** Taxes and other compulsory transfers should be recorded when the activities, transactions, or other events occur that create the government's claim to the taxes or other payments. In principle, income taxes and social contributions based on income should be attributed to the period in which the income is earned. In practice, however, some flexibility may be needed so that income taxes deducted at the source and regular prepayments of income taxes may be recorded in the periods in which they are paid, and any final tax liability on income may be recorded in the period in which it is determined. (See also paragraphs 13.16–13.18.)

**3.161** Some compulsory transfers, such as fines, penalties, and property forfeitures, are determined at a specific time. These transfers are recorded at the time the issuing unit has an unconditional claim on the funds; if a fine or penalty is subject to further appeal, an unconditional claim only exists once the appeal has been resolved.

**3.162** Determining the time of recording for grants and other voluntary transfers can be complex because there is a wide variety of eligibility conditions that have varying legal powers. In some cases, a potential grant recipient has a legal claim when it has satisfied certain conditions, such as the prior incurrence of expenses for a specific purpose or the passage of legislation. These transfers are recorded when all requirements and conditions are satisfied. In other cases, the grant recipient never has a legal claim on the donor, and

the transfer should be attributed to the time at which the settlement is made (e.g., cash payment). In general, the time of recording of voluntary transfers is determined by the time at which there is a change in the economic ownership of the resources (such as goods, services, or financial assets) that are corresponding entries to transfers.

### **Time of Recording of Transactions in Nonproduced Nonfinancial Assets**

**3.163** Transactions in nonproduced nonfinancial assets are recorded at the time economic ownership of these assets changes. The treatment is similar to those for goods and financial assets, as discussed in paragraphs 3.152 and 3.164–3.170, respectively.

### **Time of Recording of Transactions in Financial Assets and Liabilities**

**3.164** Transactions in financial assets (including payments of cash) are recorded in the external accounts when economic ownership changes. Some financial claims or liabilities defined in the sequence of economic accounts, in particular trade credit and advances, are the implicit result of a nonfinancial transaction and are not otherwise evidenced. In these cases, the financial claim is deemed to arise when its nonfinancial counterpart occurs. The same holds for financial transactions that the external accounts records between a quasi-corporation and its owner/branch and its parent.

**3.165** In some cases, both parties involved in a financial transaction may record it at varying dates in their own books because they acquire the documents evidencing the transaction at different times. This variation usually is caused by the process of clearing, the time cheques are in the mail, etc. The amounts involved in such “floats” are generally substantial in the case of transferable deposits and other accounts receivable/payable. Again, reasons of consistency require that the transactions are entered on the same date for both parties. If no precise date can be fixed, the timing of the change of economic ownership is determined according to the date on which the creditor receives his payment.

**3.166** For securities, the transaction date (that is, the time of the change in ownership of the securities) may precede the settlement date (that is, the time of the delivery of the securities). Both parties should record the transactions at the time ownership changes, not when the underlying financial asset is delivered. Any significant difference between transaction and settlement dates gives rise to other accounts receivable/payable. In practice, when the delay between the transaction and settlement is short, the time of settlement may be considered as an acceptable proxy, so that other accounts receivable/payable would not arise. In cases of longer delays, however, other accounts receivable/payable should be identified.

**3.167** According to the accrual basis, repayments of debts are recorded when they are extinguished (such as when they are paid, or rescheduled, or forgiven by the creditor). When arrears occur, no transactions should be imputed, but the arrears should continue to

be shown in the same instrument until the liability is extinguished. If the contract provided for a change in the characteristics of a financial instrument when it goes into arrears, this change should be recorded as a reclassification in the other changes in the financial assets and liabilities account. The reclassification applies to situations where the original contract remains, but the terms within it changes (for example, interest rates or repayment periods). If the contract is renegotiated or the nature of the instrument changes from one instrument category to another (for example, from bonds to equity), the consequences are to be recorded as new transactions. Consistent with the accrual principle, an overdue obligation to settle a financial derivative contract is not recorded as a transaction; however, the obligation is reclassified to a debt liability because of the change in the nature of the claim (see paragraph 5.93).

**3.168** Data on arrears are important in their own right, and thus should be presented as supplementary items, where significant (or memorandum items in the case of exceptional financing, see Annex 1). Although it is useful to identify some commonly important arrears (such as arrears on public and publicly guaranteed debt), flexibility is needed in determining which items of arrears are important to disseminate, depending on each economy's circumstances. Arrears are described further in paragraphs 5.131–5.134.

**3.169** Activation of one-off (nonstandardized) guarantees gives rise to financial transactions because this involves a creation of a new liability. The time of recording of flows arising from activation of one-off guarantees (including capital transfers and other changes in the volume of assets and liabilities, if applicable) is determined by the occurrence of the events activating the guarantee. The treatment of flows arising from the activation of one-off guarantees is described in more detail in paragraphs 8.40–8.43.

**3.170** Employee stock options (ESOs) are recognized at grant date. Remuneration of employees associated with employee stock options should be recorded as accruing over the period to which the option relates, which generally is the period between the granting and vesting dates. Sometimes, the options may cover the period before the granting date, which should also be taken into account when allocating the remuneration of employees. Recording of flows associated with ESOs are discussed paragraphs 8.39, 12.24, and 12.25.

### **Time of Recording of Composite Transactions and Balancing Items**

**3.171** Transactions that are measured as the balance of two or more other transactions follow the timing of the constituent basic flows. For example, implicit financial services on loans and deposits are recorded as interest on loans and deposits accrues.

**3.172** The same rule for time of recording applies to balancing items. However, due to the variety of transactions and other flows covered, each with its own characteristics, some thought is needed in interpreting balancing items. For instance, in analyzing the balancing

item “saving” of nonfinancial corporations, one should be aware that the time when the operating surplus arises does not necessarily tally with the timing of the other factors, such as when dividends are payable.

### **Time of Recording of Other Flows**

**3.173** Other changes in the volume of assets and liabilities are usually discrete events that accrue at precise moments or within fairly short periods of time and should be recorded when the events occur.

**3.174** Revaluations can occur continuously as prices and exchange rates change. Changes in prices and exchange rates often have a more continuous character, particularly in respect of assets for which active markets exist and assets with international character. In practice, nominal holding gains or losses will be computed between two points in time:

- a. The moment at which:
  - The accounting period begins; or
  - Ownership is acquired from other units (through purchase or a transaction in kind); or
  - An asset is produced; and
- b. The moment at which:
  - The accounting period ends; or
  - The ownership of an asset is relinquished (through sale or a transaction in kind); or
  - An asset is consumed in the production process.

**3.175** One may wonder why nominal holding gains and losses are not calculated over a period beginning at the moment on which two units agree to a mutual exchange of assets instead of the period that starts with the moment on which the assets are acquired. After all, does not the signing of the contract fix prices, implying that the risk for any later price/exchange rate changes is being transferred? The external accounts, however, regards commitments resulting from a contract as contingent until one of the parties has performed its obligation (by passing the ownership of some asset to the other party, providing a service or providing labor or capital). Also, a unit can incur holding gains and losses only on the assets or liabilities over which it has economic ownership. The combination of these two rules implies that during the period between the signing of the contract and the date on which the first party delivers, the second party cannot incur any price/exchange rate risks on this contract: the second party neither owns the assets to be delivered nor owns a claim on the first party to be recorded in the financial accounts.

**3.176** Changes in structure and classification should be entered at the moment when, according to the rules adopted in the external accounts, a unit or an asset is moved to a different category than that to which it was classified previously. Integrated stock-flow systems like the integrated IIP require that all reclassifications are recorded and all entries for the reclassification are recorded at the same time.

**3.177** In order to obtain statistical series that are more comparable over time, one might be tempted to stockpile major reclassifications for a number of years and enter them as one block at the end of this period. However understandable this procedure might be, it does not conform to the recommendations of the external accounts, which aim at correct estimates on levels. Keeping records of reclassifications makes it possible in principle to reconstruct time series based on the situation in any accounting period.

### **Timing Adjustments for External Transactions**

**3.178** Differences in the time of recording by partner economies may occur due to various factors. One of the intrinsic problems with recording external transactions is the difference in time zones. Differences in time of recording may also arise from delays in mail deliveries or settlement clearing processes. In most cases, data at some aggregate level rather than individual records are used in the compilation of national accounts and external accounts. Several data sources may often only approximate the required basis. It is important to make timing adjustments where there are major divergences from the required basis.

**3.179** In choosing among available statistical sources, compilers may wish to consider the advantage of using data for which the correct timing is already recorded. For example, records of actual drawings on loans are preferred to sources that quote authorization dates or program dates that may not be realized in fact. Some sources chosen by compilers as generally the most suitable may not have been specifically designed to yield information for the purpose of compiling national accounts and external accounts.

**3.180** Timing adjustments to international merchandise trade statistics may be necessary because these statistics may not reflect changes in economic ownership. Moreover, they may not always reflect physical movements correctly. Timing adjustments should be made when practices in customs statistics lead to distortions. For example, in the case of the purchase or sale of ships and aircrafts, information on the time at which the goods are entered in the books of the supplier or customer could be used. It is a good practice to identify the timing of large individual shipments or transactions (such as a ship or aircraft) to ensure that the goods flow and corresponding financing transactions are recorded in the same period.

**3.181** A change in the economic ownership of goods can vary widely from the time at which the goods are recorded in trade statistics, if a lengthy voyage is part of the process of

importing or exporting. If the unit value of trade changes substantially from the beginning to the end of the reporting period, the possible difference of one or more months between the shipment or receipt of goods and the change of ownership can be a source of error in the statement for a particular economy and a source of asymmetries between partner economies. Inquiries, perhaps on a sample basis, are required to ascertain specific practices, and timing adjustments should, in principle, be applied to correct the trade statistics for those classes of goods that are found to change ownership at times other than those at which the goods were recorded in the trade statistics.

**3.182** Goods on consignment may often be recorded at the time the goods cross the frontier, on the assumption that a change of economic ownership has occurred or will shortly occur. If that treatment is followed and there is no change of ownership, adjustments will have to be made, preferably by revising the original entries. In practice, these adjustments may be made in the periods when the goods are returned, if goods returned involve minor cases.

**3.183** Information based on exchange records provides data on a cash basis. For certain transactions, cash and accrual bases for recording may be the same, but for many they will differ. In particular, transactions in goods, services, and income may not coincide with the corresponding payments for settling the transactions. Alternative information should be used routinely to verify or adjust selected transaction categories. Compilers using an exchange record system should check each large settlement transaction. Information on interest from either the payments records or debt service schedule may not be appropriate for accrual accounting. Other possibilities of deriving interest accruals, such as using the data on positions and contractual interest rates, should be explored and implemented.

### **Balance Sheet Items**

**3.184** Stocks of assets and liabilities, as included in balance sheets, can be drawn up for any point in time. The sequence of economic accounts of the SNA defines balance sheets for all sectors at the moment when one accounting period ends and a new accounting period begins. The closing balance sheet of one period is identical to the opening balance sheet of the next one, so there remain no price changes, reclassifications or other economic flows that are not duly recognized by the sequence of economic accounts. The same principles hold for the IIP, as included in the external accounts.

## **4. UNIT OF ACCOUNT AND CURRENCY CONVERSION**

### **Unit of Account**

**3.185** Values of nonfinancial and financial transactions as well as the values of stocks or positions of (financial) assets and liabilities may be expressed initially in a variety of

currencies or in other standards of value, such as Special Drawing Rights (SDRs). The conversion of these values into a reference unit of account is a requisite for the construction of consistent and analytically meaningful accounts.

**3.186** National accounts and external accounts can be compiled in the domestic currency as well as in another currency. Data in domestic currency are needed because several other macroeconomic and micro data are compiled in domestic currency, except when a foreign currency is used as a legal tender. Economic analysis often uses data from several macroeconomic statistical systems. Conversely, data in an international unit of account (a foreign currency) may be needed for international liquidity management and to address special issues related to high inflation, significant exchange rate fluctuations, and multiple exchange rates. In addition, a standard or international unit of account is necessary to allow for aggregation on a global or regional basis and to facilitate international comparisons.

**3.187** For compiling the external accounts, a standard unit of account is required for global presentation and analysis. It is preferable that the unit of account be a stable one; that is, values of transactions expressed in that unit should not be significantly affected by changes (relative to the unit of account) in values of currencies in which those transactions occur. Transactions expressed in a unit that is stable in this sense nonetheless may reflect price changes resulting from other causes; that is, a series expressed in a so-called stable unit of account is not the equivalent of a volume measure or constant price series. The theoretical ideal of a widely recognized and perfectly stable standard unit of account simply does not exist in practice.

### **Domestic Versus Foreign Currency**

**3.188** For an economy, a domestic currency is distinguished from foreign currency. Domestic currency is that which is legal tender in the economy and issued by the monetary authority for that economy; that is, either that of an individual economy or, in a currency union, that of the common currency area to which the economy belongs. All other currencies are foreign currencies.

**3.189** Under this definition, an economy that uses as its legal tender a currency issued by a monetary authority of another economy – such as U.S. dollars – or of a common currency area to which it does not belong should classify the currency as a foreign currency, even if domestic transactions are settled in this currency. The term “currency” should be understood in the broad sense (i.e., currency includes not only banknotes and coins, but all means of payments issued by financial corporations in an economic territory). Unallocated gold accounts and other unallocated accounts in precious metals giving title to claim the delivery of gold or precious metal are treated as denominated in foreign currency.



**3.190** SDRs are considered to be foreign currency in all cases, including for the economies that issue the currencies in the SDR basket. Any other currency units issued by an international organization, except in the context of a currency union (see paragraph 3.188), are considered foreign currency.

### **Currency of Denomination and Currency of Settlement**

**3.191** A distinction should be made between the currency of denomination and the currency of settlement. The currency of denomination is determined by the currency in which the value of flows and stocks is fixed as specified in the contract between the parties. Accordingly, all cash flows are determined using the currency of denomination and, if necessary, converted into the domestic currency or another unit of account for the purpose of settlement or compilation of accounts. The currency of denomination is important for distinguishing transaction values and holding gains and losses.

**3.192** The currency of settlement may be different from the currency of denomination. Using a currency of settlement that is different from the currency of denomination simply means that a currency conversion is involved each time a settlement occurs. The currency of settlement is important for international liquidity and measurement of potential foreign exchange drains. The currency of settlement is also important for defining reserve assets (see paragraph 6.69).

**3.193** The currency of denomination of equity and investment fund shares/units is generally the domestic currency of the economy in which the issuer is resident. However, when equity is issued in a currency other than the domestic currency, then that currency is the currency of denomination.

**3.194** Debt instruments with both the amount to be paid at maturity and all periodic payments (such as coupons) indexed to a foreign currency are classified and treated as being denominated in that foreign currency.

**3.195** Some financial assets and liabilities are denominated in more than one currency. However, if the amounts payable are linked to one specific currency, then the liability should be attributed to that currency. Otherwise, compilers are encouraged to disaggregate such multicurrency instruments by the component currencies.

**3.196** Determining the currency of denomination is not always clear in financial derivative contracts to purchase or sell foreign currency using domestic currency. The decisive factor in determining the currency of denomination for these contracts is the exposure to currency movements. If settlement of a financial derivative contract is linked to a foreign currency, even though payment is required in domestic currency, then the financial derivative is to be classified as denominated in foreign currency.

## Currency Conversion Principles

**3.197** Flows denominated in a foreign currency are converted to their value in the domestic currency at the rate prevailing when the flows take place, and positions are converted at the rate prevailing on the balance sheet date. The midpoint between the buying and selling rates should be used at the time of transaction (for transactions) and at the close of business on the reference date for positions, with the difference between buying or selling prices and midpoint prices to be treated as service charges. The valuation in the domestic currency of a purchase or sale on credit denominated in a foreign currency may differ from the value in domestic currency of the subsequent cash payment because the exchange rate changed in the interim. Both transactions should be valued at their current market values as of the dates they actually occurred, and a holding gain or loss resulting from the change in the exchange rate should be recorded for the period or periods in which the gain or loss occurs.

**3.198** In principle, the actual exchange rate applicable to each transaction should be used for currency conversion. The use of a daily average exchange rate for daily transactions usually provides a good approximation. If daily rates cannot be applied, average rates for the shortest period should be used. Some transactions occur on a continuous basis, such as the accrual of interest over a period of time. For such flows, therefore, an average exchange rate for the period in which the flows occur should be used for currency conversion.

**3.199** Derived measures relating to a period are calculated by subtracting one type of flow from another. In principle, therefore, derived measures of flows in one currency (e.g., domestic currency) should not be directly converted into another currency (e.g., foreign currency). First, the underlying flows themselves should be converted from the domestic currency into the foreign currency. Then, the derived measures in foreign currency can be calculated from the relevant flows denominated in foreign currency. It is possible that a derived measure, such as saving and the current account balance in the external accounts, denominated in one currency may be different or even with the opposite sign from that denominated in another currency. In addition to the variations in exchange rates, the variations in the timing of underlying flows cause the differences in a derived measure denominated in different currencies.

**3.200** Under a multiple exchange rate regime, two or more exchange rates are applicable to different categories of transactions; the rates favor some categories and discourage others. Such rates incorporate elements similar to taxes or subsidies. Because the multiple rates influence the values and the undertaking of transactions expressed in domestic currency, net proceeds implicitly accruing to authorities as a result of these transactions are calculated as implicit taxes or subsidies. The amount of the implicit tax or subsidy for each transaction can be calculated as the difference between the value of the transaction in

domestic currency at the actual exchange rate applicable and the value of the transaction at a unitary rate that is calculated as a weighted average of all official rates used for external transactions. For conversion of positions of external financial assets and liabilities in a multiple rate system, the actual exchange rate applicable to specific assets or liabilities at the beginning or end of the accounting period is used.

**3.201** Parallel (unofficial) or black market rates cannot be ignored in the context of a multiple rate regime and can be treated in different ways. For instance, if there is one official rate and a parallel market rate, the two should be handled separately. Transactions in parallel markets should be converted using the exchange rate applicable in that market. If there are multiple official rates and a parallel rate, the official rates and the parallel rate should be treated as distinct markets in any calculation of a unitary rate. Transactions effected at the parallel rate usually should be converted separately at that rate. In some instances, however, parallel markets may be considered effectively integrated with the official exchange rate regime. Such is the case when most or all transactions in the parallel market are sanctioned by the authorities or when the authorities actively intervene in the market to affect the parallel rate. In these cases, the calculation of the unitary rate should include both the official and parallel market rates. If only limited transactions in the parallel market are sanctioned by the authorities, the parallel rate should not be included in the calculation of a unitary rate.

**3.202** More details on the compilation of national accounts/external accounts under multiple exchange rate systems can be found in the *Short Guide on the Treatment of Multiple Exchange Rate Systems (forthcoming)* and in the *BPM Compilation Guide*.

## 5. AGGREGATION, NETTING, CONSOLIDATION

### Aggregation

**3.203** The immense number of individual transactions, other flows, and assets and liabilities within the scope of the external accounts have to be arranged in a manageable number of analytically useful groups. In the integrated framework, such groups are constructed by crossing two or more classifications.

**3.204** Additionally, credits/revenues must be distinguished from debits/expenditures and assets from liabilities. In order to accommodate more detailed analysis, the classes thus generated may be further subdivided: examples are specifications of kind of product or asset, of function and of transaction partners.

**3.205** The classification of transactions, other flows, and stocks, or positions, of financial assets and liabilities is aimed at developing aggregates that group similar items and separate those items that have different characteristics. Aggregates and classifications are

closely linked in that classifications are designed to produce the aggregates thought to be most useful.

**3.206** Aggregates are summations of elementary items in a class of transactions, other flows, or positions. For example, remuneration of employees is the sum of all flows that are classified as remuneration of employees. For financial assets and liabilities, the aggregation of stock or flow data is usually done across all institutional units within a subsector or sector. Aggregation is hierarchical in the sense that upper-level aggregates are derived directly by summing the lower-level aggregates.

**3.207** Individual units may have the same kind of transaction both as a credit and a debit—for example, they may pay as well as receive interest or may acquire foreign currency as well as sell the foreign currency. Similarly, individual units may have the same kind of financial instrument both as an asset and as a liability—for example, they may have a claim in the form of debt securities as well as a liability in the form of debt securities.

**3.208** Since the classifications in the external accounts contain a number of levels made explicit in the codes for the various transactions, other flows and assets, corresponding levels of aggregation may be distinguished.

**3.209** Although conceptually the value for each aggregate is the sum of the values for all elementary items in the relevant category, in practice other estimation methods are frequently used. In the first place, information on elementary transactions, other flows and assets may be incomplete or even nonexistent. Secondly, the data obtained from different primary sources are usually not fully consistent due to variations in definitions and coverage, so adjustments at the aggregate level are necessary to reconcile them.

## Netting

**3.210** Individual units or sectors may have the same kind of transaction both as a debit/expenditure and as a credit/revenue in the BOP current and capital accounts (for example, they both pay and receive interest) and have the same kind of financial instrument both as an asset and as a liability (for example, they may have a claim in the form of debt securities as well as a liability in the form of debt securities). Aggregations or combinations in which all elementary items are shown for their full values are called gross recordings (e.g., all interest credits/revenues are aggregated separately from all interest debits/expenditures). Aggregations or combinations whereby the values of some elementary items are offset against items on the other side of the account, or which have an opposite sign, are called net recordings (e.g., transactions of financial assets are netted with the transactions in liabilities of the same financial instrument).

**3.211** In the external accounts a gross recording is recommended, apart from the degree of netting that is inherent in the classifications themselves. In fact, netting is already a feature

of many of the recommendations of the external accounts. It mostly serves to highlight an economically important property that is not apparent from gross data.

**3.212** The external accounts follow gross recording in the current and capital accounts. For goods under merchanting, both purchases and resales of goods are shown on a gross basis, although both entries are shown under exports with a negative sign for purchases (this is elaborated further in paragraph 10.42,). Gross recording is applicable in particular to income on reverse investment where the direct investment enterprise owns less than 10 percent of the voting power in the direct investor (reverse investment is described in paragraphs 6.41–6.42,). Acquisitions and disposals of nonproduced nonfinancial assets are recorded on a gross basis. Capital transfers receivables and payables are also recorded separately on a gross basis. Flows on transactions in nonproduced nonfinancial assets and capital transfers are recorded on a gross basis, because they are important in the context of cross-border analysis. At the same time, the gross recording allows the derivation of net flows, if needed, provided that a sufficient level of detail is available.

**3.213** In the case of flows in financial assets and liabilities, the term “net” may have dual meanings (summing all debits and credits for a financial asset type or a liability type and netting of an asset against a liability). To avoid confusion, the following conventions are adopted:

- In the case of flows, net recording always refers to aggregations for which all debit entries of a particular asset or a particular liability are netted against all credit entries in the same asset type or in the same liability type (e.g., acquisitions of foreign currency are netted against the sales of the foreign currency; bond issues are netted against redemption of bonds).
- When net is used together with a category of financial instrument (net financial instrument), such as “net financial derivatives,” netting of a financial asset against the same type of liability is understood.
- Titles of some derived measures, such as “net lending/borrowing” and “net IIP”, also use the term “net”.

**3.214** In some cases, a clear distinction between assets and liabilities may not be feasible (such as for financial derivatives in the form of forward contracts, which could change between assets and liabilities). In such cases, it may not be possible to apply the above recording principle, which requires separate presentation of transactions in assets and transactions in liabilities. For such financial instruments, net transactions in assets and liabilities combined may have to be recorded.

**3.215** The external accounts follow net recording in the financial account and other changes in financial assets and liabilities account. Net recording, as explained above,

means aggregations or combinations that show net changes (increases less reductions) in a particular financial asset or a liability category on the same side of the balance sheet. Financial assets (changes in financial assets) should not be netted against liabilities (changes in liabilities), except in certain circumstances as explained in paragraph 3.214.

**3.216** Transactions and other flows in financial assets and liabilities are recorded as net changes in financial assets and net changes in liabilities, respectively. The net recording principle should be applied at the lowest level of classification of financial instruments taking into account the functional, institutional sector, maturity, and currency classifications, as applicable. Generally, the net recording principle should be applied within a given standard component of assets or liabilities.

**3.217** In general, net recording of flows in financial assets and liabilities is recommended in the external accounts from both the analytical and pragmatic perspectives. Net acquisition of external financial claims and net incurrence of external liabilities are generally of more analytical interest than the gross flows. Gross reporting of data may not be possible for different classes of units and for some financial instruments. Furthermore, transactions in some financial assets and liabilities often have to be derived from balance sheet data because gross transactions are not available. Nonetheless, gross flows may be a relevant factor in analyzing aspects of the payments positions or financial markets (e.g., securities transactions) of economies, and such data can be used in supplementary presentations when appropriate. For example, for direct investment, equity increases, and equity decreases may be of analytical interest and may be shown separately in supplementary presentations.

**3.218** Similar to the recording of flows of financial assets and liabilities, stocks, or positions of the same type of a financial instrument held as both a financial asset and a liability should be recorded separately, so that assets are recorded under assets and liabilities are recorded under liabilities. For example, holding of short-term debt securities as assets is presented separately from the liability for short-term debt securities.

## **Consolidation**

**3.219** Consolidation is a special kind of canceling out of flows and stocks that should be distinguished from other kinds of netting. It involves the elimination of those transactions or debtor or creditor relationships that occur between two transactors belonging to the same institutional sector or subsector. Because the external accounts reflect transactions involving residents and nonresidents and external financial assets and liabilities, including other flows associated with them, consolidation is not relevant for external accounts of an individual economy.

**3.220** Accounts for a currency union, economic union, or other regional arrangement may be compiled by eliminating all transactions and asset-liability relationships that occur between member economies of the region. In other words, in the relevant accounts, a transaction of one economy is paired with the same transaction as recorded for another member economy and both transactions are eliminated. For example, if a unit in one economy owns a bond issued by a unit in another member economy, then the stocks of bonds held as assets and liabilities are reported excluding the matched positions between the units of the member economies. At the same time, interest receivable and payable consolidated at the regional or currency union level exclude the interest payable by residents of the debtor economy to residents of the creditor economy in the region or currency union. Similarly, imports and exports of goods and services between consolidated economies are also eliminated. (For further information, see Annex 3.)

## F. SYMMETRY OF REPORTING

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**3.221** Symmetry of reporting by counterparties is important to ensure consistency, comparability, and analytical usefulness of national and external accounts. The quadruple-entry accounting system discussed in paragraphs 3.90 -3.94 underlies symmetry of reporting. The internationally agreed guidelines for definitions, classifications, time of recording and valuation principles, and the quadruple-entry accounting system provide a basis for conceptual consistency of international reporting by both parties or economies involved in a transaction or financial position. Correct application of these guidelines and principles is important for bilateral comparisons, global balances, and regional and global aggregates. While symmetry rules apply to all financial instruments, they do not fully apply to functional categories of financial positions and transactions, as used in external accounts. For example, transactions and stocks in reserve assets are reflected in the liabilities of counterparts in the rest of the world under other functional categories, particularly portfolio and other investment.

**3.222** National accounts and external accounts group the flow and stock data of individual units into sectoral and national aggregates. The accounts can also be prepared for a region and the world as a whole. Without applying strict consistency rules, it would be impossible to give proper interpretation to various aggregates. These requirements apply whether or not the data consolidate flows and stocks of the units they cover, and whether or not they show any subgroups of units within the overall total. However, consolidation is clearly impossible without consistency in the basic data, and the requirements of consistency are more obvious when disaggregation of sectors is used.

**3.223** Micro-level data on the basis of which the national accounts and external accounts are compiled do not necessarily meet the consistency requirements needed for

(inter)national accounts. Differences in valuation, timing, and classification may occur in many cases. Inconsistency in valuation may often occur for barter transactions. Different valuation bases may have been used by creditors and debtors for some financial assets, such as nonperforming loans. Timing differences may occur not only due to differences in timing zones and delays in check-clearing systems, but also because units' perceptions of the timing of changes in ownership and recognition of revenues and expenditures may vary.

**3.224** Significant achievements have been made at the national and international levels to come to more uniform business accounting standards. Accordingly, disparities between individual micro accounts have tended to fall. Business accounting standards are geared toward individual accounts, however, and therefore do not necessarily ensure consistency across units. Current business accounting standards prescribe that loans be treated differently depending on whether they appear as a credit or a debit. This approach cannot be applied in a consistent horizontal double-entry bookkeeping system. Tax and supervisory regulations are a second source for harmonization of accounting practices. In so far as these rules differentiate between specific sections of the economy, however, they also may be a cause for discrepancies between micro accounts.



## APPENDIX 3.1. METHODS TO VALUE TRANSACTIONS AND STOCKS

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**3.225** This annex starts with an overview of the various methods for valuing transactions, in order of preference, although not all methods are applicable for each and every type of transaction. Subsequently, the methods to value stocks of assets and liabilities are described. The latter does not concern the initial recognition, i.e., the time at which the assets enter the balance sheets, as the valuation of these flows is already covered under transactions.

### 1. METHODS FOR VALUING TRANSACTIONS

#### Observed Exchange Values (or Observed Market Prices)

**3.226** Values based on the prices actually observed in the exchange of goods, services, and assets are generally considered as the most appropriate measure in line with the valuation principles for macroeconomic statistics. From a conceptual point of view, exceptions could be made for distorted transfer prices between affiliated enterprises and concessional pricing (see paragraphs 3.113–3.118), although in practice adjustments are usually not made, mainly for reasons of feasibility and (international) consistency.

#### Market Equivalent Prices

**3.227** In quite a number of cases, actual exchange values are not available. Exchange prices could then be approximated by using the prices of similar goods, services, and assets. This valuation method is particularly relevant in the following areas:

- barter transactions;
- consumption of goods produced for own final use;
- owner-occupied housing services; and
- exceptional cases of own-account capital formation of assets, for which a full range of the assets are regularly traded on the market (e.g., dwellings, cloud services providers building their own servers, or other cases in which equipment is constructed by producers).

**3.228** An important prerequisite for applying this valuation method is the homogeneity, or comparability, of the relevant goods, services and assets. Where homogeneity does not exist, it is also considered acceptable to apply, for example, hedonics to adjust for different characteristics in the goods, services, and assets under consideration, although these hedonic valuation methods may be rather complicated, requiring significant amounts of

source data. Moreover, the goods, services, and assets which are used to arrive at a market equivalent price should be traded under the same market conditions as the goods, services, and assets under consideration. For example, using data on rentals for dwellings, which are subsidized by government, is not considered appropriate for arriving at market equivalent prices for owner-occupied housing services in a competitive market. Finally, the markets for the goods, services, and assets which are used for the comparison should be well-established, and not too thin, which sometimes may be problematic for, e.g., certain types of dwellings in the case of estimating owner-occupied housing services.

### **Indirect Valuation**

**3.229** There are a few cases, in which the transactions have to be based on what is here referred to as an “indirect valuation” method. One example concerns the imputation of reinvested earnings. In this case, the valuation is based on the direct investor’s share of distributable income less amounts declared for dividend distribution to the direct investment enterprise, or less the withdrawals from income of the quasi-corporations by the foreign direct investor. Instead of referring to this as an example of indirect valuation, one could also argue that the reinvested earnings are derived, although indirectly, from observed exchange values. Other examples of indirect valuation relate to the measurement of nonlife insurance output, as the difference between actual premiums earned, plus premium supplements, minus claims, or the derivation of implicit financial services on loans and deposits as the difference between actual interest (known as bank interest in SNA) and pure interest (known as SNA interest in SNA). (See Chapter 11 for more details.)

### **Sum of Costs**

**3.230** A method, which is frequently applied in the system of national accounts, is the sum of costs method. According to this method, it is assumed that exchange values can be approximated by summing up the costs of production (see Annex to Chapter 4, *2025 SNA* for additional details).

**3.231** Regarding remuneration of employees, also the labor input of the owner of the unincorporated enterprise and his/her family members may need to be estimated. As the remuneration for this labor input is not explicitly known, because of it being implicitly included in mixed income, an estimate of the relevant labor input could be based on wage rates paid for similar types of work.

### **Short Summary of Methods for Valuing Transactions**

**3.232** Apart from the relatively exceptional case of indirect valuation, the preferred methods for valuing transactions can be summarized as follows. For additional details, refer to Annex of Chapter 4, *2025 SNA*.

- In the case of goods, services, and assets, which are transacted on the market via monetary settlement, the values actually exchanged are the basis for valuation.
- In the case of goods, services, and assets, which are transacted via barter type, and also the consumption of goods produced for own final use, usually prices can be derived from market transactions of similar goods, services, and assets.

## 2. METHODS FOR VALUING STOCKS OF ASSETS AND LIABILITIES

**3.233** In discussing each of the valuation methodologies for the valuation of stocks of assets and liabilities, a distinction is made between nonfinancial assets and financial assets, as the relevance of the various methodologies can differ quite significantly for these two types of assets. Moreover, when it comes to the valuation of financial instruments, it should be noted that the consistency in valuing assets and liabilities is an important prerequisite in the external accounts.

### Observed Market Prices

**3.234** The most obvious way to arrive at current (market) prices for stocks, or positions, recorded on the balance sheet at a certain point in time is the use of prices observed in the market. Preferably, the relevant markets should be trading in considerable volumes, with prices listed at regular intervals. However, if traded from time to time, recent market transactions could also be used as an approximation of the current market price.

**3.235** Unfortunately, this valuation method, which is preferable from a conceptual point of view, can only be applied in a limited number of cases, mainly relating to financial assets, first and foremost for securities traded on a market, like the stock exchange, in which each asset traded is completely homogeneous, is often traded in considerable volume, and has its market price listed at regular intervals. It should also be noted that for debt securities, users often request supplementary information on the nominal value (see below) of the liabilities, in addition to the valuation at market prices. For example, in the case of government debt, the principal method of valuation is at nominal value, as this reflects, in addition to accrued interest, the actual repayments to be made in the future.

**3.236** As already noted, the method of using observable market prices is conceptually sound, provided that the relevant assets are (relatively) homogenous, and regularly traded in active markets with regular price quotations. If the latter conditions are not met, other valuation methods may need to be applied.

## Market Equivalent Prices

**3.237** The alternative for directly observed prices is to approximate current prices by using observable market prices of similar assets. This valuation method could also include expert estimates, which are typically based on information from the market as well.

**3.238** Valuing assets at market equivalent prices can be applied for less homogenous nonfinancial assets which are regularly traded on the market, such as dwellings and certain types of generic (second-hand) transport equipment. Of importance, especially in the case of dwellings, is the need to account for the various characteristics which are relevant for the market price setting. Moreover, it is important to realize that the market prices of dwellings and other real estate are a combination of the structure and the underlying land, which is less suitable for the integrated framework of national accounts, in which these two elements are separated. Notwithstanding this separate recording, market prices could be used as a benchmark for arriving at appropriate estimates for the sum of the two elements. For more details, see the *Eurostat-OECD Compilation Guide on Land Estimations*.

**3.239** Expert estimates made for insurance purposes, for tax purposes, etc. may be the only viable option for valuing valuables, unless the valuable has been acquired relatively recently. In addition, expert estimates could also provide a source of information for valuing real estate in the absence of appropriate markets.

**3.240** This valuation method may become less appropriate in the case of second-hand “special purpose” fixed assets, and/or in the case the markets are relatively thin. A combination of these two elements may lead to a market price, or exchange price, close to scrap value, not representing the value of such an asset used in an enterprise as a going concern. Valuation according to the written-down replacement costs (see below) is then considered more appropriate.

## Valuation Based on Past Expenses

**3.241** If market prices or market equivalent prices are not available, the next best method to arrive at an appropriate value for assets is a valuation based on past expenses. Here, one can distinguish two basic methods, depending on whether or not the assets in question are subject to depreciation: (i) historical acquisition price; and (ii) written-down replacement costs. The costs in the case of the latter method do not only concern direct expenditures on purchases of capital goods but may also relate to expenditures made for the own-account production of fixed assets, typically valued using the sum of costs method.

**3.242** A valuation of assets based on past expenses can be applied to a considerable number of assets, but in practice it is most often used in the case of nonfinancial assets. The use of the first method could be used for, e.g., the valuation of valuables, but it may also be a valid alternative for some financial instruments. However, in case the acquisition

has taken place further in the past, the acquisition price may need to be adjusted for price changes, certainly in cases where significant price changes have been observed in the period since the acquisition.

**3.243** The second method is most commonly used for valuing fixed assets, through the application of the perpetual inventory method (PIM). The method can be considered superior to market prices and market equivalent prices, if the observable market prices, or exchange prices, for second-hand assets cannot be considered as representative for the future capital services, which can be derived from the continued use of the asset in production. A problem in the application of the written-down replacement costs method relates to the information needed for the application of this method. Most importantly, apart from long time series on past expenditures on the purchases, including price developments, of the assets in question, information is needed on the service life, the age-price or the age-efficiency profile, and discard patterns. More detailed guidance is provided in the *OECD Manual on Measuring Capital 2009, second edition*.

### Nominal Value

**3.244** Valuation at nominal values is typically applied to nonnegotiable financial instruments, such as deposits, loans, trade credit and advances, and other accounts receivable/payable. Nominal value at any moment in time reflects the value of the instrument at creation and subsequent economic flows, such as transactions, holding gains and losses other than market price changes, and other volume changes. It typically comprises the outstanding amount the debtor owes to the creditor, which is composed of the outstanding principal amount including any accrued interest.

**3.245** Nominal value should be distinguished from such notions as fair value, amortized value, face value, book value, and historic cost:

- a. Fair value is a market-equivalent value. It is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. It thus represents an estimate of what could be obtained if the creditor had sold the financial claim.
- b. Amortized value reflects the amount at which the financial asset or liability was measured at initial recognition minus the principal repayments. Excess payments over the scheduled principal repayments reduce the amortized value whereas payments that are less than the scheduled principal repayments or scheduled interest increase the amortized value. On each scheduled date, amortized value is the same as nominal value, but it may differ from the nominal value on other dates due to the accrued interest being included in the nominal value.

- c. Face value is the undiscounted amount of principal to be paid to the holder at maturity. It is also known as “par value” or simply “par”. Before maturity, the market value of a bond may be greater or less than face value, depending on the interest rate payable and the perceived risk of default. As bonds approach maturity, the market value approaches the face value. For example, if interest rates are higher than the bond’s coupon rate, then the bond is sold at a discount (below par). Conversely, if interest rates are lower than the bond’s coupon rate, then the bond is sold at a premium (above par).
- d. Book value in business accounts generally refers to the value recorded in the enterprise’s records. Book values may have different meanings because their values are influenced by timing of acquisition, company takeovers, frequency of revaluations, and tax and other regulations.
- e. Historic cost, in its strict sense, reflects the cost at the time of acquisition, but sometimes it may also reflect occasional revaluations.

**3.246** The use of nominal value is partly influenced by pragmatic concerns about data availability and the need to maintain symmetry between debtors and creditors. In addition, because loans are not intended for negotiability, without an active market, estimating a market price can be somewhat subjective. Nominal value is also useful because it shows actual legal liability and the starting point of creditor recovery behavior. In some instances, loans may also be traded, often at discount, or a fair value may exist or would be possible to estimate. It is recognized that nominal value provides an incomplete view of the financial position, particularly when the loans are nonperforming. Therefore, it is recommended to include, as a supplementary item, information on the nominal value of nonperforming loans. Loans that have become negotiable de facto should be reclassified under debt securities.

### Indirect Valuation

**3.247** Financial assets and related liabilities can also be approximated with a method which could be referred to as “indirect valuation.” This method is often applied for unlisted equity. In this case, the intrinsic value of a corporation is considered a valid starting point for the valuation of the equity invested. More guidance on the valuation of unlisted equity, including alternative methods, is provided in Chapter 7.

### **Present Value of Future Economic Benefits**

**3.248** In cases that the above valuation methods cannot be applied, the present value of future economic benefits is considered as a viable alternative. This method is typically used in the following areas:

- defined benefit pension entitlements;
- unlisted equity in the case other methods are considered less appropriate; and
- natural resources.

See Annex to Chapter 4, *2025 SNA* for additional details.

### **Short Summary of Methods for Valuing Stocks of Assets and Liabilities**

**3.249** In summary, the following can be noted in relation to the valuation of assets and liabilities, thereby distinguishing between financial assets and liabilities versus nonfinancial assets.

**3.250** In the case of financial assets and corresponding liabilities, market prices or market equivalent prices are the preferable options for valuation. However, its application is relatively limited, as most financial instruments are nonnegotiable and not traded on active markets with regular price quotations, the obvious exception relating to tradable securities. For nonnegotiable financial instruments, one could use observed market prices, or exchange prices, from recent market transactions. However, as this methodology cannot generally be applied, a valuation at nominal values is considered the most viable option. A special case is unlisted equity, for which various methodologies can be considered; see Chapter 7. Another exception concerns the estimation of defined benefit pension entitlements, which are based on actuarial type of calculations using the present value of future benefits.

**3.251** For nonfinancial assets, in the absence of observed market prices or market equivalent prices, two valuation methods are applied most frequently, either the written-down replacement cost method or the present value of future earnings. The former method is typically applied to fixed assets used in the production of goods and services, while the latter method is often the only alternative for arriving at an approximation of the value of natural resources. In addition, expert estimates may be the only viable option for estimating the value of valuables.

## Chapter 4. Institutional Units and Sectors, Economic Territory, and Residence

This is a common chapter with Chapter 5 of the 2025 SNA, and for the most part, the text is identical in both the *Manual* and the 2025 SNA.

### A. OVERVIEW

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**4.1** This chapter is concerned with the definition and description of institutional units and the way in which they are grouped to make up the sectors and subsectors in macroeconomic statistics. This section discusses the key concepts of an institutional unit, its residence, and the economic territory. This is followed by the main principles for allocating institutional units to institutional sectors. In addition, attention is paid to the concept of population. Section B provides further guidance on corporations, while Section C deals with nonprofit institutions. Sections D–H provides more details on the main institutional sectors, including the subsectors distinguished, as follows: nonfinancial corporations (D), financial corporations (E), general government (F), households (G), and nonprofit institutions serving households (H). The chapter ends with some details about the rest of the world, i.e., the accounts for transactions and positions between residents and nonresidents, while Section J contains more detailed guidance related to the concepts of economic territory and residence.

### 1. INSTITUTIONAL UNITS

**4.2** *An institutional unit is an economic unit that is capable, in its own right, of owning assets, typically able to incur liabilities, and engaging in economic activities and in transactions with other units.* The main attributes of institutional units may be described as follows:

- a. An institutional unit is entitled to own goods or assets in its own right; it is therefore able to exchange the ownership of goods or assets in transactions with other institutional units;
- b. It is able to take economic decisions and engage in economic activities for which it is itself held to be directly responsible and accountable at law;
- c. It is typically able to incur liabilities on its own behalf, to take on other obligations or future commitments, and to enter into contracts; in some exceptional cases, economic units may qualify as institutional units, even though they are not able to incur liabilities on their own behalf, an example being local government units.



- d. Either a complete set of accounts, including a balance sheet of assets and liabilities, exists for the unit, or it would be possible and meaningful, from an economic viewpoint, to compile a complete set of accounts if they were to be required.

**4.3** There are two main types of units in the real world that may qualify as institutional units, namely persons or groups of persons in the form of households, and legal or social entities.

**4.4** For the purpose of macroeconomic statistics, *a household consists of a single person or a group of persons who share the same living accommodation, who pool some, or all, of their income and wealth, and who consume certain types of goods and services collectively, mainly housing and food.* In addition to private households, there are units described as institutional households that comprise groups of persons staying in hospitals, retirement homes, convents, prisons, etc. for long periods of time.

**4.5** The individual members of multi-person private households are not treated as separate institutional units. Many assets are owned, or liabilities incurred, jointly by two or more members of the same household while some or all of the income received by individual members of the same household may be pooled for the benefit of all members. Moreover, many expenditure decisions, especially those relating to the consumption of food, or housing, may be made collectively for the household as a whole. It may be impossible, therefore, to draw up meaningful balance sheets or other accounts for members of the household on an individual basis. For these reasons, the household as a whole rather than the individual persons in it must be treated as the institutional unit. Also, members of institutional households are not treated as separate institutional units, if they have little or no autonomy of action or decision in economic matters.

**4.6** The second type of institutional unit is a legal or social entity that engages in economic activities and transactions in its own right, such as a corporation, nonprofit institution (NPI) or government unit. *A legal or social entity is an entity whose existence is recognized by law or society independently of the persons, or other units, that may own or control it.* Such units are responsible and accountable for the economic decisions or actions they take, although their autonomy may be constrained to some extent by other institutional units; for example, legally constituted corporations are ultimately controlled by their shareholders. Some unincorporated enterprises belonging to households or government units may behave in much the same way as legally constituted corporations, and such units are treated as quasicorporations when they have complete sets of accounts. Box 4.1 discusses the concept of establishments and enterprises.

**4.7** In the legal sense, corporations may be described by different names: corporations, incorporated enterprises, public limited companies, public corporations, private companies, joint-stock companies, limited liability companies, limited liability partnerships, and so on.

Conversely, some legal entities that are nonprofit institutions may sometimes be described as “corporations.” The status of an institutional unit cannot always be inferred from its name, and it is necessary to examine its objectives and functions. In macroeconomic statistics, *the term corporations covers institutional units, mainly consisting of legally constituted corporations and also cooperatives, limited liability partnerships, notional resident units, and quasicorporations, whose principal activities are to produce goods or services for the market.* The description of these various institutional units is given in Section B.

**4.8** *Nonprofit institutions (NPIs) are legal or social entities created for the purpose of producing goods and services but whose status does not permit them to be a source of income, profit, or other financial gain for the units that establish, control, or finance them.* In practice, their productive activities are bound to generate either surpluses or deficits, but any surpluses they happen to make cannot be appropriated by other institutional units. The articles of association by which they are established are drawn up in such a way that the institutional units that control or manage them are not entitled to a share in any profits or other income they generate. For this reason, they are frequently exempted from various kinds of taxes. A description of the treatment of NPIs within macroeconomic statistics is given in Section C.

**4.9** *Government units are unique kinds of legal entities established by political processes that have legislative, judicial, or executive authority over other institutional units within a given area.* Viewed as institutional units, the principal functions of government are to assume responsibility for the provision of goods and services to the community or to individual households and to finance their provision out of taxation or other incomes; to redistribute income and wealth by means of transfers; and to engage in nonmarket production.

### Box 4.1. Establishments and Enterprises

#### Establishments

*An establishment is an enterprise, or part of an enterprise, that is situated in a single location and in which only a single productive activity is carried out or in which the principal productive activity accounts for most of the value added (also known as local kind-of-activity unit).* The breaking up of enterprises into one or more establishments is useful because some enterprises are large and complex, with different kinds of economic activity undertaken in different locations. The establishment is particularly useful as a unit for production statistics. Because the establishments of a multi-establishment enterprise are part of the same legal entity, financial transactions and positions cannot always be attributed to a particular location or activity, so the use of the institutional unit concept is appropriate for statistics covering financial flows and positions, such as sector's financial balance sheets, the BOP, and the integrated IIP.

#### Enterprises

*An enterprise is defined as an institutional unit engaged in the production of goods and/or services. The term enterprise may refer to a corporation, a quasicorporation, a nonprofit institution (NPI), or an unincorporated enterprise.* Investment funds and other corporations or trusts that hold assets and liabilities on behalf of groups of owners are also enterprises, even if they are engaged in little or no production. Corporate enterprises and nonprofit institutions are complete institutional units. An unincorporated enterprise, however, refers to a part of an institutional unit—a household or government unit—only in its capacity as a producer of goods and services.

#### Local and Global Enterprise Groups

Groups of enterprises are sometimes identified in defining and classifying direct investment. Although enterprises are the basic unit of economic statistics, a single owner or group of owners may have control of more than one enterprise, so they may act in a concerted way and the transactions between the enterprises may not be driven by the same concerns as “arm's-length” transactions, that is, those with unrelated enterprises.

Enterprise groups may be either global or local. *A global enterprise group refers to the multinational enterprise (MNE) and the set of units—regardless of their economies of residence—that are under the control of the same ultimate controlling parent* (MNE is the ultimate controlling parent—see paragraph 4.33 ); whereas the local (or territory-specific) enterprise group refers to a parent corporation and the legal entities controlled by that parent which are resident in the reporting economy. Business accounting may cover groups of related units (consolidated accounts) including units that are resident in different economies. However, units in different economies are not aggregated for macroeconomic statistics that have a focus on a certain economy. The concepts of global enterprise groups and local enterprise groups are used in the *OECD Benchmark Definition of Foreign Direct Investment*. The global enterprise group is also called a multinational enterprise group.

Local enterprise groups may be used for compiling and presenting direct investment statistics. For example, if direct investment is initially channelled to a holding company and then on to a manufacturing subsidiary, then it may shed light to classify the direct investment in manufacturing rather than in a holding company operation, which is just the initial investment. The implications of combining units in different institutional sectors need to be carefully considered.

## 2. RESIDENCE AND ECONOMIC TERRITORY

**4.10** *The residence of an institutional unit is the economic territory with which an institutional unit has the strongest connection, i.e., its center of predominant economic interest.* The concept of economic territory is consistent across macroeconomic statistics. Some key features are as follows. In its broadest sense, an economic territory can be any geographic area or jurisdiction for which statistics are required. The connection of units to a particular economic territory is determined from aspects such as physical presence and being subject to the jurisdiction of the government of the territory. The most commonly used concept of economic territory is the area under the effective economic control of a single government. However, economic territory may be larger or smaller than this, as in a currency or economic union or a part of a country or the world.

**4.11** The economic territory includes the land area, airspace, territorial waters, including jurisdiction over fishing rights and rights to fuels or minerals. In a maritime territory, the economic territory includes islands that belong to the territory. The economic territory also includes territorial enclaves in the rest of the world. These are clearly demarcated land areas (such as embassies, consulates, military bases, scientific stations, information or immigration offices, aid agencies, central bank representative offices with diplomatic immunity, etc.) located in other territories and used by governments that own or rent them for diplomatic, military, scientific, or other purposes with the formal agreement of governments of the territories where the land areas are physically located. More detailed guidance on economic territory is provided in Section J.

**4.12** Economic territory has the dimensions of physical location as well as legal jurisdiction. The concepts of economic territory and residence are designed to ensure that each institutional unit is a resident of a single economic territory. The use of an economic territory as the scope of economic statistics means that each member of a group of affiliated enterprises is resident in the economy in which it is located, rather than being attributed to the economy of location of the head office.

**4.13** In general, an institutional unit is resident in one and only one economic territory determined by the unit's center of predominant economic interest. Exceptions may be made for multi-territory enterprises that operate a seamless operation over more than one

economic territory. Although the enterprise has substantial activity in more than one economic territory, it cannot be broken up into separate branches or a parent and branch(es) because it is run as an indivisible operation with no separate accounts or decisions. Such enterprises are typically involved in cross-border activities and include shipping lines, airlines, hydroelectric schemes on border rivers, pipelines, bridges, tunnels, and undersea cables. If it is not possible to identify a parent or separate branches, it is necessary to prorate the total operations of the enterprise into the individual economic territories. For more information on these special cases, refer to paragraphs 4.66–4.69.

**4.14** An institutional unit has a center of predominant economic interest in an economic territory when there exists, within the economic territory, some location, dwelling, place of production, or other premises on which or from which the unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale. The location need not be fixed so long as it remains within the economic territory. The actual or intended location for one year or more is used as an operational definition; while the choice of one year as a specific period is somewhat arbitrary, it is adopted to avoid uncertainty and facilitate international consistency.

**4.15** The concept of residence is consistent across macroeconomic statistics. Some key consequences follow:

- a. The residence of individual persons is determined by that of the household of which they form part and not by their place of work. All members of the same household have the same residence as the household itself, even though they may cross borders to work or otherwise spend periods of time abroad. If they work and reside abroad so long (usually taken to be one year or more) that they acquire a center of economic interest abroad, they cease to be members of their original households;
- b. Unincorporated enterprises that are not quasicorporations are not separate institutional units from their owners and, therefore, have the same residence as their owners;
- c. Corporations and NPIs may normally be expected to have a center of economic interest in the economic territory in which they are legally constituted and registered. Corporations may be resident in economic territories different from their shareholders and subsidiary corporations may be resident in economic territories different from their parent corporations. When a corporation, or unincorporated enterprise, maintains a branch, office or production site in another economic territory in order to engage in production over a long period of time (usually taken to be one year or more) but without creating a subsidiary corporation for the purpose, the branch, office, or site is considered to be a quasicorporation (that is, a separate institutional unit) resident in the economic territory in which it is located;

- d. Owners of land and other natural resources, buildings, and immovable structures in the economic territory of a country, or units holding long leases on either, are deemed always to have a center of economic interest in that country, even if they do not engage in other economic activities or transactions in the country. All land and other natural resources, buildings, and immovable structures are therefore owned by residents. If the legal owner is actually nonresident, an artificial unit, called a notional resident unit, is created for statistical purposes (see paragraph 4.59–4.6571);
- e. Extraction of mineral and energy resources and exploitation of licenses can only be undertaken by resident institutional units. An enterprise that will undertake extraction is deemed to become resident when the requisite licenses or leases are issued, if not before (such as in the case of exploration licenses);
- f. For units such as many special purpose units/vehicles, that have few if any attributes of location, the location is determined by their place of incorporation (see paragraphs 4.77 and 4.78).

Further elaboration of the concept of residence for a number of borderline cases is given in Section J.

### 3. SECTORING AND ECONOMIC BEHAVIOR

**4.16** The institutional sectors distinguished in the external accounts group together similar kinds of institutional units. Corporations, NPIs, government units, and households are intrinsically different from each other in that their economic objectives, functions, and behavior are different.

**4.17** Corporations are divided between those mainly providing financial services and those mainly providing goods and other services. The two groups are known as financial corporations and nonfinancial corporations, respectively. The distinction is made because of the special role that financial corporations play in the economy.

**4.18** The economic objectives, functions, and behavior of government units are quite distinct. They organize and finance the provision of goods and services to individual households and the community at large, and therefore incur expenditures on final consumption. They may produce most of these goods and services themselves, but the products are usually either provided free or at prices determined by considerations other than purely market forces. Although classified as a financial corporation, the same holds for the central bank. Government units are also concerned with distribution and redistribution of income and wealth through taxation and other transfers. Government units include social security funds.

**4.19** The economic objectives, functions, and behavior of households are different again. Although primarily consumer units, they can also engage in production. Often this production activity is relatively small scale and includes informal and subsistence activities. When the production units of households are not legal entities (and cannot be treated as such), they are described as unincorporated enterprises. They remain part of the same institutional unit as the household to which they belong.

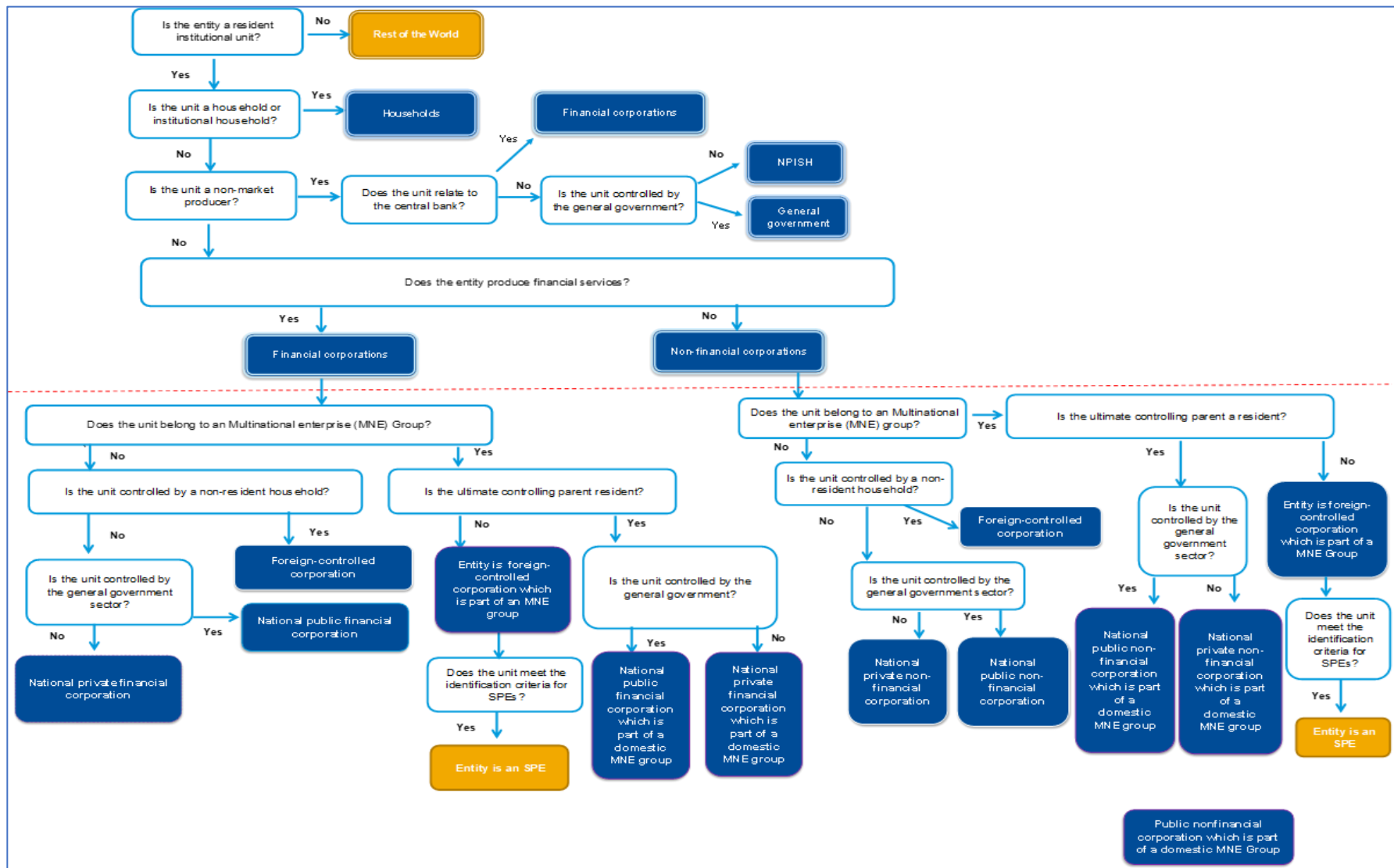
**4.20** NPIs are institutional units created for the purpose of producing or distributing goods or services but not for the purpose of generating any income or profit for the units that control or finance them. Nevertheless, some NPIs deliver goods and services to customers at economically significant prices and, when they do, these NPIs are treated in the same way as corporations. Other NPIs that produce goods and services but do not sell them at economically significant prices are either government units, if controlled by government, or they are treated as a special group of units called nonprofit institutions serving households (NPISHs). The latter units are in effect nongovernmental social institutions.

**4.21** The digitalization of economic activities (financial as well as nonfinancial services) has a significant impact on the way in which these activities are performed. Apart from the emergence of new products, such as the services of digital intermediation platforms, cloud computing, etc., this phenomenon does not affect the classification of economic activities into institutional (sub)sectors and industries. Relevant units should continue to be classified in line with their economic objectives, functions, and behavior. The same holds for the classification of units involved in economic activities arising from technological innovations in the financial corporations' sector, often referred to as fintech. Chapter 16 contains a more extensive discussion on the impact of digitalization for the measurement of the economy.

#### 4. THE TOTAL ECONOMY

**4.22** *The total economy is defined as the sum of all institutional units resident in a particular economic territory.* The resident institutional units that make up the total economy are grouped into five mutually exclusive institutional sectors. Sectors are groups of institutional units and the whole of each institutional unit must be classified to one specific sector of the external accounts. The full sequence of economic accounts may be constructed for a single institutional unit or a group of units. The attributes of an institutional unit described in paragraph 4.2 explain why it is not possible to compile a full set of accounts for only part of a unit. However, it is possible, useful, and common practice to compile some accounts for sub-divisions of corporations, discriminating on the basis of the type of production the parts undertake. This is the subject of Chapter 6 on Enterprises, Establishment, and Industries, 2025 SNA. For the present chapter, attention focuses on the allocation of complete units to one sector or another.

Figure 4.1. Illustrative Allocation of Units to Institutional Sectors



The decision tree does not account for the classification of special purpose units set up by government in the rest of the world.



## 5. AN OVERVIEW OF INSTITUTIONAL SECTORS

**4.23** All resident institutional units are allocated to one and only one of the following five institutional sectors:

- The nonfinancial corporations sector;
- The financial corporations sector;
- The general government sector;
- The nonprofit institutions serving households sector;
- The households sector.

**4.24** The conceptual basis for the allocation of a unit to the appropriate sector can be seen in the top half of Figure 4.1 (i.e., above the horizontal dotted line). The boxes for the sectors of the total economy, plus the box for the rest of the world, appear with double borders. Once nonresident units and households are set aside, only resident legal and social entities remain. Three questions determine the sectoral allocation of all such units. The first is whether the unit is a market or nonmarket producer. This depends on whether the majority of the unit's production is offered at economically significant prices or not. Due to its important role in the financial system, an exception to this general rule is made for the central bank. Although predominantly producing nonmarket services, the central bank is grouped together with market producers of financial services.

**4.25** The second question determining sectoral allocation applies to nonmarket units other than the central bank, all of which are allocated either to general government or to the NPISH sector. The determining factor is whether the unit is part of, or controlled by, government. The criteria to establish control by government are discussed in Section C below.

**4.26** The third question determining sectoral allocation applies to market units, and also the central bank, all of which, including market NPIs, are allocated to either the nonfinancial corporations sector or the financial corporations sector. In the context of sectors, the term "corporation" is used to encompass all market producers, including cooperatives, limited liability partnerships, notional resident units, and quasicorporations as well as legally constituted corporations.

**4.27** The nonfinancial corporations sector includes NPIs engaged in the market production of goods and nonfinancial services: for example, hospitals, schools, or colleges that charge fees that enable them to recover their current production costs, or trade associations financed by subscriptions from nonfinancial corporate or unincorporated

enterprises whose role is to promote and serve the interests of those enterprises. The nonfinancial corporations sector is described further in Section D.

**4.28** The financial corporations sector includes the central bank and all resident corporations whose principal activity is providing financial services including financial intermediation, insurance and pension fund services, and units that provide activities that facilitate financial intermediation. In addition, the sector includes NPIs engaged in market production of a financial nature such as those financed by subscriptions from financial enterprises whose role is to promote and serve the interests of those enterprises. The financial corporations sector is described further in Section E.

**4.29** The general government sector consists mainly of central, state, and local government units together with social security funds imposed and controlled by those units. In addition, it includes all nonmarket producers that are controlled by government units or social security funds.

**4.30** The nonprofit institutions serving households sector consists of all resident NPIs, except those controlled by government, that provide nonmarket goods or services to households or to the community at large.

**4.31** The households sector consists of all resident households. These include institutional households made up of persons staying in hospitals, retirement homes, convents, prisons, etc. for long periods of time. It is noted that the institutions where these persons are staying (e.g., hospitals, retirements homes, prisons) generally constitute separate institutional units, different from the institutional households. Furthermore, as already noted, an unincorporated enterprise owned by a household is treated as an integral part of the latter and not as a separate institutional unit unless the accounts are sufficiently detailed to treat the activity as that of a quasicorporation.

## 6. SUBSECTORS

**4.32** Each of the five institutional sectors listed above may be divided into subsectors. No single method of subsectoring may be optimal for all purposes or all countries, so that alternative methods of subsectoring are recommended for certain sectors. Dividing the total economy into sectors enhances the usefulness of the accounts for purposes of economic analysis by grouping together institutional units with similar objectives and types of behavior. Sectors and subsectors are also needed in order to be able to target or monitor particular groups of institutional units for policy purposes. For example, the households sector has to be divided into subsectors in order to be able to show how different sections of the community are affected by, or benefit from, the process of economic development or government economic and social policy measures. Similarly, it may be important to treat corporations subject to control by nonresidents as subsectors of the financial and

nonfinancial corporate sectors, not only because they are likely to behave differently from domestically controlled corporations, but also because policymakers may wish to be able to identify and observe those parts of the economy that are subject to influence from abroad. It would also enhance the possibilities of analyzing the impact of foreign-controlled corporations on the generation and distribution of income, and capital formation. The division of sectors into subsectors depends upon the type of analysis to be undertaken, the needs of policymakers, the availability of data, and the economic circumstances and institutional arrangements within a country.

### **Breakdowns of Nonfinancial and Financial Corporations Based on Control**

**4.33** One common subsectoring, as shown in the bottom half of Figure 4.1 (i.e., below the horizontal dotted line), is to identify those nonfinancial corporations and financial corporations that are controlled domestically and those that are foreign-controlled (for the definition of control of corporations, see paragraphs 4.94112–4.109 below). Domestically controlled corporations are further split into public corporations (those controlled by government) and others, which are known as national private corporations. In addition, “of which” items are included for domestically controlled public and private corporations that are part of a domestic multinational enterprise (MNE) group, i.e., those corporations whose ultimate controlling parent is resident in the same economy. In this respect, *an MNE is defined as a legal entity that has at least one nonresident affiliate or branch, and exercises control over its affiliate(s) or branch(es) either directly—by owning over 50 percent of the voting power in the unit—or by indirect transmission of control. The MNE is the ultimate controlling parent—the direct investor at the top of the control chain. The MNE group consists of the MNE and the set of units—regardless of their economies of residence—that are under the control of the same ultimate controlling parent* (see Chapter 15 for additional details on MNEs). For countries where the presence of special purpose entities (SPEs; see paragraphs 4.77 and 4.79 below) is significant, a separate identification of SPEs, as an “of which” item, is recommended as supplementary information.

### **Nonprofit Institutions**

**4.34** NPIs are assigned to different sectors according to whether they produce for the market or not, regardless of motivation, status of employees, or the activity they are engaged in. However, there is increasing interest in considering the full set of NPIs as evidence of “civil society,” so it is recommended that NPIs within the corporate and government sectors be identified in distinct subsectors so that supplementary tables summarizing all NPI activities can be derived in a straightforward manner as and when required. (See Chapter 31 in the 2025 SNA on Nonprofit Institutions for more information.)

**Other Subsectoring**

**4.35** The question of subsectoring is included in the more extensive consideration of each institutional sector in following sections. Particular subsectors are suggested for general government, nonfinancial corporations, financial corporations, and households. An overview of the standard breakdowns in the SNA is given in Table 4.1.

**Table 4.1. Standard Classification of Institutional Sectors in the Sequence of Economic Accounts of the SNA**

**S1 Total economy**

S11 Nonfinancial corporations

Classification based on control

S1111 Public nonfinancial corporations

Of which: S1111ow Part of domestic multinational enterprise (MNE) group

S1112 National private nonfinancial corporations

Of which: S1112 ow Part of domestic multinational enterprise (MNE) group

S1113 Foreign-controlled nonfinancial corporations<sup>1</sup>

Of which: S1113ow Special purpose entities (SPEs)

S12 Financial corporations

Classification based on control

S1211 Public financial corporations

Of which: S1211 ow Part of domestic multinational enterprise (MNE) group

S1212 National private financial corporations

Of which: S1212 ow Part of domestic multinational enterprise (MNE) group

S1213 Foreign-controlled financial corporations<sup>1</sup>

Of which: S1213ow Special purpose entities (SPEs)

Classification based on type of financial services

S121 Central bank

S122 Deposit-taking corporations except the central bank

S123 Money market funds (MMFs)

<p>S124 Non-MMF investment funds</p> <p>S125 Other financial intermediaries except insurance corporations and pension funds</p> <p>S126 Financial auxiliaries</p> <p>S127 Captive financial institutions and money lenders</p> <p>S128 Insurance corporations</p> <p>S129 Pension funds</p> <p>S13 General government</p> <p>General government classification—alternative A</p> <p>S1311 Central government</p> <p>S1312 State government</p> <p>S1313 Local government</p> <p>S1314 Social security funds</p> <p>General government classification—alternative B</p> <p>S1321 Central government including social security funds</p> <p>S1322 State government including social security funds</p> <p>S1323 Local government including social security funds</p> <p>S14 Households<sup>2</sup></p> <p>S15 Nonprofit institutions serving households</p> <p><b>S2 Rest of the world</b></p>
<p>1 While all foreign-controlled corporations are foreign direct investment enterprises, the reverse is not true (see paragraph 4.10926).</p> <p>2 Subsectors of the household sector will be based on income and wealth deciles.</p>

**4.36** The institutional sector classification in the external accounts is shown in Table 4.2. It follows the same sectors and subsectors as the institutional sector classification applied in

the sequence of economic accounts of the SNA, shown in Table 4.1, but with an order and groupings to allow greater backward compatibility with the *BPM6* classification and a shorter list of sectors for economies in which it is not practical to implement the full classification. The full institutional sector detail is required for external accounts to be fully integrated with monetary, flow of funds, and other financial data. Domestic and foreign-controlled corporations may be identified separately on a supplementary basis.

<b>Table 4.2. Classification of Institutional Sectors in External Accounts</b>
<p><b>Central bank</b></p> <p><i>Monetary authorities<sup>1</sup></i></p> <p><b>Deposit-taking corporations except the central bank<sup>2</sup></b></p> <p><i>Of which SPEs<sup>1</sup></i></p> <p><b>General government</b></p> <p><b>Other financial corporations (OFCs)<sup>2</sup></b></p> <p><i>Money market funds (MMFs)<sup>1 2</sup></i></p> <p><i>Non-MMF investment funds<sup>1 2</sup></i></p> <p><i>Insurance corporations<sup>1 2</sup></i></p> <p><i>Pension funds<sup>1 2</sup></i></p> <p><i>Other financial intermediaries except insurance corporations and pension funds<sup>1 2</sup></i></p> <p><i>Of which Central clearing counterparties<sup>1 2</sup></i></p> <p><i>Captive financial institutions and money lenders, and financial auxiliaries<sup>1 2</sup></i></p> <p><i>Of which SPEs<sup>1</sup></i></p> <p><b>Nonfinancial corporations (NFCs)<sup>2</sup></b></p> <p><i>Of which SPEs<sup>1</sup></i></p> <p><b>Households and nonprofit institutions serving households (NPISHs)</b></p> <p><i>Additional sectors for counterpart data:</i></p> <p><i>International organizations</i></p> <p><i>International financial organizations</i></p> <p><i>Central bank of currency union</i></p> <p><i>Other international organizations</i></p>



<sup>1</sup> These items are supplementary (i.e., countries are encouraged to compile these breakdowns when they are relevant to their countries).

<sup>2</sup> Supplementary “of which” items may be provided for public corporations.

Note: Captive financial institutions and money lenders as well as financial auxiliaries are combined to reduce the compilation burden (they are not regarded being involved in financial intermediation). However, they can be separately identified in the countries where they have large cross-border transactions and positions. Households and nonprofit institutions serving households can also be compiled separately in the countries where compilers see its merit. Data for central clearing counterparties (CCPs) could be compiled as an “of which” item for countries that have large cross-border transactions and positions related to CCPs. Data for SPEs are “of which” items for deposit-taking corporations, other financial corporations, and nonfinancial corporations, but they could also be compiled for other institutional sectors if they play an important role in the country.

**4.37** Transactions in financial instruments between residents and nonresidents raise particular issues concerning attribution of institutional sector. The economic owner of the asset, the creditor, is invariably one party to any change of economic ownership of the asset. Therefore, for assets, sector attribution by creditor and by transactor coincide. A claim on a resident debtor, however, may change ownership between a resident creditor and a nonresident creditor, so that the domestic sector of the debtor may not coincide with that of the transactor. For instance, the issuer may be a resident in one institutional sector, the seller a resident in another institutional sector, and the buyer a nonresident.

**4.38** Although the sector classification for liabilities is clearly according to the issuer, for the sector data in the financial account, there are both practical and analytical considerations over whether the sector allocation should be determined according to the issuer or the seller. By convention, the sector of the debtor is the one that determines the classification of the change of ownership that has occurred, because the original nature of the liability is generally considered more significant than the identity of the resident seller of the claim. The same issues apply for financial instruments issued by a resident that are sold by a nonresident holder to a resident buyer.

## 7. THE REST OF THE WORLD

**4.39** On occasion it is convenient to refer to nonresident households or corporations as units that are resident in the rest of the world. Whenever accounts are drawn up for institutional sectors, as well as an account for the total economy, a further account is presented showing the relationship with the rest of the world. In effect, therefore flows and positions with the rest of the world are recorded as if the rest of the world is a de facto sixth sector.

**4.40** For the purpose of reporting external accounts data, more disaggregated institutional sector breakdowns for the transactions and positions with nonresidents are followed (see Table 4.2).

## B. CORPORATIONS IN MACROECONOMIC STATISTICS

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### 1. TYPES OF CORPORATIONS

**4.41** In the external accounts and other macroeconomic statistics, the term corporation is used more broadly than in just the legal sense. In general, all units that are:

- a. capable of generating a profit or other financial gain for their owners,
- b. recognized at law as separate legal entities from their owners who enjoy limited liability,
- c. set up for purposes of engaging in market production through the selling of all or most of their goods and/or services at economically significant prices,

are treated as corporations, however they may describe themselves or whatever they may be called. As well as legally constituted corporations, the term corporations is used to include cooperatives, limited liability partnerships, notional resident units, and quasicorporations. Whenever the term corporation is used, the broader coverage rather than the narrow legal definition is intended unless otherwise stated. Each of the main components of the broader coverage is discussed in turn below.

#### Legally Constituted Corporations

**4.42** Legally constituted corporations may be described by different names: corporations, incorporated enterprises, public limited companies, public corporations, private companies, joint-stock companies, limited liability companies, limited liability partnerships, and so on.

*Legally constituted corporations are legal entities created for the purpose of producing goods or services for the market that may be a source of profit or other financial gain to its owner(s). They are collectively owned by shareholders who have the authority to appoint directors responsible for its general management.*

**4.43** The laws governing the creation, management, and operations of legally constituted corporations may vary from country to country. Therefore, it is not feasible to provide a precise, legal definition of a corporation that would be universally valid. It is possible, however, to indicate in more detail the typical features of corporations that are most relevant from the point of view of macroeconomic statistics. They may be summarized as follows:

- a. A corporation is a unit created by process of law whose existence is recognized independently of the other institutional units that may own shares in its equity. The existence, name, and address of a corporation are usually recorded in a special register kept for this purpose. A corporation may normally be expected to have a center of predominant economic interest (that is, to be resident) in the country in which it is created and registered.
- b. A corporation that is created for the purpose of producing goods or services for sale on the market does so at prices that are economically significant. This implies that it is a market producer. (A description of economically significant prices and the difference between market and nonmarket production is given in Chapter 7 on Production account and Chapter 30 on General government and the public sector, 2025 SNA.)
- c. A corporation is fully responsible and accountable at law for its own actions, obligations, and contracts, this being an essential attribute of an institutional unit in the external accounts and other macroeconomic statistics. A corporation is subject to the tax regime of the country where it is resident in respect of its productive activities, income, or assets.
- d. Ownership of a corporation is vested in the shareholders collectively. The amount of income actually distributed to shareholders as dividends in any single accounting period is decided by the directors of the corporation. Income is usually distributed to shareholders in proportion to the value, or amounts, of the shares or other capital participations they own. There may be different kinds of shares in the same corporation carrying different entitlements.
- e. In the event of a corporation being wound up, or liquidated, the shareholders are similarly entitled to a share in the net worth of the corporation remaining after all assets have been sold and all liabilities in debt instruments paid. If a corporation is declared bankrupt because its debt-related liabilities exceed the value of its assets, the shareholders are usually not liable to repay the excess liabilities. However, in cases of implicit guarantees or significant reputational risks, the owner may experience to have a negative equity position (see Box 7.1).
- f. Control of a corporation is ultimately exercised by the shareholders collectively. A corporation has a board of directors that is responsible for the corporation's policy and appoints the senior management of the corporation. The board of directors is usually appointed by the collective vote of the shareholders.
- g. In practice, however, some shareholders may exert much more influence or control over the policies and operations of a corporation than others.

- h. The voting rights of shareholders may not be equal. Some types of shares may carry no voting rights, while others may carry exceptional rights, such as the right to make specific appointments to the board of directors or the right to veto other appointments made on a majority vote. Such exceptional rights may be held by the government when it is a shareholder in a corporation.
- i. Many shareholders with voting rights do not choose to exercise them, so that a small, organized minority of active shareholders may be in a position to control the policy and operations of a corporation.

### **Cooperatives, Limited Liability Partnerships, etc.**

**4.44** Cooperatives are set up by producers for purposes of marketing their collective output. The profits of such cooperatives are distributed in accordance with their agreed rules and not necessarily in proportion to shares held, but effectively they operate like corporations. Similarly, partnerships whose members enjoy limited liability are separate legal entities that behave like corporations. In effect, the partners are at the same time both shareholders and managers.

### **Quasicorporations**

**4.45** Some unincorporated enterprises function in all (or almost all) respects as if they were incorporated. These are termed quasicorporations in the external accounts and other macroeconomic statistics and are included with corporations in the nonfinancial and financial corporations sectors. A quasicorporation is:

- a. either an unincorporated enterprise owned by a resident institutional unit that has sufficient information to compile a complete set of accounts and is operated as if it were a separate corporation and whose de facto relationship to its owner is that of a corporation to its shareholders, or
- b. an unincorporated enterprise owned by a nonresident institutional unit that is deemed to be a resident institutional unit because it engages in a significant amount of production in the economic territory over a long or indefinite period of time.

**4.46** Three main kinds of quasicorporations are recognized in macroeconomic statistics:

- a. Unincorporated enterprises owned by government units that are engaged in market production and that are operated in a similar way to publicly owned corporations;
- b. Unincorporated enterprises, including unincorporated partnerships or trusts, owned by households that are operated as if they were privately owned corporations;
- c. Unincorporated enterprises that belong to institutional units resident abroad, referred to as “branches.”

**4.47** The intent behind the concept of a quasicorporation is clear: namely, to separate from their owners those unincorporated enterprises that are sufficiently self-contained and independent that they behave in the same way as corporations. If they function like corporations, they must keep complete sets of accounts. Indeed, the existence of a complete set of accounts, including balance sheets, for the enterprise is a necessary condition for it to be treated as a quasicorporation. Otherwise, it would not be feasible from an accounting point of view to distinguish the quasicorporation from its owner.

**4.48** As a quasicorporation is treated as a separate institutional unit from its owner, it must have its own value added, saving, assets, liabilities, etc. It must be possible to identify and record any flows of income and capital that are deemed to take place between the quasicorporation and its owner. The amount of income withdrawn from a quasicorporation during a given accounting period is decided by the owner, such a withdrawal being equivalent to the payment of a dividend by a corporation to its shareholder(s). Given the amount of the income withdrawn, the saving of the quasicorporation (that is, the amount of earnings retained within the quasicorporation) is determined. A balance sheet is also needed for the quasicorporation showing the values of its nonfinancial assets used in production and also the financial assets and liabilities owned or incurred in the name of the quasicorporation.

**4.49** Experience has shown that countries have difficulty treating unincorporated enterprises owned by households as quasicorporations. However, it is not useful to introduce additional criteria, such as size, into the definition of quasicorporations owned by households. If an enterprise is not in fact operated like a corporation and does not have a complete set of accounts of its own, it cannot and should not be treated as a quasicorporation however large it may be.

**4.50** A quasicorporation is also identified when preliminary expenses, including for mining rights, license fees, site preparation, building permits, purchase taxes, local office expenses, and lawyers' fees, are incurred by a nonresident unit, prior to establishing a legal entity. As a result of identifying a quasicorporation in those cases, the preparatory expenses are recorded in the economy of the future operations as being resident-to-resident transactions that are funded by a direct investment inflow. Because of the limited scale of these activities, the compilation of acceptable data for these enterprises is often feasible, despite the lack of incorporation. If the project does not subsequently go into operation, the value of the direct investment is eliminated by an entry in the other changes in the volume of assets or liabilities account.

## Units with Cross-Border Elements

### *Branches*

**4.51** When a nonresident unit has substantial operations over a significant period in an economic territory, but no separate legal entity, a branch may be identified as an institutional unit. This unit is identified for statistical purposes because the operations have a strong connection to the location of operations in all ways other than incorporation.

**4.52** An unincorporated enterprise abroad should be treated as a quasicorporation when indications of substantial operations can be identified separately from the rest of the unit. As with other quasicorporations, either a complete set of accounts, including a balance sheet of assets and liabilities, for the unit exists or it would be meaningful from an economic point of view to compile them. The availability of separate records indicates that an actual unit exists and makes it practical to prepare statistics. In addition, all or most of the following factors tend to be present for a branch to be recognized:

- a. Production based in the territory is undertaken or intended for one year or more in a territory other than that of its head office:
  - If the production process involves physical presence, then the operations should be physically located in that territory. Some indicators of an intention to locate in the territory include purchasing or renting business premises, acquiring capital equipment, and recruiting local staff.
  - If the production does not involve physical presence, such as activities related to the ownership of patents, “virtual manufacturing”, some cases of banking, insurance, or other financial services, the operations should be recognized as being in the territory by virtue of the registration or legal domicile of those operations in that territory.
- b. The operations are recognized as being subject to the income tax system, if any, of the economy in which it is located even if it may have a tax-exempt status.

**4.53** The identification of branches has implications for the statistical reporting of both the parent and branch. The operations of the branch should be excluded from its head office in the home territory and the delineation of parent and branch should be made consistently in both of the affected economies. Each branch, as described in the above paragraphs, is a direct investment enterprise. Branches most commonly arise for financial and nonfinancial corporations, but it is also possible that households, nonprofit institutions serving households (NPISHs), or governments (when government operations do not have diplomatic immunity) have branches.

*Construction Projects*

**4.54** Some construction projects undertaken by a nonresident contractor may give rise to a branch, to be recognized as a direct investment enterprise. Construction may be carried out or managed by a nonresident enterprise, without the creation of a local legal entity:

- a. For major projects (such as bridges, dams, power stations) that take a year or more to complete and that are managed through a local site office, the operations would usually satisfy the criteria for identification of a branch in paragraphs 4.51 and 4.52, and so would not be classified as international trade in services;
- b. In other cases, the construction operations may not satisfy the conditions for recognition as a branch, for example, for a short-term project or one undertaken from the home territory rather than from a local office. In those cases, the work provided to customers resident in the territory of those operations is classified as international trade in construction and included in services (i.e., an export of services by the home base and an import of services by the territory of operations).

*Production Delivered from a Base*

**4.55** Activities such as consulting, maintenance, training, technical assistance, and health care may be provided by a branch or from a home base. If operations are substantial enough to satisfy the criteria given in paragraphs 4.51 and 4.52, a branch would be recognized as a direct investment enterprise. On the other hand, if a branch is not recognized in the territory, the operations will give rise to international trade in services. The residence of units providing services in this way is discussed in paragraph 4.219.

**4.56** Mobile equipment, such as ships, aircraft, drilling platforms, and railway rolling stock, may operate across more than one economic territory. The criteria for recognition of a branch also apply in these cases. That is, if the operations in a territory outside the home base are substantial enough, they meet the definition of a branch. For example, a secondary base for servicing the fleet with long-term presence and its own accounts may satisfy the definition of a branch. If they do not satisfy the definition of a branch, the activities of the ship-operating enterprise are included in the economy where the operator is resident.

**4.57** Similarly to mobile equipment, a multi-territory pipeline that passes through a territory, but is not operated by a separate legal entity in that territory, would be recognized as constituting a branch if there is a substantial presence, availability of separate accounts, and so on. In cases in which such operations are not separate institutional units, there may be payment of rent to a notional unit owning the land or a long-term lease of land, of the kind discussed in paragraphs 4.59 and 4.60 or there may be a multi-territory enterprise of the type discussed in paragraphs 4.66–4.69.

**4.58** When a branch is identified, there are direct investment inflows to the territory, but the provision of goods or services to customers in that territory is a resident-to-resident transaction. In contrast, if the operations are not substantial enough to qualify as a branch, the provision of goods or services to customers in that territory are imports of that territory.

*Notional Resident Units for Land and Other Natural Resources, and Buildings and Structures Owned by Nonresidents*

**4.59** Immovable assets such as land and other natural resources, and buildings and structures are treated as being owned by resident units. If the legal owner is actually nonresident, an artificial unit, called a notional resident unit, is created for statistical purposes. The notional resident unit is recorded as owning the asset and receiving the rent or rentals that accrue to the asset. The legal owner owns the equity in the notional resident unit and then receives income from the notional resident unit in the form of property income paid abroad. This treatment is designed so that the relevant nonfinancial assets are always assets of the economy in whose territory they are located. Otherwise, the land would appear in another economy's national balance sheet. The only exception is made for land and buildings in extraterritorial enclaves of foreign governments (such as embassies, consulates and military bases) that are subject to the laws of the home territory and not those of the territory where they are physically situated.

**4.60** A nonresident with a natural resource lease is classified as incurring rent and no notional unit is automatically created. However, it is usually the case that ownership of land and other natural resources such as mineral and energy resources, noncultivated biological resources, water resources, and rights to use these assets through a lease or other permit over long periods are associated with a branch. In addition, preliminary expenses for a unit to be incorporated in the future are to be regarded as a notional direct investment enterprise.

**4.61** The operations of notional resident units include holding the asset, paying any associated expenses (such as insurance, repairs, and taxes), collecting rent or rental on the asset, and any other transactions associated with those functions. If the nonresident owner uses the property, the notional resident unit generates rent (in the case of land and so on, see paragraph 12.103) or rental included in travel or operating leasing services (for buildings or other structures, see paragraphs 11.48, and 11.119) in kind to its owner. The corresponding entry to the rent or rental would be income payable to the owner by the notional resident unit. The notional resident unit should also be treated as incurring expenses and taxes; payments by the nonresident owner to meet a loss arising from these costs therefore would be recorded as direct investment flows from the owner to the notional resident unit. Other transactions of the owner would not be attributed to the notional resident unit, for example, any borrowing or debt service. As a result of the limited nature of notional



resident units, compiling acceptable estimates for their operations is generally feasible when they are significant.

**4.62** When the ownership of land and other natural resources is associated with substantial operations, so that the requirements in paragraphs 4.51 and 4.52 are met, a branch is identified. In such cases, a notional resident unit is not identified because the branch already exists as a resident owner.

**4.63** The notional resident unit that owns land or other natural resources may be contrasted with a branch, which has a full set of accounts. An example is a nonresident fishing operator having a 10-year fishing license for the waters of a territory. If the operator has a base in the territory, keeps separate records, and so on, then a branch is identified, and its accounts will show sales of fish and other transactions. Another example could be a commercial farm owned by a nonresident unit. In contrast, the only activity of a notional unit will be the supply of rent or rental services arising from the ownership of property. However, in the case that a nonresident fishing operator does not have a base in the economy in which the fishery is located, the relevant output (i.e., fish catch) and related inputs are recorded in the economy of residence of the fishing operator.

**4.64** When several partners own land, there may be a quasicorporation, by virtue of the management of the land being separate from that of its individual owners. In that case, for statistical purposes, the nonresident partners would own a share in the quasicorporation, so there would be no need to identify an additional notional resident unit. The notional resident unit for ownership of land is almost always a direct investment enterprise (the exception being for land where an individual nonresident's voting power is below 10 percent which is included under other investment/other equity and equity in international organizations; see paragraph 6.66).

**4.65** Some kinds of time-share accommodation arrangements may also give rise to a notional resident unit. For example, the acquisition of deeded ownership, or a similar arrangement, is equivalent to the establishment of a notional resident unit. (See paragraph 11.46 and Table 11.2 for a discussion of alternative time-share arrangements).

### *Multi-Territory Enterprises*

**4.66** Some enterprises may operate as a seamless operation over more than one economic territory. Although the enterprise has substantial activity in more than one economic territory, it is run as an indivisible operation with no separate accounts or decisions, so that no separate branches can be identified. Such enterprises may have operations including shipping lines, airlines, hydroelectric schemes on border rivers, pipelines, bridges, tunnels, and undersea cables. Some NPISHs also may operate in this way.

**4.67** Governments usually require separate units or branches to be identified in each economic territory for more convenient regulation and taxation. Multi-territory enterprises may be exempted from such requirements, but there may be arrangements, such as a formula for payment of taxation to the respective authorities.

**4.68** In the case of a multi-territory enterprise, it is preferable that separate institutional units be identified for each economy. If that is not feasible because the operation is so seamless that separate accounts cannot be developed, it is necessary to prorate the total operations of the enterprise into the individual economic territories. The factor used for prorating should be based on available information that reflects the contributions to actual operations. For example, equity shares, equal splits, or splits based on operational factors such as tonnages or wages could be considered. Where taxation authorities have accepted the multi-territory arrangements, a prorating formula may have been determined, which should be the starting point for statistical purposes. Although the situation is somewhat different from the case of joint administration or sovereignty zones, the solution of prorating may be the same.

**4.69** The proration of the enterprise means that all transactions need to be split into each component economic territory. The treatment may be quite complex to implement. This treatment has implications for other statistics and its implementation should always be coordinated for consistency. Compilers in each of the territories involved are encouraged to cooperate to develop consistent data, avoid gaps, and minimize respondent and compilation burden, as well as assist counterparties to report bilateral data on a consistent basis.

## **2. SPECIAL CASES**

### **Groups of Corporations**

**4.70** Large groups of corporations, or conglomerates, may be created whereby a parent corporation controls several subsidiaries, some of which may control subsidiaries of their own, and so on. For certain purposes, it may be desirable to have information relating to a group of corporations as a whole. However, each individual corporation should be treated as a separate institutional unit, whether or not it forms part of a group. Even subsidiaries that are wholly owned by other corporations are separate legal entities that are required by law and the tax authorities to produce complete sets of accounts, including balance sheets. Although the management of a subsidiary corporation may be subject to the control of another corporation, it remains responsible and accountable for the conduct of its own production activities.

**4.71** Another reason for not treating groups of corporations as single institutional units is that groups are not always well defined, stable, or easily identified in practice. It may be difficult to obtain data for groups whose activities are not closely integrated. Moreover, many

conglomerates are much too large and heterogeneous for them to be treated as single units, and their size and composition may be continually shifting over time as a result of mergers and takeovers.

## Joint Ventures

**4.72** A joint venture involves the establishment of a corporation, partnership, or other institutional unit in which each party legally has joint control over the activities of the unit. The units operate in the same way as other units except that a legal arrangement between the parties establishes joint control over the unit. As an institutional unit, the joint venture may enter into contracts in its own name and raise finance for its own purposes. A joint venture maintains its own accounting records. Joint ventures are typically established for the purpose of executing a business undertaking in which the parties agree to share in the profits and losses of the enterprise as well as the capital formation and contribution of operating inputs or costs. Generally, there is no intention of a continuing relationship beyond the original purpose.

**4.73** Whether a quasicorporation is identified for the joint venture without a separate legal status depends on the arrangements of the parties and legal requirements. The joint venture is a quasicorporation if it meets the requirements for an institutional unit, particularly by having its own records. Otherwise, if each of the operations are effectively undertaken by the partners individually, then the joint venture is not an institutional unit and the operations would be seen as being undertaken by the joint venture partners separately. If foreign investment is involved in such cases, there would usually be direct investment enterprises that undertake the joint venture operations of each of the partners.

**4.74** Because of the ambiguous status of joint ventures, there is a risk that they could be omitted or double-counted, so particular attention needs to be paid to them.

## Head Offices and Holding Companies

**4.75** Two quite different types of units exist that are both often referred to as holding companies. The first is the head office that exercises some aspects of managerial control over its subsidiaries. These may sometimes have noticeably fewer employees, and more at a senior level, than its subsidiaries but it is actively engaged in production. These types of activities are described in *ISIC Rev.5* in Section N class 7010 as follows:

*This class includes: the overseeing and managing of other units of the enterprise or enterprise group i.e. acting as head office; undertaking the strategic or organisational planning and decision-making role of the company or enterprise; exercising operational control and managing the day-to-day operations of their related units. These activities are the same regardless of which activities the managed units perform (financing, manufacturing trade, etc).*

Such units are allocated to the nonfinancial corporations sector unless all or most of their subsidiaries are financial corporations, in which case they are treated by convention as financial auxiliaries in the financial corporations sector.

**4.76** The type of unit properly called a holding company is a unit that holds the assets of subsidiary corporations but does not undertake any management activities. They are described in *ISIC Rev.5* in Section L class 6421 as follows:

*This class includes the activities of holding companies, i.e. units that hold the assets (owning controlling-levels of equity) of one or more subsidiaries and whose only purpose is owning subsidiaries. The holding companies in this class do not provide any other service to the enterprises in which the equity is held, i.e. they do not administer or manage other units.*

Such units are always allocated to the financial corporations sector and treated as captive financial institutions even if all the subsidiary corporations are nonfinancial corporations.

For additional details on head offices and holding companies, refer to paragraphs 5.76–5.80, 2025 SNA.

## Other Special Cases

### *Special Purpose Entities*

**4.77** A number of institutional units may be described as special purpose entities (SPEs). In macroeconomic statistics, the term SPEs is used exclusively for institutional units which align to the following definition:

- a. An SPE, resident in an economy, is a formally registered and/or incorporated legal entity recognized as an institutional unit, with no or little employment up to maximum of five employees, no or little physical presence, and no or little physical production in the host economy;
- b. SPEs are directly or indirectly controlled by nonresidents;
- c. SPEs are established to obtain specific advantages provided by the host jurisdiction with an objective to (i) grant its owner(s) access to capital markets or sophisticated financial services, and/or (ii) isolate owner(s) from financial risks, and/or (iii) reduce regulatory and tax burden, and/or (iv) safeguard confidentiality of their transactions and owner(s);
- d. SPEs transact almost entirely with nonresidents and a large part of their financial balance sheet typically consists of cross-border claims and liabilities.

Special purpose units established by nonresident government units (see paragraphs 4.90–4.92) are excluded from this definition.

**4.78** Some institutional units incorporated in the same economic territory as their parents may satisfy all the above criteria, with the exception that they are not directly or indirectly controlled by nonresident parents. Such “special purpose units” or “special purpose vehicles” are sometimes referred to as special purpose entities as well. These units are typically consolidated with their resident parents, because they lack autonomy of decision. In the case that they operate autonomously and can be considered as separate institutional units (e.g., some securitization vehicles), they should not be consolidated with their resident parents. However, these latter units are not considered as part of SPEs. The term special purpose units/vehicles is used to denote those owned by nonresident parents as well as those owned by resident parents.

**4.79** In external accounts, the identification of SPEs as supplementary (“of which”) items for deposit-taking corporations, other financial corporations, and nonfinancial corporations sectors is strongly recommended in countries where the economic activity of such units is significant.

**4.80** Whether a unit has all or none of the characteristics described in paragraph 4.77 (a–d), and whether it is described as a special purpose unit (see paragraph 4.78) or some similar designation or not, it is treated in macroeconomic statistics in the same way as any other institutional unit by being allocated to sector and industry according to its principal activity unless it falls into one of the three following categories:

- a. Captive financial institutions;
- b. Artificial subsidiaries of corporations;
- c. Special purpose units of general government.

Each of these is described below. A list of the most common types of SPEs, including their (sub)sector classification, is presented in Table 15.1.

#### *Captive Financial Institutions*

**4.81** A holding company that simply owns the assets of subsidiaries is one example of a captive financial institution. Other units that are also treated as captive financial institutions are units with the characteristics of SPEs as described above (not necessarily controlled by a nonresident parent), including some units used for holding and managing wealth for individuals or families, holding assets for securitization, raising or borrowing funds on behalf of related companies (such a company may be called a conduit), intra group lending companies, captive factoring and invoicing companies, captive financial leasing companies, etc.

**4.82** The degree of independence from its parent may be demonstrated by exercising some substantive control over its assets and liabilities to the extent of carrying the risks and

reaping the rewards associated with the assets and liabilities. Such units are classified in the financial corporations sector.

**4.83** A unit of this type that cannot act independently of its parent and is simply a passive holder of assets and liabilities (sometimes described as being on autopilot) is not treated as a separate institutional unit unless it is resident in an economy different from that of its parent. If it is resident in the same economy as its parent, it is treated as an “artificial subsidiary” as described immediately below.

**4.84** More guidance on the treatment of trusts and similar types of funds, which hold and manage financial and nonfinancial assets on behalf of individuals or families, is provided in paragraph 4.93.

#### *Artificial Subsidiaries of Corporations*

**4.85** Within the external accounts and other macroeconomic statistics, the term corporation is used to denote both those institutions legally recognized as corporations and other units treated in macroeconomic statistics as corporations, specifically quasicorporations, branches, and notional units. For the following four paragraphs, however, the term corporation is used in the sense of a corporation as a legal entity.

**4.86** A subsidiary corporation, wholly owned by a parent corporation, may be created to provide services to the parent corporation, or other corporations in the same group, in order to avoid taxes, to minimize liabilities in the event of bankruptcy, or to secure other technical advantages under the tax or corporation legislation in force in a particular country. For example, the parent may create a subsidiary to which ownership of its land, buildings, or equipment is transferred and whose sole function is to lease them back again to the parent corporation; the subsidiary may be the nominal employer of all the staff who are then contracted to other corporations in the group, the subsidiary may keep the accounts and records of the parent on a separate computer installation; the role of the subsidiary may be established to take advantage of favourable funding or regulatory treatments and so on. In some cases, corporations may create “dormant” subsidiaries that are not actually engaged in any production but which may be activated at the convenience of the parent corporation.

**4.87** In general, these sorts of corporations do not satisfy the definition of an institutional unit because they lack the ability to act independently from their parent corporation and may be subject to restrictions on their ability to hold or transact assets held on their balance sheets. Their level of output and the price they receive for it are determined by the parent that (possibly with other corporations in the same group) is their sole client. They are thus not treated as separate institutional units but are treated as an integral part of the parent and their accounts are consolidated with those of the parent. As noted above, the accounts for

those units on autopilot are also consolidated with their parent corporation unless they are resident in an economy different from that where the parent is resident.

**4.88** Quasicorporations such as a partnership or trust may also be set up by a parent corporation for similar reasons to the subsidiary corporations just described. Within the external accounts, these are also treated as an integral part of the parent and their accounts are consolidated with the parent, unless they are resident in another country.

**4.89** A distinction must be made between artificial subsidiaries as just described and a unit undertaking only ancillary activities. As described in more detail in Section D of Chapter 6, *2025 SNA on Enterprises, establishments and industries*, ancillary activities are limited in scope to the type of service functions that virtually all enterprises need to some extent or another such as cleaning premises, running the staff payroll or providing the information technology infrastructure for the enterprise. Units undertaking only ancillary activities will in general not satisfy the conditions of being an institutional unit (for the same sort of reason as artificial subsidiaries do not), but they may sometimes be treated as a separate establishment of the enterprise if this is analytically useful.

#### *Special Purpose Units of General Government*

**4.90** Governments may set up special purpose units, such as special purpose vehicles (SPVs) for financial convenience (special purpose units/vehicles are discussed in paragraph 4.78). For example, the special purpose unit may be involved in fiscal or quasi-fiscal activities (including securitization of assets, borrowing, etc.). Resident special purpose units that function only in a passive manner relative to general government and that carry out fiscal and quasi-fiscal activities do not satisfy the criteria to be institutional units and are therefore not treated as separate institutional units in macroeconomic statistics; they are treated as part of general government regardless of their legal status. Resident special purpose units acting independently, acquiring assets and incurring liabilities on their own behalf, accepting the associated risk, are treated as separate institutional units and are classified to a sector according to their principal activity.

**4.91** Special purpose units that are resident in a different country (called SPEs following paragraph 4.77) than their controlling government are always classified as separate institutional units in the economy where they are established. When such units exist, care must be taken to reflect the fiscal activities of government accurately. All flows and positions between the general government unit and the SPEs should be recorded in the accounts for general government and the rest of the world when they occur.

**4.92** A government may create a SPE to undertake government borrowing, incur government outlays, or collect revenue abroad for fiscal policy purposes. Even if there are no actual economic flows recorded between the government and the SPE related to these

fiscal activities, flows and positions should be imputed in the accounts of both the government and the rest of the world to reflect the fiscal activities of the government undertaken by the SPE. (More detailed guidance is provided in Chapter 8.)

### **Trusts and Similar Types of Funds**

**4.93** Trusts are arrangements whereby an economic agent (a trustee) holds property (but not economic ownership) as its nominal owner for the good of one or more beneficiaries. Their job is to hold, manage and administer the funds in the trust on behalf of the settlor (the creator of the trust). Their fiduciary duty as a trustee requires them to act in the best interest of the beneficiaries of the trust. The duties of a trustee are laid out upon the creation of the trust, and while they may differ depending on the situation, some tasks are common. The trustee oversees the distribution of the trust's funds to the beneficiaries. While the assets remain a part of the trust, the trustee is responsible for any investments that are made, ensuring any assets included in the trust, taking care of the administration, and overseeing the payment of taxes. For additional details on trusts including the decision tree for the treatment of trusts and similar types of funds, refer to paragraphs 5.97–5.105, *2025 SNA*.

## **3. OWNERSHIP AND CONTROL OF CORPORATIONS**

**4.94** Control and ownership are different concepts. The ownership of a listed corporation is diffused among the institutional units that own its shares in proportion to the shareholdings. It is possible for one single institutional unit, whether another corporation, a household, or a government unit, to own all the equity or shares in a corporation but, in general, ownership of a listed corporation is diffused among several, possibly very many, institutional units. By contrast, control is defined as the ability to determine the general corporate policy of the corporation. The expression “general corporate policy” as used here is understood in a broad sense to mean the key financial and operating policies relating to the corporation’s strategic objectives as a market producer.

**4.95** A single institutional unit owning more than half of the shares, or equity, of a corporation is able to control its policy and operations by outvoting all other shareholders, if necessary. Similarly, a small, organized group of shareholders whose combined ownership of shares exceeds 50 percent of the total is able to control the corporation by acting in concert. There may be exceptional cases in which certain shareholders enjoy privileged voting rights, such as a “golden share” giving a right of veto, but in general an individual institutional unit or group of units owning more than half the voting shares of a corporation can exercise complete control by appointing directors of its own choice. The degree of autonomy exercised by the directors and managers of a corporation is, therefore, likely to vary considerably, depending upon the extent to which the ownership of its shares is concentrated in the hands of a small number of other institutional units, whether these are



other corporations, households or government units. In general, institutional units do not have to be autonomous but they do have to be responsible and accountable for the decisions and actions they take.

**4.96** Because many shareholders do not exercise their voting rights, a single shareholder, or small number of shareholders acting together, may be able to secure control over a corporation, even though they may hold considerably less than half of the total shares. When ownership of shares is widely diffused among a large number of shareholders, control may be secured by owning considerably less than half of the total shares.

**4.97** However, it is not possible to stipulate a minimum shareholding below 50 percent that will guarantee control in all cases. The minimum must vary depending upon the total number of shareholders, the distribution of shares among them, and the extent to which small shareholders take an active interest, etc. Therefore, in practice, private control (i.e., control by institutional units other than government units and public sector units) is determined to exist if an investor owns more than 50 percent of the voting power (typically by owning more than half of the equity) in a corporation. The control may be direct (through ownership of 50 percent or more voting power) or indirect (through ownership of corporations that in turn have control, since control can be passed down a chain of ownership as long as control exists at each stage of the chain). In the case of governments controlling corporations, a broader set of indicators for control may need to be taken into consideration; paragraphs 4.103–4.107 below.

### **Subsidiary and Associate Corporations**

**4.98** It is common for corporations to own shares in other corporations, and certain interrelationships between corporations need to be specified for purposes of external accounts.

#### *Subsidiary Corporations*

**4.99** Corporation B is said to be a subsidiary of corporation A when corporation A controls more than half of the shareholders' voting power (i.e., more than half of equity) in corporation B.

**4.100** Corporation A may be described as the parent corporation in this situation. As the relationship of a parent corporation to a subsidiary is defined in terms of control rather than ownership, the relationship must be transitive: that is, if C is a subsidiary of B and B is a subsidiary of A, then C must also be a subsidiary of A. If A has a majority shareholding in B while B has a majority shareholding in C, A cannot also have a majority shareholding in C. Nevertheless, A must be able to control C if it controls B. By analogy with families of persons, corporation B can be described as a first-generation subsidiary of corporation A, and corporation C as a second-generation subsidiary of A. Evidently, large families of

corporations may be built up with any number of subsidiaries at each level or generation and also any number of generations. Very large families of corporations, described as conglomerates, are encountered in some countries. Conglomerates that include corporations resident in different countries are usually described as multinational enterprise groups.

### *Associate Corporations*

**4.101** Corporation B is said to be an associate of corporation A when corporation A and its subsidiaries control between 10 percent and 50 percent of the shareholders' voting power in B so that A has some influence over the corporate policy and management of B.

**4.102** By definition, a corporation is able to exert less influence over an associate corporation than over a subsidiary. Although some corporations may be able to exert considerable influence over their associates, this cannot be guaranteed. The relationship between associates is weaker than that between parent and subsidiary corporations, and groups of associates may not be well defined.

### **Government Control of Corporations**

**4.103** A corporation is a public corporation if a government unit, another public corporation, or some combination of government units and public corporations controls the unit, where control is defined as the ability to determine the general corporate policy of the corporation. The expression "general corporate policy" as used here is understood in a broad sense to mean the key financial and operating policies relating to the corporation's strategic objectives as a market producer.

**4.104** Because governments exercise sovereign powers through legislation, regulations, orders, and the like, care needs to be applied in determining whether the exercise of such powers amounts to a determination of the general corporate policy of a particular corporation and therefore control of the corporation. Laws and regulations applicable to all units as a class or to a particular industry should not be viewed as amounting to control of these units.

**4.105** The ability to determine general corporate policy does not necessarily include the direct control of the day-to-day activities or operations of a particular corporation. The officers of such corporations would normally be expected to manage these in a manner consistent with and in support of the overall objectives of the particular corporation. Nor does the ability to determine the general corporate policy of a corporation include the direct control over any professional, technical or scientific judgments, as these would normally be viewed as part of the core competence of the corporation itself. For example, the professional or technical judgments exercised by a corporation set up to certify aircraft airworthiness would not be considered controlled in respect of individual approvals and

disapprovals, though its broader operating and financial policies, including the airworthiness criteria, may well be determined by a government unit as part of the corporation's corporate policy.

**4.106** Because the arrangements for the control of corporations can vary considerably, it is neither desirable nor feasible to prescribe a definitive list of factors to be taken into account. The following eight indicators, however, will normally be the most important and likely factors to consider:

- a. *Ownership of the majority of the voting interest.* Owning a majority of shares will normally constitute control when decisions are made on a one-share one-vote basis. The shares may be held directly or indirectly, and the shares owned by all other public units should be aggregated. If decisions are not made on a one-share one-vote basis, the classification should be based on whether the shares owned by other public units provide a majority voice.
- b. *Control of the board or other governing body.* The ability to appoint or remove a majority of the board or other governing body as a result of existing legislation, regulation, contractual, or other arrangements will likely constitute control. Even the right to veto proposed appointments can be seen as a form of control if it influences the choices that can be made. If another body is responsible for appointing the directors, it is necessary to examine its composition for public influence. If a government appoints the first set of directors but does not control the appointment of replacement directors, the body would then be part of the public sector until the initial appointments had expired.
- c. *Control of the appointment and removal of key personnel.* If control of the board or other governing body is weak, the appointment of key executives, such as the chief executive, chairperson, and finance director, may be decisive. Nonexecutive directors may also be relevant if they sit on key committees such as the remuneration committee determining the pay of senior staff.
- d. *Control of key committees of the unit.* Subcommittees of the board or other governing body could determine the key operating and financial policies of the unit. Majority public sector membership on these subcommittees could constitute control. Such membership can be established under the constitution or other enabling instrument of the corporation.
- e. *Golden shares and options.* A government may own a "golden share," particularly in a corporation that has been privatized. In some cases, this share gives the government some residual rights to protect the interests of the public by, for example, preventing the company selling off some categories of assets or appointing a special director who has strong powers in certain circumstances. A golden share is

not of itself indicative of control. If, however, the powers covered by the golden share do confer on the government the ability to determine the general corporate policy of the unit in particular circumstances, then the unit should be in the public sector from the date of existence of such circumstances. The existence of a share purchase option available to a government unit or a public corporation in certain circumstances may also be similar in concept to the golden share arrangement discussed above. It is necessary to consider whether, if the circumstance in which the option may be exercised exists, the volume of shares that may be purchased under the option and the consequences of such exercise means that the government has “the ability to determine the general corporate policy of the unit” by exercising that option. A unit’s status in general should be based on the government’s existing ability to determine corporate policy exercised under normal conditions rather than in exceptional economic or other circumstances such as wars, civil disorders, or natural disasters.

- f. *Regulation and control.* The borderline between regulation that applies to all units within a class or industry group and the control of an individual corporation can be difficult to judge. There are many examples of government involvement through regulation, particularly in areas such as monopolies and privatized utilities. It is possible for regulatory involvement to exist in important areas, such as in price setting, without the unit ceding control of its general corporate policy. Choosing to enter into or continue to operate in a highly regulated environment suggests that the unit is not subject to control. When regulation is so tight as to effectively dictate how the unit performs its business, then it could be a form of control. If a unit retains unilateral discretion as to whether it will take funding from, interact commercially with, or otherwise deal with a public sector unit, the unit has the ultimate ability to determine its own corporate policy and is not controlled by the public sector unit.
- g. *Control by a dominant customer.* If all of the sales of a corporation are to a single public sector customer or a group of public sector customers, there is clear scope for dominant influence. The presence of a minority private sector customer usually implies an element of independent decision-making by the corporation so that the unit would not be considered controlled. In general, if there is clear evidence that the corporation could not choose to deal with nonpublic sector clients because of the public sector influence, then public control is implied.
- h. *Control attached to borrowing from the government.* Lenders often impose controls as conditions of making loans. If the government-imposed controls through lending or issuing guarantees that are more than would be typical when a healthy private sector unit borrows from a bank, control may be indicated. Similarly, control may be implied if only the government was prepared to lend.

**4.107** Although a single indicator could be sufficient to establish control, in other cases, a number of separate indicators may collectively indicate control. A decision based on the totality of all indicators must necessarily be judgmental in nature, but clearly similar judgments must be made in similar cases.

### **Control by a Nonresident Unit**

**4.108** In general, control is determined to exist through (i) an immediate direct investment relationship where the direct investor owns more than 50 percent of the voting power in the direct investment corporation; or (ii) an indirect direct investment relationship arising from the ownership of voting power in one direct investment corporation that owns voting power in another corporation(s) – indirectly through a chain of control.

**4.109** It is important to distinguish between control and influence. In this respect, a distinction is made between corporations where over 50 percent of the equity is held by a direct investor (and thus controlled) versus those corporations where between 10 and 50 percent of the equity is held abroad (i.e., significant degree of influence). All corporations with nonresident holdings of 10 percent or more are described as direct investment enterprises and special treatment of their earnings is applied. Further details on this are given in Chapter 12. It is important to note, however, that while all foreign-controlled corporations are direct investment enterprises, some domestically controlled corporations may also be direct investment enterprises. For example, even a publicly controlled corporation may be a direct investment enterprise if, in addition to government holding a controlling share of the equity, a further 10 percent may be owned by a nonresident.

## **C. NONPROFIT INSTITUTIONS IN MACROECONOMIC STATISTICS**

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**4.110** *Nonprofit institutions are legal or social entities, created for the purpose of producing goods and services, but whose status does not permit them to be a source of income, profit, or other financial gain for the units that establish, control, or finance them.* In practice, their productive activities are bound to generate either surpluses or deficits but any surpluses they happen to make cannot be appropriated by other institutional units. The articles of association by which they are established are drawn up in such a way that the institutional units that control or manage them are not entitled to a share in any profits or other income they receive. For this reason, they are frequently exempted from various kinds of taxes.

**4.111** NPIs may be created by households, corporations, or government, but the motives leading to their creation are varied. For example, NPIs may be created to provide services for the benefit of the households or corporations who control or finance them; or they may be created for charitable, philanthropic, or welfare reasons to provide goods or services to other persons in need; or they may be intended to provide health or education services for a

fee, but not for profit; or they may be intended to promote the interests of pressure groups in business or politics; etc.

### ***NPIs Serving Households (NPISHs)***

**4.112** *Nonprofit institutions serving households (NPISHs) consist of nonprofit institutions principally engaged in the production of nonmarket services, which are not controlled by government.* They provide goods and services to households free or at prices that are not economically significant. Most of these goods and services represent individual consumption but it is possible for NPISHs to provide collective services. NPISHs are further discussed in Section H. For additional details on NPIs including their main features, NPIs engaged in market and nonmarket productions, and the government control of NPIs, refer to paragraphs 5.124–5.132, 2025 SNA.

## **D. THE NONFINANCIAL CORPORATIONS SECTOR AND ITS SUBSECTORS**

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**4.113** *Nonfinancial corporations are institutional units whose principal activity is the production of market goods or nonfinancial services.* The nonfinancial corporations sector is composed of the following set of resident institutional units:

- a. All resident nonfinancial corporations (as understood in the external accounts and other macroeconomic statistics and not just restricted to legally constituted corporations), regardless of the residence of their shareholders;
- b. The branches of nonresident enterprises that are engaged in production of market goods or nonfinancial services on the economic territory on a long-term basis;
- c. All resident NPIs that are producers of market goods or nonfinancial services.

**4.114** Sectors are groups of institutional units, and the whole of each institutional unit must be classified to one or another sector even though that unit may be engaged in more than one type of economic activity. Some nonfinancial corporations or quasicorporations may have secondary financial activities: for example, producers or retailers of goods may provide consumer credit directly to their own customers, which may also relate to “buy now pay later” type of arrangements. As explained more fully below, such corporations or quasicorporations are nevertheless classified as belonging in their entirety to the nonfinancial corporate sector provided their principal activity is nonfinancial.

**4.115** Two classification criteria are used to subsector the nonfinancial corporations sector. One criterion is to show NPIs separately from other units in the sector. These units other

than NPIs may be described as for-profit institutions (FPIs). The second criterion is that of control to show:

- a. Public nonfinancial corporations

Of which: public corporations which are part of a domestic multinational enterprise group

- b. National private nonfinancial corporations

Of which: national private corporations which are part of a domestic multinational enterprise group

and

- c. Foreign-controlled nonfinancial corporations

Of which: Special purpose entities (SPEs).

**4.116** The criteria for control of corporations by government and nonresident units are described in detail in Section B. Corporations controlled by nonresident units are described as being foreign-controlled.

## E. THE FINANCIAL CORPORATIONS SECTOR AND ITS SUBSECTORS

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**4.117** *Financial corporations consist of all institutional units whose principal activity is the production of financial services.* In addition, due to its important role in the financial system, the central bank, although predominantly producing nonmarket services for the society as a whole, is also treated as a financial corporation. The financial corporations sector is composed of the following set of resident institutional units:

- a. All resident financial corporations (as understood in the external accounts and other macroeconomic statistics and not just restricted to legally constituted corporations), regardless of the residence of their shareholders;
- b. The branches of nonresident corporations that are engaged in financial activity on the economic territory on a long-term basis;
- c. All resident NPIs that are market producers of financial services.

**4.118** Apart from the collective nonmarket services produced by the central bank, the production of financial services is the result of financial intermediation, financial risk management, liquidity transformation or auxiliary financial activities. Because the provision of financial services is typically subject to strict regulation, it is usually the case that units

providing financial services do not produce other goods and services, and financial services are not provided as secondary production.

**4.119** One form of financial innovation has seen a substantial growth in activity of a kind traditionally carried out by, or through, financial corporations but that may also be done directly by nonfinancial enterprises themselves. For example, there is a tendency in some countries for producers or retailers of goods to provide consumer credit directly to their customers, which may also include “buy now, pay later” type of arrangements. Another example is the tendency for nonfinancial enterprises in some countries to raise funds themselves by selling their own obligations directly on the money or capital markets. However, the enterprise as a whole must continue to be classified as nonfinancial corporation provided that:

- a. A nonfinancial enterprise does not create a new institutional unit, such as a subsidiary corporation, to carry out the financial activity; and
- b. The financial activity remains secondary to the principal activity of the enterprise.

**4.120** The same principle applies to the subsectoring of financial corporations. For example, many deposit-taking corporations also engage in financial auxiliary services. However, as a single institutional unit, the commercial bank as a whole, including its financial auxiliary type of activities, is classified in the subsector “deposit-taking corporations except the central bank.” For the same reason, central bank or monetary authority-type functions carried out by agencies within the central government that are not separate institutional units from government are not allocated to the central bank subsector.

**4.121** The financial corporations sector is divided into nine subsectors in the sequence of economic accounts of the *SNA*, according to its activity in the market and the liquidity of its liabilities. These nine subsectors are shown in Table 4.1 and each is described later in this section.

**4.122** The nine subsectors of financial corporations of the *SNA* are arranged in the following ways in external accounts:

- a. The standard components use three subsectors (shown in Table 4.2): the central bank, deposit-taking corporations except the central bank, and the other seven subsectors combined as “other financial corporations.” Additional details can be compiled according to circumstances.
- b. The functional category classification of debt positions between affiliated financial intermediaries is defined in terms of the first five subsectors of the financial sector—that is, the central bank, deposit-taking corporations except the central bank, money market funds (MMFs), non-MMF investment funds, and other financial intermediaries



(except insurance corporations and pension funds). Such debt is excluded from direct investment, as discussed in paragraph 6.28.

**4.123** Although the financial corporations sector and its subsectors are defined in terms of economic function, data sources may tend to follow regulatory definitions. Differences between regulatory and statistical definitions should be monitored, and adjustments made, where necessary.

**4.124** *“Fintech” refers to technology-enabled innovation in financial services that could result in new business models, applications, processes, or products with an associated material effect on the provision of financial services.* Countries where these activities are significant are encouraged to compile further breakdowns of relevant subsectors, as supplementary items. This is discussed further in Chapter 16. In the external accounts, identification of an “of which” category for fintech companies within the subsector classification is recommended.

## 1. CENTRAL BANK

**4.125** *The central bank is the financial institution (or institutions) that exercises control over key aspects of the financial system. Their principal functions generally include conducting monetary policy, including by issuing currency and regulating money supply and credit; managing international reserves and the payments system; promoting financial stability, including regulation and macroprudential supervision; and acting as banker to government.* In general, the following financial institutions are classified in this subsector:

- a. The national central bank, including where it is part of a system of central banks, which in most economies are separately identifiable institutions that are subject to varying degrees of government control, engage in differing sets of activities, and are designated by various names (e.g., central bank, reserve bank, national bank, or state bank).
- b. Currency boards or independent currency authorities that issue national currency that is fully backed by international reserves.
- c. Central monetary agencies of essentially public origin (for example, agencies managing international reserves or issuing bank notes and coins) that keep a complete set of accounts but are not classified as part of central government.
- d. National agencies, including notional resident units, of centralized currency unions. (More details on the recording of transactions and positions of these units are provided in Section I.)

As long as the central bank is a separate institutional unit, it is always allocated to the financial corporations sector even if it is primarily a nonmarket producer.

**4.126** If an institutional unit is mainly engaged in central banking activities, the entire unit is classified in the central bank subsector. Many central banks regulate and/or supervise other deposit-taking corporations and sometimes also other financial corporations, and these central bank activities are also included in the central bank subsector. However, if such activities are performed by a separate institutional unit, or units, that are affiliated with the government or with other sectors and if they are mainly engaged in regulating or supervising financial units, they are classified as financial auxiliaries rather than as units in the central bank subsector.

**4.127** A few economies do not have central banks. Typical central banking activities that are performed by general government and cannot be separated into specific institutional units are treated as part of general government and are not allocated to the central bank subsector.

**4.128** In economies in which some central banking functions are performed wholly or partly outside the central bank, particularly holding reserve assets, consideration should be given to compiling supplementary data for the monetary authorities.

## **2. DEPOSIT-TAKING CORPORATIONS EXCEPT THE CENTRAL BANK**

**4.129** *Deposit-taking corporations except the central bank are institutional units principally engaged in financial intermediation, whose business is to receive deposits and/or close substitutes for deposits from institutional units, and, on their own account, to extend credit and/or to make investments in other financial instruments.* The liabilities of deposit-taking corporations are typically included in measures of money broadly defined.

**4.130** In general, the following financial intermediaries are classified in this subsector:

- a. Commercial banks, “universal” banks, “all-purpose” banks;
- b. Savings banks (including trustee savings banks and savings and loan associations);
- c. Post office giro institutions, post banks, giro banks;
- d. Rural credit banks, agricultural credit banks;
- e. Cooperative credit banks, credit unions;
- f. Electronic money institutions with liabilities part of broad money;
- g. Specialized banks or other financial corporations if they take deposits or issue close substitutes for deposits;
- h. Traveler’s check companies that mainly engage in financial intermediation; and
- i. Offshore banks which are incorporated or registered in the country.

**4.131** The liabilities of deposit-taking corporations to residents are typically included in measures of broad money. The money-issuing subsectors may be identified on a supplementary basis to assist in reconciliation with monetary data. It consists of the central bank plus deposit-taking corporations plus other institutions that issue liabilities included in the definition of broad money (e.g., money market funds). For the definition of broad money and financial instruments included in it, reference is made to Chapter 6, Section B of the *MFSMCG 2016*.

**4.132** Electronic money institutions are units authorized to issue electronic money, which is a payment instrument whereby monetary value is electronically stored on a physical device or remotely at a server. They should be classified as deposit-taking corporations, if they are a financial corporation and if the electronic money issued is included in broad money. Electronic money can usually be used for payments to third parties and is, therefore, a close substitute for transferable deposits. Monetary value stored on specific prepaid instruments does not represent electronic money if the instruments are designed to address specific needs only and can be used only in a limited way.

### 3. MONEY MARKET FUNDS (MMFS)

**4.133** *Money market funds (MMFs) are collective investment schemes that raise funds by issuing shares or units to the public, and primarily investing in money market instruments, money market fund shares or units, transferable debt instruments with a residual maturity of not more than one year, bank deposits, and instruments that pursue a rate of return that approaches the interest rates of money market instruments.* MMF shares/units can often be transferred by cheque or other means of direct third-party payment. Because of the nature of the instruments the schemes invest in, their shares or units may be regarded as close substitutes for deposits.

**4.134** Unit trusts or investment trusts primarily investing in similar instruments as the ones referred to in the above paragraph are also classified as money market funds, unless the investors are restricted to a particular group of units. Corporations taking care of the management and administration of MMFs are generally classified as financial auxiliaries.

### 4. NON-MMF INVESTMENT FUNDS

**4.135** *Non-MMF investment funds are collective investment schemes that raise funds by issuing shares or units to the public, and investing, on their own account, predominantly in longer-term financial assets, such as equity shares, bonds, mortgage loans, and nonfinancial assets.* Investment fund shares/units are generally not close substitutes for deposits. They are not transferable by means of cheque or direct third-party payments. Investment funds can be open-ended or closed-ended. Open-ended funds or open funds

are those whose shares or units are, at the request of the holders, repurchased or redeemed directly or indirectly out of the undertaking's assets. Closed-ended funds or closed funds are open for subscription only during a specified period at the launch of the scheme; thereafter investors can acquire shares only by buying them on a secondary market (directly or sometimes even on an exchange) from other investors. Closed-ended investment funds issue a limited number of shares or units. New shares or units are rarely issued once the fund has been launched. Investment funds may be constituted as follows: (a) under the law of contract (as common funds managed by management companies), (b) under trust law (as unit trusts), (c) under a statute (as investment companies), or (d) otherwise with similar effect. Fund managers of investment funds are generally classified as financial auxiliaries (see paragraphs 4.146–4.148).

**4.136** Hedge funds are a kind of investment fund. Hedge fund is a term that covers a heterogeneous range of collective investment schemes, typically involving high minimum investments, light regulation, and a wide range of investment strategies, via leverage.

**4.137** In the case that special purpose government funds, usually called sovereign wealth funds, can be considered as separate institutional units, they are more likely to be classified as captive financial institutions (see paragraphs 4.149 and 4.150). The same holds for trusts set up to manage wealth of a limited group of beneficiaries (see paragraph 4.93).

**4.138** Unit trusts or investment trusts primarily investing in similar instruments as the ones referred to in paragraph 4.135 are also classified as non-MMF investment funds, unless the investors are restricted to a particular group of units. Corporations taking care of the management and administration of MMFs are generally classified as financial auxiliaries.

**4.139** In relation to investments in nonfinancial assets, funds that own, and rent out, dwellings and/or commercial property, are considered as providers of rental and other types of real estate services, and not as providers of financial services. As providers of nonfinancial services, they are classified in the nonfinancial corporations sector, and not as financial corporations (i.e., non-MMF investment funds). On the other hand, investment funds that primarily invest in debt and equity instruments in companies that own, and rent out, dwellings and/or commercial property would qualify as non-MMF investment funds. This also holds for investment funds that directly invest in real estate in other economies, in which case the investments are recorded as investments in equity of notional nonresident units. In the case of hybrid real estate investment funds, the units would need to be classified according to their principal activity, i.e., the activity which accounts for most of the value added. As value added from real estate activities is typically much larger than the fees related to investments in financial instruments, even though most administration and maintenance services may be outsourced to specialized units, these hybrid funds will typically end up in the nonfinancial corporations sector.

**4.140** Investment funds that directly invest in other nonfinancial assets, such as some crypto assets, gold and other valuable metals, or high-end wines and whiskies, are classified as non-MMF investment funds, because the main part of their returns on the invested assets will relate to holding gains and does not consist of the production of nonfinancial services.

**4.141** In the case of fund-of-funds, i.e., investment funds only investing in other funds, a distinction should be made between “fettered” fund-of-funds, which only invest in funds that are managed and administered by the same management company, versus “non-fettered” funds, which invest in any fund, even those managed by competing companies. In the latter case, the relevant funds should be treated as separate institutional units. In the former case, the fund-of-funds and the individual funds would typically share the same management company, which is to be classified as financial auxiliaries. However, this would not necessarily call for a consolidation of the fund-of-funds and the individual funds, because the latter may also have shareholders other than the fund-of-funds. A particular case, where a consolidation could be analytically useful, is one in which a fettered fund-of-funds invests in individual funds with no participation, as shareholders, by third parties.

**4.142** In the case of asset management provided by commercial banks, regarding which the risks and rewards of the assets managed are with the investor(s), the assets should be consolidated with the accounts of the investor, if it concerns a single institutional unit (e.g., if the asset management is customised to the client, like in “managed accounts” of private banking services to wealthy clients), or a separate institutional unit, to be classified as either money-market funds or non-MMF investment funds, should be distinguished, assuming that the relevant assets (and liabilities) can be separated out of the accounts of the relevant banks. See also the decision tree in Figure 5.2, 2025 SNA.

**4.143** Also, in line with the decision tree in Figure 5.2, 2025 SNA, investment funds which are set up and/or owned by another institutional investor, such as a pension scheme, should be consolidated with the investor if the investment fund only serves a single investor, unless the fund clearly has autonomy of decision. In the case it concerns a nonresident fund, then it should be classified in the subsector captive financial institutions and money lenders. Autonomy of decision would primarily concern the degree of autonomy in making decisions on the investment policy, either or not restricted by more general policy guidance.

## **5. OTHER FINANCIAL INTERMEDIARIES EXCEPT INSURANCE CORPORATIONS AND PENSION FUNDS**

**4.144** *Other financial intermediaries except insurance corporations and pension funds consist of institutional units principally engaged in providing financial services by incurring liabilities, in forms other than currency, deposits, or close substitutes for deposits, on their*

*own account for the purpose of acquiring financial assets by engaging in financial transactions on the market, and that are not included in another subsector.* It is a feature of a financial intermediary that transactions on both sides of the balance sheet are carried out in open markets.

**4.145** In general, the following financial intermediaries are classified in this subsector:

- a. Financial corporations engaged in the securitization of assets. Securitization involves raising funds by selling a security backed by specific assets or income streams. For example, an originating mortgage lender could sell a portfolio of loans to a securitization vehicle that issues securities sold to investors. The originator may continue to provide administrative services, but the vehicle is the legal owner of the portfolio. Such vehicles are included in “other financial intermediaries except insurance corporations and pension funds” if the unit is the legal owner of a portfolio of assets, sells a new financial asset that represents an interest in the portfolio, and has or potentially has a full set of accounts. However, in cases in which the originator issues asset-backed securities on its own books, then securitization may take place without the creation of a separate unit. When the portfolio is not transformed, or the vehicle does not bear market or credit risks, then it can be combined with its parent (if resident in the same economy) or treated as a captive financial institution (if resident in an economy different from that of its parent).
- b. Underwriters, security, and derivative dealers (operating on own account). In contrast, security brokers and other units that arrange trades between buyers and sellers but do not purchase and hold securities on their own account are classified as financial auxiliaries (see paragraph 4.148 (b));
- c. Financial corporations engaged in lending, including the finance associates of retailers, who may be responsible for financial leasing and both personal or commercial finance, including “buy now pay later” type of arrangements;
- d. Central clearing counterparties, which provide clearing and settlement transactions in securities and derivatives. Clearing refers to the process of offsetting obligations and entitlements vis-à-vis counterparties to transactions so that settlement—which involves the actual exchange of securities, derivatives, and funds—can occur more efficiently on a net basis. The central clearing counterparties involve themselves in the transaction and mitigate counterparty risk;
- e. Specialized financial corporations that assist other corporations in raising funds in equity and debt markets and provide strategic advisory services for mergers, acquisitions, and other types of financial transactions. (These corporations are sometimes called “investment banks”.) In addition to assisting with the raising of funds for their corporate clients, such corporations invest their own funds, including

investments in private equity, in hedge funds dedicated to venture capital, and in collateralized lending. However, if such corporations take deposits or close substitutes for deposits, they are classified as deposit-taking corporations;

- f. Bank restructuring agencies; and
- g. Specialized financial corporations that provide:
  - Short-term financing for corporate mergers and takeovers;
  - Export/import finance;
  - Factoring services;
  - Venture capital and development capital firms.

## 6. FINANCIAL AUXILIARIES

**4.146** *Financial auxiliaries consist of financial corporations principally engaged in activities associated with transactions in financial assets and liabilities or with providing the regulatory context for these transactions but that do not involve the auxiliary taking ownership of the financial assets and liabilities being transacted.*

**4.147** Corporations facilitating financial transactions, such as central clearing counterparties, stock exchanges, derivative exchanges, and repurchase agreement settlement institutions are classified as financial auxiliaries, if they do not act as principals to the counterparties to the underlying transactions; if they act as principals to the counterparties, they are classified as financial intermediaries. Crypto exchanges/trading/lending platforms may facilitate transactions in different types of crypto assets including those with and without corresponding liabilities. These units are classified as financial auxiliaries if their principal activity involves facilitating transactions in crypto assets with a corresponding liability. Otherwise, they are included in the nonfinancial corporations sector.

**4.148** In general, the following financial corporations are classified in this subsector:

- a. Insurance brokers, salvage and claims adjusters (whether employed by the insurance company, an independent adjuster or a public adjuster employed by the policyholder), insurance and pension consultants;
- b. Loan brokers, securities brokers that arrange trades between security buyers and sellers but that do not purchase and hold securities on their own account, investment advisers, and so on (securities dealers that trade in securities on their own account are classified as financial intermediaries);
- c. Flotation corporations that manage the issue of securities;

- d. Corporations whose principal function is to guarantee, by endorsement, bills and similar instruments;
- e. Corporations that arrange derivative and hedging instruments, such as swaps, options, and futures (without issuing them);
- f. Corporations providing infrastructure for financial markets such as securities depository companies, custodians, clearing offices facilitating transactions without acting as the counterparty (in contrast, central clearing counterparties, as discussed in paragraph 4.145 (d), are counterparties and thus classified as financial intermediaries rather than financial auxiliaries), and nominee companies;
- g. Administrators of pension funds, investment funds including mutual funds and other funds, etc. (but not the funds they manage);
- h. Stock exchanges, insurance exchanges, and commodity and derivative exchanges;
- i. Crypto exchanges/trading/lending platforms that facilitate in buying/selling and lending/borrowing of different types of crypto assets;
- j. Foreign exchange bureaus;
- k. Crowd funding and peer-to-peer lending platforms;
- l. Nonprofit institutions recognized as independent legal entities serving financial corporations;
- m. Head offices of financial corporations that are principally engaged in controlling financial corporations or groups of financial corporations but that do not themselves conduct the business of financial corporations;
- n. Central supervisory authorities of financial intermediaries and financial markets when they are separate institutional units.
- o. Financial digital platforms primarily involved in intermediating payment transactions (see paragraphs 16.76–16.7882);
- p. Resident offices of foreign financial institutions that do not accept deposits or extend credit on their own account; and
- q. Credit rating agencies.

## 7. CAPTIVE FINANCIAL INSTITUTIONS AND MONEY LENDERS

**4.149** *Captive financial institutions consist of institutional units providing financial services, where most of either their assets or liabilities are not transacted on open financial markets. They usually act as a financial agent for their affiliates, raising funds for lending to their affiliates or for purchase of their affiliates' assets. Money lenders consist of persons or*



*groups of persons who offer small personal loans using mostly own funds. Their assets or liabilities are not transacted in open financial markets.* Captive financial institutions and money lenders include units transacting with only a limited group of units (such as with subsidiaries) or subsidiaries of the same holding corporation or units that provide loans from own funds provided by only one sponsor. Other financial intermediaries except insurance corporations and pension funds (discussed in paragraphs 4.144 and 4.145) are distinguished from captive financial institutions and money lenders in that the latter serve a limited group only for at least one side of their balance sheet.

**4.150** In general, the following financial corporations are classified in this subsector:

- a. Holding corporations that hold only the assets (owning controlling-levels of equity) of a group of subsidiary corporations and whose principal activity is owning the group without providing any other service to the enterprises in which the equity is held, that is, they do not administer or manage other units;
- b. Special purpose units that qualify as institutional units and raise funds in open markets to be used by their parent corporation;
- c. Units which provide financial services exclusively with own funds, or funds provided by a sponsor to a range of clients and incur the financial risk of the debtor defaulting, including:
  - Moneylenders;
  - Corporations engaged in lending (for example providing student loans, import/export loans) from funds received from a sponsor such as a government unit or nonprofit institution; and
  - Pawnshops that predominantly engage in lending;
- d. Conduits, intragroup financiers, and treasury functions when these functions are undertaken by a separate institutional unit. Conduits typically refer to units that raise funds, which could be debt securities, shares or partnership interest, on open financial markets for passing on to other affiliated corporations. Often, the conduit's liabilities are guaranteed by a parent company;
- e. Units such as trusts and similar wealth-holding units, estates, or agencies accounts that solely hold assets and liabilities, along with the associated property income, for a restricted group of investors or beneficiaries. In the case of a single investor or beneficiary assuming the risks and rewards, the accumulated assets should be assigned to the sector of the investor or beneficiary, unless the unit is resident in another economy than its beneficiary/investor.

## 8. INSURANCE CORPORATIONS

**4.151** *Insurance corporations consist of incorporated, mutual, and other units whose principal function is to provide individual coverage in case of life, accident, sickness, fire, or other risks to individual institutional units or groups of institutional units, or to provide reinsurance services to other insurance corporations.* Captive insurance is included, that is, an insurance company that serves only its owners. Deposit insurers, issuers of deposit guarantees, and other issuers of standardized guarantees that are separate institutional units and act like insurers by charging premiums and have reserves, are also classified as insurance corporations. More details on the recording of insurance are provided in Annex 8.

## 9. PENSION FUNDS

**4.152** Pension liabilities arise when an employer or government obliges or encourages members of households to participate in a social insurance scheme that will provide income in retirement. They may also arise from collective employer-independent schemes, such as schemes for self-employed persons. The social insurance schemes may be organized by employers or by government, they may be organized by insurance corporations on behalf of employers, or separate institutional units may be established to hold and manage the assets to be used to meet the pensions and to distribute the pensions. *Pension funds consist of only those social insurance pension schemes that are institutional units separate from the units that create them.* More details on the institutional unit test as well as the classification and recording of pension schemes are provided in Annex 8.

# F. THE GENERAL GOVERNMENT SECTOR

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## 1. GOVERNMENT UNITS AS INSTITUTIONAL UNITS

**4.153** Government units are unique kinds of legal entities established by political processes that have legislative, judicial, or executive authority over other institutional units within a given area. Viewed as institutional units, the principal functions of government are to assume responsibility for the provision of goods and services to the community or to individual households and to finance their provision out of taxation or other incomes, to redistribute income and wealth by means of transfers, and to engage in nonmarket production. In general terms:

- a. A government unit usually has the authority to raise funds by collecting taxes or compulsory transfers from other institutional units. In order to satisfy one of the basic requirements of an institutional unit in macroeconomic statistics, a government unit, whether at the level of the total economy, a region or a locality, must have funds of

its own either raised by taxing other units or received as transfers from other government units and the authority to disburse some, or all, of such funds in the pursuit of its policy objectives;

- b. Government units typically make three different kinds of final outlays:
- The first group consists of actual or imputed expenditures on the free provision to the community of collective services such as public administration, defense, law enforcement, etc. that are organized collectively by government and financed out of general taxation or other income;
  - The second group consists of expenditures on the provision of goods or services free, or at prices that are not economically significant, to individual households. These expenditures related to, for example, education and health, are deliberately incurred and financed out of taxation or other income by government in the pursuit of its social or political objectives, even though individuals could be charged according to their usage;
  - The third group consists of transfers paid to other institutional units, mostly households, in order to redistribute income or wealth.

**4.154** Within a single territory there may be many separate government units when there are different levels of government, specifically central, state, or local governments. In addition, social security funds also constitute government units. These different kinds of government units are described later when the subsectoring of the general government sector is explained.

### **Government Units as Producers**

**4.155** The fact that governments choose to supply not only collective services but also many goods and individual services free, or at prices that are not economically significant, to households or other units does not necessitate that they produce them themselves. Even in the case of most collective services, or so-called “public goods,” governments are obliged only to assume responsibility for organizing and financing their production. They are not obliged to produce them. However, government units do usually engage in a wide range of productive activities in practice, covering not only collective services but also many other goods and individual services. Because it is largely a matter of political choice, the range of goods and services produced by government units varies greatly from one country to another. Apart from some collective services such as public administration and defense, it is therefore difficult to categorize certain types of production, such as the production of education or health services, as intrinsically governmental, even though they are often produced by government units.

**4.156** When a government unit wishes to intervene through the production of goods and services, it has four options:

- a. it may create a public corporation whose corporate policy, including pricing and investment, it is able to control;
- b. it may create an NPI that it controls;
- c. it may produce the goods or services itself in an establishment that it owns but that does not exist as a separate legal entity from the government unit itself;
- d. it may create or enter into a public private partnership (PPP) (See Chapter 30, 2025 SNA for more details).

**4.157** However, a government establishment, or group of establishments engaged in the same kind of production under common management, should be treated as a quasicorporation if the following three criteria hold:

- a. the unit charges prices for its outputs that are economically significant;
- b. the unit is operated and managed in a similar way to a corporation; and
- c. the unit has a complete set of accounts that enable its operating surpluses, savings, assets, and liabilities to be separately identified and measured.

**4.158** Such quasicorporations are market producers that are treated as separate institutional units from the government units that own them. They are classified, sectored, and subsectored in the same way as public corporations.

**4.159** In order to be treated as a quasicorporation, the government must allow the management of the enterprise considerable discretion not only with respect to the management of the production process but also the use of funds. Government quasicorporations must be able to maintain their own working balances and business credit and be able to finance some or all of their capital formation out of their own savings, depreciation reserves, or borrowing. The ability to distinguish flows of income and capital between quasicorporations and government implies that their operating and financing activities are not fully integrated with government revenue or finance statistics in practice, despite the fact that they are not separate legal entities.

**4.160** Producer units of government that cannot be treated as quasicorporations, like all unincorporated enterprises that cannot be separated from their owners, remain in the same institutional unit as the owner, in this case within the general government sector. They are likely to consist largely, or entirely, of nonmarket producers: that is, producers most or all of whose output is supplied to other units free, or at prices that are not economically significant. In addition to providing nonmarket goods or services to the general public, such

units may include government producers supplying nonmarket goods or services to other government units for purposes of intermediate consumption or gross fixed capital formation: for example, munitions factories, government printing offices, transport agencies, computer or communications agencies, etc. However, it is possible for an unincorporated enterprise within a government to be a market producer. The example often quoted is that of a bookshop within a museum.

### **Social Security Schemes and Social Security Funds**

**4.161** Social security schemes are social insurance schemes that cover the community as a whole or large sections of the community and are imposed and controlled by government units. The schemes cover a wide variety of programs, providing benefits in cash or in kind for old age, invalidity or death, survivors, sickness and maternity, work injury, unemployment, family allowance, health care, etc. There is not necessarily a direct link between the amount of the contribution paid by an individual and the benefits he or she may receive.

**4.162** When social security schemes are separately organized from the other activities of government units and hold their assets and liabilities separately from the latter and engage in financial transactions on their own account, they qualify as institutional units that are described as social security funds. However, institutional arrangements in respect of social security schemes differ from country to country and in some countries they may become so closely integrated with the other finances of government as to bring into question whether they should be treated as separate institutional units.

**4.163** The amounts raised, and paid out, in social security contributions and benefits may be deliberately varied in order to achieve objectives of government policy that have no direct connection with the concept of social security as a scheme to provide social benefits to members of the community. They may be raised or lowered in order to influence the level of aggregate demand in the economy, for example. Nevertheless, so long as they remain separately constituted funds, they must be treated as separate institutional units.

## **2. THE GENERAL GOVERNMENT SECTOR**

**4.164** The general government sector consists of the following groups of resident institutional units:

- a. All units of central, state, or local government;
- b. All nonmarket producers that are controlled by government units.

**4.165** The sector also includes social security funds, either as separate institutional units or as part of any or all of central, state, or local government. The sector does not include public

corporations, even when all the equity of such corporations is owned by government units. Nor does it include quasicorporations that are owned and controlled by government units. However, unincorporated enterprises owned by government units that are not quasicorporations remain integral parts of those units and, therefore, must be included in the general government sector.

**4.166** If a government uses a unit that is resident in the economic territory of another government to carry out general government activities (i.e., fiscal activities, rather than for a public corporation), that unit is not included as part of the general government in either its economy of residence or the economy of the government that uses the unit. Such units are not treated in the same way as embassies and other territorial enclaves if they are created and operate under the laws of the host economy. These units are treated as direct investment enterprises of the government that owns them and classified as separate institutional units in the economy where they are established. See also paragraphs 4.90–4.92. Nonresident international joint ventures between governments, where neither party has control of the unit, are apportioned to governments as notional resident units.

## G. THE HOUSEHOLDS SECTOR

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### 1. HOUSEHOLDS AS INSTITUTIONAL UNITS

**4.167** For the purposes of macroeconomic statistics, a household is defined in paragraph 4.4 as a single person having a separate living accommodation, or a group of persons who share the same living accommodation, who pool some, or all, of their income and wealth and who consume certain types of goods and services collectively, mainly housing and food. In general, each member of a household should have some claim upon the collective resources of the household. At least some decisions affecting consumption or other economic activities must be taken for the household as a whole.

**4.168** Households often coincide with families, but members of the same household do not necessarily have to belong to the same family so long as there is some sharing of resources and consumption. Households may be of any size and take a wide variety of different forms in different societies or cultures depending on tradition, religion, education, climate, geography, history, and other socioeconomic factors. The definition of a household that is adopted by survey statisticians familiar with the socioeconomic conditions within a given country is likely to approximate closely to the concept of a household as defined in macroeconomic statistics, although survey statisticians may add more precise, or operational, criteria within a particular country.

**4.169** Domestic staff who live on the same premises as their employer do not form part of their employer's household even though they may be provided with accommodation and meals as remuneration in kind. Paid domestic employees have no claim upon the collective resources of their employer's household and the accommodation and food they consume are not included with their employer's consumption. They should therefore be treated as belonging to separate households from their employers.

**4.170** Persons living permanently in an institution, or who may be expected to reside in an institution for a very long, or indefinite, period of time are treated as belonging to a single institutional household when they have little or no autonomy of action or decision in economic matters. Some examples of persons belonging to institutional households are the following:

- a. Members of religious orders living in monasteries, convents, or similar institutions;
- b. Long-term patients in hospitals, including mental hospitals;
- c. Prisoners serving long sentences;
- d. Persons living permanently in retirement homes;
- e. Persons living in labor camps.

**4.171** On the other hand, persons who enter hospitals, clinics, convalescent homes, religious retreats, or similar institutions for short periods, who attend residential schools, colleges, or universities, or who serve short prison sentences should be treated as members of the individual private households to which they normally belong.

**4.172** The residence of individual persons is determined by that of the household of which they form part and not by their place of work. All members of the same household have the same residence as the household itself, even though they may cross borders to work or otherwise spend periods of time abroad. If they work and reside abroad so long that they acquire a center of economic interest abroad, they cease to be members of their original households. More details on the residence of households are provided paragraphs 4.199–4.213.

## **2. UNINCORPORATED ENTERPRISES WITHIN HOUSEHOLDS**

**4.173** As noted in the introduction, households are unlike corporations in that they undertake final consumption. However, like corporations, they may also engage in production. Household unincorporated market enterprises are created for the purpose of producing goods or services for sale or barter on the market. They can be engaged in virtually any kind of productive activity: agriculture, mining, manufacturing, construction, retail distribution, or the production of other kinds of services. They can range from single

persons working as street traders or shoe cleaners with virtually no capital or premises of their own to large manufacturing, construction, or service enterprises with many employees.

**4.174** Household unincorporated market enterprises also include unincorporated partnerships that are engaged in producing goods or services for sale or barter on the market. The partners may belong to different households. When the liability of the partners for the debts of the enterprises is unlimited, the partnerships must be treated as unincorporated enterprises and remain within the household sector since all the assets of the household, including the dwelling itself, are at risk if the enterprise goes bankrupt. However, unincorporated partnerships with many partners, such as some large legal, accounting or architectural firms, are likely to behave like corporations and should be treated as quasicorporations assuming complete sets of accounts are available for the partnerships. Partnerships whose partners enjoy limited liability are effectively separate legal entities and, as already noted, are treated as corporations.

**4.175** An unincorporated enterprise can only be treated as a corporation if it is possible to separate all assets, including financial assets down to the level of cash, into those that belong to the household in its capacity as a consumer from those belonging to the household in its capacity as a producer.

### 3. FAMILY TRUSTS

**4.176** Households may create trusts for a variety of reasons. Disregarding the issue of a family trust being resident in another country than its beneficiaries, as a consequence of which it would be treated as a separate institutional unit by convention, the standard criteria for an institutional unit should be applied for treating trusts which are resident in the same economy as its beneficiaries. In practice, the trust should be consolidated with the household, if there is a single beneficiary assuming the risks and rewards, while in the case of a trust with multiple beneficiaries, the trust is to be treated as a separate institutional unit, to be classified as captive financial institutions and money lenders assuming that the group of beneficiaries is restricted. More details on the treatment of trusts are provided in paragraphs 5.97–5.205, 2025 SNA.

## H. THE NONPROFIT INSTITUTIONS SERVING HOUSEHOLDS SECTOR

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**4.177** NPIs are allocated to the corporations sectors when they are engaged in market production and to the general government sector if they are engaged in nonmarket production but subject to government control. The remaining NPIs are termed nonprofit



institutions serving households (NPISHs). All provide goods and services free or at prices that are not economically significant (see paragraph 4.112).

**4.178** One type of NPISHs consists of those that are created by associations of persons to provide goods or, more often, services primarily for the benefit of the members themselves. The services are usually provided free, being financed by regular membership subscriptions or dues. They include NPISHs such as professional or learned societies, political parties, trades unions, consumers' associations, churches or religious societies, and social, cultural, recreational, or sports clubs. They do not include bodies serving similar functions that are controlled by government units. Religious institutions are treated as NPISHs even when mainly financed by government units if this majority financing is not seen as empowering control by government. Political parties in countries with one-party political systems that are controlled by government units by means of providing the necessary finance are included in the general government sector.

**4.179** In some communities, NPISHs may be found that do not possess any legal status or formal articles of association. They should be treated as NPISHs when they perform the same kinds of functions as the societies, political parties, trades unions, etc., described above, even if they are not legally constituted as NPISHs. However, when groups of households collaborate on communal construction projects (such as construction of buildings, roads, bridges, ditches, dykes, etc.), they should be treated as informal partnerships engaged on own-account construction rather than NPISHs. NPISHs should normally have a continuing role to play and not be deemed to be created for single projects of limited duration.

**4.180** A second type of NPISH consists of charities, relief, or aid agencies that are created for philanthropic purposes and not to serve the interests of the members of the association controlling the NPISH. Such NPISHs provide goods or services on a nonmarket basis to households in need, including households affected by natural disasters or war. The resources of such NPISHs are provided mainly by donations in cash or in kind from the general public, corporations, or governments. They may also be provided by transfers from nonresidents, including similar kinds of NPISHs resident in other countries.

**4.181** The third type of NPISHs consist of those that provide collective services, such as research institutions that make their results freely available, environmental groups, etc. These are less common than the first two types of NPISHs and may not always be significantly represented in a country.

**4.182** If the number or size of NPISHs funded from abroad is significant, it may be useful to disaggregate NPISHs into those that are mainly funded domestically and those that are mainly funded from abroad.

## I. THE REST OF THE WORLD

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**4.183** For purposes of the external accounts and other macroeconomic statistics, *the rest of the world consists of all nonresident institutional units that enter into transactions with resident units, or that have other economic links with resident units*. It is not a sector for which complete sets of accounts have to be compiled, although it is often convenient to describe the rest of the world as if it were a sector. The accounts, or tables, for the rest of the world are confined to those that record transactions between residents and nonresidents or other economic relationships, such as claims by residents on nonresidents, and vice versa. The rest of the world includes certain institutional units that may be physically located within the geographic boundary of a country; for example, foreign enclaves such as embassies, consulates or military bases, and also international organizations.

### 1. INTERNATIONAL ORGANIZATIONS

**4.184** Certain international organizations have all the essential attributes of institutional units. The special characteristics of an “international organization” as this term is used in macroeconomic statistics may be summarized as follows:

- a. The members of an international organization are either national states or other international organizations whose members are national states; they thus derive their authority either directly from the national states that are their members or indirectly from them through other international organizations;
- b. They are organizations established by formal political agreements between their members that have the status of international treaties; their existence is recognized by law in their member countries;
- c. International organizations are created for various purposes:
  - International financial organizations – these organizations conduct financial intermediation at an international level (i.e., channelling funds between lenders and borrowers in different economies). A central bank to a group of economies (including currency union central banks) is an example of an international financial organization. Other examples are the IMF, World Bank Group, the Bank for International Settlements (BIS), and regional development banks; and
  - Other international organizations – these organizations provide nonmarket services of a collective nature for the benefit of their member states, such as peacekeeping, education, science, policy issues, and other research.

**4.185** International organizations may be global or regional. An international agency responsible for functions normally undertaken by general government, such as

administration and policing, is classified as an international organization, but it may be useful to identify such agencies separately in statistics.

**4.186** International organizations are treated as not being resident of the territories in which they are located. This treatment is because they are generally exempted from, or are only partially subject to, national laws or regulations, and so they are not considered to be part of the national economy of the territory, or territories, in which they are located.

**4.187** International organizations may be presented as an institutional sector in some cases. First, they may appear in data for a currency union or economic union, in which case, international organizations of the union are residents of the union as a whole. Second, they may be of relevance when data by sector of counterparty are prepared, for example, for sources of current transfers. Such data would be of particular interest in economies in which international organizations have a substantial presence.

**4.188** In contrast to international organizations, enterprises owned jointly by two or more governments are not treated as international organizations but like other enterprises. In the case of joint zones under the control of two or more governments, the enterprises in the zone are split between governments based on some operational indicator or equal proportions (see paragraph 4.198). The distinction is based on whether the organization produces for the market and is important because of the different treatments for the residence of international organizations and enterprises. Separate pension funds for the staff of international organizations are treated as pension funds, rather than as international organizations. Therefore, the residence of these pension funds is determined according to the general principle for determining residency.

## 2. CURRENCY UNIONS AND CURRENCY UNION CENTRAL BANKS

**4.189** A currency union is defined as a union to which two or more economies belong and that has a regional central decision-making body, commonly a currency union central bank (CUCB), endowed with the legal authority to conduct a single monetary policy and issue the single currency of the union.

**4.190** A distinction can be made between centralized currency unions and decentralized currency unions. In the former model, the currency union has a CUCB owned by the governments of the member economies with the common currency issued by the CUCB and central bank operations in each economy carried out by branches or agencies of the CUCB. In the latter model, the currency union comprises a CUCB and currency union national central banks (CUNCBs) of the member economies with the CUCB being owned by the CUNCBs. The monetary policy decisions are taken by the decision-making body of the CUCB, which also coordinates the implementation of the decisions, a primary responsibility of the CUNCBs.

**4.191** The central bank of a currency union is treated as a special kind of international organization. The members of the international organization of which the central bank is part are the governments or the national central banks of the countries in the currency union. The central bank is treated as being nonresident in any of the member countries of the currency union but is resident in the currency area as a whole. More on the treatment of currency and economic unions can be found in Annex 3.

**4.192** In relation to the treatment of centralized currency unions, national agencies, including the notional resident units, are treated as residents of the economies of their location. Transactions between the national agency and resident units of the same member economy settled through accounts at the currency union central bank will thus be recorded/imputed in the balance sheets of the national agency for statistical purposes and treated as transactions and positions between residents. This ensures that in each economy, monetary activities with residents of the currency union are carried out by national agencies (which resemble in its operations a national central bank) having their own assets and liabilities.

## **J. SPECIAL ISSUES ASSOCIATED WITH ECONOMIC TERRITORY AND RESIDENCE**

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**4.193** This section starts with providing slightly more detailed guidance on the concept of economic territory. Subsequently, the concept of residence is further elaborated for households and individuals, for enterprises and various types of production arrangements, and for government units, (regional) international organizations and NPISHs. The section ends with a discussion of the treatment of assets and liabilities held by groups of residents and nonresidents, the treatment of changes in residence of institutional units, and finally, alternatives to the residence concept.

### **1. MORE DETAILS ON THE ECONOMIC TERRITORY**

#### **International Organizations**

**4.194** The economic territory of an international organization (defined in paragraphs 4.184 to 4.188) consists of territorial enclave(s) over which the organization has jurisdiction. These enclaves are clearly demarcated land areas or structures that the international organization owns or rents and uses, and that are formally agreed on with the government of the territory, or territories, in which the enclave(s) are physically located. Each international organization is an economic territory in its own right, covering operations from all its locations. As a consequence, the economic territory of international organizations is not included in the scope of a country's macroeconomic statistics.

## Special Zones

**4.195** Sometimes a government has a separate physical or legal zone that is under its control, but to which, to some degree, separate laws are applied. For example, a free trade zone or offshore financial center (i.e., a jurisdiction in which financial corporations located there predominantly have financial transactions and positions with clients outside that jurisdiction) may be exempt from certain taxation or other laws. Because of the need to view the whole economy, to have comprehensive global data, and to be compatible with partner data, these special zones always should be included in the economic statistics of that economy. While national totals showing all economic activities in the economy are required for international purposes, separate data may be prepared for different subsets of the economy. To the extent that different laws and policies may apply, and persons, goods, and finance do not flow completely freely between a zone and the rest of the economy, a government may wish to have data to support separate analysis of either or both the special zone and the remainder of the economy.

## Changes in Economic Territory

**4.196** The scope of an economic territory may change under several circumstances:

- a. The passing of control of a geographic area from one government to another by mutual agreement or under a decision of an international court or arbitrator. These exchanges satisfy the definition of a transaction. Accordingly, assets conveyed from one government to the other are recorded as an acquisition of land (in the external accounts recorded in the capital account) or equipment and buildings (in the external accounts recorded as transactions in goods and services, respectively, if they can be separated). If the exchange is made in exchange for payment or extinguishing of a prior liability, the corresponding entry is a financial account entry for the agreed amount. If there is no amount payable, the corresponding entry is a capital transfer. If there is a mutual exchange of land or buildings, both entries in the exchange are shown on a gross basis. In addition to these cases involving the two governments, the exchange of territory could change the territory of residence of other institutional units. As with other changes in residence, these would result in other changes in the volume of assets and liabilities.
- b. Change in the status of a particular area by seizure. Because this change in status is not by mutual agreement, it is not a transaction, but would instead be reflected by entries in the other changes in volume of assets and liabilities account of the sequence of economic accounts of SNA.
- c. The merger of two or more economic territories to have a single national government may be seen as an absorption of one territory by another or the elimination of two

territories and the creation of another. These arrangements result in entries in the other changes in volume of assets and liabilities account (i.e., elimination of cross-border liabilities between the two previous constituent territories and possible reclassifications for economies having asset or liability positions with either territory).

- d. The split of a single economic territory into two or more territories is not in itself a transaction. However, there may be associated flows between the parties, for example, compensation for assuming liabilities that would qualify as transactions and be classified according to usual definitions. There also would be entries in the other changes in volume of assets and liabilities account for the appearance of cross-border liabilities between the two separating economies.

**4.197** When such events occur, it is essential that metadata are provided to assist users in understanding how the territorial changes affect the data.

### Joint Zones

**4.198** In some cases, areas are under joint administration or sovereignty, that is, an area is under the effective economic control of two or more governments. These areas can be called joint administration or sovereignty zones. Because, typically, they have laws that differ from the primary territories of the individual governments, the zone could be considered an economic territory in its own right. Because the number of enterprises in these zones typically is small, however, it may be preferred to split the enterprises in the zone between the primary territories rather than publish separate data for the zone. The method of splitting should be to prorate on the basis of a relevant factor according to the circumstances, such as some operational indicator or equal proportions for each of the primary territories. This general guidance needs to be applied appropriately to the economic circumstances faced. For instance, when the enterprises that account for the vast majority, or all, of the economic activity in the zone are effectively operated from the economy of just one of the sovereign authorities, it may be preferred to treat those enterprises as residents of that economy, showing the other economy as recipient of its share of property income, taxes, and so on, and avoiding most of the complexities of prorating for those enterprises. The statistical compilers of each primary territory involved should consult with each other to adopt consistent methods with no gaps or overlaps. Through metadata and consultations, they may also assist compilers in counterpart economies to ensure consistency of bilateral data.

## 2. MORE DETAILS ON RESIDENCE

### Residence of Households

**4.199** Although many people are clearly strongly connected to only one economy, others have substantial economic interests in two or more economic territories. Factors such as location of dwellings, employment, asset holdings, citizenship, migration status, income tax status, income received, expenditure, business interests, and location of dependent family members may point to different economies. To identify the economy of residence when there are connections to two or more economies, the following definition is used to identify the center of predominant economic interest.

**4.200** A household is resident in the economic territory in which household members maintain or intend to maintain a dwelling or succession of dwellings treated and used by members of the household as their principal dwelling. Any unincorporated enterprise of such a household is also resident in this economic territory. Being present for one year or more in a territory or intending to do so is sufficient to qualify as having a principal dwelling there. If there is uncertainty about which dwelling is the principal dwelling, it is identified from the length of time spent there, rather than other factors such as presence of other family members, cost, size, or length of tenure.

**4.201** Individuals who belong to the same household must be residents of the same territory. If a member of an existing household ceases to reside in the territory where his or her household is resident, the individual ceases to be a member of that household. As a result of this definition, the use of households as the institutional unit is compatible with residence being determined on an individual basis.

**4.202** Further to the general principles, some other factors are used to determine residence of particular categories. These categories are students, medical patients, ship's crew, as well as national diplomats, military personnel, staff of scientific stations, and other civil servants employed abroad in government enclaves (these enclaves are discussed in paragraph 4.11). In these cases, some other connections are considered to be more important in determining residence. In the case of significant population movements between two particular territories, compilers in each territory should cooperate to ensure consistent definitions and measurement.

### Students

**4.203** People who go abroad for full-time study generally continue to be resident in the territory in which they were resident prior to studying abroad. This treatment is adopted even though their course of study may exceed a year. However, students change to being residents of the territory in which they are studying when they develop an intention to

continue their presence in the territory of study after the completion of the studies. For students, the rationale for not changing the territory of residence is that the movement to a different territory is considered to have a temporary motivation, that is, their center of predominant economic interest remains with the home territory. The residence of accompanying dependents of students is determined in the same manner as the persons they accompany. From the perspective of their resident economy, the tuition and other expenditure of students and accompanying persons in their host economies are included in import of services (classified under travel—see paragraph 11.42, for specific details).

## **Patients**

**4.204** People who go abroad for the purpose of medical treatment maintain their predominant center of interest in the territory in which they were resident before they received the treatment, even in the rare cases in which complex treatments take a year or more. As with students, the movement is considered to have a temporary motivation. The residence of accompanying dependents of patients is determined in the same manner as the persons they accompany. From the perspective of their resident economy, the expenditures of patients and accompanying persons in their host economies are included in import of services (classified under travel—see paragraph 11.42, for specific details).

## **Crew of Ships and so on**

**4.205** Crew of ships, aircraft, oil rigs, space stations, or other similar equipment that operate outside a territory or across several territories are treated as being resident in their home base territory. The home base is determined from where they spend most time other than undertaking their duties. The home base is regarded as a stronger connection than the location of the mobile equipment or its operator, even though most of the time may be spent at the latter location. From the perspective of their resident economy, the expenditures of the crew members in their host economies are included in import of services (classified under travel).

## **Diplomats, Military Personnel, and so on**

**4.206** National diplomats, peacekeeping and other military personnel, and other civil servants employed abroad in government enclaves, as well as members of their households, are considered to be residents of the economic territory of the employing government. Those enclaves—military bases, embassies, and the like, as discussed in paragraph 4.11—form part of the economic territory of the employing government. They continue to be residents in their home economies even if they live in dwellings outside the enclaves. The expenditure of diplomats and so on, including that of their households, in their host economies is included in imports of goods and services (classified under government



goods and services n.i.e.). Other employees, such as locally recruited staff, are resident in the location of their principal dwelling.

### **International Organization Staff**

**4.207** Staff of international organizations, including those with diplomatic status and military personnel, are resident in the territory of their principal dwelling. The treatment of international organization staff is different from national diplomats and others discussed in the previous paragraph because the latter continue to be paid from and directed by their home government and tend to have shorter postings and rotate back to their economy of origin.

### **Cross-Border Workers**

**4.208** Border workers, seasonal workers, and other short-term workers cross borders for a certain period to undertake a job. No special treatment is adopted, so their residence is determined according to the criteria in paragraph 4.200. Border workers are employed persons who cross from one territory to another to attend their place of employment. Seasonal workers cross the border for particular periods, such as the harvest or tourist seasons to attend a place of employment. Other short-term employment may occur for a particular task, such as a construction project, repairs, delivery of advice, and so on. In each case, the residence of the persons concerned is based on the principal dwelling, rather than the territory of employment.

### **Highly Mobile Individuals**

**4.209** Some individuals have close connections with two or more territories, for example, they have dwellings in more than one territory in which they spend significant amounts of time. For individuals who do not have continuous actual or intended presence in any one territory for one year, the territory of the principal dwelling they maintain is the key consideration. In cases of no principal dwelling, or two or more principal dwellings in different economies, the territory of residence is determined on the basis of the territory in which the predominant amount of time is spent in the year. Although these individuals need to be classified as residents of a single economy for statistical purposes, additional information may be needed in recognition of strong ties to another economy. The statistical result of classifying long-term guest workers as residents of the host economy is appropriate, however, in that their income and consumption in the host territory are not treated as external transactions, only the amounts actually sent to the home economy are.

**4.210** Nevertheless, it may be desirable for compilers to provide supplementary data on groups of nonresidents that have significant links with the economy, for example, by remitting funds to family members remaining there or by intending to return there with savings or pension entitlements. Similarly, it may be desirable to have supplementary data

on those who are classified as residents of the economy but maintain significant links to other economies. Annex 4 discusses some supplementary presentations for flows primarily associated with some of these mobile individuals.

## Refugees

**4.211** No special treatment is adopted for refugees, and they are recorded according to the same principles as migrants, although their motivation is usually different. Their residence will change from their home territory to the territory of refuge, if they have stayed or intend to stay in their place of refuge for one year or more, even if that residence is involuntary or transient, and its future status is unclear. The awarding of special rights and protection to refugees for at least one year could be taken into account to assess their intended duration of stay in the territory of refuge.

## Application of Residence Principles

**4.212** In practice, residence principles are generally not applied to specific individuals, but to broad groups of people. As a result, factors such as intention to stay for one year or more are typically inferred from patterns of similar groups in the past. Some administrative data sources may vary somewhat from statistical definitions of residence. If the variations are significant, some adjustment may be made, or the administrative definition may be considered as an acceptable approximation in practice.

**4.213** The determination of residence results in how the income, expenditure, and financial positions of the households concerned are treated in macroeconomic statistics. Table 4.3 provides a brief summary of some of the implications for the external accounts of whether a household is classified as resident or nonresident of the reporting economy for different types of flows. For example, a nonresident student studying in a territory is shown as being a source of service credits/revenues for education, housing, food, other goods and services, and possibly transfer debits/expenditures, if the student is receiving a scholarship from the host economy. For a resident student, these transactions would be out of scope of the external accounts. The effect of changes of residence of persons is discussed in paragraph 4.229.

<b>Table 4.3. Selected Effects of a Household's Residence Status on the Statistics of the Host Economy</b>		
<b>Economic flow or position</b>	<b>Resident (e.g., long-term guest worker)</b>	<b>Nonresident (e.g., short-term guest worker)</b>
Remuneration of employees	Not external transaction	Earned income

received from enterprises in the reporting economy		
Social contributions and taxes on wages and salaries paid by employees in the reporting economy	Not external transaction	Transfer income
Personal expenditure in the reporting economy	Not external transaction	Services, mainly travel
Transfers to relatives in home economy	Current or capital transfers	Resident-resident transfer within home economy, so outside the BOP (however, possible financial account transactions if made from bank in host economy)
A resident institutional unit's financial claims on or liabilities to the household	Not in external accounts	Included in external accounts
Land and buildings in host economy	Not included in international investment position	Direct investment liability of the reporting economy in notional resident unit
Land and buildings in home economy	Direct investment asset in notional resident unit	Not included in international investment position

## Residence of Enterprises

**4.214** As a general principle, an enterprise is resident in an economic territory when the enterprise is engaged in a significant amount of production of goods or services from a location in the territory. Additional principles are spelled out in paragraphs 4.217 to 4.219. As stated in Box 4.1, an enterprise is an institutional unit engaged in production and may be a corporation or quasicorporation, a nonprofit institution, or an unincorporated enterprise (part of household sector).

**4.215** In contrast to individuals and households, which may have connections to two or more economies, enterprises are almost always connected to a single economy. Taxation and other legal requirements tend to result in the use of a separate legal entity for operations in each legal jurisdiction. In addition, a separate institutional unit is identified for statistical purposes in cases in which a single legal entity has substantial operations in two or more territories (e.g., for branches, land ownership, and multi-territory enterprises, as further elaborated in paragraphs 4.51–4.69.). As a result of splitting such legal entities, the residence of each of the subsequently identified enterprises is clear. The introduction of the

terminology “center of predominant economic interest” does not mean that units with substantial operations in two or more territories no longer need to be split.

**4.216** It is generally required that production take place or is planned to take place in the territory over a period of a year or more for a quasicorporation to be identified. All enterprises must be resident somewhere. However, if an institutional unit undertakes production over a shorter period of time in an economic territory different from its location, no quasicorporation should be identified in that economic territory.

### **Corporations with Little or No Physical Presence**

**4.217** A legal entity is resident in the economic territory under whose laws the entity is incorporated or registered. If it is a resident artificial subsidiary, it is combined with a parent resident in the same economy to form an institutional unit or, for some purposes, combined into a local enterprise group. However, it must not be combined with units resident in other economies. If it has substantial operations in another economy, a branch may be identified there (see paragraph 4.15 (c)). In some cases, a corporation has little or no physical presence, for example, its administration is entirely contracted out to other units. Banking, insurance, investment funds (as distinct from their administrators), securitization vehicles, and some other institutional units with similar designations often operate this way. Similarly, with virtual manufacturing, all the physical processes are outsourced to other units.

**4.218** A single corporation might be registered in several jurisdictions, for example, when it comes to incorporation, income tax, value added tax and particular regulations, and a jurisdiction may have been agreed on for settling disputes involving the enterprise. In such cases, the jurisdiction of the laws that govern the creation and continued existence of the unit should be used as the criterion for determining residence. If there is no incorporation or registration, legal domicile is used as a criterion. The incorporation and registration represent a substantial degree of connection to the economy, associated with jurisdiction over the enterprise’s existence and operations. In contrast, other connections such as ownership, location of assets, or location of managers or administration may be less clear-cut.

### **Production Delivered from a Base**

**4.219** In some cases, an enterprise has a location that is used as a base to deliver services to other locations. For example, this mode is used for transport and also may be used for delivery of many kinds of services, such as on-site repairs, short-term construction, and many types of business services. In such cases, the residence of the enterprise is determined from its base of operations, rather than the point of delivery or location of mobile equipment, unless the activities at the point of delivery are sufficiently substantial to amount to a branch, as discussed in paragraphs 4.51–4.53. For example, an institutional unit that

operates ships on the high seas and various territorial waters has its residence determined according to the criteria in paragraphs 4.214–4.21880, and the economy of residence is not necessarily the same as the location where the ships spend the most time or the territory of registration of the ships. Additionally, the enterprise that operates the ships is not necessarily the same as the enterprise that owns the ships, such as where the ship operator has an operating lease from the ship owner, who is resident in another economy. The residence of the enterprise that owns the ship is also determined according to the criteria in paragraphs 4.21476–4.218. Flags of convenience used by enterprises do not determine the residence of the operator, and indeed a single shipping operator may have ships registered in several economies. Similarly, the residence of enterprises that charter ships is determined by the location of its own base of operations, rather than the flags or locations of particular ships. The base of operations does not necessarily equate to the location from which the enterprise is managed. A company operating mobile equipment may be legally domiciled in one economy but managed from another economy.

**4.220** Table 4.4 provides a brief summary of some of the implications for the external accounts of whether an enterprise is treated as a resident enterprise or as a nonresident for different types of flows and positions. The possibility of change of residence by enterprises is discussed in paragraph 4.231.

**Table 4.4. Selected Effects of the Residence Status of an Enterprise Owned by a Nonresident on the Statistics of the Host Economy**

<b>Economic flow or position</b>	<b>Resident enterprise (e.g., long-term construction project)</b>	<b>Nonresident enterprise (e.g., short-term construction project)</b>
Sales by enterprise to residents	Not external transaction	Imports of goods and services
Purchases by enterprise from residents	Not external transaction	Exports of goods and services
Remuneration of employees payable to residents of host economy	Not external transaction if receivable	Remuneration of employees
Remuneration of employees payable to residents of home economy	Remuneration of employees	Not transaction of host economy
Net operating surplus	Dividends payable or reinvested earnings (enterprise is a direct investment enterprise)	Not external transaction
Injections of funds by owners	Direct investment liabilities of the reporting economy (enterprise is a direct investment enterprise)	Not external transaction
A resident institutional unit's financial claims on or liabilities to the enterprise	Not included in external accounts	Included in external accounts

## Residence of Other Institutional Units

### *General Government*

**4.221** General government includes operations outside the home territory, such as embassies, consulates, military bases, and other enclaves of foreign governments, including those providing training and other forms of assistance. Usually, these operations are not separate institutional units, but even if they were, they are residents of their home territory, rather than the host territory in which they are physically located. This treatment is adopted because they usually have some degree of immunity from the host territory's laws and are deemed under international law to be extensions of the home government's territory. However, a unit created by a government under the laws of the host jurisdiction is a unit resident in the host economy and not part of the general government sector in either

economy. The residence of the employees of these operations is discussed in paragraph 4.206.

### *International Organizations*

**4.222** International organizations are defined in paragraphs 4.184–4.188. International organizations are resident in an economic territory of their own, and not of the economy in which they are physically located. This treatment applies to both international organizations located in only one territory and those located in two or more territories. The residence of the employees of these operations is discussed in paragraph 4.207.

**4.223** An international organization that operates peacekeeping and other military forces or that acts as the interim administration in a territory remains classified as an international organization and is nonresident in that territory, even if it undertakes general government functions. In cases in which these organizations are significant, it may be desirable to identify them separately.

**4.224** A separately constituted pension fund of an international organization is not treated as an international organization but is regarded as a financial corporation. Its residence is determined according to the general principles in paragraphs 4.214–4.218—that is, it is a resident of the territory in which it is located, and if it lacks a physical presence, it is a resident of the economy in which it is incorporated or registered.

### *Regional International Organizations*

**4.225** Some international organizations cover a group of economies in a particular region, such as with economic or currency unions. If statistics are prepared for that region as a whole, these regional organizations are residents of the region as a whole, even though they are not residents of any member economy. When producing global or regional totals, international organizations are combined with national data.

### *NPISHs*

**4.226** An NPISH has a center of economic interest in the economy in which the institution was legally created and is officially recognized and recorded as a legal or social entity. In practice, residence of the vast majority of NPISHs may be determined without ambiguity. When an NPISH is engaged in charity or relief work on an international scale, it may maintain substantial operations in individual territories that may amount to branches (see discussion in paragraphs 4.51–4.53). Such a branch is usually financed largely or entirely by current or capital transfers from abroad. NPISHs are not international organizations, which are limited to those created by governments.

### 3. ASSETS AND LIABILITIES HELD BY GROUPS THAT INCLUDE BOTH RESIDENTS AND NONRESIDENTS

**4.227** Some financial assets have owners who are residents of different economic territories. Examples include joint bank accounts or other cases in which an account holder authorizes relatives to withdraw funds from the account. In these cases, the allocation between the owners may be unclear:

- In the case of deposits of emigrant workers in their home economies that are freely usable by family members resident in the home economies, a convention can be adopted to treat these assets as being held by residents of the home economy.
- Similarly, for deposits of emigrant workers in the host economy that are freely usable by family members, a convention can be adopted to treat these as being held by a resident of the host economy.

**4.228** Compilers may adopt another treatment if better information is available. Because these accounts may be used to make transfers, it is important that such transactions are recognized at either the time of deposit or time of withdrawal (depending on the convention adopted). It is also important that compilers discuss methods with the compilers of monetary and financial statistics and compilers in the counterpart economy with a view to adopting consistent and realistic treatments in cases in which the values are significant.

### 4. CHANGES IN RESIDENCE OF INSTITUTIONAL UNITS

#### Change in Residence of Individuals

**4.229** Households or their individual members can change their territory of residence. Because all members of a household are residents of the same territory, the movement of an individual may require that the person leave one household and become a member of another household. The change in the residence by an owner of an asset or by someone who has a liability requires a reclassification, because no exchange is made between two parties and, accordingly, no transaction occurs. (The entries are discussed in paragraphs 9.37–9.38.)

#### Assets Moved Between Institutional Units

**4.230** For what are called “corporate migrations”, two situations can occur: one in which assets are moved between institutional units and another in which the corporation itself changes residence. When a company is said to relocate to another jurisdiction, it usually involves transactions to move assets from a corporation in one economy to a related corporation in a different economy (see paragraph 8.20). That is, the ownership of assets is moved, rather than the unit changing residence.



## Change in Residence of Units Other Than Persons

**4.231** In contrast, in some rare cases, a unit changes its residence (i.e., without moving assets to ownership by another unit). These cases could arise from exchanges of territory between governments. Additionally, corporation or trust law in some cases allows unit emigration or immigration (e.g., it could be permitted within an economic union but is not generally the case for most jurisdictions). The effects on the IIP would be treated as other changes in volume of assets and liabilities in the same way as for the change in residence of an individual, recorded in the other changes in assets and liabilities account. (These cases are discussed in paragraph 9.39.)

## 5. ALTERNATIVES TO THE RESIDENCE CONCEPT

**4.232** With globalization, an increasing number of units have connections to two or more economies. Some additional data sets provide alternatives to the residence concept, such as those based on ownership (as in data on the activities of multinational enterprise (MNE) groups, as discussed in Chapter 15, and consolidated banking statistics) and provide additional information, such as on resident workers who send remittances abroad (as discussed in Annex 4). In consolidated banking statistics, banking groups and their global operations are reported as a single unit (i.e., all the controlled affiliates of an enterprise are allocated to the economy of the head office).

## Chapter 5. Classifications of Financial Assets and Liabilities

**5.1** This chapter discusses the classifications of financial assets and liabilities used in the external accounts. These classifications are applied to positions, the associated income, financial account transactions, and other changes involving financial assets and liabilities. Classifications are used to group similar components and to separate components with different characteristics. The external accounts functional categories and their relationship to the instruments classification are discussed in Chapter 6. A discussion of Islamic finance in the context of the national accounts and the external accounts can be found in Chapter 17, Islamic Finance.

### A. DEFINITIONS OF ECONOMIC ASSETS AND LIABILITIES

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References:

- 2025 SNA, Chapter 12, Financial Account, and Chapter 14, Balance Sheet.
- IMF, *MFSMCG 2016*, Chapter 4, Classification of Financial Assets and Liabilities.
- BIS, ECB, and IMF, *Handbook on Securities Statistics*, 2015.

#### 1. ECONOMIC ASSETS IN GENERAL

**5.2** *An economic asset is a store of value representing an economic benefit or series of economic benefits accruing to the economic owner by holding or using the item over a period of time. It is a means of carrying forward value from one accounting period to another.* Economic assets include fixed assets, such as equipment and intellectual property, that are used repeatedly or continuously in production over more than one year. They also include inventories, valuables, nonproduced nonfinancial assets, and financial assets.

**5.3** Every economic asset has an owner. *The economic owner is the institutional unit that is entitled to claim the economic benefits associated with the use of goods, services, natural resources, and financial assets in the course of an economic activity and that is accepting the associated risks.* Benefits of ownership usually include the right to use, rent out, or otherwise generate income, or to sell the asset. The risks include the potential losses caused by damage, theft, and holding losses; that management, transfer, or maintenance costs are greater than anticipated; and, in the case of financial assets, default of the counterparty. Ownership may be subject to costs such as maintenance costs and taxes.

Usually, the economic owner is the same as the legal owner,<sup>1</sup> but they may differ in cases such as financial leases. Under some legal arrangements, elements of the risks and benefits are split between different parties, so it is necessary to identify which party has the bulk of risks and benefits to identify the economic ownership. Every economic asset has demonstrable value, functioning as a store of value that reflects the amounts of the economic benefits that its owner can derive by holding it, using it, or providing it temporarily to another unit. It may be tangible or intangible.

**5.4** Different kinds of economic benefits that may be derived from an asset include:

- (a) the ability to use assets, such as buildings or machinery, in production;
- (b) the generation of services, for example, renting out produced assets to another unit;
- (c) the generation of property income (e.g., interest and dividends received by the owners of financial assets); and
- (d) the potential to sell and thus realize holding gains.

**5.5** The classification system of economic assets recognized in macroeconomic data sets is shown in Table 5.1. In the external accounts, produced assets are covered in the goods and services account, nonproduced nonfinancial assets in the capital account, and financial assets and liabilities in the financial account and integrated IIP. This chapter deals with the classification of financial assets and liabilities.

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<sup>1</sup> *The legal owner is the institutional unit entitled in law and sustainable under the law to claim the benefits associated with goods, services, natural resources, financial assets or liabilities (which may be different from the economic owner).*

<b>Table 5.1. Economic Asset Classification</b> <i>(Includes 2025 SNA codes)</i>	
Asset classes	Examples
AN Nonfinancial assets	
AN1 Produced nonfinancial assets (excluding natural resources)	
AN11 Fixed assets (excluding produced natural resources)	Dwellings; other buildings and structures; machinery and equipment; weapons systems; intellectual property products (research and development, mineral exploration, and evaluation, computer software including artificial intelligence, data and databases, and entertainment, literary, and artistic originals).
AN12 Inventories (excluding produced natural resources)	Materials and supplies, work-in-progress, finished goods, goods for resale.
AN13 Valuables	Precious metals and stones, antiques, and other art objects.
AN2 Nonproduced nonfinancial assets (excluding natural resources)	
AN21 Contracts, leases, and licenses	Marketable operating leases, permissions to use natural resources, permissions to undertake specific activities, entitlement to future goods and services on an exclusive basis.
AN22 Crypto assets without a corresponding liability designed to act as a medium of exchange	Crypto assets without a corresponding liability designed to act as a general medium of exchange or designed to act as a medium of exchange within a platform only.
AN23 Purchased goodwill and marketing assets	Brand names, mastheads, trademarks.
AN3 Natural resources	Land, mineral and energy reserves, biological, water, and other natural resources.
AF Financial assets	See Table 5.3.

## 2. FINANCIAL INSTRUMENTS

**5.6** *Financial instruments consist of the full range of financial contracts made between institutional units. They may be recorded on the balance sheet or off the balance sheet (e.g., constructive and contingent assets and liabilities). Financial instruments may give rise to financial claims (as discussed in paragraph 5.7) or not (as discussed in paragraphs 5.12–5.17).*

### 3. FINANCIAL CLAIMS

**5.7** *A financial claim is a financial instrument that gives rise to an economic asset that has a counterpart liability, including shares and other equity in corporations.* Financial claims arise from contractual relationships established when one institutional unit promises to provide funds or other resources to another in the future. (Usually, funds or resources are supplied at the beginning of the relationship, but not in the case of forward-type contracts in financial derivatives.) Equity is also regarded as a financial claim as it represents property rights on a unit and a claim of the owner on its residual value.

**5.8** Each financial claim is a financial asset that has a corresponding liability. A liability (and a corresponding asset) is established when one unit (the debtor) is obliged, under specific circumstances, to provide funds or other resources to another unit (the creditor). The existence of two parties to a financial claim and its corresponding liability means that it can arise in a cross-border situation.

**5.9** Nonfinancial assets do not have a corresponding liability. For example, fixed assets, commodities, and certain types of crypto assets do not have a corresponding liability.

**5.10** Certain financial instruments (e.g., unallocated gold deposits, commodity futures, commodity-linked bonds), which are linked to the price of commodities or other nonfinancial assets (e.g., oil, gas, agricultural products, gold, silver, copper, platinum), are also financial claims to the extent that they give rise to an economic asset with a counterpart liability.

### 4. FINANCIAL ASSETS

**5.11** *Financial assets consist of financial claims and gold bullion held by monetary authorities as a reserve asset.* Financial assets consist of equity and investment fund shares/units, debt instruments, financial derivatives and ESOs, and monetary gold (see Table 5.3). Financial assets include crypto assets with a corresponding liability. They should be recorded in relevant financial assets and liabilities (see Chapter 16 for discussions on crypto assets). Financial assets can be delineated from financial instruments in that:

- (a) some financial instruments do not give rise to financial assets, as discussed in paragraphs 5.12–5.17. Examples of instruments not recognized as assets are one-off guarantees not yet activated and unrealized commitments such as lines of credit, loan commitments, and letters of credit; and
- (b) when held as monetary gold, gold bullion is a financial asset that is not created by an instrument and that does not represent a claim on another unit. It is considered to be a financial asset because of its role as a means of international payments and store of value for use in reserve assets. (The unallocated gold account component of monetary gold does have a counterpart claim; it is discussed in paragraph 5.88.)

## 5. OTHER FINANCIAL INSTRUMENTS NOT RECOGNIZED AS FINANCIAL ASSETS

**5.12** *Contingent assets and liabilities are possible obligations (and corresponding claims) whereby one party is obliged to provide payment to another unit only if certain specific conditions prevail. As they are not unconditional obligations, they are not recognized as financial assets or liabilities, with the exception of standardized guarantees. Contingent assets and liabilities can be explicit (based on legal obligations) or implicit (not based on legal obligations).* By conferring certain rights or obligations that may affect future decisions, contingent assets and liabilities can produce an economic impact on the parties involved. As a result, supplementary information may be provided on significant contingent assets or liabilities.<sup>2</sup>

**5.13** Although the value of future payments arising from equity, financial derivatives, index-linked instruments, insurance technical reserves, and provisions for standardized guarantees is uncertain, they are recognized as financial assets rather than as contingent assets. In these cases, the liability exists, but the amounts payable depend on subsequent events.

**5.14** One-off guarantees of payment by third parties are contingent because payment is required only if the principal debtor defaults. However, provisions for calls under standardized guarantees are not considered to be contingent because of the more predictable expectation of payment under standardized guarantees. (Definitions of standardized and one-off guarantees are given in paragraph 5.78.)

**5.15** Lines of credit, letters of credit, and loan commitments assure that funds will be made available, but no financial asset (i.e., loan) is created until funds are actually advanced. Letters of credit are promises to make payment only when certain documents specified by contract are presented. Note issuance facilities assure that parties will be able to sell short-term securities that they issue and that the financial corporations providing the facility will purchase any notes not sold in the market. Only if the financial corporation providing the facility makes funds available will it acquire an actual asset, to be recorded in its balance sheet. Uncalled share capital is contingent unless there is an obligation to pay the amount.

**5.16** Sums set aside in business accounting to provide for future liabilities or for future expenditures, such as provisions for losses on assets, are not recognized as liabilities. Only actual current liabilities to another party or parties are explicitly included in financial assets

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<sup>2</sup> Provisions for losses on assets are recorded as liabilities in monetary and financial statistics and are classified under other accounts payable.

and liabilities. When the anticipated liability becomes actual, it is recognized. A future stream of revenue, such as future tax collections or royalties receipts, is not recognized as a financial asset.

**5.17** Crypto assets without a corresponding liability designed to act as a general medium of exchange (or designed to act as a medium of exchange within a platform only as a medium of exchange only within a platform) that do not have a corresponding liability are treated as nonproduced nonfinancial assets (see paragraphs 14.19–14.24 for a description of this category of crypto assets). Crypto assets are discussed in detail in Chapter 16.

## 6. OTHER ISSUES

**5.18** *Securities are debt and equity instruments that have the characteristic feature of negotiability, i.e., their legal ownership is readily capable of being transferred from one unit to another unit by delivery or endorsement.* While any financial instrument can potentially be traded, securities are designed to be traded, usually on organized exchanges or “over the counter.” (The over-the-counter market involves parties negotiating directly with one another, rather than on a public exchange.) Negotiability is a matter of the legal form of the instrument. Some securities may be legally negotiable, but there is not, in fact, a liquid market where they can be readily bought or sold.

## B. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES BY TYPE OF INSTRUMENT

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### 1. INTRODUCTION TO CLASSIFICATION OF PARTICULAR FINANCIAL ASSETS AND LIABILITIES

**5.19** This *Manual* uses three broad categories of financial assets and liabilities: (i) equity and investment fund shares/units, (ii) debt instruments, and (iii) other financial assets and liabilities. The 2025 SNA and this *Manual* use an additional, more detailed classification of financial assets and liabilities. The classification is based primarily on the legal characteristics that describe the form of the underlying relationship between the parties to an instrument, which are also related to their liquidity and economic purpose. Although financial innovation leads to the emergence of new types of instruments, the classification is intended to provide broad categories that allow for international comparability and the inclusion of new instruments within the existing categories.

<b>Table 5.2. Returns on Financial Assets and Liabilities: Financial Instruments and Their Corresponding Type of Income</b> <i>(Includes 2025 SNA codes)</i>	
Financial instrument	Type of income receivable/payable on instrument
Equity and investment fund shares/units	
AF51 Equity	D412 Income on equity
	D411 Interest and similar returns <sup>2</sup>
AF511+AF512 Listed and unlisted shares	D4121 Dividends
	D4123 Reinvested earnings <sup>1</sup>
	D411 Interest and similar returns <sup>2</sup>
AF519 Other equity and equity in international organizations	D4121+D4122 Dividends and withdrawals from income of quasi-corporations
	D4123 Reinvested earnings <sup>1</sup>
	D411 Interest and similar returns <sup>2</sup>
AF52 Investment fund shares/units	D4134 Investment income attributable to investment fund shareholders (dividends and retained earnings)
Debt instruments	
AF12 Special drawing rights	D411 Interest and similar returns
AF2 Currency and deposits	D411 Interest and similar returns
AF3 Debt securities	D411 Interest and similar returns
AF4 Loans	D411 Interest and similar returns
AF6 Insurance, pension, and standardized guarantee schemes	D4131 Investment income attributable to insurance policy holders
	D4132 Investment income payable on pension and nonpension entitlements
	D4133 Investment income attributable to surplus/shortfall in defined benefit pension funds
AF81 Trade credit and advances	D411 Interest and similar returns
AF82 Emissions permits	D411 Interest and similar returns
AF89 Other accounts receivable/payable n.e.c.	D411 Interest and similar returns



Other financial assets and liabilities	
AF11 Monetary gold <sup>3</sup>	D411 Interest and similar returns <sup>2</sup>
AF7 Financial derivatives and employee stock options	None
<sup>1</sup> Reinvested earnings—a standard component for direct investment equity. A supplementary item for portfolio investment. <sup>2</sup> By convention, lending fees on equity securities, gold loans, gold swaps, and crypto assets without a corresponding liability designed to act as a general medium of exchange are classified as interest and similar returns (see paragraphs 12.91–12.92). <sup>3</sup> Monetary gold consists of gold bullion and unallocated gold accounts. Gold bullion has no counterpart liability. However, the counterpart liability of unallocated gold accounts is in deposits.	

**5.20** Table 5.2 shows the *SNA* instruments classification and the corresponding type of income they generate. The linking of income with the corresponding assets and liabilities facilitates calculation of rates of return, which are useful for both analysis and data verification. Table 5.3 shows the *2025 SNA* classification and the corresponding broad categories in this *Manual*.

## 2. EQUITY AND INVESTMENT FUND SHARES

**5.21** Equity and investment fund shares/units have the distinguishing feature that they represent property rights on the institutional unit that issued the instrument and a residual claim on its assets after having met the obligations vis-à-vis debt holders. Equity represents the owners' funds in the institutional unit. In contrast to debt, equity does not generally provide the owner with a right to a predetermined amount or an amount determined according to a fixed formula.

**5.22** Investment fund shares/units have a specialized role in financial intermediation as a kind of collective investment in other assets, so they are identified separately. Additionally, the treatment of portfolio investment income for investment fund shares/units differs from that for equity; in that reinvested earnings are imputed for investment fund shares/units (as shown in paragraphs 12.57–12.59).

### ***a. Equity***

**5.23** *Equity consists of all instruments and records acknowledging ownership rights and claims on the residual value of a corporation or quasi-corporation after the claims of all creditors have been met. Ownership of equity in legal entities is usually evidenced by shares, stocks, participations, depository receipts, or similar documents. They may also take the form of equity crypto assets, which are similar to standard equity albeit relying on cryptography for being created, allocated, transferred and managed (see paragraph 16.81*

for additional details). Equity is treated as a liability of the issuing institutional unit (a corporation or other unit).

**5.24** Participating preferred shares are those that provide for participation in the residual value on the dissolution of an incorporated enterprise. Such shares are also equity securities, whether or not the income is fixed or determined according to a formula. (For nonparticipating preferred shares, see paragraph 5.53.) In addition to the issuance of shares, the value of equity can be affected by a range of factors, such as share premiums, accumulated reinvested or retained earnings, or revaluations. In addition, a direct investor may increase its equity in an affiliate by providing or paying for goods and services (see paragraph 8.18) consumed by or rendered to an affiliate, or assuming debt (see paragraph 8.43(c)).

<b>Table 5.3. 2025 SNA Financial Instruments Classification</b> <b>(with Corresponding BPM7 Broad Categories)</b> <i>(Includes 2025 SNA codes)</i>	
2025 SNA financial assets and liabilities classification	Broad external accounts category (BPM7)
AF11 Monetary gold	
Gold bullion	} Other financial assets
Unallocated gold accounts	} and liabilities
AF12 Special drawing rights	Debt instruments
AF2 Currency and deposits	} Debt instruments
AF21 Currency	}
AF22 Crypto assets with a corresponding liability designed to act as a general medium of exchange	}
AF23 Transferable deposits	}
AF29 Other deposits	}
AF3 Debt securities	Debt instruments
AF31 Short-term debt securities	}
AF32 Long-term debt securities	}
AF33 Crypto assets with a corresponding liability designed to act as a medium of exchange within a platform, short-term	}
AF34 Crypto assets with a corresponding liability designed to act as a medium of exchange within a platform, long-term	}
AF35 Utility tokens	}
AF4 Loans	Debt instruments
AF41 Short-term loans	}
AF42 Long-term loans	}
AF5 Equity and investment fund shares/units	} Equity
AF51 Equity	}
AF511 Listed shares	}
AF512 Unlisted shares	}

AF519 Other equity and equity in international organizations	}	
AF52 Investment fund shares/units	}	
AF521 Money market fund shares/units	}	
AF522 Non-MMF investment fund shares/units	}	
AF6 Insurance, pension, and standardized guarantee schemes	}	Debt instruments
AF61 Nonlife insurance technical reserves	}	
AF62 Life insurance and annuity entitlements	}	
AF63 Pension entitlements	}	
AF64 Claims of pension funds on pension sponsors	}	
AF65 Entitlements to nonpension benefits	}	
AF66 Provisions for calls under standardized guarantees	}	
AF7 Financial derivatives and employee stock options	}	Other financial assets
AF71 Financial derivatives	}	and liabilities
AF711 Foreign currency derivatives	}	
AF712 Single currency interest rate derivatives	}	
AF713 Equity derivatives	}	
AF714 Commodity derivatives	}	
AF715 Credit derivatives	}	
AF719 Other derivatives	}	
	}	
AF72 Employee stock options	}	
AF8 Other accounts receivable/payable	}	Debt instruments
AF81 Trade credit and advances	}	
AF82 Emissions permits	}	
AF89 Other accounts receivable/payable n.e.c.	}	

**5.25** *Depository receipts are financial instruments that allow a nonresident institutional unit to introduce its equity or debt into another market in a form more readily acceptable to the investors in the market. Ownership of the depository receipts is treated as if it represents direct ownership of the underlying securities. Depository receipts facilitate transactions in*

securities in economies other than their home listing. The underlying securities may be equity or debt securities. Depository receipts are classified according to the underlying financial instruments backing them.

**5.26** Equity may be split into:

- (a) listed shares,
- (b) unlisted shares, and
- (c) other equity and equity in international organizations.

Both listed and unlisted shares are equity securities (securities are defined in paragraph 5.18). *Listed shares are equity securities listed on an exchange (also known as quoted shares)*. Unlisted shares may sometimes be referred to as private equity<sup>3</sup> (venture capital often takes this form).

**5.27** The existence of quoted prices of shares listed on an exchange means that current market prices are usually readily available. In addition to the valuation aspects, listed and unlisted shares typically have different regulatory requirements.

**5.28** *Other equity and equity in international organizations are all forms of equity other than listed and unlisted shares. In the case of equity in international organizations, it also includes nontradable shares.* Other equity can include equity in quasi-corporations, such as branches, trusts, limited liability and other partnerships, unincorporated funds, and notional units for ownership of real estate and other natural resources. The equity ownership of many international organizations (e.g., ownership of currency union central banks) is usually not in the form of tradable shares and so is classified in this item (see paragraph A3.44).

**5.29** *Subscription rights are the rights for corporate shareholders to participate in the acquisition of shares newly issued by the corporation.* Subscription rights are designed to offset any potential dilution effect in the value of the stake of current shareholders resulting from the terms of issuance. By exercising the rights and buying a proportionate number of shares of the issuance, the investor maintains their percentage of ownership in the corporation. If the shareholders choose not to exercise the rights within the specified time frame, their ownership will be diluted. Subscription rights are classified as equity since the sum of the value of the shares after the subscription issuance and that of subscription rights represents the total value of the corporation that issued the subscription rights.

**5.30** The general principles of valuation given in paragraphs 3.97–3.141 and Appendix 3.1 apply to equity. However, because prices may not be observable for unlisted

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<sup>3</sup> Private equity refers to the source of equity funds being on private markets; however, private equity may be used to invest in listed shares, including to take over publicly listed companies, and delist them.

shares, equity in international organizations, and other equity, other methods are noted in paragraphs 7.15–7.19.

### ***b. Investment fund shares/units***

**5.31** *Investment funds are collective investment undertakings through which investors pool funds for investment in financial or nonfinancial assets or both. Investment funds include money market funds (MMF) and non-MMF investment funds. These funds issue shares (if a corporate structure is used) or units (if a trust structure is used). Investment fund shares/units refer to the shares issued by mutual funds and unit trusts, rather than the shares they may hold.*

**5.32** *MMFs are collective investment schemes that raise funds by issuing shares or units to the public, and primarily investing in money market instruments, money market fund shares or units, transferable debt instruments with a residual maturity of not more than one year, bank deposits, and instruments that pursue a rate of return that approaches the interest rates of money market instruments. MMF shares/units sometimes are functionally close to transferable deposits, for example, accounts with unrestricted check-writing privileges. If MMF shares/units are included in broad money in the reporting economy, they should be recorded as a separate item to allow reconciliation with monetary statistics. (See also paragraph 4.133–4.134 on MMFs as a subsector.)*

**5.33** Investment funds invest in a range of assets, such as debt securities, equity, commodity-linked investments, nonresident real estate, shares in other investment funds, and structured assets. Data on the composition of their assets could be useful in economies in which investment funds are significant.

## **3. DEBT INSTRUMENTS**

Reference:

- IMF and others, *External Debt Statistics: Guide for Compilers and Users*, paragraphs 2.3–2.11.

**5.34** *Debt instruments are financial instruments that require the payment of principal and/or interest at some point(s) in the future. Debt instruments consist of SDRs, currency and deposits, debt securities, loans, insurance technical reserves, pension and related entitlements, provision for calls under standardized guarantees, trade credit and advances, and other accounts receivable/payable. The term debt instrument is applicable to both the liability and the corresponding asset. Some instruments, such as currency and some deposits, pay no interest. With insurance and pension schemes, the income flow is called investment income attributable to policyholders in insurance, pension schemes, and standardized guarantees, rather than interest.*

**5.35** Debt instruments can be contrasted with equity and investment fund shares/units in the nature of the liability and risk. Whereas equity gives a residual claim on the assets of the unit, a debt instrument involves an obligation to pay certain amounts of principal and/or interest usually according to a predefined formula, which usually means that the creditor has a more limited risk exposure. Provided that the debtor is solvent, debt obligations are largely fixed or linked by a formula to some other variable, such as a market interest rate or the price of a selected item.<sup>4</sup> In contrast, the return on equity is largely dependent on the economic performance of the issuer. Because of the different nature of risk, debt is an important grouping for analysis.

**5.36** Because debt instruments involve an obligation to repay principal, short- or long-term classification (according to either original or remaining maturity) is of analytical significance. The maturity splits are explained in paragraphs 5.115–5.119.

#### ***a. Special Drawing Rights***

**5.37** *SDRs are reserve assets created by the IMF and allocated to its members to supplement existing reserve assets.* SDRs are held only by the monetary authorities of IMF members and a limited number of international financial institutions that are authorized holders. SDR holdings represent unconditional rights to obtain foreign exchange or other reserve assets from other IMF members. (For more information, see paragraph A9.22.)

**5.38** Holdings of SDRs by an IMF member are recorded as an asset, while the allocation of SDRs is recorded as the incurrence of a liability of the member receiving them (because of a requirement to repay the allocation in certain circumstances, and also because interest accrues). The holdings and allocations should be shown gross, rather than netted.

**5.39** Domestic arrangements for holding SDRs and the accounting treatment may differ across IMF members according to differences in legal and institutional frameworks. The majority of members record the SDR positions on the central bank's balance sheet while some members record them on the balance sheet of a government agency. Regardless of where SDRs are recorded, the country's reserve assets increase with the allocation.

#### ***b. Currency and Deposits***

##### ***Currency***

**5.40** *Currency consists of notes and coins (including digital versions) that are of fixed nominal values and are issued or authorized by the central bank or government.*

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<sup>4</sup> Some pension entitlements (e.g., those in defined contributions schemes) may reflect investment performance of the pension schemes.

**5.41** Some countries issue gold coins, which are held for intrinsic value, or commemorative coins, which are held for numismatic value. If not in active circulation, such coins are not classified as financial assets but as goods (except for gold coins that are classified as monetary gold; see paragraph 6.83). Similarly, central bank or central government holdings of unissued or demonetized currency are not financial assets. (Acquisition of unissued currency by a monetary authority from a printer or coin manufacturer is included in goods; see paragraph 10.12(a).)

**5.42** Foreign currency in circulation, including as legal tender, is shown as a currency asset of the resident holder and as a liability of the issuer. Transactions that take place between residents settled in foreign currency in circulation are domestic transactions. Currency is discussed as a financial instrument in this section. The term “currency” is also used to classify the denomination of all kinds of instruments as being denominated in either domestic currency or foreign currency (as discussed further in paragraphs 3.188–3.190).

### ***Crypto Assets with a Corresponding Liability Designed to Act as a General Medium of Exchange***

**5.43** This category includes crypto assets with a corresponding liability designed to act as a general medium of exchange that are not issued or authorized by the monetary authorities or government. They consist of, for example, stablecoins with a claim on the issuer. Such stablecoins aim to maintain a stable value relative to a specified asset such as a fiat currency or gold, or a specified basket of assets, usually by being backed (or, at least, advertised as being backed) by the assets of the issuer. Similar assets designed to act as a medium of exchange within a platform are classified as debt securities (see paragraphs 5.51 and 16.81–16.82). Another category of stablecoins (i.e., without a counterpart liability) concerns those that are backed by an algorithm. Such crypto assets without a corresponding liability designed to act as a medium of exchange are recorded as nonproduced nonfinancial assets (see paragraphs 14.19–14.24).

### ***Deposits***

**5.44** *Deposits are nonnegotiable contracts that represent the placements of funds available for later withdrawal. They are claims on the central bank, other deposit-taking corporations, other financial corporations, and, in some cases, other institutional units. A deposit is usually a standard contract, open to the public at large, that allows the placement of a variable amount of money. The nominal value of deposits is usually fixed in terms of the currency in which the deposits are denominated. In some cases, deposits may have their value expressed in terms of an index or linked to a commodity price, for example, gold, oil, or share prices, or the price of a crypto asset without a corresponding liability. Unallocated accounts for precious metals are also deposits, except for unallocated gold accounts held by monetary authorities for reserves purposes, for which the asset holding is included in*



monetary gold (with the counterpart liability being recorded as a deposit—see paragraph 5.88).

**5.45** Deposits are distinguished from loans on the basis of the representation in the documents that evidence them. There may be cases in which the distinction is unclear, because the parties are uncertain or take different views. When one party is a deposit-taking corporation and the other is not, a possible convention is that an asset position of a deposit-taking corporation is classified as a loan by both parties. Similarly, a liability of a deposit-taking corporation to another type of unit is classified as a deposit by both parties. Classification of interbank positions as deposits is discussed in paragraph 5.47.

### ***Transferable Deposits***

**5.46** *Transferable deposits consist of all deposits that are exchangeable for currency (including their digital versions) on demand at par and without penalty or restriction; and directly usable for making payments by check, draft, giro order, direct debit or credit, or other direct payment facility.* Some types of deposit accounts embody only limited features of transferability. For example, some deposits have restrictions such as on the number of third-party payments that can be made per period or on the minimum size of the individual third-party payments. An overdraft arising from the overdraft facility of a transferable deposit account is classified as a loan. Transferable deposits include electronic money when they are liabilities of deposit-taking corporations.

### ***Interbank Positions***

**5.47** Interbank positions can be shown as a separate component of deposits. Interbank positions should be classified in the relevant instrument categories. When there is uncertainty between a loan and a deposit, interbank positions should be recorded under deposits.

### ***Other Deposits***

**5.48** *Other deposits consist of all claims, other than transferable deposits, that are represented by evidence of deposit.* Other deposits include savings and fixed-term deposits, and nonnegotiable certificates of deposit. (Negotiable certificates are classified as debt securities.) Restricted deposits, defined as those for which withdrawals are restricted on the basis of legal, regulatory, or commercial requirements, are included in other deposits, as well as shares or similar evidence of deposit issued by savings and loan associations, building societies, credit unions, and the like. Liabilities under reverse transactions (e.g., securities repurchase agreements, securities lending with cash collateral, and gold swaps) are also other deposits when incurred by a deposit-taking corporation and are included in loans when incurred by any other institution. Similarly, cash margins for financial derivatives and reserves held by the factor in a factoring arrangement are included in other deposits if

they are liabilities of a deposit-taking corporation and in other accounts receivable/payable if they are liabilities of any other institution. Reserve position in the IMF (see paragraph 6.89) is included in other deposits.

### **Central Bank Swap Arrangements**

**5.49** Deposits include assets created under central bank swap arrangements that involve the temporary exchange of deposits between the central banks of two economies (central bank swap arrangements are discussed in paragraphs 6.107–6.111).

### **c. Debt Securities**

**5.50** *Debt securities are negotiable instruments serving as evidence of a debt.* They include bills, bonds, notes, negotiable certificates of deposit, commercial papers, debentures, asset-backed securities, and similar instruments normally traded in the financial markets. *Bills are defined as securities (usually short-term) that give the holders the unconditional rights to receive stated fixed sums on a specified date.* Bills are generally issued at discounts to face value that depend on the rate of interest and the time to maturity and are usually traded in organized markets. Examples of short-term securities are treasury bills, negotiable certificates of deposit, bankers' acceptances, promissory notes, and commercial paper. Debt securities give the holders the unconditional right to fixed or contractually determined variable payments (i.e., earning of interest is not dependent on earnings of the debtors). Depository receipts whose underlying securities are debt securities are debt securities (see paragraph 5.25).

**5.51** *Utility tokens are fungible crypto assets that provide the holders future access to goods or services.* They are classified as debt securities, as they imply a financial claim on the issuer (or another third party) and are negotiable by definition. The same holds for crypto assets with a corresponding liability designed to act as a medium of exchange within a platform. Debt tokens (i.e., debt instruments, such as corporate bonds, relying on cryptography) are also classified as debt securities (see paragraphs 16.81–16.82).

### **Possible Reclassification of Traded Loans as Securities**

**5.52** Loans that have become negotiable from one holder to another are to be reclassified from loans to debt securities under certain circumstances. For such reclassification, there needs to be evidence of secondary market trading, including the existence of market makers, and frequent quotations of the instrument, such as provided by bid-offer spreads.

### **Nonparticipating Preferred Shares and Convertible Bonds**

**5.53** *Nonparticipating preferred shares or stocks are shares or stocks that pay a fixed income but do not provide for participation in the distribution of the residual value of an incorporated enterprise on dissolution, and so are classified as debt securities.* (See also

paragraph 5.24 concerning participating preferred shares.) Bonds that are convertible into equity should be classified as debt securities prior to the time that they are converted.

### ***Asset-Backed Securities***

**5.54** Asset-backed securities, collateralized debt obligations, and collateralized mortgage obligations are arrangements under which payments of interest and principal are backed by payments on specified assets or income streams. Asset-backed securities are backed by various types of financial assets (e.g., mortgages and credit card loans), pools of leased property, nonfinancial assets, or future income streams—such as the earnings of a musician or a government’s future revenue—that are not recognized as economic assets in macroeconomic statistics. Securitization of these assets provides liquidity in assets that are otherwise not so liquid.<sup>5</sup> Asset-backed securities may be issued by a specific holding unit or vehicle, which issues securities that are sold to raise funds to pay the originator for the underlying assets. Asset-backed securities are classified as debt securities because the security issuers have a requirement to make payments, while the holders do not have a direct exposure to the risks of and residual claim on the underlying assets; if they did, the instrument would be equity or investment funds shares.

### ***Bankers’ Acceptances***

**5.55** *Bankers’ acceptances are negotiable orders (drafts or bills of exchange) to pay a specific amount of money on a future date, accepted and guaranteed by a financial corporation, in return for a fee.* Much international trade is financed this way. Bankers’ acceptances are classified under the category of debt securities. Bankers’ acceptances represent unconditional claims on the part of the holder and an unconditional liability on the part of the accepting financial corporation; the financial corporation’s counterpart asset is a claim on its customer. Bankers’ acceptances are treated as financial assets from the time of acceptance, even though funds may not be exchanged until a later stage.

### ***Index-Linked Securities***

**5.56** *Index-linked securities are financial instruments for which either the coupon payments (interest) or the principal or both are linked to another item, such as a price index, an interest rate, or the price of a commodity.* These securities are classified as variable-rate instruments (see paragraph 5.129). Issues for the measurement of revaluations and interest are discussed in paragraphs 9.18 and 12.82–12.88, respectively.

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<sup>5</sup> Another term used is “structured finance.” This refers to the repackaging of existing financial assets—securities, loans, or other assets—into new instruments that are structured to meet the liquidity, creditworthiness, and return preferences of particular investors. These arrangements may incorporate financial derivatives.

## ***Stripped Securities***

**5.57** *Stripped securities are securities that have been transformed from a principal amount with coupon payments into a series of zero-coupon bonds, with a range of maturities matching the coupon payment date(s) and the redemption date of the principal amount(s). They are also called strips. The function of stripping is that investor preferences for particular cash flows can be met in ways that are different from the mix of cash flows of the original security. Stripped securities may have a different issuer from the original issuer—in which case new liabilities are created. Following are the two cases of stripped securities:*

- When a third party acquires the original securities and uses them to back the issue of the stripped securities. Then new funds have been raised and a new financial instrument is created.
- When no new funds are raised and the payments on the original securities are stripped and separately marketed by the issuer or through agents (such as strip dealers) acting with the issuer's consent.

(Paragraph 12.81 discusses how interest on stripped securities is calculated on an accrual basis.)

## ***d. Loans***

**5.58** *Loans are financial assets that are created when a creditor lends funds directly to a debtor, and are evidenced by documents that are not negotiable.<sup>6</sup> This category includes all nonnegotiable claims other than deposits entailing fixed cash flows (or cash flows with determined by a formula), including those emerging from overdraft facilities, except accounts receivable/payable, which are treated as a separate category of financial assets. Loans that have become negotiable and been recorded in debt securities (as noted in paragraph 5.52) are also excluded from loans. This category includes installment loans, hire-purchase credit, loans to finance trade,<sup>7</sup> factoring claims,<sup>8</sup> and the supply and receipt of cash under reverse transactions if it does not involve liabilities of a deposit-taking corporation. Claims on or liabilities to the IMF (including use of IMF credit) that are in the form of loans are also included in this category (see also paragraph 6.89 on the treatment of loans provided to the IMF General Resources Account; and Annex 9 on loans and credit from the IMF). An overdraft arising from the overdraft facility of a transferable deposit account is classified as a*

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<sup>6</sup> Negotiability is defined in paragraph 5.18. Loans may be traded, but their legal form is not designed for negotiability in the same way as debt securities.

<sup>7</sup> These types of loans should not be mistaken for trade credit and advances.

<sup>8</sup> The factoring income is recorded as a fee (see paragraph 11.74).

loan. However, undrawn lines of credit are not recognized as a liability. The distinction between loans and deposits is discussed under deposits in paragraph 5.45.

### ***Securities Repurchase Agreements and Gold Swaps***

Reference:

- BIS, *Securities Lending Transactions: Market Development and Implications*, CPSS Publications No. 32, July 1999.

**5.59** *A securities repurchase agreement (repo) is a contractual arrangement involving the sale of securities for cash, at a specified price, with a commitment to repurchase the same or similar securities at a fixed price either on a specified future date or an “open” maturity.* The supply and receipt of cash under a securities repurchase agreement, including the supply and receipt of margin calls in cash, is treated as a loan or deposit. It is generally a loan, but it is classified as a deposit if it involves liabilities of a deposit-taking corporation. If a securities repurchase agreement does not involve the supply of cash (i.e., there is an exchange of one security for another, or one party supplies a security without collateral), there is no loan or deposit.

**5.60** Repos, securities lending with cash collateral, and sale-buybacks are different terms for arrangements with the same economic effect as a securities repurchase agreement—all involve the provision of securities as collateral for a loan or deposit. A repo is used as a term from the perspective of the security provider, while a reverse repo is used from the perspective of the security taker. Securities repurchase agreements are a subset of reverse transactions (as discussed in paragraphs 7.63–7.67 and Annex 7, Section C).

**5.61** The securities provided as collateral under securities lending, including a securities repurchase agreement, are treated as not having changed economic ownership, as discussed in paragraph 7.63. This treatment is adopted because the cash receiver is still subject to the risks or benefits of any change in the price of the security. (The same treatment is adopted for repurchase agreements without cash collateral, in which case there is no transaction in the securities and no loan.)

**5.62** *A gold swap is an arrangement that involves an exchange of gold for foreign exchange with an agreement that the transaction be reversed at an agreed future date at an agreed gold price.* The gold taker (cash provider) usually will not record the gold on its balance sheet, while the gold provider (cash taker) usually will not remove the gold from its balance sheet. In this manner, the transaction is analogous to a repurchase agreement and

should be recorded as a collateralized loan or deposit. Gold swaps are similar to securities repurchase agreements except that the collateral is gold.<sup>9</sup>

### **Financial Leases**

References:

- 2025 SNA, Chapter 17, Cross-Cutting and Other Special Issues, Part 5, Contracts, leases and licenses.
- International Accounting Standards Board, *International Financial Reporting Standards*, International Accounting Standard 17, Leases.

**5.63** *A financial lease is a contract between a lessor and a lessee, under which the lessor, as legal owner of an asset, substantially conveys the risks and rewards of ownership of the asset to the lessee. The lessee, therefore, becomes the economic owner of the asset.*

Under a financial lease, the lessor is shown as making a loan to the lessee with which the lessee acquires the asset. Thereafter the leased asset is shown on the balance sheet of the lessee and not of the lessor; the corresponding loan is shown as an asset of the lessor and a liability of the lessee.

**5.64** Examples of situations that would normally lead to a lease being classified as a financial lease include that:

- (a) the lease transfers legal ownership to the lessee at the end of the lease term; or
- (b) the lease has the option for the lessee to acquire legal ownership at the end of the lease term at a price that is sufficiently low that the exercise of the option is reasonably certain; or
- (c) the lease term is for the major part of the economic life of the asset; or
- (d) at inception, the present value of the lease payments amounts to substantially all of the value of the asset; or
- (e) if the lessee can cancel the lease, the lessor's losses are borne by the lessee; or
- (f) gains or losses in the residual value of the residual asset accrue to the lessee; or
- (g) the lessee has the ability to continue the lease for a secondary period for a payment substantially lower than market value.

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<sup>9</sup> Gold swaps should not be confused with a swap giving rise to a financial derivative. The two types of arrangements have different risk transfer implications; under a gold swap, the economic ownership of the gold does not change hands (see paragraph 5.102).

These examples may not be conclusive that substantially all of the risks have been conveyed; for example, if the asset is conveyed to the lessee at the end of the lease at its fair value at that time, then the lessor holds substantial risks of ownership. Financial leases are also called finance leases or capital leases, highlighting that the motivation is to finance acquisition of the asset. In addition to financial leases recognized in business accounts, a treatment akin to financial leases is adopted for some public-private partnerships<sup>10</sup> (see 2025 SNA, Chapter 30, General Government and the Public Sector).

**5.65** The treatment of financial leases is designed to move away from the legal arrangements to capture the economic reality of such arrangements, by treating assets under a financial lease as if they were purchased and owned by the user. For example, if a bank leases an aircraft to an aviation company, at the time the company is deemed to take economic ownership of the aircraft, it is shown as an asset in the balance sheet of the aviation company, while the loan is recorded as a liability. That is, the IIP will show a loan between the aviation company and the bank.

**5.66** The debt liability at the inception of the lease is defined as the value of the asset and is financed by a loan of the same value, a liability of the lessee. The loan is repaid through payments during the contract (which consist of interest, principal, and, if a financial intermediary is involved, implicit financial services on loans and deposits and any residual payment at the end of the contract (or alternatively, by the return of the good to the lessor). See Box 12.3 for a numerical example of a financial lease.

**5.67** Financial leases may be distinguished from other kinds of leases identified in macroeconomic statistics because substantially all the risks and benefits of ownership are transferred from the legal owner of the good (the lessor) to the user of the good (the lessee). Other kinds of leases are as follows:

- (a) Operating leases. *An operating lease is a contract between a lessor and a lessee, under which the lessor charges a rental to the lessee for the use of a produced nonfinancial asset, and the lessor remains the legal and economic owner of the asset.* One indicator of an operating lease is that it is the responsibility of the legal owner to provide any necessary repair and maintenance of the asset. Under an operating lease, the asset remains on the balance sheet of the lessor. Operating leases give rise to services, as discussed in more detail in paragraphs 11.113–11.119.
- (b) Natural resource leases. *A natural resource lease is a contractual agreement whereby the legal owner of a natural resource makes it available to a lessee in return*

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<sup>10</sup> For example, a build, own, operate, transfer scheme could be found to assign the risks and benefits of ownership to the government, so the private partner would be treated as a provider of a financial lease.

*for a regular payment recorded as rent.* The natural resource continues to be recorded on the balance sheet of the lessor even though it is used by the lessee. Other arrangements involving natural resources may amount to an outright sale of a natural resource to the lessee (such as spectrum licenses for a long period; see paragraph 14.8). Some leases of natural resources, such as mining licenses held by nonresidents lead to the imputation of a notional resident unit (see paragraphs 4.59–4.65), so that the lease is between residents, and the external transactions associated with the lease are recorded as being for direct investment equity in the notional unit.

### ***Financial or Finite Risk Reinsurance***

**5.68** Financial or finite risk reinsurance is a kind of insurance policy that involves no or very limited transfer of risk. Depending on how much risk is transferred, it could be classified as a loan or an insurance policy. For example, an insurance company may have a finite risk reinsurance policy that allows it to borrow funds in the event of incurring large values of claims. Because those amounts are repayable, however, the policy has a financing function and amounts drawn under the policy are classified as a loan. In contrast, if the amounts under the policy are not repayable, then risk is transferred to the reinsurer, so it has a risk pooling function and is a part of insurance.

### ***Factoring***

**5.69** *Factoring is a transaction in which a financial corporation (factor, which can be a bank, a specialized factoring company, or other financial organization) buys trade accounts receivable from a supplier of goods and services at a discount.* Factoring is commonly viewed as a purchase or sale of invoices transferring the legal right of the claim on the debtor to the factor. In factoring, the indirect financing by the factor to the debtor is treated as a loan. The accounts receivable concerned are trade-related receivables arising from the provision of goods, services, or work in progress. There are two basic types of factoring: nonrecourse and recourse factoring. In a nonrecourse agreement, the factor assumes the full risk of nonpayment by the debtors at maturity and therefore may charge the supplier a higher fee. In a recourse agreement, all or part of the risk is kept by the supplier. The factor may also keep a reserve that should be paid back to the supplier once the debtor pays its liability in full. The instrument reclassification from trade credit to a loan should be recorded as a transaction in the financial account. The recourse is seen as a guarantee treated as a contingent liability for the supplier, which should therefore not be recorded unless and until being activated by the factor. The factoring income is treated as a fee paid by the supplier



(see paragraph 11.74).<sup>11</sup> The reserve held by a factor is classified as a deposit (if it is a liability of a deposit-taking corporation) or in other accounts receivable/payable, following the recording of cash margins for financial derivatives.

### ***e. Insurance, Pension, and Standardized Guarantee Schemes***

**5.70** *Insurance, pension, and standardized guarantee schemes is a financial asset category, grouping together:*

- (a) *nonlife insurance technical reserves;*
- (b) *life insurance and annuity entitlements;*
- (c) *pension entitlements and claims of pension funds on pension sponsor; and*
- (d) *provisions for calls under standardized guarantees.*

**5.71** These reserves, entitlements, and provisions represent liabilities of the insurer, pension fund, or issuer of standardized guarantees, and a corresponding asset of the policyholders or beneficiaries. The aggregate values of liabilities can be estimated actuarially because the company or fund has a pool of liabilities, but the value is less clear from the perspective of the individual asset holders. The insurers, pension funds, and guarantors usually hold a range of assets to allow them to meet their obligations; however, these are not necessarily equal to the relevant liabilities. Issues relating to the treatment of insurance and pensions are explained in more detail in Annex 8.

### ***Nonlife Insurance Technical Reserves***

**5.72** Nonlife insurance technical reserves consist of the following:

- (a) Reserves for unearned insurance premiums, which are prepayment of premiums. Premiums are usually paid at the beginning of the period covered by the policy. On an accrual basis, the premiums are earned through the policy period, so that the initial payment involves a prepayment or advance.
- (b) Reserves against outstanding insurance claims, which are amounts identified by insurance corporations to cover what they expect to pay out arising from events that have occurred but for which the claims are not yet settled. It also includes reserves for unexpired risks (estimated payments for unfiled claims during the period for which the premium is earned). Other reserves, such as equalization reserves, may be identified by insurers. However, these are recognized as liabilities and corresponding assets only when there is an event that gives rise to a liability.

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<sup>11</sup> The indirect financing by the factor to the debtor is treated as a loan, but it does not generate interest or implicit financial services on loans and deposits.

Otherwise, equalization reserves are internal accounting entries by the insurer that represent saving to cover irregularly occurring catastrophes, and thus do not represent any existing corresponding claims for policyholders.

Both nonlife direct insurance and reinsurance are included in this item.

### ***Life Insurance and Annuity Entitlements***

Reference:

- 2025 SNA, Chapter 24, Insurance and Pensions

**5.73** This category consists of reserves of life insurance companies and annuity providers for prepaid premiums and accrued liabilities to life insurance policyholders and beneficiaries of annuities. Life insurance and annuity entitlements are used to provide benefits to policyholders upon the expiry of the policy, or to compensate beneficiaries upon the death of policyholders, and thus are kept separate from shareholders' funds. These entitlements are regarded as liabilities of the insurance companies and assets of the policyholders and beneficiaries. Annuities entitlements are the actuarial calculation of the present value of the obligations to pay future income until the death of the beneficiaries.

### ***Hybrid Insurance Products***

**5.74** Hybrid insurance products that have characteristics of both life and nonlife insurance are allocated to life or nonlife insurance depending on which features are predominant, i.e., the saving component (life insurance) or the component whereby claims are paid only if the insured event occurs (nonlife insurance). While some insurance policies may contain hybrid features, there is usually a predominant benefit and purpose for which the policy is intended, and other features are just value-added benefits to make the policy more appealing to the customers.

### ***Pension Entitlements***

Reference:

- 2025 SNA, Chapter 24, Insurance and Pensions

**5.75** *Pension entitlements are financial claims that both existing and future pensioners hold against either their employer, a fund designated by the employer to pay pensions earned as part of a compensation agreement between the employer and employee, or a specific collective fund established for self-employed persons.* The economy of residence of pension schemes may differ from that of some of their beneficiaries, in particular, for border workers, guest workers who return home, people who retire to a different economy, staff of international organizations, and employees of transnational enterprise groups that have a single pension fund for the whole group. In addition to liabilities of funded pension schemes,

liabilities of unfunded pension schemes may be included in this category if they are not intertwined with social security schemes. There are assumptions and different methods in the measurement of pension fund entitlements, so the nature of coverage and estimation should be stated in metadata.

**5.76** Pension entitlements related to social security schemes are generally not recognized as financial assets or liabilities, given that they are imposed by a general government law and sometimes subject to retrospective adjustments of the amounts payable. On the other hand, pension entitlements derived from an employer-employee relationship are generally recognized, unless they are intertwined with the social security schemes. This could also apply to pension entitlements of pension schemes where a government or another public unit is the employer. Such entitlements would qualify as financial assets or liabilities if the pension entitlements can be regarded as part of the conditions of employment and the employment contract underlying the scheme limits retrospective adjustments of the amounts payable in a similar way as pension entitlements from an employer-employee relationship with a private employer. This is particularly the case when the pension fund for government employees is clearly separated from the social security schemes.

**5.77** An employer may contract with a third party to administer the pension funds for the employees. If the employer retains the responsibility for any deficit in funding as well as the right to retain any excess funding, the employer is described as the pension sponsor and the unit working under the direction of the pension sponsor is described as the pension administrator. If the agreement between the employer and the third party acting as an administrator is such that the employer passes the risks and responsibilities for any deficit in funding to the third party in return for the right of the third party to retain any excess, the third party becomes the pension sponsor as well as the administrator. A funding deficit or excess of the pension fund to be paid by/to the sponsor is also recorded in this item.

### ***Provisions for Calls Under Standardized Guarantees***

Reference:

- 2025 SNA, Chapter 25, Selected Issues in Financial Instruments

**5.78** *Standardized guarantees are guarantees that are not provided by means of a financial derivative (such as credit default swaps), but for which the probability of default can be well established. Standardized guarantees are issued in large numbers, usually for fairly small amounts, along identical lines.* These guarantees cover similar types of credit risk for a large number of cases. Examples include guarantees issued by governments on export credit or student loans. Generally, it is not possible to estimate precisely the risk of any one loan being in default, but it is possible to make a reliable estimate of how many out of a large number of such loans will default. It is therefore possible for a guarantor to determine

suitable fees to charge for a guarantee working on the same sort of principle as an insurance corporation for which the fees received in respect of many policies cover the losses by a few. Standardized guarantees can be contrasted with two other types of guarantees:

- (a) Guarantees that are financial derivatives (as defined in paragraph 5.91). Guarantees that meet the definition of financial derivatives protect, on a guarantee-by-guarantee basis, the lender against certain types of risk arising from a credit relationship by paying the guarantor a fee for a specified period. The guarantees covered are such that experience in the market allows the guarantor to apply standard master legal agreements or to make a reasonable estimate of the likelihood of the borrower defaulting and to calculate suitable terms for the financial derivative. Credit default swaps are included in financial derivatives as option-type contracts.
- (b) One-off guarantees. *One-off guarantees are guarantees where the debt instrument is so particular that it is not possible to calculate the degree of risk associated with the debt with any degree of accuracy.* These guarantees are not recognized as economic assets until their activation, that is, when the event occurs that makes the guarantor responsible for the liability. These are contingent assets until activated (see paragraph 5.14). (See paragraphs 8.40–8.43 on flows associated with their activation.) However, one-off guarantees granted by governments to corporations in financial distress and that have a very high likelihood of being called are treated as if they were activated at inception (see paragraph 14.42).

**5.79** *Provisions for calls under standardized guarantees consist of prepayments of fees less service charges and provisions to meet outstanding calls under standardized guarantees.* The transactions of provisions for calls under standardized guarantee schemes recorded in the financial account are similar to those of reserves for nonlife insurance; they include unearned fees and claims not yet settled.

#### **f. Trade Credit and Advances**

**5.80** *Trade credit and advances consist of credit in the form of deferred payment extended directly by the sellers of goods and services to the customers<sup>12</sup>; and advances for work that is in progress (or is yet to be undertaken), and prepayment by purchasers for goods and services not yet provided.*

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<sup>12</sup> Trade credit is sometimes described as supplier credit or supplier's credit.

**5.81** Trade credit and advances arise when payment for goods or services (other than implicit financial services on loans and deposits and prepayment of insurance services)<sup>13</sup> is not made at the same time as the change in ownership of a good or provision of a service. If a payment is made before the change of ownership, there is an advance. For example, down payments or holding deposits (where ownership of the funds changes hands) are included in trade advances. Changes of ownership for high-value capital goods may give rise to trade credit and advances, only if there is a difference in timing between the change of ownership and progress payments (see paragraphs 3.152 and 10.22). If goods or services under barter arrangements do not change ownership at the same time as the corresponding goods or services, an entry is made for trade credit and advances.

**5.82** Trade credit and advances do not include loans to finance trade made by an institutional unit other than the supplier of the good or service, as they are included under loans.<sup>14</sup> Trade bills drawn on an importer and provided to an exporter, which are subsequently discounted by the exporter with a financial institution, might be regarded by the importer as the direct extension of credit by the exporter, but once they are discounted they become a claim by a third party on the importer. In cases in which an instrument is provided to the exporter with such characteristics that it is a negotiable instrument, it should be classified as a security. A supplier may also sell trade claims other than trade bills to a factoring company, in which the claim is reclassified from trade credit to a loan (see paragraph 5.69).

### ***g. Other Accounts Receivable/Payable***

**5.83** *Other accounts receivable/payable includes miscellaneous other items receivable or payable such as liabilities for taxes, emissions permits, cash collateral received by nondeposit-taking corporations (except those for reverse transactions), purchase and sale of securities, securities lending fees, gold loan fees, crypto lending fees, wages and salaries, dividends, and social contributions that have accrued but have not yet been paid. It also includes prepayments of those items.* Interest accrued should be recorded with the financial asset or liability on which it accrues, not as other accounts receivable/payable. However, for securities lending, gold loans, and crypto lending fees, which are treated as interest by convention (see paragraphs 12.91–12.92), the corresponding entries are included under

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<sup>13</sup> Implicit financial services on loans and deposits accrued but not yet paid is included with the relevant debt instrument, like interest (see paragraph 7.44). Prepayment of insurance premiums is included in insurance technical reserves (see paragraph 5.72).

<sup>14</sup> Trade-related credit is identified as a concept in *External Debt Statistics: Guide for Compilers and Users*, Chapter 6, Further External Debt Accounting Principles. It consists of trade credit as well as trade bills and credit provided by third parties to finance trade. It should be compiled as a supplementary item, where significant.

other accounts receivable/payable, rather than being recorded with the instrument to which they relate.

**5.84** An emissions permit (cap-and-trade) system is a flexible market mechanism that establishes a maximum level of pollution (i.e., a cap). Enterprises must have a permit to cover each unit of pollution they produce. Each permit stipulates the amount of greenhouse gas emissions that can be emitted (quota). Payments for such emissions permits are recorded as prepaid taxes on production, with taxes recorded at the time of surrender, at issuance prices. As such, they are recorded in other accounts receivable/payable.

#### 4. OTHER FINANCIAL ASSETS AND LIABILITIES

##### **a. Monetary Gold**

**5.85** *Monetary gold is gold to which the monetary authorities (or others who are subject to the effective control of the monetary authorities) have title and is held as a reserve asset. It comprises gold bullion (including gold held in allocated gold accounts) and unallocated gold accounts with nonresidents that give title to claim the delivery of gold. Gold bullion takes the form of coins, ingots, or bars with a purity of at least 995 parts per 1,000, including such gold held in allocated gold accounts.*

**5.86** All monetary gold is included in reserve assets or is held by international financial organizations. Monetary authorities and reserve assets are discussed further in Chapter 6, Functional Categories, Section F. Gold bullion included in monetary gold is a financial asset for which there is no corresponding liability. Gold bullion not held as reserve assets is not a financial asset and is included in nonmonetary gold, within the goods account, see paragraphs 10.51–10.55. In some cases, a central bank may own gold bullion that is not held as reserves (such as sometimes occurs when it acts as a monopoly reseller of mined gold).

##### **Gold Accounts**

###### *Allocated Gold Accounts*

**5.87** *Allocated gold accounts are accounts that provide ownership of a specific piece of gold. The ownership of the gold remains with the unit placing it for safe custody. These accounts typically offer the purchasing, storing, and selling of investment-grade bars and coin to order. Accounts of this type constitute full outright ownership of the gold. In a pool allocated gold account, a depository sets aside numbered bars into a segregated pool, which backs the amount of allocated gold the depository owes to their customers. In the external accounts, pool allocated gold accounts are recorded in the same way as allocated gold accounts. When held as reserve assets, allocated gold accounts are classified as*

monetary gold. When not held as reserve assets, allocated gold accounts are treated as representing ownership of a good.

### *Unallocated Gold Accounts*

**5.88** *Unallocated gold accounts are accounts that do not give the holder the title to physical gold but provide a claim against the account operator to deliver gold.* For these accounts, the account provider holds title to a reserve base of physical (allocated) gold and issues claims to account holders denominated in gold. When held as reserve assets, unallocated gold accounts are classified as monetary gold. Unallocated gold account assets not held as reserve assets, and all unallocated gold account liabilities, are classified as deposits. Gold accounts can be distinguished from accounts that are linked (indexed) to gold but do not give title to claims for the delivery of gold; such accounts are not part of monetary gold. They are classified according to their nature as a financial instrument, usually as deposits.

### ***Relationship to Nonmonetary Gold***

**5.89** In contrast to monetary gold, which is a financial asset, nonmonetary physical gold is a good. (Paragraphs 10.51–10.55 deal with nonmonetary gold in the goods and services account.) Similarly, other precious metals are goods, not financial assets. Monetary gold is treated differently because of its role as a means of international payments and store of value for use in reserve assets. Changes in the classification between monetary and nonmonetary gold are shown in the other changes in assets and liabilities account, as discussed in paragraphs 9.25.

### ***b. Financial Derivatives and Employee Stock Options***

**5.90** Financial derivatives and employee stock options are financial assets and liabilities that have similar features, such as a strike price and some of the same risk elements. However, although both transfer risk, employee stock options are also designed to be a form of remuneration. Issues relating to the treatment of financial derivatives and ESOs are explained in more detail in Annex 7.

### ***Financial Derivatives***

**5.91** *Financial derivatives are financial instruments linked to another specific financial instrument, indicator, or commodity, through which specific risks (e.g., interest rate risk, foreign exchange risk, equity and commodity price risks, credit risk) can be traded in their own right in financial markets.* Financial derivatives also include derivative crypto assets (i.e., derivative contracts that rely on cryptography and that can be exchanged peer-to-peer even if the underlying asset is not a crypto asset) (see paragraphs 16.81–16.82).

Transactions and positions in financial derivatives are treated separately from the values of any underlying items to which they are linked.

**5.92** The risk embodied in a financial derivative contract can be traded either by trading the contract itself, as is possible with options, or by creating a new contract embodying risk characteristics that match, in a countervailing manner, those of the existing contract. The latter practice, which is termed offsetability, occurs in forward markets. Offsetability means that it is often possible to eliminate the risk associated with a derivative by creating a new but “reverse” contract having characteristics that countervail the risk underlying the first derivative. Buying the new derivative is the functional equivalent of selling the first derivative because the result is the elimination of the underlying financial risk. The ability to countervail the underlying risk in the market is therefore considered the equivalent of tradability in demonstrating value. The outlay that would be required to replace the existing derivative contract represents its value; actual offsetting is not required.

**5.93** In many cases, derivatives contracts are settled by payments of net amounts in cash, rather than by the delivery of the underlying items. Once a financial derivative reaches its settlement date, any unpaid overdue amount is reclassified as other accounts receivable/payable, as its value is fixed, and thus the nature of the claim becomes debt.

**5.94** The following types of financial arrangements are not financial derivatives:

- (a) A fixed-price contract for goods and services is not a financial derivative unless the contract is standardized so that the market risk therein can be traded in financial markets in its own right. For example, an option to purchase an aircraft from the manufacturer is not classified as a financial derivative.
- (b) Insurance and standardized guarantees are not financial derivatives. Insurance involves the collection of funds from policyholders to meet future claims arising from the occurrence of events specified in insurance policies. That is, insurance and standardized guarantees are used to manage event risk primarily by the pooling, not the trading, of risk. However, some guarantees other than standardized guarantees meet the definition of financial derivatives (as covered in paragraph 5.78).
- (c) Contingent assets and liabilities, such as one-off guarantees and letters of credit, are not financial assets (as discussed in paragraphs 5.12–5.17).
- (d) Instruments with embedded derivatives are not financial derivatives. *Instruments with embedded derivatives are financial instruments that contain a derivative feature, which is inseparable from the nonderivative components of the instrument.* If a primary instrument, such as a security or loan, contains an embedded derivative, the instrument is classified according to its primary characteristics—even though the value of that security or loan may well differ from the values of comparable securities and



loans because of the embedded derivative.<sup>15</sup> Examples are bonds that are convertible into shares, and securities with options for repayment of principal in currencies that differ from those in which the securities were issued. However, detachable warrants are treated as separate financial derivatives, because they can be detached and sold in financial markets.

- (e) Timing delays that arise in the normal course of business and may entail exposure to price movements do not give rise to financial derivatives. Timing delays include normal settlement periods for spot transactions in financial markets.
- (f) Gold swaps and most central bank swap arrangements are not financial derivatives (as discussed in paragraphs 5.62 and 6.107–6.111).<sup>16</sup>
- (g) Subscription rights are classified as equity, rather than financial derivatives, since the sum of the value of the shares after the subscription issuance and that of subscription rights represents the total value of the corporation that issued the subscription rights.

**5.95** There are two broad types of financial derivatives—option-type contracts and forward-type contracts. Option-type contracts entail two payment streams, a "premium leg," comprising of fixed payments from the buyer to the seller, and a "contingent leg," comprising payments from the seller to the buyer depending on the underlying asset's pricing, whereas forward-type contracts entail contingent payments between the parties involved depending on the underlying asset's pricing. The contingent leg in an option-type contract usually entails a single payment at maturity; the premium leg in standard put and call options consists in a single payment at inception.

**5.96** Option-type contracts can be contrasted with forward-type contracts in that:

- (a) at inception, there is usually no up-front payment for a forward-type contract and the derivative contract begins with zero value, whereas there is usually a premium paid for an option-type contract representing a nonzero value for the contract;
- (b) during the life of the contract, for a forward-type contract, either party can be creditor or debtor, and it may change, whereas for an option-type contract, the buyer is

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<sup>15</sup> If the owner of the primary instrument subsequently creates a new but reverse financial derivative contract to offset the risk of the embedded derivative, the creation of this new financial derivative contract is recorded as a separate transaction, and it does not affect the recording of transactions and positions in the primary instrument.

<sup>16</sup> Most central bank swap arrangements have different pricing and/or conditions from those for a standard market priced currency swap. If a central bank swap arrangement follows pricing and conditions of a regular market priced swap, it should be recorded as a financial derivative.

always the creditor, and the writer is always the debtor except for contracts with multiple payments in the premium leg such as credit default swaps;<sup>17</sup> and

- (c) at maturity, redemption is unconditional for forward-type contracts, whereas the buyer of the contract determines it for standard call and put option contracts.

### *Option-Type Contracts*

**5.97** *Option-type contracts (options) are contracts that give the purchaser of the option the right, but not the obligation, to buy (a “call” option) or to sell (a “put” option) a particular financial or nonfinancial item at a predetermined price (the “strike” price) either within a given time span (American option) or on a given date (European option).*<sup>18</sup> “Option-type contract” is used as the main term because it includes other than standard options, such as credit default swaps. The purchaser of an option pays a premium to the writer of the option. In return, the buyer acquires the right but not the obligation to buy (call option) or sell (put option) a specified underlying item (real or financial) at an agreed-on contract price (the strike price) on or before a specified date. (On a derivatives exchange, the exchange itself may act as the counterparty to each contract.)

**5.98** *Warrants are tradable financial instruments which give the holder the right but not the obligation to buy from or sell to the issuer of the warrant a fixed amount of an underlying asset, such as shares or bonds. Although similar to other traded options, a distinguishing factor is that the exercise of the warrants can create new securities, thus diluting the capital of existing bond- or shareholders.* If attached to bonds (warrant-linked bonds) to allow for a lower coupon payment, the warrants are not treated as separate financial asset (see paragraph 5.94(d)). Warrants also include covered warrants. A covered warrant is generally issued by a financial corporation and gives the holder the right, but not the obligation to buy or sell an underlying asset, at an agreed contract price for a specified period of time or on a specified date. A covered warrant allows the holder to buy or sell a variety of financial or nonfinancial items (e.g., equities, currencies, and commodities).

### *Forward-Type Contracts*

**5.99** *Forward contracts (forwards) are unconditional contracts by which two counterparties agree to exchange a specified quantity of an underlying item (financial or nonfinancial) at an agreed-on contract price (the strike price) on a specified date. Forward contracts are traded over-the-counter.* Forward-type contracts also include futures and swaps (except for certain

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<sup>17</sup> Credit default swaps are generally regarded as option-type contracts. However, either party of a credit default swap contract can be creditor or debtor.

<sup>18</sup> Some options give the purchaser the right to receive payments if certain conditions are met (e.g., weather derivatives).

arrangements discussed in paragraph 5.102). Forward-type contract is used as a term because the term “forward” is often used more narrowly in financial markets (often excluding swaps). Forward rate agreements and forward foreign exchange contracts are common types of forward-type contracts.

**5.100** *Futures are forward-type contracts traded on organized exchanges.* The exchange facilitates trading by determining the standardized terms and conditions of the contract, acting as the counterparty to all trades, and requiring margin to be deposited and paid to mitigate against risk.

**5.101** At the inception of a forward-type contract, risk exposures of equal market value are exchanged, so a contract typically has zero value at that time. As the price of the underlying item changes, the market value will change, although it may be restored to zero by periodic settlement during the life of the forward. Financial derivative contracts may switch between asset and liability positions, except for those of standard option contracts.

**5.102** *Swap contracts (swaps) are contractual arrangements where the counterparties exchange financial instruments or cash flows based on the reference prices of the underlying items, in accordance with prearranged terms.* Swap contracts classified as forward-type contracts include foreign exchange swaps, currency swaps, interest rate swaps, and cross-currency interest rate swaps. Under a swap contract, the obligations of each party may arise at different times, for example, an interest rate swap for which payments are quarterly for one party and annual for the other. In such cases, the quarterly amounts payable by one party prior to payment of the annual amount payable by the other party are recorded as transactions in the financial derivative contract. Other types of arrangements also called swaps but not meeting the definition above include gold swaps (see paragraphs 5.62 and 7.63), most central bank swap arrangements (see paragraphs 6.107–6.111), and credit default swaps (see paragraph 5.105).<sup>19</sup>

**5.103** For foreign currency financial derivative swap contracts, such as currency swaps, it is necessary to distinguish between a transaction in a financial derivative contract and transactions in the underlying currencies. At inception, the parties’ exchange of the underlying financial instruments is usually classified under other investment. At the time of settlement, the difference in the values, as measured in the unit of account at the prevailing exchange rate, of the currencies swapped are allocated to a transaction in a financial derivative, with the values swapped recorded in the relevant other item (usually other investment).

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<sup>19</sup> See paragraphs A2.71–A2.76 on the treatments of off-market swaps.

**5.104** Foreign currency financial derivative contracts (e.g., foreign exchange swaps, currency swaps, and foreign exchange forwards) typically involve the exchange of principal (i.e., notional/nominal value) at maturity, but the amount of principal to be returned/delivered is not recorded as a liability on the balance sheet. To capture these off-balance sheet items, scheduled payments and receipts of foreign currencies associated with these financial derivatives are to be compiled as described in paragraphs A7.46–A7.48.

### *Credit Derivatives*

**5.105** *Credit derivatives are financial derivatives whose primary purpose is to trade credit risk.* They are designed for trading in loan and security default risk. In contrast, the financial derivatives described in the previous paragraphs are mainly related to market risk, which pertains to changes in the market prices of securities, commodities, interest, and exchange rates. Credit derivatives take the form of both forward-type (total return swaps) and option-type contracts (credit default swaps).<sup>20</sup> Under a credit default swap, premiums are paid in return for a cash payment in the event of a default by the debtor of the underlying instrument. Like other financial derivatives, credit derivatives are frequently drawn up under standard master legal agreements and involve collateral and margining procedures.

### *Margins*

**5.106** *Margins are collateral provided to cover potential obligations. The required provision of margin reflects counterparty risk and is standard in financial derivative markets, especially for futures and exchange-traded options.* Ownership of the margin remains with the unit that provided it. Cash margins for financial derivatives are classified as deposits (if they are liabilities of a deposit-taking corporation) or other accounts receivable/payable. When a margin is placed in a noncash asset (such as securities), no transaction is recorded because no change in economic ownership has occurred.

**5.107** In organized exchanges and clearing houses, margins are increased or decreased as a result of settling profits/losses of the derivative contracts by marking them to market value often on a daily or intraday basis. They are recorded as an increase or decrease in deposits (if they are liabilities of a deposit-taking corporation) or other accounts receivable/payable with a corresponding entry in a decrease in financial derivative assets or liabilities. If the margin falls short of a required level (often called a maintenance margin), an additional margin must be posted to meet the requirement. This payment is not to settle a financial derivative contract and should not be recorded in financial derivatives.

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<sup>20</sup> Credit default swaps also have some characteristics of forward-type contracts (e.g., potential switch of the creditor-debtor positions for both parties).

**5.108** These principles for classifying cash margins for financial derivatives as deposits or other accounts receivable/payable apply generally to all types of cash collateral, except those for reverse transactions (which are recorded as loans or deposits, as explained in paragraphs 7.63–7.67).

*Supplementary Detail*

**5.109** Financial derivatives can be further classified in many other ways. They include the following:

- (1) **By market risk category:** foreign exchange, single-currency interest rate, equity, commodity, credit, or risks to other underlying instruments;
- (2) **By instrument:** options, forwards and related instruments (other than futures and swaps), futures, swaps, credit derivatives, and other and hybrid instruments;
- (3) **By trading venue and clearing status:** exchange traded; over the counter (OTC) (cleared); OTC (not cleared)

**5.110** Particularly, the information from the classification by market risk category of the underlying instrument is often used for financial market and macroeconomic analysis. Each market risk category has distinctive characteristics:

- (a) **Foreign exchange derivatives** involve the exchange of currencies in the forward market. They include all contracts involving exposure to more than one currency, whether in interest rates or exchange rates, and cover outright forwards, foreign exchange swaps, currency swaps (including cross-currency interest rate swaps), and currency options.
- (b) **Single-currency interest rate derivatives** are restricted to those deals where all the legs are exposed to only one currency's interest rate. These are contracts related to an interest-bearing financial instrument whose cash flows are determined by referencing interest rates or another interest rate contract (e.g., an option on a futures contract to purchase a Treasury bill). They include forward rate agreements, single-currency interest rate swaps, and interest rate options, including caps, floors, collars, and corridors, but exclude contracts involving the exchange of currencies (e.g., cross-currency swaps and currency options) and other contracts whose predominant risk characteristic is foreign exchange risk.
- (c) **Equity derivatives** contracts have a return, or a portion of their return, linked to the price of a particular equity or to an index of equity prices.
- (d) **Commodity derivatives** are contracts that have a return, or a portion of their return, linked to the price or to a price index of a commodity such as a precious metal, petroleum, lumber, or agricultural products.

- (e) **Credit derivatives** are contracts in which the payout is linked primarily to some measure of the creditworthiness of a particular reference asset. They specify an exchange of payments in which at least one of the two legs is determined by the performance of the reference asset. Payouts can be triggered by a number of events, including a default, a rating downgrade, or a stipulated change in the credit spread of the reference asset. Typical credit derivative instruments are credit default swaps, credit-spread forwards and options, credit event or default swaps, and total return swaps.
- (f) **Other derivatives** are any other derivative contracts, which do not involve an exposure to foreign exchange, interest rate, equity, commodity, or credit risk. They include inflation-indexed derivatives, volatility derivatives, dividend derivatives, weather derivatives, property derivatives, or freight derivatives as well as any derivatives with a nonstandard underlying item which are developed for a particular client.

**5.111** In practice, however, individual financial derivatives may straddle more than one risk category. In such cases, financial derivatives that are simple combinations of exposures should be reported separately in terms of their individual components. Those that cannot be readily broken down into separable risk components should be reported in only one risk category. The allocation of such products with multiple exposures should be determined by the underlying risk component that is most significant. However, if there is doubt about the correct classification of multi-exposure derivatives, the allocation by risk component should be made according to the order of precedence adopted by the BIS: commodity, equity, foreign exchange, single-currency interest rate, credit, and other.

### ***Employee Stock Options***

**5.112** *Employee stock options (ESOs) are options to buy the equity of a company at a discount to the market value, offered to employees of the company as a form of remuneration.* In a few cases, the company that issues the option is a resident of a different economy from the employee (e.g., where the employer is a branch or subsidiary of the company to which the option relates). ESOs have similar pricing behavior to financial derivatives, but they have a different nature—including arrangements for the granting and vesting dates (in general, granted ESOs are vested once the employee has fulfilled the conditions or the relevant time period)—and purpose (i.e., to motivate employees to contribute to increasing the value of the company, rather than to trade risk). If a stock option granted to employees can be traded on financial markets without restriction, it is classified as a financial derivative.

**5.113** In some cases, stock options may be provided to suppliers of goods and services to the enterprise. Although these are not employees of the enterprise, for convenience they are

also recorded under ESOs because their nature and motivation are similar. (Whereas the corresponding entry for stock options granted to employees is remuneration of employees as discussed in paragraph 12.24, the corresponding entry for stock options granted to suppliers is the goods and services supplied.)

**5.114** For transactions associated with the issue of ESOs, see paragraph 8.39.

## C. CLASSIFICATION BY MATURITY

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**5.115** The maturity of a debt instrument is classified as either short-term or long-term:

- (a) *Short-term is defined as a maturity of one year or less or payable on demand.*  
(Payable on demand refers to a decision by the creditor; an instrument where the debtor can repay at any time may be short- or long-term.)
- (b) *Long-term is defined as having a maturity of more than one year or with no stated maturity* (other than on demand, which is included in short-term).

This classification provides information on the liquidity dimensions of debt. Currency is included in short-term maturity. Because of the nature of the relationship between the parties, in the case in which the maturity is unknown, all intercompany lending (which is defined in paragraph 6.26) may be classified as long-term maturity by convention. Insurance technical reserves, pension entitlements, and provisions for calls under standardized guarantee can potentially be classified by the maturity; however, if data are not available, a convention that they are all long-term can be adopted. When securities contain an embedded option with a date on which or after which the debt can be put (sold) back to the debtor by the creditor, the maturity is determined without reference to these embedded put options. Financial derivatives could also potentially be classified according to maturity.

**5.116** Maturity may relate to:

- (a) original maturity (i.e., *the period from the issue date of a financial instrument until the final contractually scheduled payment date*); or
- (b) remaining maturity (i.e., *the period from the reference date until the final contractually scheduled payment*).<sup>21</sup> This is also called residual maturity.

**5.117** In this *Manual*, original maturity is used in the standard components, while remaining maturity is used in Table A14-III of Annex 14 and is encouraged for some position data. Remaining-maturity measures provide an indication of when payments will fall due, and so of potential liquidity risks facing the economy. Particularly important is information on

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<sup>21</sup> For debt instruments repaid in installments, until the contractual dates of payments of individual payments.

payments coming due in the near term.<sup>22</sup> The remaining maturity breakdown is recommended in this *Manual* for outstanding debt liabilities to nonresidents by sector and instrument (see Table A14-III of Annex 14). It is encouraged to include the currency composition in Table A14-III (in a similar way to Tables A14-I) given that obligations in foreign and domestic currencies can impact an economy in different ways.

**5.118** Data on both original and remaining maturity bases are accommodated by using the following split:

- (a) short-term on an original maturity basis;
- (b) long-term on an original maturity basis, but due for payment within one year or less;  
and
- (c) long-term on an original maturity basis, and due for payment in more than one year.

Item (b) can be combined with item (a) to derive liabilities due within a year, that is, short-term debt on a remaining maturity basis.

**5.119** This suggests that the measure of remaining maturity should split payments of a debt instrument that will fall due in the coming year from those that will fall due in more than one year. At the reference date, the present value of outstanding long-term external debt (original maturity) due to be paid in one year or less is the discounted value of payments to be made in the coming year, for both coupon and principal. To discount the value of payments, the contractual interest rate and the market interest rate should be used for loans and debt securities, respectively. When this approach raises practical difficulties in making the short- and long-term split, one alternative that might be used for analysis is the use of the undiscounted value of principal payments. This alternative measure is incomplete in its coverage of coupon payments but can be compiled using the principals for projecting payments in a debt-service schedule.

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<sup>22</sup> See paragraph 6.6 of the *External Debt Statistics Guide for Compilers and Users*.



### Box 5.1. Example of Calculating Remaining Maturity

The simple example below sets out the recording for the remaining maturity classification of a loan attributed (i) to the debt payments on a discounted basis, (ii) to debt payments of the principal amount undiscounted, and (iii) to the final scheduled payment of the instrument. Consider a \$200 loan issued at  $t$  with two scheduled repayments of \$100 at  $t+1$  (within one year) and  $t+2$  (more than one year); the contractual coupon rate of the loan is 5 percent a year (interest accrued during the year is paid at the end of the year).

Debt-service payment schedule of the loan	Principal payments	Interest payments	Loan outstanding position	<i>Present value of principal and interest payments as of end-Dec. 2025</i>
End-Dec 2025			200	200
End-Dec 2026	100	10	100	105
End-Dec 2027	100	5	0	95

As of end-Dec 2025	Classification based on scheduled payments of the loan		Classification based on the final scheduled payment of the loan
	Discounted value of principal and interest payments	Proxy measure based on the undiscounted value of principal payments	
Short-term remaining maturity	105	100	0
Long-term remaining maturity	95	100	200

In this example, as of end-December 2025 (the reference date), the classification based on the debt service payments of the loan provides the appropriate information for liquidity analysis. In this case, the loan would be split into two buckets, one short-term and one long-term based on the due dates for principal and interest payments. Two slightly different remaining maturity values are shown under the classification based on payments of the loan. The first calculation shows the discounted value of payments to be made in the coming year (short-term) and in more than one year (long-term), both interest and principal, using the contractual rate of the loan for this calculation. The second calculation

shows a simpler proxy measure based on the undiscounted value of principal payments due in one year or less (short-term) and in more than one year (long-term).

## D. CLASSIFICATION BY CURRENCY

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**5.120** A financial asset or liability may be classified as domestic currency or foreign currency, according to its unit of account, denomination, or settlement. These terms are discussed in paragraphs 3.185–3.196.

**5.121** Table A14-I of Annex 14 provides a format for presenting the currency composition of outstanding debt claims and liabilities using the currency of denomination. In recognition that for some sectors, such as nonfinancial corporations and households, there may be difficulties in obtaining comprehensive data from reporters, the table includes an “unallocated” row. This table includes a currency breakdown of reserve assets into currencies held that are in the SDR basket and those that are not. In Table A14-I of Annex 14, by convention, SDR holdings, reserve position in the IMF, and monetary gold are to be classified as reserve assets in the SDR basket.

**5.122** Table A14-I of Annex 14 also includes forward-type financial derivatives of all resident sectors with nonresidents to receive and to pay foreign currency (e.g. foreign exchange forwards, foreign exchange swaps and currency swaps). A forward-type financial derivatives contract to purchase foreign currency with domestic currency is classified as a financial derivative to receive foreign currency. If instead the contract is to purchase domestic currency with foreign currency at a future date, this is a financial derivative to pay foreign currency. Currency compositions in forward-type contracts are compiled in Table A14-I as memorandum items.

**5.123** Similarly, an option to buy foreign currency (sell domestic currency) is classified as a financial derivative to receive foreign currency, and vice versa. Currency compositions in option-type contracts are compiled in Table A14-II as supplementary items.<sup>23</sup>

**5.124** The decisive factor in determining whether the financial derivative is to be classified as to receive or to pay foreign currency is the exposure to currency movements. Thus, if payment of a financial derivatives contract is linked to a foreign currency, even though payment is required in domestic currency, the financial derivative is to be classified as a contract to pay foreign currency, and vice versa. If a single financial derivatives contract

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<sup>23</sup> The premium leg for a credit default swap is predetermined and should be included in the memorandum tables along with the notional values of forward-type contracts.

both pays and receives foreign currency, the notional amount should be included under both categories (i.e., to pay and to receive foreign currency).<sup>24</sup>

## E. CLASSIFICATION BY TYPE OF INTEREST RATE

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**5.125** Debt instruments may be classified as either variable-rate or fixed-rate. This breakdown may be useful for some analysis, in that variable-rate instruments are subject to fluctuation in income flows in response to changes in market conditions, while fixed-rate securities are more subject to changes in prices. The split may be considered as possible supplementary information, as in *External Debt Statistics: Guide for Compilers and Users*.

**5.126** *Variable-rate debt instruments are debt instruments for which interest is linked to a reference index (e.g., the Secured Overnight Financing Rate (SOFR), the price of a specific commodity, or the price of a specific financial instrument) that normally changes over time in a continuous manner in response to market conditions. All other debt instruments should be classified as fixed-rate. An interest rate that is adjusted, but only at intervals of more than a year, is considered to be fixed. Coupon (and therefore interest) that is adjusted each one year or less is considered to be variable.*

**5.127** Coupon on debt that is linked to the credit rating of a borrower should be classified as fixed-rate, because credit ratings do not change in a continuous manner in response to market conditions, whereas coupon on debt that is linked to a reference price index should be classified as variable-rate, provided that the prices that are the basis for the reference index are primarily market determined.

**5.128** The classification of a financial asset or liability can change over time, for example, if it switches from fixed- to variable-rate. In the period when a fixed rate is applied, the financial asset or liability is to be classified as fixed-rate debt. After the rate switches to variable, it is classified as variable-rate debt.

**5.129** Index-linked instruments are classified as being variable-rate. For these instruments, the principal or coupons or both are indexed to some variable, for example, to a general or specific price index. Because index-linked instruments have variable aspects, an instrument is classified as variable-rate if the indexation applies to the principal or coupons, or both (notwithstanding the treatment of interest discussed in paragraphs 12.82–12.88). However, a foreign-currency-linked instrument (as discussed in paragraph 12.64(b)) is treated as being denominated in the foreign currency, rather than indexed to it.

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<sup>24</sup> Paragraph 5.109 provides further detail on the classification of financial derivatives contracts by risk categories when there is doubt about the correct classification of multiexposure derivatives.

**5.130** If coupons are linked to a reference index, commodity price, or financial instrument price but is fixed unless the reference index or price passes a particular threshold, it should be regarded as fixed-rate. But if thereafter the coupon becomes variable, then it should be reclassified as a variable-rate instrument. Alternatively, if coupon is variable-rate until it reaches a predetermined ceiling or floor, the instrument becomes fixed-rate debt when that ceiling or floor is reached. If the payment stream of a variable-rate instrument is swapped with the payment stream of a fixed-rate instrument, the swap is recorded as giving rise to a financial derivative, while the classification of the original debt instruments is unchanged.

## F. ARREARS

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**5.131** An additional subclassification can be made for instruments in arrears. *Arrears are amounts that are unpaid and past the due date for payment.* Only the amounts past due are classified as arrears—for example, in the case of overdue installments, only the overdue part is in arrears.

**5.132** Arrears related to exceptional financing are shown as memorandum items in all cases. (Exceptional financing is defined and discussed in Annex 1.)

**5.133** Arrears not related to exceptional financing may be recorded as a supplementary category in total and under the specific financial asset or liability class affected. Separate data on arrears may be of analytical interest when there is evidence of a high or rapidly rising value of arrears. Measures of other aspects of impairment of loans and other financial claims are discussed in paragraphs 7.50–7.59.

**5.134** Arrears may be associated with either (a) reclassification of an existing instrument when a change in terms is triggered by the provisions of the original contract, or a change of the nature of the claim when the settlement of a financial derivative becomes overdue (see paragraph 5.93); or (b) the creation of a new instrument as a result of renegotiated terms (also discussed in paragraph 8.57). In either case, amounts not paid when due should be included in arrears. A liability ceases to be in arrears if all overdue payments are met. The accrual treatment of arrears is discussed in paragraphs 3.167–3.168.

# Chapter 6. Functional Categories in External Accounts

## A. INTRODUCTION

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**6.1** The functional categories<sup>1</sup> are the primary classification used for each of financial transactions, other flows, positions, and income in the external accounts. Five functional categories of investment are distinguished in the external accounts:

- (a) direct investment,
- (b) portfolio investment,
- (c) financial derivatives (other than reserves) and employee stock options,
- (d) other investment, and
- (e) reserve assets.

**6.2** The functional categories are built on the classification of financial assets and liabilities discussed in Chapter 5, but with an additional dimension that takes into account some aspects of the relationship between the parties and the motivation for investment. The functional categories are designed to facilitate analysis by distinguishing categories that exhibit different economic motivations and patterns of behavior.

**6.3** While linked to the classification of financial assets and liabilities, the functional categories highlight features that are particularly relevant for understanding cross-border financial flows and positions. For example, a loan can appear under direct investment or other investment, but the different nature of the relationship between the parties in these two cases has analytical significance because the risks and motivations behind the transaction may be different.

**6.4** A different relationship exists between the counterparties for portfolio investors compared with direct investors. Direct investment is related to control or a significant degree of influence<sup>2</sup> and tends to be associated with a lasting relationship. As well as funds, direct investors may supply additional contributions such as know-how, technology,

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<sup>1</sup> The term functional classification is also used in different contexts in other areas of statistics, such as the classification of the functions of government.

<sup>2</sup> In the context of direct investment, the terms "significant degree of influence" and "influence" have the same intent and are used interchangeably.

management, and marketing. Furthermore, enterprises in a direct investment relationship are more likely to trade with and finance each other.

**6.5** In contrast to direct investors, portfolio investors typically have less of a role in the decision making of the enterprise with potentially important implications for future flows and for the volatility of the price and volume of positions. Portfolio investment differs from other investment in that it provides a direct way to access financial markets, and thus it can provide liquidity and flexibility. It is associated with financial markets and with their specialized service providers, such as exchanges, dealers, and regulators. The nature of financial derivatives as instruments through which risk is traded in its own right in financial markets sets them apart from other types of investment. Whereas other instruments may also have risk transfer elements, these other instruments also provide financial or other resources.

**6.6** Reserve assets are shown separately because they serve a different function and thus are managed in different ways from other assets. Reserve assets include a range of instruments that are shown under other categories when not owned by monetary authorities. As reserve assets, however, they have the distinct motive to meet BOP financing needs and undertake market intervention to influence the exchange rate.

**6.7** Monetary and financial statistics and flow of funds data primarily use the instruments classification, as shown in Chapter 5, so it is desirable that data on the same basis can be derived from the external accounts for compatibility. Table 6.1 shows the linkages between the financial assets classification shown in Chapter 5 and the functional categories shown in this chapter.

<b>Table 6.1. Link Between Financial Assets Classification and Functional Categories</b>					
	Functional categories				
2025 SNA Financial Assets and Liabilities Classification	DI	PI	FD	OI	RA
<b>AF1 Monetary gold and SDRs</b>					
AF11 Monetary gold					
Gold bullion					X
Unallocated gold accounts					X
AF12 Special drawing rights				X <sup>1</sup>	X <sup>1</sup>
<b>AF2 Currency and deposits</b>					
AF21 Currency				X	X
AF22 Crypto assets with a corresponding liability designed to act as a general medium of exchange				X	
AF23 Transferable deposits					
AF29 Other deposits	X			X	X
<b>AF3 Debt securities</b>	X	X			X
<b>AF4 Loans</b>	X			X	X
<b>AF5 Equity and investment fund shares/units</b>					
<b>AF51 Equity</b>					
AF511 Listed shares	X	X			X
AF512 Unlisted shares	X	X			x <sup>2</sup>
AF519 Other equity and equity in international organizations	X			X	
<b>AF52 Investment fund shares/units</b>					
AF521 Money market fund shares/units		X			X
AF522 Non-MMF investment fund shares/units		X		x	X
<b>AF6 Insurance, pension, and stand. guarantee schemes</b>					
AF61 Nonlife insurance technical reserves	x			X	
AF62 Life insurance and annuity entitlements	x			X	
AF63 Pension entitlements				X	
AF64 Claims of pension funds on pension sponsors	X			X	
AF65 Entitlements to nonpension benefits				X	
AF66 Provisions for calls under standardized guarantees	X			X	

<b>AF7 Financial derivatives and employee stock options</b>					
AF71 Financial derivatives			X		
AF72 Employee stock options			X		
<b>AF8 Other accounts receivable/payable</b>					
AF81 Trade credit and advances	X			X	
AF82 Emissions permits	x			X	
AF89 Other accounts receivable/payable	X			X	
<p>Note: DI—direct investment; PI—portfolio investment; FD—financial derivatives (other than reserves) and employee stock options; OI—other investment; RA—reserve assets. X shows applicable functional categories (x shows cases considered to be relatively uncommon) for the most detailed instrument categories.</p> <p><sup>1</sup> SDRs: assets = reserve assets; liabilities = other investment.</p> <p><sup>2</sup> Unlisted shares must be liquid, as stated in paragraph 6.91. .</p>					

## B. DIRECT INVESTMENT

### References:

- Organization for Economic Cooperation and Development (OECD), *OECD Benchmark Definition of Foreign Direct Investment*, fifth edition.
- IMF, *Coordinated Direct Investment Survey Guide*.

### 1. DEFINITION OF DIRECT INVESTMENT

**6.8** *Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Ownership of 10 percent or more of the voting power is evidence of a direct investment relationship. As well as the equity that gives rise to control or influence, direct investment also includes investment associated with that relationship, including investment in indirectly influenced or controlled enterprises (paragraph 6.12), investment in fellow enterprises (see paragraph 6.17), debt (except selected debt set out in paragraph 6.28), and reverse investment (see paragraph 6.41). The Framework for Direct Investment Relationships (FDIR) provides criteria for determining whether cross-border ownership results in a direct investment relationship, based on control and influence.<sup>3</sup> The definition of direct investment is the same as in the fifth edition of the*

<sup>3</sup> The coverage of direct investment is determined from the relationship between the owner and issuer of the financial instrument. That is, it is not determined from the relationship between the buyer and the seller of the



*OECD Benchmark Definition of Foreign Direct Investment*, which provides additional details on the FDIR and the collection of direct investment data. Annex 6, Selected Issues on Direct Investment, provides an overview of direct investment by pulling together relevant information from the main part of the *Manual* and also presents more details on specific issues pertaining to direct investment.

### **a. Definition of a Direct Investment Relationship**

**6.9** A direct investment relationship arises when an investor resident in one economy makes an investment that gives control or a significant degree of influence on the management of an enterprise that is resident in another economy. All enterprises that are under the control or influence of the same direct investor are considered to be in a direct investment relationship with each other. Operational definitions of control and influence are given in paragraph 6.12. Enterprises in a direct investment relationship with each other are called affiliates or affiliated enterprises.

**6.10** Because there is control or a significant degree of influence, direct investment tends to have different motivations and to behave in different ways from other forms of investment. As well as equity (which is typically associated with voting power), the direct investor may also supply other types of finance, as well as know-how. Direct investment tends to involve a lasting relationship, although it may be a short-term relationship in some cases. Another feature of direct investment is that decisions by enterprises may be made for the group as a whole.

### **b. Definitions of Direct Investor and Direct Investment Enterprise**

**6.11** A direct investor is an entity or group of related entities that is able to exercise control or a significant degree of influence over another entity that is resident of a different economy. A direct investment enterprise is an enterprise in one economy subject to control or a significant degree of influence by a direct investor that is resident in another economy.<sup>4</sup> In some cases, a single entity may be, at the same time, a direct investor, a direct investment enterprise, and a fellow enterprise (defined in paragraph 6.17(c)) in its relationships to other enterprises.

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instrument. For example, if a direct investor buys shares in its direct investment enterprise from an unrelated party, the direct investor will classify the purchase as direct investment. As the seller of the shares classifies the sale under portfolio investment, this recording may result in bilateral asymmetry.

<sup>4</sup> An exception is investment funds, which cannot be direct investment enterprises as investments in investment funds shares are always treated as portfolio investment (when the shares are negotiable) or other investment (when the shares are nonnegotiable) or reserve assets, if they meet all reserve assets criteria. See paragraphs 6.24, 6.57, and 6.104–6.106, for additional details.

### ***c. Definitions of Control and Influence—Definitions of Immediate and Indirect Relationships***

**6.12** Control or influence may be achieved directly by owning equity that gives voting power in the enterprise, or indirectly by having voting power in another enterprise that has voting power in the enterprise. Accordingly, two ways of having control or influence are identified:

(a) **Immediate direct investment relationships** arise when a direct investor directly owns equity that entitles it to **10 percent or more** of the voting power in the direct investment enterprise.

- *Control is the ability to determine general corporate policy of a corporation, where general corporate policy is understood in a broad sense to mean the key financial and operating policies relating to the corporation's strategic objectives as a market producer. In practice, control is determined to exist if an investor has more than 50 percent of the voting power in an enterprise.*
- *Significant degree of influence is the power to participate in the financial and operating policy decisions of a unit but not control those policies. A direct investor is considered to have a significant degree of influence if it owns between 10 and 50 percent of the voting power in a direct investment enterprise.*

(b) **Indirect direct investment relationships** arise through the ownership of voting power in one direct investment enterprise that owns voting power in another enterprise or enterprises, that is, an entity is able to exercise indirect control or influence through a chain of direct investment relationships. For example, an enterprise may have an immediate direct investment relationship with a second enterprise that has an immediate direct investment relationship with a third enterprise. Although the first enterprise has no equity in the third enterprise, it may be able to exercise indirect control or influence, according the FDIR criteria specified in paragraph 6.14.

In addition to direct investment relationships between two enterprises that arise because one enterprise controls or influences the other, there are also direct investment relationships between two enterprises that do not control or influence each other, but that are both under the control or influence of the same investor (i.e., fellow enterprises, as discussed in paragraph 6.17).

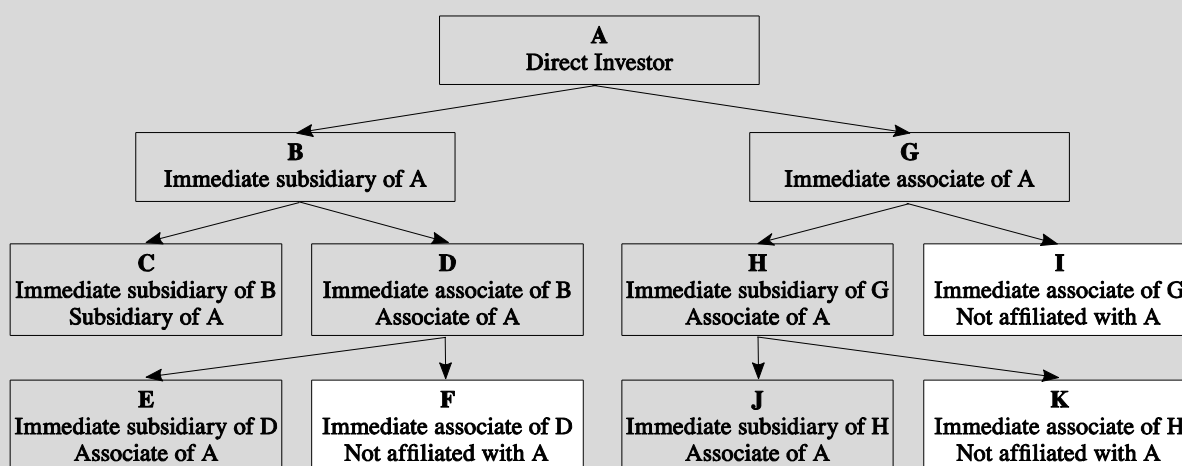
**6.13** In practice, effective control or influence may arise in some cases with less than these percentages. These definitions should be used in all cases, however, for international consistency and to avoid subjective judgments.

**6.14** The principles for indirect transmission of control and influence through a chain of ownership for the purposes of paragraph 6.12(b) are as follows:

- (a) Control can be passed down a chain of ownership as long as control exists at each stage.
- (b) Influence can be generated at any point down a chain of control.
- (c) Influence can be passed only through a chain of control but not beyond.

Whereas the FDIR applies a criterion of 10 percent or more of voting power for immediate direct investment, transmission through chains of ownership is not linked to a particular equity share, but a chain of control. For example, a chain of ownership of enterprises with each link involving 60 percent of the voting power involves a chain of control, even though the indirect equity by the top enterprise is 36 percent at the second level (i.e., 60 percent of 60 percent), 21.6 percent at the third level (i.e., 60 percent of 36 percent), and so on. The application of these principles may be understood more readily from Box 6.1 and by numerical examples in the *OECD Benchmark Definition of Foreign Direct Investment*.

**Box 6.1. Examples of Identification of Direct Investment Relationships under FDIR**



Each enterprise is resident in a different economy from the others. Shaded boxes are direct investment enterprises of the Direct Investor A (so all are affiliates of each other).

For further examples, see the *OECD Benchmark Definition of Foreign Direct Investment*. In particular, it considers more complex situations, such as where an enterprise receives investment from two members of the same group.

Note: See paragraph 6.15 for the definitions of subsidiary and associate.

**d. Definitions of Subsidiaries, Associates, Fellow Enterprises, and Affiliates**

**6.15** In regard to its relationship with a direct investor, a direct investment enterprise is either a subsidiary or an associate:

- (a) *A subsidiary is a direct investment enterprise over which the direct investor is able to exercise control.*
- (b) *An associate is a direct investment enterprise over which the direct investor is able to exercise a significant degree of influence, but not control, mainly by owning 10 to 50 percent of voting power.*

Control and influence are defined in paragraph 6.12 and may arise from an immediate relationship or in indirect relationship through a chain of ownership. The terms subsidiary and associate refer to both incorporated and unincorporated enterprises. The FDIR makes no distinction on the basis of incorporation, so directly owned branches (see paragraph 4.51) are always treated as subsidiaries.

**6.16** Under the FDIR, an entity is a direct investor in another entity where the second entity is

- (a) an immediate subsidiary of the direct investor;
- (b) an immediate associate of the direct investor;
- (c) a subsidiary of a subsidiary of the direct investor (also considered to be an indirect subsidiary of the direct investor);
- (d) a subsidiary of an associate of the direct investor (also considered to be an indirect associate of the direct investor); or
- (e) an associate of a subsidiary of the direct investor (also considered to be an indirect associate of the direct investor).

However, no direct investor–direct investment enterprise relationship exists in cases in which the entity is an associate of an associate of the direct investor. In this case, the ability of the investor to influence the management of the entity is considered to have become too diluted to be significant.

(These principles are illustrated in Box 6.1.)

**6.17** **Affiliates** *are enterprises in an immediate or indirect direct investment relationship with each other or that have the same immediate or indirect direct investor. Affiliates of an enterprise thus consist of:*

- (a) *its immediate and indirect direct investor(s);*

- (b) *its immediate and indirect direct investment enterprises;<sup>5</sup> and*
- (c) *its fellow enterprises, that is, enterprises under the control or influence of the same immediate or indirect investor, but neither of the enterprises controls or influences the other enterprise.* Often the direct investor and fellow enterprises are all in different economies, but sometimes the direct investor is in the same economy as one of the fellow enterprises (in which case, it is not a direct investor in that fellow enterprise). This situation is more likely to arise in economies that do not use a local enterprise group as the statistical unit for direct investment purposes.

All affiliates are in a direct investment relationship with each other. The term affiliated enterprises is also used, because affiliates are almost always enterprises (the exception is a direct investor that is an individual, household, or government).

**6.18** Some practical difficulties may be encountered in applying the FDIR in full, and thus similar methods—such as the participation multiplication method and the direct influence and indirect control method—may be adopted. For details, see *OECD Benchmark Definition of Foreign Direct Investment* and the IMF's *Coordinated Direct Investment Survey Guide (CDIS Guide)*.

### ***e. Requirements for a Direct Investment Relationship***

**6.19** Voting power is obtained as a result of ownership of equity. When decisions are made on a one-share one-vote basis, voting power is in the same proportion as the ownership of ordinary shares. In some cases, voting power can be exercised without commensurate ownership of shares. For instance, for unincorporated entities, including foundations, there are no shares in the sense of a tradable instrument.<sup>6</sup> Additionally, voting power may be greater or less than percentage of shares held when there are “golden shares” or dual classes of shares (i.e., in cases in which nonvoting shares or some shares have higher weights that allow one or more parties to exercise voting power disproportionately to their share ownership). However, voting power is not recognized if temporarily obtained through repurchase agreements (because no change in the economic ownership of the shares has occurred) or through the holding of warrants (because the warrant holder does not possess voting power until the warrants are exercised). In addition, as elaborated in the FDIR, one entity may obtain voting power indirectly in an enterprise by

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<sup>5</sup> Whether subsidiaries (including branches and other quasi-corporations), associates, or subsidiaries of associates.

<sup>6</sup> Voting power is typically assigned based on governance structures such as bylaws, partnership agreements, or trust deeds.

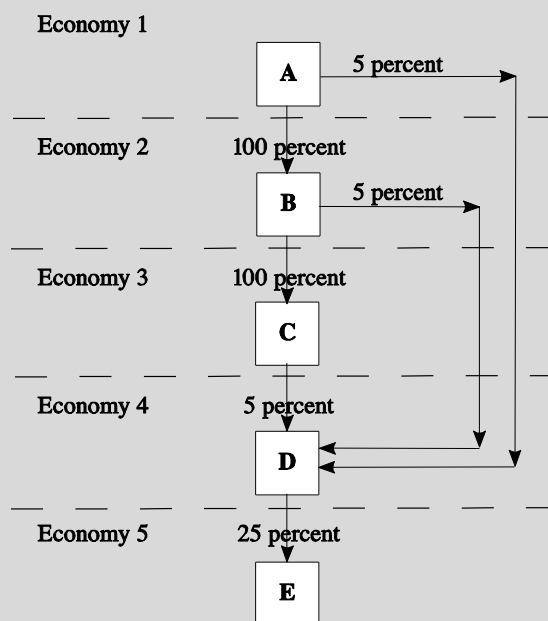
owning shares in an intermediate entity or through chains of intermediate entities that, in turn, own shares in the enterprise.

**6.20** A direct investor could be:

- (a) an individual or household;
- (b) an enterprise, incorporated or unincorporated, public or private;
- (c) an investment fund;
- (d) a government, central bank, or international organization. Special treatments for governments that have direct investment enterprises for fiscal purposes are discussed in paragraphs 8.21–8.23;
- (e) a nonprofit institution investing in an enterprise that operates for profit; however, the relationship between two nonprofit institutions is excluded from direct investment;
- (f) an estate, trustee in bankruptcy, or other trust; or
- (g) any combination of two or more of the above.

**6.21** For two or more individuals or other entities to be considered a combination, and thus be regarded as a single direct investor, they must be in a direct investment relationship or have a family relationship (in the case of individuals). The different individuals or other entities must be resident in the same economy as each other. They cannot include any investor that is a resident of the same economy as the direct investment enterprise. Equity ownership in an enterprise held by a group of related investors acting in combination can be summed to establish either control or influence. However, equity held by an associate is not summed with that from any other enterprise to establish either control or influence because influence is not able to be passed unless there is control of the next affiliate (this concept is illustrated in Box 6.2). Annex 2.A in the fifth edition the *OECD Benchmark Definition of Foreign Direct Investment* also provides further elaboration and examples on entities under direct investment relationship.

### Box 6.2. Direct Investment Relationships with Combination of Investors



A is a direct investor in D because its own immediate ownership of voting power in D, **in combination** with its control over B and C's stakes in D, means that A has 15 percent of the voting power in D.

For the same reason, B is also a direct investor in D (10 percent of voting power).

C is not a direct investor in D; however, it is a fellow enterprise of D (because C and D have A and B as direct investors in common).

D is a direct investor in E, however E is not in a direct investment relationship with A, B, or C, because in combination, they do not control D, and D does not control E.

If A's voting power in B were only 49 percent, A would not be a direct investor in D, because it does not have control over B, so A's and B's stakes in D are not combined.

**6.22** A government may be a direct investor. Special treatments of positions and transactions apply when a government has a direct investment enterprise that is used for fiscal purposes, discussed further in paragraphs 8.21–8.23. If a government equity holding could qualify as both direct investment and reserve assets, it is included in direct investment, whereas debt instruments are classified as reserve assets provided that the reserve asset criteria are met (see also paragraph 6.103).

**6.23** A nonprofit institution may not be a direct investment enterprise, as it is not created with the intention of repatriating earnings to its investor. However, a nonprofit institution may be a direct investor in a for-profit entity.

**6.24** A direct investment enterprise is always a corporation (which as a statistical term includes branches, notional resident units, trusts, other quasi-corporations, as well as incorporated entities) with the following exceptions. While central banks and NPISHs can be direct investors, they cannot be direct investment enterprises as they are not created with the intention of repatriating earnings to their investors.<sup>7</sup> Likewise, investment funds (MMF and non-MMF) can be director investors, but they cannot be direct investment enterprises as investments in investment funds shares/units are always considered to be portfolio investment (when the shares are negotiable) or other investment (when the shares are nonnegotiable) or reserve assets, if they meet all reserve assets criteria. Because a direct investment enterprise is owned by another entity, households or governments can be direct investors, but they cannot be direct investment enterprises. A public corporation in some instances also may be a direct investment enterprise (see paragraph 4.109.)

## 2. COVERAGE OF DIRECT INVESTMENT AS A FUNCTIONAL CATEGORY

**6.25** Direct investment covers most financial flows and positions between affiliates resident in different economies. Investment income associated with direct investment positions is also included in direct investment. The exceptions are noted in paragraphs 6.28–6.29 and 6.31. Issues associated with investment income on direct investment equity and debt instruments are covered in paragraphs 12.116–12.121.

### ***a. Coverage of Debt Between Affiliates***

#### ***Definition of Intercompany Lending***

**6.26** *Intercompany lending is used to describe direct investment debt flows or positions between affiliated enterprises.* It includes debt instrument flows and positions other than those excluded by paragraph 6.28; it is not limited to loans. As shown in Tables I, II, and V in Annex 14, Standard Components and Selected Other Items, and *External Debt Statistics: Guide for Compilers and Users*, intercompany lending is identified separately from other debt for debt analysis, because this lending has different implications for risk and vulnerability compared with debt between unrelated parties. Splits of intercompany lending by type of instrument and maturity are supplementary items that allow comparability with national accounts and financial statistics.

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<sup>7</sup> Most central banks share their surpluses with respective governments, although their intention is not to generate profits, unlike other entities in the financial corporations sector, which are market producers.



**6.27** Although debt and other financial claims that do not involve voting power are not relevant to defining a direct investment relationship, they are included in direct investment flows and positions if a direct investment relationship exists between the parties. Debt instruments other than monetary gold, SDRs, currency, interbank positions, and pension and related entitlements potentially can be included in direct investment. However, transactions between affiliates in financial assets issued by an unrelated third party are not direct investment transactions. Insurance technical reserves are included in direct investment when the parties are in a direct investment relationship. For example, reserves may arise from reinsurance contracts between affiliated insurance corporations. They also arise with captive direct insurance. (A captive insurance company writes insurance policies largely or entirely with its owners and other affiliates.)

### ***Coverage of Debt Between Selected Affiliated Financial Corporations***

**6.28** Debt between selected affiliated financial corporations is not classified as direct investment because it is not considered to be so strongly connected to the direct investment relationship. The financial corporations covered by this case are:

- (a) deposit-taking corporations (both central banks and deposit-taking corporations other than the central bank);
- (b) investment funds; and
- (c) other financial intermediaries except insurance corporations and pension funds.

In other words, the usual direct investment definitions apply for captive financial institutions and money lenders, insurance corporations, pension funds, and financial auxiliaries. (These subsectors are defined in Chapter 4, Section E; debt instruments are defined in paragraphs 5.34–5.36.) All debt positions between the selected types of affiliated financial corporations are excluded from direct investment and are included under portfolio (i.e., debt securities) or other investment (e.g., loans, deposits). Both affiliated parties must be one of the selected types of financial corporations, but they need not be the same type. Table 6.2 summarizes the functional category of debt between affiliated enterprises.

Table 6.2. Functional Category of Debt Between Affiliated Enterprises					
Assets	Liabilities				
		Deposit-taking corporations (S121/S122)	Investment funds (S123/S124)	Other financial intermediaries except insurance corporations and pension funds (S125)	Other sectors <sup>1</sup>
	Deposit-taking corporations (S1221/S1222)	OI (or PI)	OI (or PI)	OI (or PI)	DI
	Investment funds (S1223/S1224)	OI (or PI)	OI (or PI)	OI (or PI)	DI
	Other financial intermediaries except insurance corporations and pension funds (S1225)	OI (or PI)	OI (or PI)	OI (or PI)	DI
	Other sectors <sup>1</sup>	DI	DI	DI	DI
Note: DI—direct investment; PI—portfolio investment; OI—other investment <sup>1</sup> Include general government (S13), other financial institutions (S1226/S1227/S1228/S1229), nonfinancial corporations (S11), and households and NPISHs (S14/S15).					

### ***b. Coverage of Other Financial Instruments***

**6.29** Financial derivatives and employee stock options are excluded from direct investment and included in the functional category financial derivatives (other than reserves) and employee stock options.

**6.30** Direct investment may include real estate investment, including investment properties and vacation homes. As discussed in paragraphs 4.51–4.654, branches or

notional units are identified when nonresidents own real estate and other natural resources. The normal ownership threshold for influence or control under the FDIR is applied. Because it may have different motivations and economic impact from other direct investment, if real estate investment is significant, compilers may wish to publish data on such investment separately on a supplementary basis.

**6.31** Equity in international organizations is excluded from direct investment, even in cases in which voting power is 10 percent or more, and included in other investment—other equity and equity in international organizations. Equity in international organizations would not generally qualify as reserve assets because of the lack of ready availability (see paragraph 6.74).

### ***c. Pass-Through Funds***

**6.32** *“Pass-through funds” or “funds in transit” are funds passing through a direct investment enterprise resident in an economy to an affiliate in another economy, so that the funds do not stay in the economy of the first enterprise.* Such flows have little impact on the economy they pass through. SPEs, holding companies, and financial institutions that serve other nonfinancial affiliates are particularly associated with funds in transit, but other enterprises may also have pass-through funds in direct investment flows. Identifying these flows in practice is complicated.

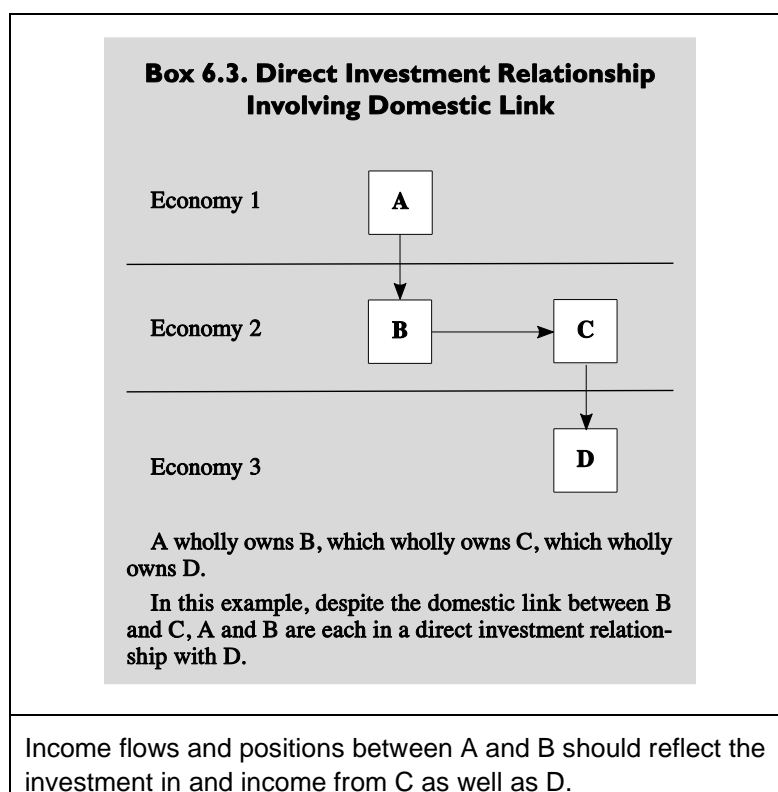
**6.33** Pass-through funds are included in direct investment in standard presentations because:

- (a) they are an integral part of a direct investor’s financial transactions and positions with affiliated enterprises;
- (b) the exclusion of these funds from direct investment would distort and substantially understate direct investment financial flows and positions at aggregate levels; and
- (c) the inclusions of these data in direct investment promotes symmetry and consistency among economies.

However, for the economies through which the funds pass, it is useful to identify inflows and outflows not intended for use by the entity concerned. This *Manual* recommends a supplemental framework for the statistics by ultimate investing economy (UIE), ultimate host economy (UHE), and pass-through funds. Primarily, the supplemental framework will be applied to the development of direct investment statistics by UIE and UHE that could be used in turn to derive aggregates on pass-through funds. Annex 6 and the *OECD Benchmark Definition of Foreign Direct Investment, fifth edition*, provides detailed guidance on this supplemental framework.

### ***d. Effect of Domestic Ownership Links on Direct Investment Relationships***

**6.34** To identify direct investment relationships, the FDIR does not exclude ownership links between enterprises resident in the same economy. Although any transactions and positions between enterprises in the same economy are not included in external accounts, it is possible that a direct investor may have a chain of control or influence in which one link in the chain is a resident-to-resident relationship. Such a relationship does not preclude a direct investment relationship between two enterprises that are resident in different economies from each other. (This case is illustrated in Box 6.3.)



### ***e. Beginning and Ending Direct Investment Relationships***

**6.35** The whole of the transaction that reaches or surpasses the threshold of 10 percent or more of voting power is included under direct investment. Any transactions before that point are not generally classified as direct investment (with the exception of reverse investment—defined in paragraph 6.38(b)—and investment in other affiliates). Any prior positions are shown as being reclassified at the time that the direct investment relationship comes into existence (reclassifications are discussed in paragraphs 9.30–9.36). For example, if the direct investor previously had 9 percent of voting power, then acquired 2 percent more, there would be a direct investment transaction by the purchaser involving 2 percent of voting power, and the reclassification entries in the other changes in financial assets and liabilities account would show a reduction of portfolio investment involving the

previously held 9 percent and a corresponding increase in direct investment. Subsequent transactions up to and including a transaction that takes the voting power below 10 percent are classified as direct investment. Once the direct investment equity threshold has been crossed (either upward or downward), any debt positions between the parties should also be changed by a reclassification entry in the other changes in volume account.

### 3. TYPES OF DIRECT INVESTMENT FLOWS AND POSITIONS

**6.36** In the standard components, direct investment is classified according to the instruments (equity and debt instruments) and sectors (central bank; deposit-taking corporations except the central bank; general government; other financial corporations; nonfinancial corporations; and households and NPISHs).

**6.37** The sectoral presentation of direct investment links with balance sheet and other sectoral data compiled in the *SNA*, monetary and financial statistics, and government finance statistics, thus facilitating comparison with these datasets. Also, this presentation provides a convenient way to analyze the net foreign lending or borrowing of each resident sector. It also supports the Balance Sheet Approach (BSA) by providing details on the external positions for the resident sectors (see paragraphs 19.63–19.72 for details on BSA).

**6.38** The following items based on the relationship between the investor and the entity receiving the investment are included under memorandum items:

- (a) investment by a direct investor in its direct investment enterprise (whether in an immediate relationship or not);
- (b) reverse investment by a direct investment enterprise in its own immediate or indirect direct investor, as explained in paragraphs 6.41–6.42; and
- (c) investment between resident and nonresident fellow enterprises, as explained in paragraph 6.17, combining equity and debt investment

**6.39** These three memorandum items reflect different types of relationships and motivations. For example, the interpretation of a direct investor acquiring direct investment assets is different from a direct investment enterprise acquiring direct investment assets. While the first type of investment involves influence or control, this may not be the case for the other two types, because the investor is not a direct investor. It is important for compilers to monitor trends in the second and third types to identify if they are becoming significant. It is also important to identify reverse investment and investment between fellow enterprises to be able to determine the net investment by nonresident direct investors in the economy and by resident direct investors abroad. Moreover, these memorandum items are necessary to derive the data under directional principle (see paragraphs 6.43–6.44 and Box 6.4).

**6.40** In addition, reinvestment of earnings should be reported as a memorandum item in the BOP financial account, which should be consistent with the standard component, reinvested earnings, recorded in the earned income account (see Annex 14 for details on the presentation of these items and supplementary items in the BOP and integrated IIP).

**a. Reverse Investment**

**6.41** A direct investment enterprise may acquire an equity or other financial claim on its own immediate or indirect direct investor. These transactions may occur as a way of withdrawing investment, or as a way of organizing finance within an MNE group. For example, for an enterprise that borrows on behalf of its parent company and in cases in which treasury functions are concentrated in a subsidiary (see paragraphs 4.150(b) and 4.150(d)), the subsidiary may lend money to its direct investor.

**6.42** *Reverse investment is direct investment resulting from a direct investment enterprise lending funds to or acquiring equity in its immediate or indirect direct investor, provided it does not own equity comprising 10 percent or more of the voting power in that direct investor.* In contrast, if two enterprises each have 10 percent or more of the voting power in the other, there is not reverse investment, rather there are two mutual direct investment relationships. That is, each enterprise is both a direct investor and direct investment enterprise of the other.

**b. Presentation of Data According to the Directional Principle**

**6.43** *The directional principle is a presentation of direct investment data based on the direction of control or influence underlying the direct investment, specifically distinguishing between direct investment abroad (outward direct investment) and direct investment in the reporting economy (inward direct investment).* It can be contrasted with the asset and liability presentation (discussed in paragraphs 6.36 and 6.38) of aggregates used in standard components and memorandum items in this *Manual*, which are organized according to whether the investment relates to an asset or liability. It is clarified that the difference between the asset-liability and directional presentations arises from differences in the treatment of reverse investment and some investment between fellow enterprises. The directional principle can be applied to the IIP, financial account, and investment income. Under the directional principle, direct investment is shown as either direct investment abroad or direct investment in the reporting economy:

- (a) *Direct investment abroad covers all direct investment assets less liabilities between resident direct investors and their direct investment enterprises. It also covers all direct investment assets less liabilities between resident and nonresident fellow*

*enterprises if the ultimate controlling parent<sup>8</sup> is resident.* Direct investment abroad is also called outward direct investment.

- (b) *Direct investment in the reporting economy covers all direct investment liabilities less assets between resident direct investment enterprises and their direct investors. It also covers all direct investment liabilities less assets between resident and nonresident fellow enterprises if the ultimate controlling parent is nonresident.* Direct investment in the reporting economy is also called inward direct investment.

**6.44** The treatment of fellow enterprises under the directional principle is as follows:

- In principle, all direct investment assets less liabilities between fellow enterprises are shown in direct investment abroad when the ultimate controlling parent is a resident. In that case, control and influence is exercised from the economy of the resident, so it is useful to view an investment in a fellow enterprise abroad as part of outward investment.
- In principle, all direct investment liabilities less assets between fellow enterprises are shown in direct investment in the reporting economy when the ultimate controlling parent is a nonresident. In this case, control and influence are exercised from another economy, so it is useful to view investment with the fellow enterprise abroad as part of inward investment.
- However, if the residence of the ultimate controlling parent is unknown, assets are treated as direct investment abroad and liabilities are treated as direct investment in the reporting economy. This treatment is allowed for practical reasons. It is recognized that, in some cases, economies may not be able to implement the preferred or “in principle” basis of presentation in their direct investment data, because they cannot identify ultimate controlling parents.

### ***c. Analytical Use of the Different Presentations of Direct Investment***

**6.45** Data on both the asset and liability presentation and the directional principle presentation are useful for different kinds of analysis.

- Data on an asset and liability basis are consistent with monetary, financial, and other balance sheet data, and thus facilitate comparison between the data sets. These data are needed on an immediate counterparty basis to adequately monitor flows

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<sup>8</sup> Entity that ultimately controls an enterprise, identified by proceeding up the ownership chain from the enterprise through the controlling links (ownership of more than 50 per cent of the voting power) until an individual, household, or company that is not controlled by another company is reached. If there is no company, individual, or household that controls the resident company, then the resident company may be considered to be its own ultimate controlling parent.

and positions. For instance, if a jurisdiction of convenience that is the home to large SPEs (see paragraphs 4.77–4.80) were to experience a currency or other financial crisis, data users would find data sets that look through the SPEs (or that net data for SPEs without separate identification of gross levels) to be of limited help. SPEs and other entities may transform debt to equity, a long-term instrument to short-term, local currency to foreign currency, fixed to variable rates, and so on, and these transformations alter risk characteristics in important ways.

- Data on a directional principle basis assist in understanding the motivation for direct investment and take account of the direction of control and influence. In the directional presentation, reverse investment can be seen as equivalent to the withdrawal of investment. The directional principle may be particularly useful for an economy that hosts direct investment enterprises that lend to fellow enterprises or direct investors or host direct investors that borrow from their affiliates.

**6.46** The calculations and relationship between the asset and liability presentation discussed in paragraph 6.38 and the directional presentations are shown in Box 6.4. In this *Manual*, the directional presentation appears as supplementary items. Under the directional principle, direct investment abroad and direct investment in the reporting economy include both assets and liabilities, and thus, negative values may arise. More details on the directional principle and the conversion between asset and liability and directional presentations can be found in the *OECD Benchmark Definition of Foreign Direct Investment*.

#### 4. OTHER ISSUES CONCERNING DIRECT INVESTMENT TRANSACTIONS, POSITIONS, AND INCOME

##### **a. Round Tripping**

**6.47** *Round tripping refers to the channeling abroad by resident direct investors of local funds and the subsequent return of these funds to the local economy in the form of direct investment.* The entity in the other economy to which the local funds are channeled often has limited operations of its own. (There may be two or other intermediate economies with round tripping.) Its special nature means that, where it is significant, compilers should consider publishing supplementary information on the extent of round tripping. (Round tripping results in an economy being its own ultimate host economy or ultimate investing economy in partner data.). For more details on round tripping including relevant examples, refer to the *OECD Benchmark Definition of Foreign Direct Investment*.



### ***b. Relationships Other Than Direct Investment***

**6.48** Some relationships involve cooperation between enterprises that resemble direct investment relations. However, such cases should not be classified as direct investment unless they meet the definition involving control or influence through voting power. For example, there may be representation on the board of directors, a common board of directors but no formal relationship, participation in policymaking processes, material intercompany transactions, interchange of managerial personnel, provision of technical information, or provision of long-term loans at lower than existing market rates. Creditors of an insolvent company may exercise influence or even effectively control it, but they would not qualify as direct investors unless their debt is converted to equity with voting power. Furthermore, an enterprise may have substantial foreign ownership but no individual investor or group of related investors may have a direct investment stake.

### ***c. Additional Detail for Direct Investment***

**6.49** The financial instrument, maturity, and currency classifications in Chapter 5 can be used for direct investment. Compilers should break down debt instruments relating to direct investment relationships according to the *SNA/MFSM* instrument classification on a supplementary basis. The split by type of instrument is necessary for reconciliation with financial account, flow of funds, and sector balance sheets, because these data use the instrument classification and not the external accounts functional classification. However, because of the relationship between the two parties, the strictness of terms, and risks and vulnerability aspects of direct investment-related debt may differ from those of other debt. For those reasons, intercompany lending is identified separately in *External Debt Statistics: Guide for Compilers and Users* (see also paragraph 6.26).

**6.50** Classification by partner economy is discussed in Annex 11, with paragraphs A11.49-A11.51 dealing with direct investment. Partner data for direct investment can be classified according to either the immediate or ultimate investor or host economy. These issues are discussed further in Annex 6 and the *OECD Benchmark Definition of Foreign Direct Investment*.

#### **Box 6.4. Derivation of Data under the Directional Principle**

**The memorandum and supplementary items for direct investment positions and transactions are shown in the table below. They may be rearranged to support different kinds of presentation and analysis.**

**Components of Direct Investment (Asset/Liability Presentation Based on the Relationship Between the Investor and the Entity Receiving the Investment)**

Assets	Liabilities
<b>Of direct investors in direct investment enterprises</b>	<b>Of direct investment enterprises to direct investor</b>
A1 Equity and debt instruments	L1 Equity and debt instruments
<b>Of direct investment enterprises in direct investor—Reverse investment</b>	<b>Of direct investor to direct investment enterprises—Reverse investment</b>
A2 Equity and debt instruments	L2 Equity and debt instruments
<b>Of resident fellow enterprises in fellow enterprises abroad</b>	<b>Of resident fellow enterprises to fellow enterprises abroad</b>
A3 Equity and debt instruments	L3 Equity and debt instruments
A3.1 Equity and debt instruments (if ultimate controlling parent is resident <sup>1</sup> )	L3.1 Equity and debt instruments (if ultimate controlling parent is nonresident <sup>2</sup> )
A3.2 Equity and debt instruments (if ultimate controlling parent is nonresident <sup>2</sup> )	L3.2 Equity and debt instruments (if ultimate controlling parent is resident <sup>1</sup> )
<sup>1</sup> That is, resident in the compiling economy.	
<sup>2</sup> That is, not resident in the compiling economy.	

#### Asset/liability presentation

Direct investment assets:

Equity and debt instruments:  $A1 + A2 + A3$ ;

Direct investment liabilities:

Equity and debt instruments:  $L1 + L2 + L3$ ;

#### Directional principle presentations

*In principle:*

Direct investment abroad (outward direct investment):

Equity and debt instruments:  $A1 - L2 + A3.1 - L3.2$ ;

Direct investment in the reporting economy (inward direct investment):

Equity and debt instruments:  $L1 - A2 + L3.1 - A3.2$ ;

*Acceptable practical alternative:*

Direct investment abroad:

Equity and debt instruments:  $A1 - L2 + A3$ ;

Direct investment in the reporting economy:

Equity and debt instruments:  $L1 - A2 + L3$ ;

**6.51** Classification by kind of economic activity (industry) may be of interest for direct investment. The *ISIC* or some regional or national equivalent can be used to compile data

on the kind of economic activity. Although this classification is not used for other functional categories, it is useful for direct investment. It is preferable to prepare estimates on both inward and outward direct investment on a dual basis, based on the industry of the direct investment enterprise and the industry of the direct investor. If data on only one basis can be prepared, the preferred industry classification is that of the direct investment enterprise. Industrial classification applies to units, rather than transactions. Often in direct investment data, the industry classification is applied to economy-specific enterprise groups, or to economy-specific enterprise groups in a single institutional sector. If a direct investment enterprise or enterprise group is involved in different economic activities, it is classified according to the predominant activity.

#### ***d. Further Issues Concerning Direct Investment***

**6.52** In addition to the classification issues in this chapter, direct investment is discussed in the chapters concerning positions, financial account transactions, and earned income (Chapters 7, 8, and 12, respectively). The cross-cutting issues and links are shown in Annex 6.

**6.53** Some aspects of direct investment—other than those directly related to BOP and integrated IIP data—may be of interest, particularly in the host economy, from analytical and policymaking points of view. While the external accounts data show the cross-border flows and stocks, another aspect of the impact of direct investment is on domestic variables such as employment, sales, value added, and gross fixed capital formation. These statistics are called Activities of Multinational Enterprises and are discussed in Chapter 15.

**6.54** In their present form, direct investment statistics do not separately identify investments that represent the creation of new business enterprises in the host economy and additional injection of funds to existing ones. Greenfield direct investment and extension of capacity is investment in direct investment enterprises established within the last three years and capital injections that are used to expand the capacity of direct investment enterprises that have existed for three years or more. Annex 6 provides further guidance on the definition and collection of supplementary data on greenfield investment and extension of capacity.

**6.55** Cash pooling arrangements provided by banks allow corporations to externalize the intra-group cash management, and thus, manage their global liquidity more effectively and with lower costs. Annex 6 provides a description of the main types of cash pooling arrangements (single legal account, physical cash pool, and notional cash pool) and their different statistical treatments (i.e., to classify associated debt instruments as either direct investment or other investment).

**6.56** The foreign-controlled corporations subsector overlaps with direct investment. The foreign-controlled corporations subsector includes all subsidiaries and branches resident in the economy (see paragraphs 4.108–4.109 for details on foreign control of corporations).

## C. PORTFOLIO INVESTMENT

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**6.57** *Portfolio investment is defined as cross-border flows and positions involving debt or equity securities, other than those included in direct investment or reserve assets.* Securities are defined in paragraph 5.18. The negotiability of securities is a way of facilitating trading, allowing them to be held by different parties during their lives. Negotiability allows investors to diversify their portfolios and to withdraw their investment readily. Investment fund shares/units (i.e., those issued by investment funds) that are evidenced by securities and that are not reserve assets are included in portfolio investment. Further, investments in investment fund shares/units are always treated as portfolio investment, or other investment irrespective of the ownership of voting power (i.e., 10 percent or higher) (see paragraph 6.24). Although they are negotiable instruments, exchange-traded financial derivatives are not included in portfolio investment because they are included in their own separate category.

**6.58** Equity not in the form of securities (e.g., in unincorporated enterprises) is not included in portfolio investment; it is included in direct or other investment. Equity in time-share accommodation evidenced by a security is usually portfolio investment (although holdings that provide 10 percent or more of voting power would be direct investment, and holdings not in the form of securities and not included in direct investment would be other investment). In a few cases identified in paragraph 6.28, debt securities representing financial claims on affiliated enterprises are included in portfolio investment.

**6.59** Portfolio investment covers, but is not limited to, securities traded on organized or other financial markets. Portfolio investment usually involves financial infrastructure, such as a suitable legal, regulatory, and settlement framework, along with market-making dealers, and a sufficient volume of buyers and sellers. However, acquisition of shares in hedge funds, private equity funds, and venture capital are examples of portfolio investment that occurs in less public and more lightly regulated markets. (However, shares in these funds are included in other equity and equity in international organizations in other investment when investment is not in the form of a security and not included in reserve assets.) Portfolio investment is distinctive because of the nature of the funds raised, the largely anonymous relationship between the issuers and holders, and the degree of trading liquidity in the instruments.

**6.60** Portfolio investment may be presented by instrument, original or remaining maturity, or institutional sector. Further information on portfolio investment is included in Chapter 7

(concerning positions), Chapter 8 (concerning financial account transactions), and Chapter 12 (concerning earned income).

## **D. FINANCIAL DERIVATIVES (OTHER THAN RESERVES) AND EMPLOYEE STOCK OPTIONS**

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**6.61** The definition of the functional category financial derivatives and employee stock options (other than reserves) largely coincides with the corresponding financial instrument class, which is discussed in detail in paragraphs 5.90–5.114. The difference in coverage between the functional category and the financial instrument is that financial derivatives associated with reserve asset management are excluded from the functional category and included in reserve assets (see paragraph 6.95). This category is identified separately from the other categories because it relates to risk transfer, rather than supply of funds or other resources.

**6.62** Unlike other functional categories, no earned income accrues on financial derivatives. Any amounts accruing under the contract are classified as revaluations and are included in the other changes in financial assets and liabilities account. (These entries are discussed in paragraphs 9.12–9.13.) In addition, as noted in the footnote to paragraph 11.74, an intermediary may provide services associated with transactions in derivatives.

**6.63** Recording of financial derivatives separately for both assets and liabilities is encouraged for both positions and transactions. However, it is recognized that measuring transactions on a gross basis may not be feasible, in which case net reporting is acceptable. Further, this *Manual* recommends presenting financial derivatives by market risk categories, by instrument, and by trading venue and clearing status on a supplementary basis (see paragraph 5.109).

**6.64** Information on financial derivatives (other than reserves) and employee stock options is included in Chapter 7 (concerning positions), Chapter 8 (concerning financial account transactions), and Chapter 9 (concerning revaluations); no investment income arises (see paragraph 12.115).

## **E. OTHER INVESTMENT**

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**6.65** *Other investment is a residual category that includes flows and positions other than those included in direct investment, portfolio investment, financial derivatives and employee stock options, and reserve assets.* To the extent that the following classes of financial assets and liabilities are not included under direct investment or reserve assets, other investment includes:

- (a) other equity and equity in international organizations;
- (b) currency and deposits;
- (c) loans (including use of IMF credit and loans from the IMF);
- (d) nonlife insurance technical reserves, life insurance and annuities entitlements, pension entitlements, and provisions for calls under standardized guarantees;
- (e) trade credit and advances;
- (f) other accounts receivable/payable; and
- (g) SDR allocations (SDR holdings are included in reserve assets).

**6.66** Other equity and equity in international organizations is included in other investment when it is not direct investment or reserve assets. Other equity and equity in international organizations, as defined in paragraph 5.28, is not in the form of securities, so it is not included in portfolio investment. Participation in some international organizations (e.g., ownership of currency union central banks) is not in the form of tradable shares and so it is classified in this item. Although equity in some international organizations, such as the BIS, is in the form of unlisted shares, the equity is not tradable by member countries; therefore, it should also be classified in this item. In most cases, equity in quasi-corporations for branches and notional units for ownership of real estate and other natural resources is included in direct investment; however, it is included in other investment if the share of voting power is less than 10 percent. Shares in investment funds are included in other equity and equity in international organizations when they are not negotiable (see footnote 4, paragraph 6.11)

**6.67** It is noted that flows and positions in certain debt instruments (e.g., deposits, loans, trade credit and advances, other accounts receivable/payable) between selected affiliated financial corporations are included under other investment (see paragraph 6.28). In the case of notional cash pooling arrangements, debt instruments associated with such arrangements (e.g., deposits and loans) are recorded as other investment. Cash pooling arrangements including their types are discussed in paragraph 6.55 and Annex 6.

**6.68** Other investment may be split by financial asset or liability class, original or remaining maturity, or institutional sector. Information on other investment is included in Chapter 7 (concerning valuation of positions, particularly loans), Chapter 8 (concerning financial account transactions), and Chapter 12 (concerning earned income).

## F. RESERVES<sup>9</sup>

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Reference:

- IMF, *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template*.

### 1. RESERVE ASSETS

#### a. General Definition

**6.69** Reserve assets are those external assets, including monetary gold, that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing).<sup>10</sup> Reserve assets must be denominated and settled in foreign currency. Potential assets are excluded from reserve assets. Underlying the concept of reserve assets are the notions of “control,” and “availability for use,” by the monetary authorities.<sup>11</sup> The composition of reserve assets and reserve-related liabilities is shown in Box 6.5.

#### b. Residence

**6.70** In accordance with the residence concept, reserve assets, other than gold bullion, must be financial claims on nonresidents. Conversely, the authorities’ foreign currency claims on residents, including financial claims on resident banks, are not reserve assets. Nonetheless, foreign currency claims on resident banks can be at the disposal of the monetary authorities and can be readily mobilized to meet demand for foreign exchange. Such financial claims are presented as a supplementary item to the IIP. For the explanation of residence, see paragraphs 4.10–4.15 and Section J, Chapter 4.

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<sup>9</sup> A more complete picture of monetary authorities’ international liquidity position is given in *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template (Guidelines)*. The *Guidelines* address a number of key issues and are drawn on in this text.

<sup>10</sup> For dollarized economies, the need to hold reserves for the purpose of intervention in exchange markets is not relevant for defining the reserve assets of these economies. Dollarization and euroization are defined in paragraph A3.10.

<sup>11</sup> Monetary authorities may sometimes employ fund managers to manage reserve assets. In such arrangements, the fund managers are acting as agents and are paid a fee for their services.

**Box 6.5. Components of Reserve Assets and Reserve-Related Liabilities****Reserve assets**

Monetary gold

Gold bullion

Unallocated gold accounts

Special drawing rights

Reserve position in the IMF

Other reserve assets

Currency and deposits

Financial claims on monetary authorities

Financial claims on other units

Securities

Debt securities

Short-term

Long-term

Equity and investment fund shares/units

Financial derivatives

Other financial claims

**Reserve-related liabilities to nonresidents (memorandum items)**

Short-term (on a remaining maturity basis)

Credit and loans from the IMF

Debt securities

Deposits

Loans

Repo loans

Other loans

Other short-term foreign currency liabilities to nonresidents

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(See also Annex 14 Table IV for additional supplementary items for reserve-related liabilities.)



**c. Definition of monetary authorities**

**6.71** The functional concept of monetary authorities is essential for defining reserve assets. *Monetary authorities encompass the central bank (which subsumes other institutional units included in the central bank subsector, such as the currency board) and certain operations usually attributed to the central bank but sometimes carried out by other government institutions or commercial banks, such as government-owned commercial banks. Such operations include the issuance of currency; maintenance and management of reserve assets, including those resulting from transactions with the IMF; and operation of exchange stabilization funds.* In economies in which extensive reserve assets are held outside of the central bank, supplementary information should be provided on the institutional sector of holdings of those reserve assets.

**d. Control**

**6.72** In general, only external financial claims actually owned by the monetary authorities can be classified as reserve assets. Nonetheless, ownership is not the only condition that confers control. There are cases in which institutional units (other than the monetary authorities) in the reporting economy hold legal title to external foreign currency assets and are permitted to transact in such assets only on terms specified by the monetary authorities or only with their express approval. In such cases, the assets can be considered reserve assets because they are under the direct and effective control of the monetary authorities. To be counted in reserve assets, the conditions to be met are that:

- the resident entity can transact only in those financial claims with nonresidents on the terms specified by the monetary authorities or only with their express approval; and
- the authorities have access on demand to these financial claims on nonresidents to meet balance of payments financing needs and other related purposes; and
- a prior law or an otherwise legally binding contractual arrangement confirms this agency role of the resident entity that is actual and definite in intent.

**6.73** If such assets are included under reserve assets, to avoid double counting, they should not also be classified as assets, or transactions in assets, in other components of the BOP and IIP. They are classified within reserve assets depending on their nature (e.g., deposits and securities are classified as such). Except in unusual circumstances, direct and effective control is not to be construed as extending beyond assets owned by deposit-taking corporations.

**e. Availability for use**

**6.74** Reserve assets must be readily available in the most unconditional form. A reserve asset is liquid in that the asset can be bought, sold, and liquidated for foreign currency (cash) with minimum cost and time, and without unduly affecting the value of the asset.<sup>12</sup> This concept refers to both nonmarketable assets, such as demand deposits, and marketable assets, such as securities for which there are ready and willing sellers and buyers. The ability to raise funds by using the asset as collateral is not sufficient to make an asset a reserve asset. Some deposits and loans can be liquid and included in reserve assets, although they are not necessarily marketable.

**6.75** To be readily available to the authorities to meet balance of payments financing needs and other related purposes under adverse circumstances, reserve assets generally should be of high quality.

**f. Further clarifications on reserve assets**

**6.76** As a consequence of their purpose of meeting balance of payments financing needs, and supporting the exchange rate, reserve assets must be both denominated and settled in foreign currency. Denominated is defined to mean the currency in which the contract is specified. (Currency of denomination and currency of settlement are discussed in paragraphs 3.191–3.196.)

**6.77** Furthermore, to be liquid, reserve assets must be denominated and settled in convertible foreign currencies, that is, currencies that are freely usable for settlements of international transactions.<sup>13</sup> In addition, assets denominated in gold and SDRs may qualify as reserve assets.

**6.78** In some instances, economies may hold assets denominated in the currency of a neighboring economy because the economy's risk exposures are closely related to their neighbor given the composition of their international trade, even though the currency may not be widely traded. These assets should be excluded from reserve assets (and included under the appropriate functional category and instrument) if the currency does not meet the definition of a convertible foreign currency set out in paragraph 6.77, but supplementary data can be provided. Such circumstances are envisaged when an economy is highly dependent on a larger regional neighbor for its international trading activity.<sup>14</sup>

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<sup>12</sup> No time limit is provided, but to qualify as reserves, an asset should be available in a very short period of time given the speed at which experience suggests a foreign exchange need can arise in adverse circumstances.

<sup>13</sup> The term "freely usable" is not used in a restrictive sense to cover the currencies in the SDR basket only.

<sup>14</sup> It is possible but unlikely that such dependence could arise with an economy that is not a neighbor.

**6.79** Assets that are denominated in or indexed to the domestic currency but settled in foreign currency cannot be reserve assets, because the value of such assets would decline along with the domestic currency in the circumstance of a domestic currency crisis.

**6.80** An existing asset that is committed for a future use but not encumbered can be included provided that the asset is readily available to meet a balance of payments financing need (and other related purposes stated in paragraph 6.69). An asset should not be denied as a reserve asset simply because the use to which the asset is to be put is a foreseeable one. However, when an asset is not readily available—such as an asset whose use is blocked—the asset should not be counted as reserve assets.

### ***g. Classification of reserve assets***

**6.81** Reserve assets consist of monetary gold, SDR holdings, reserve position in the IMF, currency and deposits, securities (including debt and equity securities), financial derivatives, and other financial claims (loans and other financial instruments).

**6.82** Monetary gold, SDR holdings, and reserve position in the IMF are considered reserve assets because they are assets readily available to the monetary authorities in unconditional form. Currency and deposits, securities, and other assets in many instances are equally available and therefore qualify as reserve assets.

**6.83** *Monetary gold is gold to which the monetary authorities (or others who are subject to the effective control of the monetary authorities) have title and is held as a reserve asset. It comprises gold bullion (including gold held in allocated gold accounts)<sup>15</sup> and unallocated gold accounts with nonresidents that give title to claim the delivery of gold.<sup>16</sup>* Gold bullion is usually traded on organized markets or through bilateral arrangements between central banks. To qualify as reserve assets, gold accounts must be readily available upon demand to the monetary authorities.

**6.84** **Allocated, pool allocated and unallocated gold accounts** are to be distinguished from accounts that are linked to gold (accounts indexed to gold) but do not give title to claim delivery of gold. The latter are classified as currency and deposits and are included within reserve assets provided they meet the criteria of reserves.

**6.85** If the monetary authorities deposit gold bullion in an unallocated gold account, the gold bullion is demonetized (see paragraph 9.25 (f)) and this is recorded in the other changes in assets account of the monetary authorities. If the account is with a nonresident, a transaction in nonmonetary gold is recorded in the goods and services account. However,

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<sup>15</sup> Regardless of the location of the allocated gold account; however, transactions with residents in gold bullion are not recorded in the BOP (see paragraph 9.25).

<sup>16</sup> See paragraphs 5.87–5.88 for definitions of allocated, pool allocated, and unallocated gold accounts.

transactions in gold bullion as reserve assets between monetary authorities and with international financial institutions are recorded as transactions in gold bullion and are not recorded as other changes in assets. If the unallocated gold account is with a nonresident and available on demand, a transaction is recorded in currency and deposits, and if held by a monetary authority as a reserve asset, the position is subsequently reclassified to monetary gold (unallocated gold accounts) via other changes in the volume of assets.<sup>17</sup> However, if the deposit is with another monetary authority or an international financial institution, a transaction in unallocated gold accounts is recorded.

**6.86** To minimize risks of default in gold lending transactions,<sup>18</sup> monetary authorities can require adequate collateral instead of cash (such as securities) from the depository. Such securities collateral received should not be included in reserve assets or portfolio investment as the original owner maintains the economic ownership of the securities. This prevents double counting as the gold lent remains an asset of the monetary authorities.<sup>19</sup>

**6.87** Allocated and unallocated gold accounts with nonresidents out on swap by the monetary authorities for cash collateral are excluded from reserve assets and either demonetized (gold bullion) or reclassified as other investment, currency and deposits, assets (unallocated gold accounts), if the gold accounts are not readily available for meeting balance of payments financing needs<sup>20</sup> (or available for meeting balance of payments financing needs only if a substitute reserve asset has to be provided as collateral). A loan liability to a nonresident<sup>21</sup> from a gold swap is recorded in “other investment,” with the foreign currency received (provided it is a financial claim on a nonresident and meets the criteria for reserve assets) being recorded as an increase in currency and deposits within reserve assets. Any unallocated gold account liabilities of resident units to nonresident monetary authorities are to be classified as other investment, currency and deposits.

**6.88 SDR holdings** are reserve assets created by the IMF and are equivalent to liquid balances in convertible currencies in nearly every respect. Further information on SDRs is provided in paragraphs 5.37–5.38.

**6.89 Reserve position in the IMF** is the sum of (a) the “reserve tranche,” that is, the foreign currency (including SDRs) amounts that a member country may draw from the IMF

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<sup>17</sup> Similarly, interest accruing on unallocated gold accounts is recorded as a transaction in currency and deposits within reserve assets by the monetary authority. If national practice is to include such interest under monetary gold, the amount of interest accruing is reclassified in the other changes in assets account.

<sup>18</sup> Sometimes known as gold deposits or gold loans.

<sup>19</sup> If the securities received as collateral are repoed out for cash, a repo transaction should be reported.

<sup>20</sup> Same principle applies to gold lending.

<sup>21</sup> If the liability is to a resident, the liability is not in the BOP or IIP, but it is reported under repo loans in other foreign currency liabilities (see Table IV in Annex 14).

at short notice;<sup>22</sup> and (b) any indebtedness of the IMF (under a loan agreement) in the General Resources Account that is readily available to the member country, including the reporting country's lending to the IMF under the New Arrangements to Borrow (NAB) and bilateral borrowing agreements (BBAs). While a member country must present a declaration of balance of payments–related need to make a purchase in the reserve tranche (reduction in reserve position), the IMF does not challenge a member's request for reserve tranche purchases. Convertible currencies from a reserve tranche purchase may be made available within days.

**6.90 Deposits** refer to those available on demand; deposits with a fixed term that are redeemable on demand or at very short notice without unduly affecting the value of the deposit can be included. Deposits included in reserve assets are those held in foreign central banks, the BIS, and other nonresident deposit-taking corporations, and deposit agreements with IMF Trust Accounts that are readily callable to meet a balance of payments financing need. Because short-term loans provided by the monetary authorities to other central banks, the BIS, and other deposit-taking corporations are much like deposits, it is difficult in practice to distinguish the two. For this reason, by convention, and consistent with the treatment of interbank positions (see paragraph 5.47), the reporting of deposits in reserve assets should include short-term foreign currency loans that are redeemable upon demand, made by the monetary authorities to these nonresident deposit-taking corporations when there is uncertainty between a loan and a deposit. Foreign currency loans that are available on demand without unduly affecting the value of the asset, and made by the monetary authorities to nonresident non-deposit-taking corporations, and loans to IMF Trust Accounts that are readily repayable to meet a balance of payments financing need can qualify as reserve assets ("other financial claims"). But other loans by the monetary authorities to nonresidents not readily available to meet balance of payments financing needs are not reserve assets.

**6.91 Securities** include liquid and marketable equity and debt securities issued by nonresidents; long-term securities (such as 30-year U.S. Treasury bonds) are included. Unlisted securities (i.e., securities not listed for public trading) are, in principle, excluded unless the securities are liquid enough to qualify as reserve assets.

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<sup>22</sup> Reserve-tranche positions in the IMF are liquid claims of members on the IMF that arise not only from the reserve asset payments for quota subscriptions but also from the sale by the IMF of their currencies to meet the demand for use of IMF resources by other members in need of balance of payments support. Repayments of IMF resources in these currencies reduce the liquid claim of the member whose currency was supplied. In Table A14-I-1 in Annex 14 on currency composition, the reserve tranche positions in the IMF should be classified in the "SDR basket." The domestic currency component of the quota is considered in economic terms to be of a contingent nature and so is not classified as an asset or liability in the external accounts.

**6.92** Securities that have been transferred under reverse transactions (e.g., repos) by the monetary authorities in exchange of cash collateral remain assets of the original authorities. However, they are generally not readily available for meeting balance of payments financing needs. Therefore, such securities should be excluded from reserve assets and reclassified as portfolio investment assets through the end of the transaction. In regard to foreign currency received, provided it meets the reserve assets criteria, it should be recorded as an increase in currency and deposits within reserve assets, while a loan liability should be recorded under “other investment.”<sup>23</sup>

**6.93** In the case of reverse repos, the funds provided to the counterparty should be recorded as a decrease in currency and deposits within reserve assets, but if the financial claim (i.e., repo asset) is liquid and available upon demand to the monetary authorities, then it is considered part of the reserve assets in “other financial claims” (or “deposits” if the financial claim is with a deposit-taking corporation).

**6.94** When securities are lent or borrowed in exchange for other securities and no cash is exchanged, no transaction should be reported.<sup>24</sup> Securities lent are the assets of the original authorities, and securities collateral received are not included as reserve assets of the receiving monetary authorities.

**6.95 Financial derivatives** are recorded in reserve assets only if the derivatives pertain to the management of reserve assets, are integral to the valuation of such assets, and are under the effective control of the monetary authorities. Because they pertain to the management of assets, these flows and positions are recorded on a net basis (assets less liabilities) at market value.

**6.96 Other financial claims** include loans to nonresident non-deposit-taking corporations, long-term loans to IMF Trust Accounts such as the Poverty Reduction and Growth Trust (PRGT), Resilience and Sustainability Trust (RST) (see Annex 9 for details on these facilities) that are readily repayable to meet a balance of payments financing need (see paragraph 6.90), loans arising from a reverse repo (unless classified as deposits) (paragraph 6.93), and other financial assets not included previously but that are foreign currency assets that are available for immediate use (such as nonnegotiable investment fund shares/units as described in paragraph 6.106).

<sup>23</sup> If the liability is to a resident, the liability is not in the BOP or IIP, but it is reported under repo loans in other foreign currency liabilities (see Table IV in Annex 14)

<sup>24</sup> If the securities are not readily available, they should be reclassified to portfolio investment.

**6.97** Reserve asset may be presented as per the component details in Box 6.5. Further information on reserve asset is included in Chapter 7 (concerning positions), Chapter 8 (concerning financial account transactions), and Chapter 12 (concerning earned income).

## ***h. Selected Cases***

### ***Special Purpose Government Funds***

**6.98** Some governments create special purpose government funds, usually called sovereign wealth funds (SWFs). *SWFs are units created and owned by the general government for macroeconomic purposes. They hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies which include investing in foreign financial assets. The funds are commonly established out of balance of payments current account surpluses, official foreign currency operations, the proceeds of privatizations, fiscal surpluses, and/or receipts resulting from commodity exports.* The establishment of a special purpose government fund raises the issue of whether or not the external assets held in the fund should be included in reserve assets.

**6.99** A key determination is whether some legal or administrative guidance results in the assets being encumbered in a way that precludes their ready availability to the monetary authorities.

**6.100** If the special purpose government fund's external assets are on the books of the central bank, or an agency of the central government, that allows the monetary authorities control over the disposition of funds, then the presumption is that the assets are reserve assets (provided all other criteria for being a reserve asset are met). On the other hand, if the funds are held in a long-term fund with a separate legal identity, the presumption is that they should not be included in reserve assets, not least because the ready availability criterion is less likely to be met.

**6.101** In some cases, while assets are invested in a separate investment corporation, there may be an agreement that such assets can be readily called back if needed. In other cases, funds could be withdrawn during the annual budgetary process.

**6.102** Any final determination of whether an asset can be classified as a reserve asset or not, depends on an examination of the circumstances: namely, is the asset readily available to the monetary authorities and is there a liquid claim of a resident unit on a nonresident in foreign currency? But in the absence of legal or administrative impediments, and given the fungibility of assets, even assets that had been earmarked as part of a special purpose government fund—but that could be used to meet balance of payments financing needs and other related purposes—are reserve assets (subject to the other criteria being met, including, importantly, the control of the monetary authorities over the disposition of the funds).

**6.103** Assets held in special purpose government funds that meet the definition of reserve assets are classified within reserve assets depending on their nature. So, if the special purpose government funds hold deposits, securities, and other reserve assets, these are classified as such within reserve assets. Assets held in a resident special purpose government fund that are financial claims on nonresidents but do not meet the criteria to be classified as reserve assets are classified in the financial account and integrated IIP under the appropriate instrument and functional category. If special purpose government funds own direct investment equity and debt securities that could be classified in either direct investment or reserves assets, as general guidance, in the hierarchy of the BOP and IIP between direct investment and reserve assets, the equity securities should be classified as direct investment ahead of reserve assets, and debt securities should be classified as reserve assets ahead of direct investment (see also paragraph 6.22).

### ***Pooled Assets***

**6.104** As a means of reserve assets management, monetary authorities from different economies might cooperatively invest through an asset pool. Such pooled asset arrangements are collective investment schemes under which funds provided by participants are held in an investment vehicle (usually nonresident of the participants' economies) that conducts investments. The participants have a financial claim on the collective investment scheme. Some pooled asset arrangements may have features that constrain the use of the financial claim as a reserve asset. To determine whether the financial claim on the pooled asset arrangement meets the definition of reserve assets, as with special purpose government funds, an examination of the legal and institutional framework of the arrangement is needed.

**6.105** As with other reserve assets, the financial claim on the asset pool needs to be readily available to the monetary authorities and to be a liquid claim in foreign currency on nonresidents. In addition, other factors should be considered in determining whether the financial claim is a reserve asset. These include the following:

- **The ability to use pooled assets to raise external liquidity in foreign currency.** Even if the claim is in foreign currency, a high concentration of the underlying assets in claims on the domestic economy that constrains the ability of that economy to generate external liquidity or that results in the foreign currency value of the instrument being significantly affected in a time of crisis (such as a high concentration in domestic currency assets) would cause considerable doubt as to whether the instrument could be included in reserve assets.
- **Whether the assets are truly foreign currency claims.** An asset pool might be structured such that, while the assets are denominated in foreign currency, the monetary authority has a de facto claim in the domestic currency. In this instance, it



is inappropriate to classify the asset as a reserve asset for the reasons described in paragraph 6.79.

**6.106** Pooled assets are classified within reserve assets depending on their nature. For instance, if the participant can readily transact in these financial claims only by selling its claim back to the investment vehicle, the financial claim might need to be classified as a nonnegotiable investment fund share/unit (an “other financial claim”). Pooled assets that are financial claims on nonresidents but that do not meet the criteria to be classified as reserve assets are classified in the financial account according to their nature (most probably an equity asset) under the appropriate functional category.

### ***Central Bank Swap Arrangements***

**6.107** Assets created under reciprocal facilities (swap arrangements) for the temporary exchange of deposits between the central banks of two economies warrant mention. These swap arrangements typically do not conform fully to a standard currency swap on financial market. These off-market central bank currency swap arrangements should be recorded as an exchange of deposits with maintenance of value once the arrangement is activated and the money is drawn by either party. Following this approach, each central bank acquires a foreign asset in foreign currency and creates a foreign liability in domestic currency. Since the liability deposit account in domestic currency is fully indexed to a foreign currency (the currency of the partner economy), the liability in domestic currency should be treated as being denominated in that foreign currency (see paragraph 3.194). To accomplish this treatment, periodic revaluation adjustments to the liability should be carried out to reflect the total amount of domestic currency needed to buy the foreign currency to be delivered, including any interest payment.

**6.108** Deposits (in foreign exchange) acquired by the central bank initiating the arrangement are treated as reserve assets if the exchange provides the central bank with assets that fully meet the reserve assets criteria. If the criteria are not met (for example, if the funds are not readily available because they are subject to authorization by the counterpart central bank), the funds would not conform to the definition of reserve assets and the deposit should be recorded as “other investment.” Reciprocal deposits acquired by the partner central bank also are considered as reserve assets, as long as they meet the general criteria for being reserve assets, including being denominated and settled in a convertible currency.

**6.109** If the swap arrangement has the characteristics of a standard (market priced) swap contract, it is recorded as a standard currency/foreign exchange swap. Namely, an exchange of deposits with the simultaneous creation of a forward contract.

**6.110** Reciprocal currency arrangements between central banks may also take the form of a securities repurchase agreement. In this case, one central bank transfers securities (sometimes denominated in its domestic currency) to another central bank in exchange for foreign currency, with the transactions later reversed, typically three months in the future. Such transactions should be treated as collateralized loans, with the central bank that initiated the transaction paying corresponding interest on the foreign currency received. The cash-taking central bank can therefore include the foreign currency received in its reserve assets if the criteria for reserve assets are met. The cash-receiving central bank should reclassify the repoed out securities from reserve assets to portfolio investment, if they were included in reserve assets prior to the repo transaction but they are no longer readily available for meeting balance of payments financing needs (or available for meeting balance of payments financing needs only if a substitute reserve asset has to be provided as collateral). The cash-providing central bank should not include the securities received as collateral in its reserve assets as the securities are treated as not having changed economic ownership (see paragraph 5.61). See also paragraph 6.94 on securities lending or borrowing transactions in reserve assets.

**6.111** When a central bank acquires or disposes of a liquid foreign currency claim on a nonresident from a domestic bank (e.g., through an exchange of foreign and domestic currency deposits, a change in reserve requirements on foreign currency deposits, or other domestic transactions that increase or change the composition of reserve assets), this is recorded through the other changes in volume account. It is not recorded in the BOP, given that the transaction is between two residents (see paragraph 3.22).

### ***i. Foreign Assets that do not Qualify as Reserve Assets***

**6.112** Lines of credit (including the arrangements with IMF such as the Flexible Credit Line (FCL) and the Precautionary and Liquidity Line (PLL)) that could be drawn on and foreign exchange resources that could be obtained under swap agreements are not reserve assets because they do not constitute existing financial claims (see Annex 9 for additional details on FCL and PLL). Real estate owned by the monetary authorities is not to be included in reserve assets because real estate is not considered a liquid asset. Silver bullion, diamonds, and other precious metal and stones are not included in reserve assets because they are considered goods and not financial assets. Further, crypto assets without corresponding liabilities designed to act as a general medium of exchange should not be included in reserve assets as they are treated as nonproduced nonfinancial assets.

**6.113** Capital subscriptions to international organizations that are not readily available to the monetary authorities do not meet the definition of reserve assets. These subscriptions are included in other investment, other equity and equity in international organizations.

**6.114** Pledged assets are typically not readily available. Those pledged assets that are encumbered and therefore are not readily available should be excluded from reserve assets.

**6.115** An example of pledged assets is collateral used for third-party loans and third-party payments. If these assets are encumbered, they should be excluded from reserve assets. However, assets may be pledged as collateral to provide guarantees in the event of default by another unit, or for lines of credit, and may not be encumbered until events occur to trigger the pledge. Such assets can be included in reserve assets until encumbered. Other examples of pledged assets that are to be excluded from reserve assets include (a) assets pledged by the monetary authorities to investors as a condition for the investors to invest in securities issued by domestic units (such as central government agencies), if such pledged assets are considered encumbered; (b) assets lent by the monetary authorities to a third party that are not available until maturity; and (c) assets provided as collateral under reverse transactions (e.g., repos) that are not readily available for meeting balance of payments financing needs.

**6.116** The pledged assets should be excluded only to the extent of the value of the pledge; in other words, if the pledge is valued at 100, the maximum amount to be excluded from reserve assets is 100.

**6.117** In some circumstances, assets held as reserve assets may be “frozen,” such as by a foreign government or international organizations (in the case of SDR holdings and reserve positions in the IMF) within whose jurisdiction the assets are located, restricting their availability. In such circumstances, the reserve assets that are affected are to be reclassified to the relevant functional category, such as “portfolio investment” or “other investment” if securities, bank deposits, SDR holdings, and the reserve position in the IMF are “frozen.” If monetary gold is “frozen,” either it is demonetized (gold bullion) or reclassified as other investment, currency and deposits, assets (unallocated gold accounts).

**6.118** Foreign currency claims that are transferred to the monetary authorities by other institutional units in the reporting economy just prior to certain accounting or reporting dates, with accompanying reversals of such transfers soon after those dates (commonly known as “window dressing”), should not be counted as reserve assets.

**6.119** Net creditor positions in regional payments arrangements that involve reciprocal lines of credit—a characteristic of loan arrangements (see paragraph 5.58)—are classified as loans in other investment<sup>25</sup> and are not included in reserve assets, except in circumstances in which they are considered readily available to the monetary authorities to meet a balance of payments need and other related purposes. Net asset balances in bilateral payments

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<sup>25</sup> Net debtor positions in such arrangements are also classified as loans.

agreements have much in common with other types of tied loans that authorities make to stimulate exports, provide aid, or further other aspects of government policy. Such bilateral payments agreement balances are therefore conventionally excluded from reserve assets. Also, owing to their nature, working balances of government agencies are not included in reserve assets.

### ***j. Other Issues***

**6.120** Assets owned by the monetary authorities that do not meet the criteria to be classified as reserve assets are classified in the financial account and integrated IIP under the appropriate instrument and functional category.

**6.121** Currency unions and economies that adopt another currency (such as dollarization and euroization) raise specific issues for the concept of reserve assets. These issues are discussed in Annex 3.

## **2. RESERVE-RELATED LIABILITIES**

**6.122** *Reserve-related liabilities are defined as foreign currency liabilities of the monetary authorities that can be considered as direct claims by nonresidents on the reserve assets of an economy.* Though not identified as such in the standard components of the BOP and integrated IIP, where they are included in other categories (notably portfolio and other investment), reserve-related liabilities are important to monitor. Reserve-related liabilities can be presented by instrument and maturity (see Annex 14, Table IV). Short-term reserve-related liabilities on a remaining maturity basis are a memorandum item to the IIP (as shown in Box 6.5). Some economies may choose to present the full table of foreign currency assets and liabilities in Annex 14, Table IV, separately identifying the short-term reserve-related liabilities.

**6.123** The value of the SDR allocation and loans from the IMF to monetary authorities are included in reserve-related liabilities. Other liabilities covered include:

- Foreign currency loan and deposit liabilities of the monetary authorities to nonresidents, including those arising from foreign currency swaps with other central banks, loans from BIS, and from other deposit-takers;
- Foreign currency loan liabilities to nonresidents associated with securities that the monetary authorities have repoed out;
- Foreign currency securities issued by the monetary authorities and owed to nonresidents; and
- Other foreign currency liabilities to nonresidents, including foreign currency accounts payable and financial derivatives—recorded on a net basis (liabilities less assets)—

settled in foreign currency and associated with, but not within the definition of, reserve assets (see paragraph 6.95). Such financial derivatives could include those that are not sufficiently liquid or are not integral to the valuation of reserves assets.

Liabilities to residents and liabilities that are both denominated and settled in domestic currency are not included.

### Box 6.6. Net International Reserves<sup>1</sup>

The concept of net international reserves (NIR) is widely used as an indicator of a country's external vulnerability. This box presents a standard statistical definition of NIR based on the conceptual framework of this *Manual* and the *Guidelines* for the International Reserves and Foreign Currency Liquidity Template (IRFCL Template). This statistical definition provides a comprehensive approach aimed to inform reserve adequacy assessments and macroeconomic policy advice. However, country-specific considerations remain paramount in the design and monitoring of IMF-supported programs. The introduction of this standardized statistical definition of NIR should not limit the flexibility to adjust the measurement of NIR considering country specific conditions and circumstances.

- **Net international reserves = reserve assets minus predetermined short-term net foreign currency drains**

NIR are calculated as reserve assets (RA) minus predetermined short-term net foreign currency drains (FCD). FCD are predetermined contractual foreign currency obligations (foreign currency outflows net of inflows) scheduled to come due during the 12 months ahead recorded at cash-flow value when the flows take place, as defined in Section II, IRFCL Template. FCD include short-term on- and off-balance sheet (e.g., financial derivatives, guarantees are not included) foreign currency obligations to residents and nonresidents. This is because RA will be used regardless of whether the drain arises from residents or nonresidents. FCD also include short-term on- and off-balance sheet foreign currency obligations of the central government, as payment of these obligations would usually involve the use of RA.

In cases where short-term foreign currency outflows/inflows vis-à-vis the domestic currency from forwards and futures are scheduled in FCD (IRFCL Template, Section II, 2), corresponding market values of the derivative contracts recorded in RA (Section I.A (5) of the IRFCL template) should be excluded in the calculation of NIR to avoid double counting.<sup>2</sup> Only market values of foreign exchange forwards/swaps, for which notional values are recorded in Section II.2, should be excluded; market values of other types of derivatives (e.g., options) should remain in RA in the calculation of NIR. In cases where

notional values of nondeliverable forwards (NDFs) are included in FCD, they should be excluded in the calculation of NIR as the payment at maturity would only involve the market value of the contract (the market value is included in RA if the contract is settled in foreign currency).

These concepts and data are already covered in this *Manual* and the *Guidelines* for the IRFCL Template. The definition of RA on a gross basis is based on this *Manual*. Although the concept of FCD goes beyond the residence concept of this *Manual*, Section II of the IRFCL Template covers these data.<sup>3</sup> At the time of drafting this *Manual*, the compilation of the IRFCL Template is a requirement to subscribe to the IMF's Special Data Dissemination Standard (SDDS) and to adhere to the SDDS Plus. Even if the country does not compile the IRFCL Template yet, the same information could be collected from the authorities based on the *Guidelines* for the IRFCL Template to calculate NIR.

<sup>1</sup> The statistical definition of NIR goes beyond the general scope of this *Manual* as the BOP framework does not cover transactions and positions with residents. However, this *Manual* provides guidance on this issue considering that it is an essential concept widely used to assess external vulnerability of a country and that there are strong needs for a standardized definition as a benchmark to define country-specific NIR. The IRFCL Template should play the central role in collecting data related to NIR. The *Guidelines* for the IRFCL Template provide a comprehensive framework to collect data related to reserve assets encompassing positions with residents and nonresidents, on- and off-balance sheet items, and those for the monetary authorities and the central government (including guarantees, credit lines, and options), as well as financial instruments denominated in foreign currency and settled in domestic currency.

<sup>2</sup> This exclusion should only apply to the calculation of NIR. The recording of RA in the BOP, integrated IIP, or the recording of items in the IRFCL Template should not change. The treatment of financial derivatives in reserve assets of the BOP and integrated IIP are described in paragraph 6.95.

<sup>3</sup> Section II in the IRFCL Template allows for total pre-determined short-term drains to be decomposed between those of the monetary authorities and the central government, although in practice in most cases this decomposition is not provided. In the very rare case, where the central government has sufficient short-term FX assets, held overseas, then the short-term liabilities of the central government would not be included in the predetermined short-term drains in the calculation of NIR (the liabilities still need to be recorded in the IRFCL Template).

# Chapter 7. Balance Sheet: International Investment Position

## A. CONCEPTS AND COVERAGE

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### References:

- 2025 SNA, Chapter 14, Balance Sheet.
- IMF, *Monetary and Financial Statistics Manual and Compilation Guide 2016*.
- *BPM Compilation Guide*
- IMF and others, *External Debt Statistics: Guide for Compilers and Users 2014*.

**7.1** *The IIP is a statistical statement that shows at a particular point in time the value and composition of*

(a) *financial assets of residents of an economy that are claims on nonresidents or are gold bullion held as reserve assets, and*

(b) *liabilities of residents of an economy to nonresidents.*

The difference between an economy's external financial assets and liabilities is the economy's net IIP, which may be positive or negative.

**7.2** The IIP is a subset of the national balance sheet. The net IIP plus the value of nonfinancial assets equals the net worth of the economy, which is the balancing item of the national balance sheet. The classification of nonfinancial assets is shown in Table 5.1 and financial instruments and their corresponding income items in Table 5.2.

**7.3** The IIP relates to a point in time, usually at the beginning of the period (opening value) or end of the period (closing value). The integrated IIP presentation in Table 7.1 explains the changes between the values in the opening and closing positions of the IIP through the accumulation accounts, which consist of the BOP financial account transactions and the other changes in financial assets and liabilities accounts. The latter, in turn, comprises revaluations and other changes in volume.

**7.4** This chapter explains the coverage, presentation, classification, timing, and valuation issues for the IIP, and its relationship to accumulation accounts.

**7.5** The content of the integrated IIP can be presented in several different ways. Table 7.1 shows an overview of the structure and components of the integrated IIP by functional category and broad financial instruments. This presentation emphasizes how

changes in the IIP result from financial account transactions (discussed in Chapter 8) and other changes in financial assets and liabilities (discussed in Chapter 9) during a period.

**7.6** Table 7.2 provides another presentation that emphasizes the breakdown of the integrated IIP by institutional sector and functional category. Institutional sectors in the integrated IIP refer to the resident sector, not the counterpart sector (i.e., the sector of the domestic holder or lender for assets, and the sector of the domestic issuer or borrower for liabilities).

### **Additional Detail**

**7.7** Previous editions of the *Manual* highlighted the importance of compiling the IIP, emphasizing the role of balance sheet analysis in understanding sustainability and vulnerability. They also underscored the importance of analyzing currency mismatches, the implications of sector and interest rate composition of debt, and the effect of the maturity structure on liquidity. Consequently, currency composition and remaining maturity classifications of the IIP are encouraged as additional information. Annex 14 provides presentation tables of currency composition of assets and liabilities by sector with a breakdown by certain foreign currencies, namely the U.S. dollar, euro, renminbi, yen, pound sterling, and others, together with a breakdown by original maturity. The tables also provide information on the remaining maturity of long-term debt liabilities, with a breakdown by sector. These tables are consistent with the standard components of the IIP and with the presentation adopted in *External Debt Statistics: Guide for Compilers and Users 2014*.

**7.8** This edition of the *Manual* reflects the increasing importance of the integrated IIP presentation for analytical and policy purposes. The granular data from the integrated IIP presentation (transactions, revaluations, and other changes in volume) are particularly helpful for analyzing net IIP dynamics (see paragraphs 19.15–19.19). The integrated IIP is part of the standard components of *BPM7* as presented in Annex 14. Separate reporting of data on (a) cancellations and write-offs of debt; and (b) reclassifications under other changes in volume is encouraged (i.e., they will be part of supplementary items) as indicated in the note to Table 7.1.



**Table 7.1. Integrated International Investment Position Statement**

(Including functional categories, instruments, and link to accumulation accounts)

	Beginning of period IIP	Accumulation accounts							End of period IIP
		Transactions from BOP's financial account	Other changes in financial assets and liabilities accounts						
			Revaluations			Other changes in volume			
			Total	Exchange rate changes	Other price changes	Total	Of which: Cancellations and write-offs of debt*	Of which: Reclassifications*	
<b>Assets</b>									
By functional category									
Direct investment									
Portfolio investment									
Financial derivatives (other than reserves) and ESOs									
Other investment									
Reserve assets									
By instrument									
<i>Equity and     investment fund     share/units</i>									
<i>Debt instruments</i>									
<i>Special drawing         rights</i>									
<i>Currency and         deposits</i>									
<i>Debt securities</i>									
<i>Loans</i>									

<i>Insurance, pension, and standardized guarantee schemes</i> <i>Trade credit and advances</i> <i>Other accounts receivable/payable</i> <i>Other financial assets and liabilities</i> <i>Monetary gold</i> <i>Financial derivatives and ESOs</i>									
<b>Total assets</b>									
<b>Liabilities</b> By functional category Direct investment Portfolio investment Financial derivatives (other than reserves) and ESOs Other investment By instrument <i>Equity and investment fund share/units</i> <i>Debt instruments</i> <i>Special drawing rights</i> <i>Currency and deposits</i>									

<i>Debt securities</i>									
<i>Loans</i>									
<i>Insurance, pension, and standardized guarantee schemes</i>									
<i>Trade credit and advances</i>									
<i>Other accounts receivable/payable</i>									
<i>Other financial assets and liabilities</i>									
<i>Financial derivatives and ESOs</i>									
<b>Total liabilities</b>									
<b>Net IIP</b>									
Note: This table is expository; for standard components, see annex 14. ESO = employee stock option; IIP = international investment position. * Of which items and do not necessarily add up to the total of other changes in volume.									

## For Additional Information

**7.9** Several other guides provide specialized guidance on particular aspects of the IIP and related statistics, namely:

- IMF, *Coordinated Direct Investment Survey Guide 2015*;
- IMF, *Coordinated Portfolio Investment Survey Guide, third edition*;
- IMF and others, *External Debt Statistics: Guide for Compilers and Users 2014*;
- IMF, *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template*; and
- OECD, *OECD Benchmark Definition of Foreign Direct Investment, fifth edition*.

<b>Table 7.2. Overview of the Integrated International Investment Position</b> (With resident institutional sector breakdown)										
Assets (beginning of period)					By functional category	Liabilities (beginning of period)				
Total economy	Households and NPISHs	General Government	Financial corporations	Nonfinancial corporations		Nonfinancial corporations	Financial corporations	General Government	Households and NPISHs	Total economy
					Direct investment					
					Portfolio investment					
					Financial derivatives (other than reserves) and ESOs					
					Other investment					
					Reserve assets					
					Total Assets/liabilities					
					Net IIP (beginning of period)					

Accumulation accounts (by sector/functional category)										
Transactions from BOP's financial account										
					Changes in assets/liabilities due to transactions					
Other changes in financial assets and liabilities account										
Revaluations (with same breakdown as in Table 7.1)										
					Changes in assets/liabilities due to revaluations					
Other changes in volume (with same breakdown as in Table 7.1)										
					Changes in assets/liabilities due to other changes in volume					
Assets (end of period)					Liabilities (end of period)					
Total economy	Households and NPISHs	General Government	Financial corporations	Nonfinancial corporations	By functional category	Nonfinancial corporations	Financial corporations	General Government	Households and NPISHs	Total economy
					Direct investment					
					Portfolio investment					
					Financial derivatives (other than reserves) and ESOs					
					Other investment					
					Reserve assets					
					Total Assets/liabilities					
					Net IIP (end of period)					
<p>Note: This table is expository; for Standard Components, see Annex 14.</p> <p>IIP = international investment position; NPISHs = nonprofit institution serving households.</p> <p>Memorandum items:</p> <p>Fair value of loan assets (or nominal value of nonperforming loan assets)</p> <p>Short-term reserve-related liabilities</p> <p>Currency composition</p>										

These guides are based on the same core principles, with additional elements including more detail, alternative valuations, discussion of implementation issues, and additional items, such as contingencies, guarantees, and other off-balance-sheet items.

## 1. DEFINITION OF ECONOMIC ASSETS

Reference:

- 2025 SNA, Chapter 11, Capital Account.

**7.10** The IIP covers the subset of financial assets and liabilities that have an external character. In most cases, the external character of a financial asset or liability arises because, of the two parties, one is a resident, and the other is nonresident. The gold bullion component of monetary gold is the only case of a financial asset with no counterpart liability; its external character arises from the historical role of gold in the international financial system. The scope and definitions of different types of economic assets is given in paragraphs 5.2–5.17.

**7.11** The concept of ownership of assets in the IIP is based on economic ownership, as defined in paragraph 5.3. *The economic owner is the institutional unit that is entitled to claim the economic benefits associated with the use of goods, services, natural resources, and financial assets in the course of an economic activity and that is accepting the associated risks.* Ownership of financial assets can be complex in some legal arrangements, for example, the lessor under a financial lease has the legal title, while the lessee has most of the risks and benefits of ownership. (For further details on financial leases, see paragraphs 5.63–5.66 and 7.62.)

## 2. CLASSIFICATION

**7.12** Possible dimensions for the classification of the IIP are:

- Functional category—direct investment, portfolio investment, financial derivatives (other than reserves) and employee stock options (ESOs), other investment, and reserve assets, as defined in Chapter 6;
- Financial instrument—according to the broad groupings (equity and investment fund shares/units, debt instruments, and other financial assets and liabilities) or the full breakdown, as defined in Chapter 5;
- Institutional sector of resident party—at least, central bank, deposit-taking corporations except the central bank, general government, other financial corporations, nonfinancial corporations, and households and NPISHs, as defined in Chapter 4, Sections D-H. Additional subsectoring or supplementary “of which” items

of the financial and nonfinancial corporations sectors may be undertaken following Table 4.2 and Annex 14;

- (d) Maturity (in the case of debt instruments)—short-term or long-term, by original and remaining maturity, as defined in paragraphs 5.115–5.119;
- (e) Currency—domestic or foreign currency, as defined in paragraphs 3.188–3.190 for debt and 3.193 for equity; and (in the case of financial derivatives) to receive or pay foreign currency, as defined in paragraph 5.122; and
- (f) Interest rate structure (in the case of debt instruments)—variable- or fixed-rate, as defined in paragraphs 5.125–5.130.

The integrated IIP could be presented following the first three dimensions. Sector, maturity, and currency are relevant to studies of sustainability, vulnerability, and exposure to exchange rate changes (after taking into account any hedging). The remaining maturity is important to the debtor, but it is less relevant for the creditor with liquid instruments, in that the assets can be sold before maturity. In addition to the institutional sector of the resident party, as in (c), the institutional sector of nonresident counterparty may also be of interest in some cases (e.g., governments may wish to distinguish between other governments, international organizations, and other sources of their borrowing).

**7.13** A consistent classification should be used as far as possible for the IIP and other related accounts. The stock of financial assets and liabilities, financial account transactions, and other changes in financial assets and liabilities all relate to the same instruments, so a consistent classification is necessary for a comprehensive analysis of relationships between them. Similarly, a consistent level of detail for income (and possibly holding gains or losses, for some purposes) and positions allows the estimation of rates of return. Although the external accounts functional classification of financial assets and liabilities is not used in the *SNA* or financial statistics, the instrument and institutional sector classifications are the same. The inclusion of instrument and sector detail in integrated IIP data facilitates understanding and checking the linkages with other data sets such as monetary and financial statistics.

## B. DIRECT INVESTMENT

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**7.14** Direct investment is defined in paragraphs 6.8–6.24. Other aspects of direct investment are covered in paragraphs 6.25–6.42 and Annex 6. Direct investment standard components are presented by instruments (equity and debt instruments) and resident institutional sectors. Presentation based on the relationship between the investor and the entity receiving the investment is included under memorandum items. The directional

principle presentation of direct investment can be used in the IIP on a supplementary basis, as discussed in paragraphs 6.43–6.46 and Box 6.4. Other specific issues concerning direct investment in the IIP are discussed in the following paragraphs.

## 1. VALUATION OF UNLISTED AND OTHER EQUITY

References:

- OECD, *OECD Benchmark Definition of Foreign Direct Investment*, fifth edition.
- IMF, *Coordinated Direct Investment Survey Guide 2015*.

**7.15** Shares and other equity can be readily valued at their current prices when they are regularly traded on stock exchanges or other financial markets. However, there may be no observable market prices for positions in equity not listed on a stock exchange (i.e., items (b) and (c) in paragraph 5.26). This situation often arises for direct investment enterprises, private equity, equity in unlisted and delisted companies, listed but illiquid companies, joint ventures, and unincorporated enterprises.

**7.16** When actual market values are not available, an estimate is required for measuring the equity of unlisted corporations at market-equivalent prices. This *Manual* prescribes three preferred methods for estimating market value: (a) own funds at book value (OFBV); (b) recent transaction price; and (c) market capitalization or price-to-book value (P/B).

(a) Own funds at book value. This method for valuing equity uses the value of the enterprise recorded in the books of the direct investment enterprise, as the sum of (a) paid-up capital (excluding any shares on issue that the enterprise holds in itself and including share premium accounts); (b) all types of reserves identified as equity in the enterprise's balance sheet (including investment grants when accounting guidelines consider them company reserves); (c) cumulated reinvested earnings; and (d) holding gains or losses included in own funds in the accounts, whether as revaluation reserves or profits or losses. The more frequent the revaluation of assets and liabilities (at least, on an annual basis), the closer the approximation to market values. Data that are not revalued for several years will likely be a poor reflection of market values.

(b) Recent transaction price. Unlisted instruments may trade from time to time, and recent prices, within the past year, at which they were traded may be used. Recent prices are a good indicator of current market values to the extent that conditions are unchanged. This method can be used as long as there has been no material change in the corporation's position since the transaction date. Recent transaction prices become increasingly misleading as time passes and conditions change.



(c) Market capitalization method. Book values reported by enterprises can be adjusted at an aggregate level by the statistical compiler. For untraded equity, information on “own funds at book value” (see paragraph 7.16(a)) or other indicators of corporate performance can be collected from enterprises, and then adjusted with ratios based on suitable price indicators, such as the ratio to market capitalization to book value for listed companies in the same economy with similar operations. Alternatively, assets that enterprises carry at cost (such as land, plant, equipment, and inventories) can be revalued to current period prices using suitable asset price indices.

**7.17** Compilers should maintain transparency and state clearly the method(s) used, preferably in the metadata of these statistics. Methods for valuation of direct investment equity positions are discussed in more detail in the *OECD Benchmark Definition of Foreign Direct Investment, fifth edition*. In addition, the *BPM Compilation Guide* will provide practical guidance on the implementation of different methods including a decision tree that serves as a complement for compilers to clarify the alternative methods available for the valuation of unlisted equity depending on the information available. These methods may also be useful for valuation of other unlisted equity securities and other equity.

**7.18** In cases in which none of the above methods are feasible, less suitable data may need to be used as data inputs. For example, cumulated flows or a previous balance sheet adjusted by subsequent flows may be the only sources available. While these methods are not recommended, because these sources use the prices of previous periods, they should at least be adjusted for subsequent price developments, for example, by using aggregate share price or asset price indexes and by taking into account exchange rate movements, where relevant. Unadjusted summing of past transactions should not be used. Equity represents owners’ funds. The means through which equity can be generated may take various forms, such as share issues, equity injections without any commensurate issue of shares (sometimes called “contributed surplus” or “capital contributions”), share premiums, accumulated reinvested earnings, or revaluation. Although these categories should be taken into account when cumulated flows are used to measure the value of equity, the different categories are all components of equity and need not be identified separately.

**7.19** The valuation methods for unlisted equity recommended in paragraph 7.16 can lead to negative values. This is in particular true for OFBV and market capitalization valuation methods. Recent transaction prices will usually not be negative if the investor is not liable for any losses exceeding the capital invested in the enterprises. Box 7.1 provides guidance on the treatment of negative equity positions.

### Box 7.1. Treatment of Negative Equity Positions

This *Manual* recommends recording negative equity positions for unlimited liability entities<sup>1</sup> if the valuation methods for unlisted equity result in such values. With regards to limited liability entities,<sup>2</sup> it is recommended to record negative equity positions as the default option and compilers could only zero out negative positions in specific cases where the shareholders' and their affiliates' liability is strictly limited.

In this regard, strictly limited liability is referring to a situation where the shareholder would not suffer any other direct economic losses than the existing equity investment in case of bankruptcy and would not be likely to take on any financial obligations due to the absence of implicit guarantees or significant reputational risks. Examples of other direct economic losses include loan losses and the realization of guarantees, while the willingness to assume new financial obligations could be related to reputational, societal, or other reasons.

It can generally be assumed that implicit guarantees or significant reputational risks exist when a shareholder's ownership share is at least 10 percent. This implies that negative direct investment equity positions should not be zeroed out unless a direct investor has no legally binding economic obligations, except for the existing equity investment, and a history of not assuming any new financial obligations in the event of bankruptcy or termination of its direct investment enterprises.<sup>3</sup>

Negative equity positions in public corporations and central banks should never be zeroed out. Compilers are encouraged to show negative equity positions as supplementary "of which" items under equity assets and liabilities. Further, stock-flow consistency should be ensured through the recording of revaluations rather than other changes in the volume of financial assets and liabilities if negative equity is zeroed out.

<sup>1</sup> Unlimited liability entities are business structures where the owners or partners are personally liable for all the debts and obligations of the business. In these business structures, there is no legal separation between the business and the owners/partners, so the owners' personal assets are at risk if the business fails or faces legal action.

<sup>2</sup> Limited liability entities are business structures where the owners' liability is limited to the amount of their investment in the company. This means that the personal assets of the owners are generally protected from the debts and obligations of the business.

<sup>3</sup> In case some shareholders are zeroed out while others are not, the latter would only record negative equity proportional to their ownership share.

## 2. ENTITIES THAT BORROW ON BEHALF OF THEIR AFFILIATES

Reference:

- OECD, *OECD Benchmark Definition of Foreign Direct Investment*, fifth edition.

**7.20** An entity resident in one economy may borrow funds on behalf of affiliated enterprises in one or more other economies. The affiliates may include holding companies, parent companies, direct investment enterprises, and fellow enterprises. Examples include SPEs which may be used to undertake the borrowing, or an entity with substantial activities of its own may do the borrowing. In these cases, the liability is nearly always guaranteed by the parent or a fellow enterprise, explicitly or implicitly, in whole or in part. Alternatively, the affiliated enterprise may commit future revenue streams. Regulatory or taxation benefits may be factors behind such arrangements. In these cases, the creditor records a claim on the entity that directly undertakes the borrowing. That is, the creditor does not show its claim as being on the enterprise that ultimately receives the funds or makes the guarantee.

**7.21** When funds raised are passed on by the borrowing entity to an affiliated enterprise, the initial borrowing entity has a claim on the affiliated enterprise. This arrangement can be assumed to give rise to a loan, unless there is evidence that it is a debt security or equity. This borrowing can arise for pass-through funds (discussed in paragraphs 6.32–6.33), conduits (paragraph 4.150 (d)), and SPEs and similar legal structures (paragraph 4.77). In many cases, such investment is reverse investment or investment between fellow enterprises, as discussed in paragraphs 6.41–6.42 and 6.44, respectively.

**7.22** Special rules apply to an entity owned or controlled by general government when that entity is resident in another territory and is used for fiscal purposes. These rules are discussed in paragraphs 8.21–8.23.

## 3. QUASI-CORPORATIONS

**7.23** The identification of institutional units for branches, notional resident units for ownership of land and natural resources, some joint ventures, and preparatory operations prior to incorporation and other quasi-corporations is discussed in paragraphs 4.50, 4.51–4.69, and 4.72–4.73. The effect of the identification of such institutional units is that owners are shown as having a financial claim on the institutional unit, rather than as directly owning the various individual assets.

**7.24** Owners' financial claims on quasi-corporations that are resident in other economies are usually classified as direct investment. In the rare cases in which the proportion of equity in land or a joint venture is less than 10 percent, the claim is classified as other

investment—other equity and equity in international organizations as discussed in paragraph 6.66.

**7.25** Equity in quasi-corporations should be valued as equal to the market value of the quasi-corporations' assets less the market value of liabilities other than equity to both residents and nonresidents. (This method would mean that quasi-corporations have no residual net worth). Alternatively, equity in quasi-corporations may be valued using one of the three preferred methods discussed in the above sub-section on valuation of unlisted equity.

#### 4. INTERCOMPANY LENDING IN DEBT SECURITIES

**7.26** Intercompany lending is discussed in paragraphs 6.26–6.27. While the basic valuation method for debt securities component of intercompany lending is market value, it could be compiled at nominal value as a supplementary item in cases where the economy is significantly impacted by direct investment. Refer to Annex 14, Table III, for further details.

### C. PORTFOLIO INVESTMENT

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#### 1. EQUITY WITH DIVIDENDS DECLARED PAYABLE BUT NOT YET PAID

**7.27** In market quotations, dividends declared payable but not yet paid are taken into account in the share price. After the point of time when ownership of shares is determined for the purposes of payment of dividends, the shares go “ex dividend.” *Ex dividend is the point at which the shares no longer carry the right to the most recently declared dividend. Thus, the dividend value becomes separated from the share price value and the share price falls to reflect the value of the dividend payout.* After that time, dividends declared should be included in accounts receivable/payable until payment is made.

#### 2. DEBT INSTRUMENTS WITH ACCRUED INTEREST

**7.28** Accrued interest not yet paid on debt securities should be included in the outstanding amount of the financial asset or liability. Accrued interest not yet paid includes interest that has accrued and that is not yet due for payment or that is due for payment but in arrears. Accrued interest not yet paid should not be reported separately (such as in other accounts receivable/payable). The market price of a debt security that includes interest that has accrued but is not yet payable is called the “dirty price” and is suitable for valuation of items in the IIP. In contrast, the market price of a debt security excluding the accrued interest not yet payable is called the “clean price” and requires accrued interest not yet paid to be added

for use in the IIP. Methods of calculating the accrual of interest are discussed in paragraphs 12.61–12.93.

### 3. SHORT POSITIONS

**7.29** Short positions occur when an institutional unit sells securities for which it is not the economic owner. For example, a security subject to a repurchase agreement may be on-sold by the security-receiving party (see paragraphs 5.59–5.61 on repurchase agreements). Delivery to the purchaser is made using a borrowed security. The party with the short position records a negative value for the holding of the asset. The short position is shown as a negative asset, rather than a liability.

**7.30** This treatment reflects the economic ownership in that the holder of the negative position is exposed to the risks and rewards of the security, in an equal and opposite way, as the party in a long position. In aggregate, the recording of a negative position overcomes the double counting of the security by both the economic (original) owner and the final owner (the party who bought the borrowed security) and helps present consistent debtor-creditor relationship at a global level. Reverse transactions may be sequenced in a long chain of transactions and positions using the same security. Annex 7 (Box A7.2) explains the recording of on-selling securities that are acquired under repo or security lending in the financial account and IIP.

### 4. UNLISTED DEBT AND EQUITY SECURITIES

**7.31** Positions in unlisted portfolio investment equity securities without an observable market price may be valued using methods discussed in Section B.1 for direct investment equity. Some listed debt securities also may have no quoted prices, for example, if the market is illiquid or the security ceases trading due to suspension, default, or bankruptcy. In such cases, they may function similar to unlisted debt securities in terms of valuation and marketability, despite being initially listed. A market price can be estimated for such debt securities by discounting future cash flows using a discount rate that takes into account the risk of default (present value approach).

### 5. DEBT SECURITIES AT NOMINAL VALUES

**7.32** Whereas the basic valuation method for debt securities is the market value, their compilation at nominal value is encouraged as a supplementary item. The nominal value of debt securities is a useful measure of value from the viewpoint of the debtor, because at any moment, it reflects the present value of amounts owed to the creditors (i.e., sum of funds originally advanced, plus any subsequent advances, plus any interest that has accrued, less any repayments) (see paragraphs 3.244–3.246 for additional details on nominal valuation).

This *Manual* emphasizes the compilation of a table on reconciliation between nominal and market valuation of debt securities liabilities as part of Annex 14, Table V, on the lines of *External Debt Statistics: Guide for Compilers and Users 2014*. In cases where the data on debt security holdings at nominal value are relevant for the economy, the nominal value of the total amount of assets in debt securities may be included in the supplementary table, next to liabilities. For the definition of nominal value and related explanation, refer to Appendix 3.1.

## 6. ZERO-COUPON AND DEEP-DISCOUNT BONDS

**7.33** *Zero-coupon bonds are debt securities that have a single payment at maturity and no coupon payments.* The bond is sold at a discount from face (or par) value, and at maturity, an amount equal to face value is repaid. The difference between the discounted issue price and the face value reflects the market rate of interest at the time of issue—the longer the maturity of the bond and the higher the market interest rate, the greater the discount against the face value. The accrual of interest on zero-coupon bonds is discussed in paragraph 12.78 and is illustrated in Box 12.4.

**7.34** *Deep-discount bonds are debt securities that have small or no coupon payments and are issued at a considerable discount to their face value.* Like the zero-coupon bond, the difference between the issue price and face value accrues as interest over the life of the bond, and the market value of the bond increases as the interest accrues. The accrual of interest on deep-discount bonds is discussed in paragraph 12.79.

## D. FINANCIAL DERIVATIVES (OTHER THAN RESERVES)<sup>4</sup> AND EMPLOYEE STOCK OPTIONS

**7.35** Financial derivatives and ESOs are valued at market prices prevailing on balance sheet recording dates. If market price data are unavailable, other fair value methods (such as option models or present values) may be used to value them. Compilers are generally constrained to use the parties' own accounts. When payments are made before the derivative contract expires (such as payments in interest swaps), the change in the value of the contract is recorded as transactions.

**7.36** A key characteristic of many derivative contracts is that the counterparties make commitments to transact, in the future and at agreed-on prices, in underlying items. The

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<sup>4</sup> A central bank swap arrangement that has the characteristics of a standard (market priced) swap contract involves an exchange of deposit with the simultaneous creation of a financial derivative (refer to paragraph 6.109 for additional details).

present value (or market price) of a financial derivative is derived from the difference between the agreed-on contract price of an underlying item and the prevailing market price (or the market price expected to prevail), appropriately discounted, for that item.

**7.37** For options, the price depends on the potential price volatility of the underlying instrument, the time to maturity, interest rates, and the difference between the strike price and the market price of the underlying item. The counterpart liability is attributable to the writer of the option and is valued at the current cost of buying out the rights of the option holder. For a warrant, the counterpart liability of the issuer is the current outlay required to buy out the exercise rights of the holder. The value of a credit default swap is determined by the difference between the present value of the series of premium payments and the estimated present value of the potential payments in the event of default. The value of a swap contract is derived from the difference, appropriately discounted, between expected gross receipts and gross payments.

**7.38** The market value of financial derivative contracts, except for standard option contracts, can switch from an asset position to a liability position (and vice versa) between reporting dates. The switch is a result of movement in the price of the underlying item(s) from which the value of the derivative contract is derived. When a switch in position occurs (and there are no settlement payments), the market value of the gross asset or liability position at the close of the previous accounting period is revalued to zero, and the gross liability or asset position is revalued from zero to the market value at the end of the present accounting period.

**7.39** Gross asset and gross liability data should be compiled by summing, respectively, the values of all individual contracts in asset positions and the values of all individual contracts in liability positions. Notional values of financial derivatives are presented according to the formats shown in Annex 14, Tables I–II. *The notional value of a financial derivative is the amount underlying a financial derivative contract that is necessary for calculating payments or receipts on the contract, sometimes called notional amount or nominal amount of a financial derivative.* This amount may or may not be exchanged. The notional values are useful for analysis because they provide information about the risk exposure and assist in understanding the link between financial derivatives and the underlying assets to which they relate.

**7.40** Any value changes in financial derivatives are classified as revaluations and are included in the other changes in financial assets and liabilities account (*BPM7*, paragraph 6.62). For financial derivatives that include a foreign exchange risk, the steps for separating exchange rate and other revaluations—as stated in paragraph 9.10—are not applicable. In those cases, a valuation change due to exchange rate changes can arise even in the currency of denomination of the instrument. In some cases, such as cross-currency swaps

that are also interest rate swaps, it may not be practical to separate exchange rate revaluations from other revaluations. The convention is that all revaluation effects are due to other price changes.

**7.41** Cumulation of transactions should never be used to estimate financial derivative positions. Transactions relate largely to option premiums and to settlements. Settlements eliminate positions, while the value of derivatives positions emerges largely from revaluations.

**7.42** ESOs are valued consistently with the cumulated remuneration of employees until the vesting date (see paragraphs 12.24–12.25); thereafter, they are valued at market prices (see paragraph 9.12). ESOs can be measured from a market value of equivalent options or according to an options-pricing model, such as Black-Scholes. International accounting standards give guidance on methods, and recording in the external accounts normally will follow business accounts.

## E. OTHER INVESTMENT

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### 1. VALUATION OF NONNEGOTIABLE INSTRUMENTS

#### *a. Nominal value*

**7.43** Nonnegotiable instruments include loans, deposits, trade credit and advances, and other accounts receivable/payable. The primary valuation for positions in these instruments is nominal value, which is defined in paragraph 3.244. In the case of other equity and equity in international organizations included in other investment, the valuation methods applicable to unlisted direct investment equity may be used, as discussed in Section B.1.

**7.44** Accrued interest not yet paid should be included in the outstanding amount of the financial asset or liability, rather than being classified separately (such as in other accounts receivable/payable). Accrued interest not yet paid also includes implicit financial services on loans and deposits accrued and not yet paid.

**7.45** Nominal values are not adjusted for expected losses or for changes in interest rates. The market value may differ from the nominal value primarily due to changes in market interest rates and the possibility that some liabilities may not be repaid. The possible divergence between nominal and market values arises for loans, but it can also arise for deposits, trade credit and advances, and other accounts receivable/payable.

**7.46** The use of nominal values for some nonnegotiable instruments, instead of market-equivalent values, in the IIP is partly influenced by pragmatic concerns about data availability and also by consistency in reporting by debtors and creditors. Nominal valuation is also useful in



its own right, however, because it shows actual legal liability and the starting point of creditor recovery behavior.

**7.47** In the case of loans with concessional interest rates, positions are valued at nominal value based on the contractual interest rate, similar to any other loans. Concessional lending is discussed in paragraph 14.41 and Annex 2.

**7.48** The nominal value can be reduced by a write-off, restructuring, or debt forgiveness:

- Liabilities are canceled or written off, in part or in full, by the creditor as uncollectible, usually because of the bankruptcy or liquidation of the debtor, or other factors such as a court order as discussed in paragraphs 9.21–9.23.
- In a formal debt reorganization, the old liability is regarded as being extinguished and a new liability created (see Annex 2).

**7.49** While the basic valuation principle for positions in loans is nominal value, when there is evidence of loan deterioration due to publicly known events (e.g., in the context of bank recovery operations), a value reset—even beyond the cases of bankruptcy and liquidation, or court decisions—is recommended (see also paragraph 9.22). Specific guidance on the situations when values should be reset and the criteria to be applied will be provided in the *BPM Compilation Guide*.

### ***b. Additional Data on Loans and Other Nonnegotiable Instruments***

**7.50** While nominal value is the primary valuation method for nonnegotiable instruments, it provides an incomplete view of the financial position of the creditor, particularly in cases in which the instruments are impaired. Consequently, additional items are included for loans to give additional information. The possible items are:

- (a) fair value,
- (b) nonperforming loans, and
- (c) loan loss (bad debt) provisions.

These items are discussed in paragraphs 7.53–7.59. Data on debt in arrears are discussed in paragraphs 5.131–5.134. These are alternative indicators that can be used to assess the effect of impairment<sup>5</sup> and other variations between nominal values and market-equivalent values. Fair value expresses a market-equivalent valuation of the position. Nonperforming loans indicate the value of the loans that are impaired, and loan loss (bad debt) provisions

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<sup>5</sup> For a financial asset, a loss in its future economic benefits or service potential.

show amounts that are deducted from the nominal value to account for expected losses in business accounts.

**7.51** The fair value of loans is shown as a memorandum item for creditors. If fair value data for loans are not available, the nominal value of nonperforming loans should be provided as a memorandum item. These memorandum items are included for assets but not for liabilities. If fair value data are available, nonperforming loans is a supplementary item. Data on loan loss (or bad debt) provisions and arrears also may be provided on a supplementary basis.

**7.52** The same issue of impairment arises for deposits and trade credit. For example, an insolvent bank may have closed its doors, so that its deposits may be worth less than their nominal value, so alternative measures for deposits and trade credit may be prepared, where relevant.

### **c. Fair value**

Reference:

- *International Financial Reporting Standards*, International Accounting Standard 39 Financial Instruments: Recognition and Measurement.

**7.53** *Fair value is a valuation that reflects the market-equivalent value of an asset or liability. It is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.* That is, fair value represents a market-equivalent value, namely, an estimate of what could have been realized if the creditor had sold the loan. It is the preferred indicator of the effect of loan impairment as it represents an attempt to measure the realizable value. The fair value of loan assets is shown as a memorandum item for assets, where available.

**7.54** The calculation of fair value takes into account expected loan losses. In addition, in the case of fixed-rate loans, it takes into account changes in market interest rates. In practice, the availability of fair value estimates of loans is limited by business accounting practice. A recent transaction in the loan or one of similar term, credit risk, and so on provides a good guide to the fair value. As the time since the transaction becomes longer and conditions change, such transactions values become historic prices and not market-equivalent values.

### **d. Nonperforming loans**

**7.55** *Nonperforming loans are defined as those for which:*

- (a) *payments of interest and/or principal are past due by 90 days or more, or*

- (b) *interest payments equal to 90 days or more have been capitalized or delayed by agreement,<sup>6</sup> or*
- (c) *evidence exists to reclassify a loan as nonperforming even in the absence of a 90-day past due payment, such as when the debtor files for bankruptcy.<sup>7</sup>*

**7.56** Nonperforming loans are recorded at nominal value, which allows them to be compared with the total value of loans at nominal value. The value should include accrued interest not yet paid. Loans continue to be included in nonperforming loans until written off (see paragraphs 9.21–9.23), forgiven (see paragraphs 14.28–14.29), reorganized (see paragraph 9.11 and Annex 2), or they become performing loans.

**7.57** The 90-day criterion is the time period most widely used, although other periods are used. When the standard definition of nonperforming loans is not used, other definitions based on regulatory frameworks are acceptable. Because identification of nonperforming loans is a bank regulatory concept, it may not be used widely by other creditors. The nominal value of nonperforming loan assets is a memorandum item when loan assets at fair value are not available; otherwise, it is a supplementary item.

**7.58** Information on replacement loans may be provided in addition to nonperforming loans. Replacement loans include loans arising from rescheduling or refinancing the original loan and loans provided to make payments on the original loan. Although these loans may be granted on “easier” than normal commercial terms, provided the terms and conditions of the replacement loan are complied with by the debtor, and subject to national supervisory guidance, the replacement loan is not classified as nonperforming.

### ***e. Loan loss provisions***

**7.59** *Loan loss provisions, also called bad debt provisions, are allowances against bad or impaired loans, based on the lender's judgment as to the likelihood of losses.* These provisions may be used as an indicator of the difference between nominal values and fair values. As explained in Chapter 5 (paragraph 5.16), provisions are not treated as liabilities in the external accounts, because they are not the subject of the sort of (legal) contractual obligations associated with a liability. International accounting standards allow for various approaches to derive these provisions, so procedures may differ between enterprises and between economies. Loan loss provisions may vary from the loss of value of nonperforming loans, for example, because there is adequate collateral for a nonperforming loan, or there is an expectation that a proportion of performing loans will default later.

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<sup>6</sup> If the loan is rescheduled, it is classified as a new instrument (see paragraph 7.58). Rescheduling interest arrears is not sufficient for the loan to have been considered rescheduled, see paragraph A2.12.

<sup>7</sup> See *Financial Soundness Indicators Compilation Guide 2019*, paragraph 5.94.

***f. Deposits, trade credit and advances, and other accounts receivable/payable***

**7.60** Positions in deposits, trade credit and advances, and other accounts receivable/payable give rise to the same issues of nominal and fair values as loans. For example, deposits may be held at a bank in liquidation, or trade credits may have been extended to debtors who have become insolvent. These instruments should be recorded at their nominal value. However, if there is a significant difference between the nominal and fair value, indicators similar to those for loans should be shown as supplementary items.

***g. Metadata on indicators of impairment***

**7.61** In view of the range of options concerning measures of impairment of loans and other nonnegotiable instruments, it is particularly important that metadata provide information on the definitions and sources used. As accounting procedures become more widely standardized, more prescriptive guidance may be given in statistical standards for the adoption of particular indicators of impairment of loans.

**2. FINANCIAL LEASES**

**7.62** A financial lease is defined in paragraph 5.63. The treatment of financial leases is designed to capture the economic reality of the arrangements. It moves away from the legal form by treating goods under a financial lease as if they were purchased and owned by the user. The financial lease is shown as a loan from the lessor to the lessee that is used to finance the acquisition of a fixed asset by the lessee. Financial leases affect goods, services, income, financial flows, and positions.

**3. RECORDING OF POSITIONS ASSOCIATED WITH SECURITIES  
REPURCHASE AGREEMENTS AND OTHER REVERSE TRANSACTIONS**

**7.63** *Reverse transactions are contractual arrangements involving a change of legal ownership of securities, gold, or other assets (e.g., commodities) with a commitment to repurchase the same or similar securities, gold, or other assets, either on a specified date or with open maturity.* They include securities repurchase agreements, gold swaps, securities lending, and gold loans. The commitment to reverse the change in legal ownership in the future at a fixed price means that the original owner retains the risks and rewards of changes in the price of the asset. Accordingly, there is considered to be no change of economic ownership of the security, gold, or other asset, so no transaction in that asset is recorded, and ownership of the asset as shown in the IIP, if the asset is a financial asset, is unchanged.

**7.64** A reverse transaction may be with or without the supply of cash. If cash is supplied, as in a repurchase agreement (repo or securities lending with cash collateral), and in return

the other party supplies securities, the arrangement is regarded as giving rise to a loan or deposit. (The classification of the cash supplied is discussed in paragraphs 5.59–5.61.) Analogously to repos, a gold swap or a swap of other assets for cash is treated as being a loan with the gold or the other asset as collateral, and there is no change in the economic ownership of the gold or the other asset.

**7.65** There may be problems in attributing securities ownership when using custodians as a data source, because custodians may not know whether securities being held are under a repurchase agreement or not.

**7.66** If a party that receives securities under a reverse transaction on-sells the securities to a third party, then it has a short position. The treatment of short positions is discussed in paragraph 7.29–7.30. Fees payable to one of the parties under a reverse transaction are discussed in paragraphs 12.90–12.91.

**7.67** Repurchase agreements, securities lending with cash collateral, and margin lending can be used to obtain short-term financing. Separate information on these types of loans helps in analyzing the degree to which financial corporations are involved in liquidity transformation and in creation of additional leverage. Therefore, data on repurchase agreements, securities lending with cash collateral, and margin lending may be provided as an “of which” supplementary item under loans.

#### 4. OVERNIGHT DEPOSITS

**7.68** *Overnight deposits (or sweep accounts) involve funds that are moved back and forth overnight.* In some cases, these overnight accounts are held in another economy. The funds are returned at the beginning of the next working day and may then be moved back at the close of business. Positions should be measured after funds are moved at the end of the day. The calculation of major statistical aggregates—including external asset and liability positions and financial transactions—can differ substantially depending on whether they are measured before, or after, funds are moved. By measuring positions and transactions after the funds have been moved, consistency is ensured between the measure of interest flows and of positions. In addition, major data users are interested in the size and location of these stocks and flows for risk assessment and other purposes.

## 5. INSURANCE TECHNICAL RESERVES, PENSION AND ANNUITY ENTITLEMENTS, AND PROVISIONS FOR CALLS UNDER STANDARDIZED GUARANTEES

**7.69** These reserves include:

- (a) nonlife insurance technical reserves;
- (b) entitlements of beneficiaries under life insurance policies and pension schemes; and
- (c) provisions for calls under standardized guarantees.

**7.70** Nonlife insurance technical reserves consist of prepayment of insurance premiums less service charges and reserves for outstanding claims (both reported claims and for claims incurred and not reported) for nonlife insurance. Equalization reserves (explained further in paragraph 5.72(b)) for events that have occurred are included, whereas reserves for events that have not occurred are excluded.

**7.71** Insurance technical reserves, pension and annuity entitlements, and provisions for calls under standardized guarantees are regarded as liabilities of the insurance companies and pension funds, and assets of the policyholders and beneficiaries. For economies that are major insurance service exporters or importers, cross-border insurance reserves may be significant. For economies that are major sources or destinations of cross-border workers or that are sources or destinations for retirees who change residence, life insurance and pension entitlements may be important elements of the IIP. Insurance technical reserves may be classified as direct investment in the cases discussed in paragraph 6.27.

**7.72** A discussion on Islamic insurance (*Takaful*) and re-insurance (*Re-takaful*), including their reserves as well as similarities and differences with conventional insurance, is provided in Chapter 17.

**7.73** The nature of the pension entitlement liabilities of the pension fund schemes and the corresponding asset of the beneficiaries depend on the nature of the pension plan:

- (a) *A defined contribution scheme is a pension scheme where the benefits payable to an employee, or a self-employed person, on retirement are defined exclusively in terms of the level of the funds built up from the contributions made over the working life and the increases in value that result from the investment of these funds by the manager of the scheme.* The entire risk of the scheme to provide an adequate income in retirement is thus borne by the beneficiary. The liability of a defined contribution scheme, and the corresponding assets of the beneficiaries, are equal to the current market value of the assets of the fund, including any claims on the scheme's sponsor. Defined contribution plans are always funded.

- (b) *A defined benefit scheme is a pension scheme where the benefits payable to an employee, or a self-employed person, on retirement are determined by an actuarial formula related to the participants' length of service and income, either alone or as a minimum amount payable.* The liability of a defined benefit scheme (including nonautonomous pension funds and unfunded pension schemes), and the corresponding assets of the beneficiaries, are calculated by estimating the present value of the future benefits using actuarial estimates of the expected life length of the beneficiaries. In defined benefit schemes, benefits to the policyholder are guaranteed, but the scheme may be (partially) funded or unfunded. (See paragraphs 5.75–5.77 for more detail about pension entitlements as a financial instrument.)

**7.74** Provisions for calls under standardized guarantees are calculated in a similar way as described for nonlife insurance technical reserves. They are equal to the present value of expected calls under outstanding guarantees, net of any recoveries the guarantor expects to receive from the defaulting parties.<sup>8</sup>

**7.75** To the extent that these reserves, entitlements, and provisions are measured from the accounts of insurance companies, pension schemes, and issuers of standardized guarantees, they may need to be split between liabilities to residents and nonresidents according to a suitable indicator such as premiums payable. The priority attached to the estimation of cross-border proportions of insurance reserves depends on their significance in each economy.

## F. RESERVES

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**7.76** At the appropriate reference dates, reserve assets are valued primarily at current market prices. Monetary gold is valued at the prevailing market price, SDRs are valued at market rates calculated by the IMF, and deposits and loans are valued at nominal values.

**7.77** SDR holdings are a reserve asset, while the allocation of SDRs to IMF members is shown as the incurrence of a liability by the recipient and included in other investment. Therefore, for an economy that holds only its original allocation, its reserve assets are increased by the value of SDR holdings, but its net IIP is unchanged.

**7.78** Reserve-related liabilities are shown as a memorandum item to the IIP on a short-term (remaining maturity) basis (see Annex 14, Table A14-IV). They are defined in

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<sup>8</sup> These amounts may represent an overstatement of the assets and liabilities. For example, financial institutions make 1,000 loans of 20 units each that are covered by standardized guarantees, of which estimated claims are 200. The combined assets (and combined liabilities) of all the parties involved would be shown as 20,200, consisting of 20,000 loans and 200 in expected calls under the guarantees, even though only a maximum of 20,000 could ever be realized. The overstatement arises because the loans are recorded at nominal value.

paragraphs 6.122–6.123. A comprehensive picture of foreign currency assets and liabilities of monetary authorities and central government, including positions with residents as well as nonresidents, can be presented according to the format in Table A14-IV in Annex 14.

**7.79** Positions with the IMF include reserve assets, reserve-related liabilities, other investment, and off-balance-sheet liabilities (these are elaborated in Annex 9).

**7.80** Some governments have large special purpose government funds—usually known as sovereign wealth funds—as discussed in paragraphs 6.98–6.103. Some of these assets may be included in reserve assets or possibly in other functional categories. Where such a fund is significant, the special purpose government fund's foreign assets not included in reserve assets can be shown separately as supplementary items.

## G. OFF-BALANCE-SHEET ITEMS

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**7.81** As noted in paragraphs 5.12–5.16, some actual and potential obligations are not recognized as liabilities in the IIP. Examples include potential liabilities under one-off guarantees, unfulfilled loan commitments, and other explicit contingent liabilities (for further discussion, see Chapter 9, Contingent Liabilities, of *External Debt Statistics: Guide for Compilers and Users 2014*). If such obligations to nonresidents are significant, compilers should provide supplementary data in terms of the maximum exposure loss by type of contingent liability.



# Chapter 8. Financial Account

## A. CONCEPTS AND COVERAGE

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Reference:

- 2025 SNA, Chapter 12, Financial Account.

**8.1** *The financial account records all transactions in financial assets and liabilities between residents and nonresidents.* The financial account indicates the functional categories, sectors, instruments, and maturities used for net external financing transactions. The financial account is classified according to the instrument and functional categories, as discussed in Chapters 5 and 6, respectively. Table 8.1 shows some main headings in the financial account. The left-hand column of Table 8.1 shows the net acquisition of financial assets, and the right-hand column shows the net incurrence of liabilities. In the presentation in Table 8.1, assets are shown before liabilities, in accord with the order used in the IIP and general practice. (However, if the double-entry recording for the BOP as a whole needs to be emphasized, the liabilities could be shown in the first column. That presentation would be consistent with corresponding entries being on opposite sides of the accounts—e.g., a current account credit/revenue usually has an increase in financial assets or reduction in liabilities as its corresponding entry.)

**8.2** Entries in the financial account can be corresponding entries to goods, services, income, capital account, or other financial account entries. For example, the corresponding entry for an export of goods is usually an increase in financial assets, such as currency and deposits or trade credit. Alternatively, a transaction may involve two financial account entries. Sometimes, the financial account transaction involves the exchange of one asset for another, for example, a bond may be exchanged for currency and deposits. In other cases, the transaction may involve the creation of a new financial asset and corresponding liability.

**8.3** The overall balance on the financial account is called net lending/net borrowing. Net lending means that, in net terms, the economy supplies funds to the rest of the world, taking into account acquisition and disposal of financial assets and incurrence and repayment of liabilities. (Net borrowing means the opposite.) Despite the lending-oriented terms, net lending/net borrowing is a balance that takes into account transactions in equity, financial derivatives, and monetary gold, as well as debt instruments. Net lending/net borrowing can be derived from either the sum of the balances on the current and capital accounts (i.e., the sum of credits/revenues less the sum of debits/expenditures) or from the balance on the financial account (i.e., the sum of net acquisitions of financial assets less the sum of net incurrences of

liabilities). In concept, the values should be equal.<sup>1</sup> For a surplus of credits/revenues over debits/expenditures in the current and capital accounts, there is a balancing net acquisition of financial assets and/or reduction of liabilities, which is shown in the financial account. Net lending/net borrowing of the external accounts is also equal to the net lending/net borrowing for the sum of the resident sectors of the national accounts.

**8.4** It may be of interest to show balances for components of the financial account. For example, analysts may be interested in net transactions for each functional category—such as the balance of direct investment derived as net acquisition of direct investment assets less net incurrence of direct investment liabilities.

**8.5** The financial account and the other changes in assets and liabilities account show the contribution to changes between the opening and closing stocks of financial assets and liabilities. (This relationship is represented in the integrated IIP as shown in Table 7.1.) These linkages of the financial account with the IIP and other changes accounts are made more transparent by the use of consistent classifications.

**8.6** As shown in Table 8.1, the financial account shows net acquisition of financial assets and net incurrence of liabilities. Net acquisition of financial assets contributes to net changes in financial assets, which is wider in that it includes changes resulting from other flows, as well as transactions. Similarly, net incurrence of liabilities contributes to net changes in liabilities.

<b>Table 8.1. Overview of the Financial Account</b>		
	Net acquisition of financial assets	Net incurrence of liabilities
Direct investment		
Portfolio investment		
Financial derivatives (other than reserves) and employee stock options		
Other investment		
Reserve assets		
<b>Total</b>		
Of which:		
Equity and investment fund shares/units		

<sup>1</sup> In practice, they may not be equal, and the difference should be recorded as a statistical discrepancy (see paragraph 2.25).

Debt instruments
Other financial assets and liabilities
<b><i>Net lending / net borrowing (from financial account)</i></b>
Note: This table is expository; for standard components, see Annex 14.

## Net Recording

**8.7** Net recording in the financial account means aggregations whereby all acquisitions of a particular asset or incurrences of a particular liability are netted against all disposals in the same asset type or repayments in the same liability type. However, changes in financial assets should not be netted against changes in liabilities, with the possible exception for financial derivatives noted in paragraph 8.32 and in the balancing item. To illustrate the correct use of netting, acquisition of portfolio investment in equity is netted against the sales of that type of equity; new bonds issued are netted against redemption of bonds issued; but acquisition of bond assets is not netted against incurrence of bond liabilities. The net recording principle should be applied at the lowest level of classification of financial instruments, taking into account the functional category, institutional sector, maturity, and currency classifications, where applicable. In contrast to the net recording used in the financial account, the current and capital accounts are recorded on a gross basis, as explained in paragraph 3.212.

**8.8** Net recording of flows in financial assets and liabilities are recommended in the external accounts for both analytical and pragmatic reasons. Financial markets are typified by large turnover. The focus of the financial account is on the net changes in each category of external financial assets and liabilities due to transactions. Also, gross reporting of data may not be possible for certain classes of units and for some financial instruments.

## Gross Recording on a Supplementary Basis

**8.9** Data on gross flows are useful for analyzing market turnover and market behavior, and for measuring service fees generated. Often, a small net value may be the outcome of large gross flows. Where practical to do so, data on drawings and repayments on loans or acquisitions or disposals of other instruments could be made available to users on a supplementary basis. The data could be provided comprehensively or only for particular components.

## Timing and Valuation

**8.10** General principles for the time of recording for financial account entries are discussed in paragraphs 3.164–3.170. Transactions involving financial assets are recorded

when economic ownership changes. Some financial liabilities, such as trade credit and advances, are the result of a transaction in nonfinancial items. In these cases, the financial claim is deemed to arise at the time the corresponding nonfinancial flow occurs.

**8.11** In some cases, the parties to a transaction may perceive ownership to change on different dates because they acquire the documents evidencing the transaction at different times. This variation usually is caused by the time taken for delivery of documents and processing of transactions. The amounts involved in such “float” may be substantial in the case of transferable deposits and other accounts receivable/payable. If no precise date can be fixed, the date on which the creditor receives payment or some other financial claim can be adopted as a convention.

**8.12** Financial account transactions in general are recorded at observed market prices, as discussed in paragraph 3.226

**8.13** The price of financial instruments should be recorded exclusive of any commissions, fees, service charges, regulatory levies, and taxes, whether charged explicitly, included in the purchaser’s price, or deducted from the seller’s proceeds. Commissions and dealers’ margins, as discussed in paragraphs 11.73–11.78, are payable in return for the provision of financial services, so they should be excluded from the instrument price and included in services, where applicable. Therefore, the buyer and seller record financial account transactions, at the same mid-price, that is, the midpoint between the buyer’s price and the seller’s price.

## **B. DIRECT INVESTMENT**

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**8.14** Direct investment is defined in paragraphs 6.8–6.24. Specific issues in direct investment are discussed in the following paragraphs and in Annex 6. Direct investment from direct investor to direct investment enterprise, reverse investment, and between fellow enterprises are identified separately. Presentation of direct investment financial flows according to the directional principle is discussed in paragraphs 6.43–6.46 and Box 6.4.

### **1. REINVESTMENT OF EARNINGS**

**8.15** Reinvestment of earnings arising from a direct investor’s equity in its direct investment enterprise is recorded as an imputed financial account entry. It is the corresponding entry and equal to reinvested earnings, which is an item in the earned income account (defined in paragraphs 12.42–12.49; it is the direct investor’s share of the retained earnings or net saving of the direct investment enterprise, before reinvested earnings payable are deemed distributed). The financial account entry is shown separately under direct investment equity.

**8.16** Reinvestment of earnings may be negative in some cases, for example, in case of losses by the direct investment enterprise or if dividends payable in a period are larger than net earnings in that period. Just as positive reinvested earnings are treated as being an injection of equity into the direct investment enterprise by the direct investor, negative reinvested earnings are treated as a withdrawal of equity.

## 2. DIVIDENDS AND WITHDRAWAL OF EQUITY

**8.17** The concept of superdividends does not apply to direct investment in the standard presentation because any distributions paid out of distributable income from the current period and accumulated retained earnings from previous periods are treated as dividends (see paragraphs 8.26 and 12.33). However, distributions beyond that would not be included in dividends and should be recorded as withdrawals of equity (see also paragraph 12.34). Such distributions could be funded, for example, from the sale of assets. If a direct investment enterprise has more than one investor, the calculations should be made for each investor based on the ownership share.

## 3. DIRECT INVESTMENT FLOWS IN KIND

**8.18** Goods, services, and other resources may be supplied by or to affiliated enterprises at above or below market prices, or with no payment. For example, a direct investor may supply machinery and equipment to its direct investment enterprise. When goods and services are supplied below cost by a direct investor to a direct investment enterprise, if there is no other indication about the motivation, it can be assumed to be for the purposes of building up the direct investor's equity in the direct investment enterprise. As discussed in paragraphs 3.113–3.114, 10.30, and 12.120–12.121, when such flows can be valued, the difference between the market value of the goods and services and the prices actually charged should in principle be recorded as direct investment equity transactions.

## 4. MERGERS AND ACQUISITIONS

**8.19** Mergers arise when two or more companies agree to combine into a single operation. Acquisitions involve the purchase of one company or group of companies by another company or group of companies (though not all the shares may be acquired by the purchaser). Mergers and acquisitions data are not identified as standard components within direct investment. Nonetheless, there may be interest in such data because the nature of mergers and acquisitions may differ from other direct investment—for example, they may not provide any new financing for the firms involved but rather represent a change in investors. See *OECD Benchmark Definition of Foreign Direct Investment, fifth edition*, Chapter 9, which discusses the definition and collection of data on merger and acquisition

transactions. Mergers and acquisitions can be differentiated from greenfield investment and extension of capacity, which are described in Annex 6.

## 5. CORPORATE INVERSION AND OTHER RESTRUCTURING

**8.20** *Corporate inversion describes the corporate restructuring of an MNE group such that the original ultimate controlling parent company in one economy becomes a subsidiary of the new parent in another economy. In addition, ownership of a group of enterprises may be shifted to the new parent company.* Such arrangements may also be called corporate relocations, headquarters relocations, or corporate restructuring. The process may take place over more than one period. Although corporate inversion has a comparable economic effect to a change of residence of the parent company (as discussed in paragraphs 4.231 and 9.37–9.39), it differs in that inversion is achieved by transactions in assets between different entities, rather than by a single entity changing its residence. So, corporate inversion results in financial transactions being recorded in the financial account. However, some other types of restructuring may involve other changes in volume, for example, if corporations change residence. Corporate inversions are described in further detail in Annex 6, and data may be published on a supplementary basis.

## 6. BORROWING FOR FISCAL PURPOSES

**8.21** Special rules apply to an entity owned or controlled by general government when that entity is resident in another territory and is used for fiscal purposes. Such entities are resident in their economy of incorporation or registration, and not in the economy of their owner (as discussed in paragraphs 4.90–4.92). For example, a government may use a special purpose or other entity to issue securities to fund its expenditure. Fiscal purposes refers to the distinctive motivation of the general government sector, as discussed in paragraphs 4.153–4.154. Fiscal purposes can be distinguished from commercial purposes because fiscal purposes are always oriented to serving the objectives for the government's home territory.

**8.22** When an entity resident in one economy borrows on behalf of the government of another economy, and the borrowing is for fiscal purposes, the following entries are made:

- (a) At the time of borrowing: the borrowing entity records a liability in the instrument in which they borrowed, e.g., borrowing through issuance of bonds would result in an increase in debt security liabilities for the borrowing entity. The borrowing entity's claim on the government is imputed through a transaction creating a debt liability of the government equal to the amount of the borrowing, and in the same financial instrument as the debt incurred by the borrowing entity. The corresponding entry is

- an increase in the government's equity in the borrowing entity, matched by an increase in equity liabilities for the borrowing entity.
- (b) At the time funds (or resources acquired with the funds) are passed to the government (as applicable): the flow of funds is shown as a transaction, matched by a reduction of the government's equity in the borrowing entity by the same amount.
  - (c) At the time expenses are incurred, revenues are made, or resources or funds are provided by the borrowing entity to a third party (i.e., are not passed to the government), where applicable: a transaction between the government and the entity is imputed, with the matching entry as a withdrawal or increase in the value of the government's equity. The imputed transaction should be recorded according to its nature, e.g., as interest expenditure on the imputed debt of the government, government revenue, current or capital transfer, or acquisition of assets in the government accounts.

These entries are made symmetrically for both the government and the borrowing entity. These entries do not affect the transactions or positions between the borrowing entity and its creditors or other third parties, which are recorded as they occur with no imputations.

**8.23** The reason for having a special approach for government units is that, unlike in the private sector, the nonresident unit undertakes functions at the behest of general government for public policy, not commercial purposes. Without this approach, a misleading picture of government expenditure, revenue, and debt could arise.

## C. PORTFOLIO INVESTMENT

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**8.24** Portfolio investment is defined in paragraphs 6.57–6.60.

### 1. REINVESTMENT OF EARNINGS IN INVESTMENT FUNDS

**8.25** Unlike other earnings on portfolio investment, the undistributed earnings of portfolio investment in investment funds are imputed as being payable to the owners and then as being reinvested in the fund. The financial account entry for reinvestment of earnings is the corresponding entry to the reinvested earnings of investment funds in the earned income account item (which is covered in paragraphs 12.57–12.60). The treatment and calculation of earnings are the same as for reinvested earnings of direct investment enterprises. Reinvestment of earnings may be negative, for example, when a fund has paid dividends out of realized holding gains, or when earnings accrued over previous periods are paid as dividends.

## 2. SUPERDIVIDENDS

**8.26** In contrast to direct investment, the concept of superdividends applies to portfolio investment in the standard presentation where they are treated as withdrawal of equity. *Superdividends are large and irregular payments made by corporations to their shareholders or owners that are funded from accumulated reserves or sales of assets other than cash. If the distributable income is positive, the difference between the payment and the distributable income of the relevant accounting period is recorded as a superdividend under withdrawal of equity. The remainder of the payment (equal to the distributable income) is recorded as a dividend. If the distributable income is negative, the entire dividend payout is recorded as a superdividend under withdrawal of equity.* Distributable income includes net income from the production of goods and services, net property income, and net transfers, and is described in further detail in paragraphs 12.43–12.44. The calculations should be made for each investor based on the ownership share.

## 3. CONVERTIBLE BONDS

**8.27** The classification of convertible bonds is discussed in paragraph 5.53. When the option to convert the bond into shares is implemented, two entries are shown: (a) redemption of the bond and (b) the issue or acquisition of shares.

## 4. DEBT DEFEASANCE

**8.28** *Debt defeasance is an arrangement that allows a debtor (whose debts are in the form generally of debt securities and loans) to remove certain liabilities from the balance sheet by pairing them, irrevocably, with assets of equal value to the liabilities.*

**8.29** Defeasance may be carried out (a) by placing the paired assets and liabilities in a trust account within the institutional unit concerned, or (b) by transferring the assets and liabilities to another institutional unit. In the former case, there are no transactions with respect to defeasance, and the assets and liabilities should not be excluded from the balance sheet of the unit. In the latter case, the transactions by which the assets and liabilities are moved to the second statistical unit are recorded in the financial account of the economies concerned, provided the units are resident of different economies, and are reported in the balance sheet of the second statistical unit. Therefore, debt defeasance sometimes leads to a change in the institutional unit that records those liabilities.

## 5. SHARE AND DEBT BUYBACKS

**8.30** If a corporation buys its own shares, the transaction is classified as being a reduction in the equity liability, rather than an acquisition of an asset. Because a corporation cannot



have a claim on itself, the liability is deemed to be extinguished, even if the shares are not canceled. Similarly, purchase of a debt security by its issuer is treated as redemption of the debt.

## 6. BONUS SHARES

**8.31** Sometimes corporations restructure their shares and may offer shareholders a number of new shares for each share previously held. This can be called stock splits or the issue of bonus shares. In contrast to when new shares are issued in return for additional funds, in these cases, no new resources are provided, and no transaction is recorded.

## D. FINANCIAL DERIVATIVES (OTHER THAN RESERVES) AND EMPLOYEE STOCK OPTIONS

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### 1. FINANCIAL DERIVATIVES

**8.32** Financial derivatives (other than reserves) and ESOs are defined in paragraphs 6.61–6.64. Transactions involving financial derivatives may arise at inception, on secondary markets, with ongoing servicing (such as for margin payments), and at settlement. Financial account entries for derivatives preferably should be shown separately for each of assets and liabilities, but recording of transactions on a net basis is acceptable where separate data on transactions in assets and liabilities are not available (see also paragraph A7.26). Any explicit or implicit service charges should be deducted from the value of the financial derivative. However, distinguishing implicit service charges is not usually possible, in which case, the entire value of the financial derivative is classified as being for the financial asset. Annex 7 describes financial derivatives in further detail.

#### **8.33 At inception:**

- (a) The creation of a forward-type contract does not generally require the recording of a transaction in a financial derivative because risk exposures of equal value are usually being exchanged. That is, there is usually zero exposure and zero value for both sides. In some cases, however, there may be a nonzero transaction value at issue. (In addition, there may be a service charge for the issue, as mentioned in paragraph 11.74.)
- (b) The buyer of an option pays a premium to the seller, which is the acquisition price of the instrument.<sup>2</sup> Sometimes a premium is paid after the inception of the contract. In

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<sup>2</sup> The buyer of a credit default swap contract usually pays a series of premiums to the seller during the life of the contract.

that case, the value of the premium is recorded at the inception of the contract in the same manner as if it had been paid then, but is shown as being financed by other accounts receivable/payable between the seller and the buyer.

**8.34** Subsequent changes in the prices of derivatives are recorded as revaluations, not as transactions (see paragraphs 9.12–9.13).

**8.35** Sales of options in **secondary markets**—whether on exchanges or over the counter—are valued at market prices and recorded in the financial account as transactions in financial derivatives.

**8.36** When a contract requires **ongoing servicing** (such as payments in an interest rate swap) and a cash payment is received, there is a decrease (increase) in a financial derivative asset (liability) if, at the time of the payment, the contract is in an asset (liability) position. If compilers are unable to implement this approach because of market practice, all cash receipts should be recorded as reductions in financial assets, and all cash payments should be recorded as decreases in liabilities.

**8.37 Margins**, in the context of financial derivatives contracts, consist of collateral provided to cover potential obligations—especially those arising from futures or exchange traded options. (As discussed in paragraph 5.106, margin payments in cash are classified as deposits (if they are liabilities of a deposit-taking corporation) or other accounts receivable/payable.)

**8.38 At settlement**, either a cash payment is made, or an underlying item is delivered.

- (a) When a financial derivative is settled in cash, a transaction equal to the cash value of the settlement is recorded for the derivative. In most instances, when a cash settlement payment is received, a reduction in a financial derivative asset is recorded. When a cash settlement payment is made, a reduction of a financial derivative liability is recorded.
- (b) When an underlying item is delivered, two transactions are recorded:
  - The transaction involving the underlying item is valued at the market price at the time. The entry for the underlying item is recorded under the relevant heading (goods, financial instrument, etc.).
  - The transaction involving the derivative is valued as the difference, multiplied by the quantity, between the market price for the underlying item and the strike price specified in the derivative contract.
- (c) When more than one contract is settled—in cash, at the same time, and with the same counterparty—some of the contracts being settled are in asset positions and

some are in liability positions. In this situation, transactions involving assets should be recorded separately from those involving liabilities, wherever possible, but net settlements are acceptable when gross reporting is impractical.

## 2. EMPLOYEE STOCK OPTIONS

**8.39** An ESO is created on a given date (the “grant” date), providing that 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. Transactions in ESOs are recorded in the financial account as the corresponding entry to the remuneration of employees (as discussed in paragraph 12.24) or direct investment (paragraph 12.25). When the option is exercised, the transaction in the ESO is recorded in the financial account at a value that reflects the difference between the market price of the equity and the price paid by the buyer for the equity (see also paragraph 8.38(a) and (b)). Cancellation of ESOs is discussed in paragraph 9.24, while revaluations are discussed in paragraph 9.12. ESOs do not generally raise separate issues to those for financial derivatives, but one special case occurs when an employee of a subsidiary is issued options for stock in the parent company. Because the parent is not the employer, the subsidiary is shown as acquiring the option from the parent. (If the subsidiary pays nothing or an unrealistic value to the parent, a value may be imputed, possibly direct investment, as discussed in paragraph 12.120 on transfer pricing.)

## E. OTHER INVESTMENT

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### 1. ONE-OFF GUARANTEES AND OTHER DEBT ASSUMPTION

**8.40** *Debt assumption is trilateral agreement between a creditor, a former debtor, and a new debtor, under which the new debtor assumes the former debtor’s outstanding liability to the creditor, and is liable for repayment of debt.* Debt may be assumed under a preexisting guarantee, or without a guarantee, such as when a government wants to assist a project, or a direct investor assumes the liabilities of its direct investment enterprises for reputational reasons. One-off guarantees are defined in paragraph 5.78. One-off guarantees are recognized only as financial assets and liabilities from the time they are activated.

**8.41** The assumption of the debt may not require repayment at once. According to the accrual principle for time of recording, the assumption of the debt should be recorded at the time the guarantee is activated, rather than when actual payments are made by the new debtor. Repayments by the new debtor and interest accrued on the assumed debt should be recorded as these flows occur.

**8.42** The recording in the external accounts of debt assumption through the activation of a one-off guarantee or for other reasons varies depending on the circumstances, as discussed in paragraph 8.43.

**8.43** In all cases, the debt-assuming party records the creation of a new liability to the creditor (financial account entry). In addition:

- (a) If the debt-assuming party does not acquire a claim on the (original) debtor because the original debtor no longer exists (e.g., the original debtor has been liquidated), a capital transfer from the debt-assuming party to the creditor is recorded as the corresponding entry to the creation of the liability. The original debt of the debtor to the creditor is written off in the accounts of both the original debtor and the creditor (other changes in financial assets and liabilities account).
- (b) If the debt-assuming party does not acquire a claim on the (original) debtor because the debt assumer seeks to give a benefit to the debtor (as is sometimes the case when governments assume debts), then unless the guarantor is in a direct investment relationship with the original debtor (see (c)), a capital transfer from the debt-assuming party to the original debtor is recorded. The claim on the original debtor by the creditor is extinguished (financial account entries).
- (c) In other cases, the debt-assuming party acquires a claim on the original debtor as a result of the assumption of the debt (financial account entry). Such a claim may be on the original debtor as a debt<sup>3</sup> or as an increase in the guarantor's equity in the original debtor (e.g., assumption of debt owed by a subsidiary will improve the balance sheet of the subsidiary and, hence, the direct investor's equity in the subsidiary). In this case, the claim on the original debtor by the creditor is extinguished (financial account entry).

(The entries are shown in Box 8.1.)

**Box 8.1. Entries Associated with Different Types of Debt Assumption**

*(Showing different situations, recording party, entry, and counterparty)*

**If debt-assuming party does not acquire a claim on the (original) debtor because the original debtor no longer exists (paragraph 8.43(a)):**

Original debtor:                      other change in volume of debt liability to creditor

<sup>3</sup> If the value of the debt claim received by the debt assumer is less than the value of the debt liability assumed, as in (b) a capital transfer for the difference is recorded, unless the parties are in a direct investment relationship (see also paragraph A2.52).

Assumer:	increase in debt instrument liability (credit) to creditor capital transfer (debit) to creditor
Creditor:	capital transfer (credit) from assumer increase in debt instrument claim (debit) on assumer other change in volume of debt claim on original debtor
<b>If debt-assuming party does not acquire a claim on the (original) debtor because the debt assumer seeks to give a benefit to the debtor (paragraph 8.43(b)):</b>	
Original debtor:	capital transfer (credit) from assumer reduction in debt instrument liability (debit) to creditor
Assumer:	increase in debt instrument liability (credit) to creditor capital transfer (debit) to original debtor
Creditor:	reduction in debt instrument claim (credit) on original debtor increase in debt instrument claim (debit) on assumer
<b>If debt-assuming party acquires a claim on the original debtor (paragraph 8.43(c)):</b>	
Original debtor:	increase in equity or debt liability (credit) from assumer reduction in debt instrument liability (debit) to creditor
Assumer:	increase in debt instrument liability (credit) to creditor increase in equity or debt claim (debit) on original debtor
Creditor:	reduction in debt instrument claim (credit) to original debtor increase in debt instrument claim (debit) on assumer
In cases in paragraphs 8.43(b) and (c), three parties are involved in the transaction, so the treatment differs from the standard double-entry system.	

## 2. INSURANCE TECHNICAL RESERVES, PENSION FUND ENTITLEMENTS, AND PROVISIONS FOR CALLS UNDER STANDARDIZED GUARANTEES

**8.44** Insurance, pension, and standardized guarantee schemes transactions need to be broken down into their service, income, transfer, and financial account elements. An overview of the statistical treatment of insurance and pension schemes is given in Annex 8. Insurance technical reserves sometimes may be classified as direct investment, as discussed in paragraph 6.27. The following paragraphs show the composition of the financial account entries.

**8.45** For nonlife insurance, insurance technical reserves consist of prepayments of insurance premiums and outstanding claims. Prepayments of premiums result from the fact that, in general, insurance premiums are paid in advance. Technical reserves against outstanding claims are reserves that insurance enterprises hold to cover the amounts they expect to pay out for claims that have been reported and are not yet resolved and to cover

estimates of claims incurred but not yet reported—including equalization reserves that relate to events that have occurred. When nonlife insurance policies are surrendered by mutual agreement between policyholders and nonlife insurers, the insurance technical reserve liabilities of the nonlife insurers will be reduced by the amount of the unearned premiums that is returned to the policyholders and recorded as a transaction. Correspondingly, the insurance technical reserve assets of the policyholders will be reduced by the same amount and recorded as a transaction.

**8.46** Similarly, for life insurance, pension schemes, annuity funds, and standardized guarantee schemes, the changes in technical reserves due to transactions are recorded in the financial account and consist of the amounts of the estimated obligations to beneficiaries and holders that accrued during the period. Pension entitlements generally include those under both funded and unfunded schemes, but do not include potential benefits under social security schemes (see paragraph 5.76). The increase in pension entitlements shown in the financial account matches the entry in the use of income accounts for the adjustment for change in pension entitlements plus any change in pension entitlements due to capital transfers.

**8.47** Totals for insurance technical reserves, pension entitlements, and provisions for calls under standardized guarantees and related investment income usually can be identified only in the accounts of insurers, pension schemes, and guarantee providers, rather than in the accounts of their customers. For liabilities, these totals relate to resident providers and need to be allocated among resident and nonresident policyholders. In the absence of specific data on the allocation of these values to policyholders, an indicator such as premiums payable may be used. For assets, the reserves, entitlements, and provisions are liabilities of nonresidents and are not observable by residents, so counterpart data or indicators such as ratios of premiums to technical reserves may be necessary. Changes in technical reserves resulting from holding gains or losses are not transactions and therefore are recorded in the revaluation account and not in the financial account.

### 3. SPECIAL DRAWING RIGHTS

**8.48** The allocation of SDRs to IMF members is shown as the incurrence of a liability of the recipient under SDRs in other investment, with a corresponding entry under SDRs in reserve assets.

**8.49** Other acquisitions and sales of SDRs are shown as transactions in reserve assets.

#### 4. SECURITIES REPURCHASE AGREEMENTS AND OTHER REVERSE TRANSACTIONS

**8.50** These arrangements are defined in paragraphs 7.63–7.67 and described in further detail in Annex 7. Because the risks and rewards of security ownership stay largely with the original owner, no transaction in the security is recorded. If one party provides cash that is repayable when the security is returned, however, the provision of cash is classified as a loan (except when it is a liability of a deposit-taking corporation, in which case it is classified as other deposits).

#### 5. CURRENCY

**8.51** Transactions in issued banknotes and coins are recorded under currency and deposits. Transactions by residents with nonresidents using domestically issued banknotes and coins are recorded as transactions in liabilities, and transactions by residents with nonresidents using foreign-issued banknotes and coins are transactions in assets. As noted in paragraphs 3.23, transactions in domestically issued liabilities between nonresidents are not recorded in the financial account of the BOP, and transactions in foreign-issued assets between residents are also not recorded in the financial account but in the other changes in financial assets and liabilities account as reclassifications between different domestic institutional sectors in cases where the transactions are made between different domestic institutional sectors.

#### 6. CHANGE OF CONTRACTUAL TERMS

**8.52** If the original terms of a debt (typically a loan or debt security, but also other debt items) are changed by renegotiation by the parties, then the treatment is that the original liability is repaid, and a new liability is created. In contrast, if the original terms of the contract provide that the maturity or interest rate terms or both change as a result of an event such as a default or decline in credit rating, then this involves a reclassification. (This distinction has an effect on net values in practice in cases in which the original and new terms have a different principal, different instrument classification, or different maturity classification; otherwise, the entries cancel out.)

### F. RESERVE ASSETS

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**8.53** Transactions involving monetary gold are recorded in the financial account only if they occur between two monetary authorities for reserve purposes or between a monetary authority and an international financial organization. (Monetary gold is discussed in

paragraphs 5.85–5.89; and gold in the context of reserve assets is discussed in paragraphs 6.82–6.87.)

**8.54** All transactions in gold bullion other than those included in monetary gold are recorded as nonmonetary gold in the goods account (discussed in paragraphs 10.51–10.55). When a monetary authority acquires gold bullion from, or sells gold bullion to, an institutional unit other than a monetary authority or international financial organization, the gold is monetized or demonetized, as discussed in paragraph 9.25.

**8.55** Similarly, transactions involving unallocated gold accounts are recorded in the financial account under reserve assets only if they occur between two monetary authorities for reserve purposes or between a monetary authority and an international financial organization. Otherwise, they are classified as currency and deposits.

**8.56** Financial account transactions with the IMF involve reserve assets, reserve-related liabilities, other investment, and off-balance-sheet liabilities. They are dealt with in detail in Annex 9.

## G. ARREARS

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**8.57** The accumulation of arrears related to exceptional financing (when it occurs) needs to be included as a memorandum item to the financial account. Exceptional financing is defined and discussed in Annex 1. Incurring arrears does not involve a transaction, because it is a unilateral act of one party. Therefore, it is not shown as giving rise to entries in the standard presentation of the financial account. However, if the debt is renegotiated, then the original instrument is extinguished and a new instrument is created, which should be recorded as transactions in the financial account.

**8.58** In addition to arrears related to exceptional financing, other arrears indicate potential, or actual, problems servicing debt, and so may be shown as supplementary items.



## Chapter 9. Other Changes in Financial Assets and Liabilities Account

### A. CONCEPTS AND COVERAGE

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Reference:

- 2025 SNA, Chapter 13, Other Changes in Assets and Liabilities Accounts.

**9.1** *In the external accounts, other changes in financial assets and liabilities are changes in the value of financial assets and liabilities not due to transactions. They consist of revaluations and other changes in the volume of financial assets and liabilities. Other changes in financial assets and liabilities are also called “other changes” or “other flows.”* Revaluations comprise holding gains and losses while examples of other changes in volume include the unilateral cancellation of debt by the creditor and reclassifications (including those arising from resident-to-resident transactions in financial assets issued by nonresidents). In the external accounts, other changes are recorded only for financial assets and liabilities because the IIP relates only to external financial assets and liabilities.

**9.2** While sometimes derived as residual items, other changes are economic events that are important in their own right and should be shown separately from transactions. They serve to demonstrate significant changes to the value and composition of items in the balance sheet due to events that have important economic consequences.

**9.3** Other changes differ from transactions in terms of their economic nature and accounting entries. A transaction is an interaction between two institutional units by mutual agreement or operation of the law, whereas other changes are changes in the value or volume of assets and liabilities that arise from other economic events. For additional aspects of accounting for other changes, see also paragraphs 3.66–3.75 (types of other flows), 3.137–3.141 (valuation), and 3.173–3.177 (timing).

**9.4** Table 9.1 shows an overview of the other changes in financial assets and liabilities account. The balancing item for the account is net changes in net IIP arising from other changes.

**9.5** Together with the transactions recorded in the financial account, the other changes in financial assets and liabilities explain changes in the IIP. In other words, financial assets and liabilities gain or lose value and appear or disappear as a result of transactions, revaluations, or other changes in volume. This relationship can be expressed as the

following identity, which is an integral part of the standard presentation of the external accounts:

	Beginning of period position
+	Transactions during the period
+	Revaluations during the period:
	Due to:
•	exchange rate changes and
•	other price changes
+	Other changes in volume during the period
=	End of period position.

(Table 7.1 also shows this relationship.)

**9.6** The other changes in financial assets and liabilities account can be presented by the type of asset or liability as well as by the type of other flow. The classification by type of asset or liability should be consistent with that used in the IIP and financial account to facilitate analysis of particular assets and a comprehensive view of asset and liability positions. The other changes in financial assets and liabilities account can also be considered in conjunction with investment income from the earned income account, to obtain another view of the return on financial assets and liabilities (see paragraphs 19.86–19.92). As noted in paragraph 9.15, some retained earnings affect the owners' equity through the other changes account, whereas others affect equity through an imputed transaction.

**Table 9.1. Overview of the Other Changes in Financial Assets and Liabilities Account**

	Revaluations			Other changes in volume		
	Total	Due to exchange rate changes	Due to other price changes	Total	Of which: Cancellations and write-offs of debt	Of which: Reclassifications
Net changes in financial assets due to other changes						
Direct investment						
Portfolio investment						
Financial derivatives (other than reserves) and employee stock options					n.a.	
Other investment						

Reserve assets	
Total	
Of which:	
Equity and investment fund shares/units	n.a.
Debt instruments	
Other financial assets and liabilities	
Net changes in liabilities due to other changes	
Direct investment	
Portfolio investment	
Financial derivatives (other than reserves) and employee stock options	n.a.
Other investment	
Total	
Of which:	
Equity and investment fund shares/units	n.a.
Debt instruments	
Other financial assets and liabilities	
<b>Changes in net IIP arising from other changes</b>	
Note: This table is expository; for Standard Components, see Annex 14. The “of which” items for cancellations and write-offs of debt and reclassifications are supplementary items and do not necessarily sum up to total other changes in volume.	

## B. REVALUATIONS

**9.7** *Revaluations are changes in the monetary value of a financial asset or liability due to changes in the level of prices.* Revaluations may also be called holding gains or losses. As the term suggests, holding gains or losses are changes in the value of an asset that accrue purely as a result of holding assets over time without transforming them in any way. A holding gain occurs when an asset increases in value, or a liability decreases in value; a holding loss occurs when an asset decreases in value, or a liability increases in value. Common causes of revaluation are, for equity, changes in expectations of future incomes and, for debt securities, changes in market yields and the creditworthiness of the debtor.

**9.8** Because of the importance of instruments denominated in foreign currencies in the IIP and their different behavior, the values of revaluation are separated into those due to two factors:

- (a) exchange rate changes and
- (b) other price changes.

**9.9** *Exchange rate changes show all changes in value resulting from exposure to the effect of exchange rates. Other price changes show all changes in value resulting from revaluations, except those due to exchange rate changes.* Revaluation takes into account all price changes during the period, whether realized or not. Holding gains and losses are realized when the asset is sold, or liability extinguished. Holding gains and losses on unsold assets and unpaid liabilities are unrealized but are recorded as revaluation in the other changes in financial assets and liabilities account.

**9.10** An exact measure of the factors contributing to revaluations could be made by tracking each instrument held, bought, or sold during the period. In practice, an approximation can be derived from balance sheet aggregates for each currency of denomination, to separate revaluations into exchange rate changes and other price changes, according to the following steps:

- Step 1: The effect of revaluation due to other price changes is derived for each class of instrument and currency of denomination by subtracting changes due to transactions and other changes in volume from the total change in positions. Because exchange rate changes are always zero in the currency of denomination, all revaluation when expressed in the currency of denomination is due to other price changes. (The currency of denomination is discussed in paragraphs 3.191–3.196.)
- Step 2: The beginning and end of period positions, and changes due to transactions, other changes in volume, and revaluation due to other price changes (as derived in Step 1) are converted to the currency of external accounts compilation using the appropriate exchange rates. Positions are converted by the exchange rate at the relevant date. Ideally, transactions and other flows would be converted at the exchange rate at the time of each event or flow. In the example in Box 9.1, flows are converted at the average exchange rate, which is an approximation that assumes that flows, price changes, and exchange rate movements occurred evenly through the period. If an average exchange rate is used, an average of daily exchange rates is preferable as an approximation. (An average of beginning and end of period rates could be misleading when rates did not move evenly through the period.) Currency conversion is discussed in paragraphs 3.197–3.202.

- Step 3: The effect of revaluation due to exchange rate changes is derived for each class of instrument and currency of denomination by subtracting changes due to transactions, other changes in volume, and revaluation due to other price changes from the total change in positions. The exchange rate effects are always zero on instruments denominated in the currency of external accounts compilation (with the exception set out in paragraph 9.13).

Step 1 needs to be calculated for each currency of denomination by type of instrument, although in practice currencies that represent a small proportion of the total may be combined. For instruments that are valued at nominal prices, there can be exchange rate effects, but no other price changes. A numerical example is given in Box 9.1.

### Box 9.1. Example of Calculation of Revaluation Due to Exchange Rate Changes

The steps are described in paragraph 9.10. The data in normal text are given; the data in bold are derived.

**Step 1.** Derivation of other revaluation in terms of the currency of denomination of the instrument (in this case, €):

Other revaluation can be derived as 8, i.e., 50 (end of period position) – 30 (beginning of period position) – 12 (net transactions) – 0 (other changes in volume) = 8.

**Step 2.** Conversion of currency of denomination to the currency used for compilation of external accounts statistics (in this case from € to domestic currency):

Beginning of period positions are multiplied by 2; flows by 2.5 (rate derived as the average rate on the period); and end of period positions by 3.

**Step 3.** Derivation of exchange rate changes in the currency used for compilation of external accounts: For the bonds denominated in €, revaluation due to exchange rate changes can be derived as 150 (end of period position) – 60 (beginning of period position) – 30 (net change due to transactions) – 20 (net change due to other revaluation) = 40.

	Beginning of period position	Net transactions during period	Other changes in volume	Step 1 Other revaluations	Revaluation due to exchange rate changes	End of period position
Values in currency of denomination:						
Bonds denominated in € (in €)	30	12	0	<b>8</b>	0	50
Exchange rate (domestic currency per €)	2	<b>2.5</b>		<b>2.5</b>		3
Values in currency of compilation:	<b>Step 2</b>	<b>Step 2</b>	<b>Step 2</b>	<b>Step 2</b>	<b>Step 3</b>	<b>Step 2</b>

Bonds denominated in € (in dom. curr.)	60	30	0	20	40	150
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(Use of average exchange rates in Step 2 is an approximation, as discussed in Step 2 of paragraph 9.10. Preferably, exchange rates at the time of the event would be used.)

## 1. DEBT REORGANIZATION

**9.11** A debtor and creditor may change the terms of a debt agreement. The terms may be changed such that the value of the new claim differs from the value of the old claim. In commercial situations, differences in values between old and new claims are generally treated as a valuation change. Debt cancellations and write-offs are other changes in volume and are discussed in paragraphs 9.21–9.24. However, as noted in paragraph 14.28, if there is an intention to convey a benefit, the change may be treated as a capital transfer. Debt reorganization is discussed in further detail in Annex 2.

## 2. FINANCIAL DERIVATIVES AND EMPLOYEE STOCK OPTIONS

**9.12** The exchanges of claims and obligations at the inception of a derivative contract are financial transactions creating asset and liability positions that normally have, at inception, zero value if the instrument is a forward-type contract and value equal to the total premium payable if the instrument is an option. Changes in the value of derivatives due to change in the underlying item are recorded as revaluations. (Changes in the value of derivatives to or from zero are also classified as revaluations, not economic appearance or disappearance of assets.) The settlement of a financial derivative position is a transaction, recorded in the financial account. Changes in the values of employee stock options at or after the vesting date are revaluations (see paragraphs 7.42 and 12.24). (In practice, it may be feasible to recognize the revaluation only at exercise date.)

**9.13** Financial derivatives that include a foreign exchange risk are a case where the steps for separating exchange rate and other revaluation, as stated in paragraph 9.10, are not applicable. In those cases, a valuation change due to exchange rate changes can arise even in the currency of denomination of the instrument. In some cases, such as cross-currency swaps that are also interest rate swaps, it may not be practical to separate exchange rate changes from other price changes, so a convention that all revaluation effects are due to other price changes may be adopted (see also paragraph A7.31).

### 3. IMPLICATIONS OF OTHER FLOWS ALONG OWNERSHIP CHAINS

**9.14** Other flows will sometimes impact the value of a unit. For instance, the value of a direct investment enterprise may change due to exchange rate movements if it has external assets and liabilities denominated in foreign currencies. These changes should be recorded as exchange rate changes by the economy of the direct investment enterprise. The value of a direct investment enterprise is also likely to change if its financial assets in a specific economy are seized with no compensation or its foreign real estate is destroyed in an earthquake. These changes should be recorded as other changes in volume on the asset side by the economy of the direct investment enterprise. Many factors can affect the value of a direct investment enterprise, and these factors should jointly be considered other price changes on its equity. The economy of the direct investor should record such changes in the value of (directly or indirectly owned) direct investment enterprises as other price changes on its equity holdings on the asset side. The economy of an investor should only record exchange rate changes if there is a change in the equity value resulting directly from the currency denomination of the direct investment enterprise's equity. Similarly, it should only record other changes in volume when there is a change in the value of its equity holdings that is neither due to transactions nor due to revaluations (e.g., if the shares it holds in the direct investment enterprise have been seized).

### 4. IMPLICATIONS OF DIFFERENT TREATMENTS OF RETAINED EARNINGS

**9.15** In cases where retained earnings are not imputed as being payable to the owners, these earnings contribute to revaluations. The SNA and external accounts have two treatments for retained earnings:

- For direct investors' equity in their direct investment enterprises and for investment fund shares/units, retained earnings are imputed as being payable to the owners and reinvested as an increase in their equity. (The earned income account entries are discussed in paragraphs 12.42–12.60; the corresponding financial account entries in paragraphs 8.15–8.16 and 8.25.) Similarly, insurance and pension fund reserves and provisions for calls under standardized guarantees include property income attributed to policyholders. (The earned income account entries are discussed in paragraphs 12.94–12.102.)
- In other cases of equity, there is no imputation of income or financial account transactions to the owners on account of retained earnings. The result is that the increase in the value of the equity caused by the accumulation of retained earnings is reflected in increased value in the IIP without a transaction and is, therefore, shown as a result of revaluation.

## 5. IMPLICATIONS OF DIFFERENCES BETWEEN TRANSACTION PRICES AND VALUES RECORDED IN POSITIONS

**9.16** Nominal valuation is used for positions in nonnegotiable instruments, namely loans, deposits, trade credit and advances, and other accounts receivable/payable (see paragraphs 7.43–7.49). However, when transactions in these instruments do occur, they are valued at observed market prices (see paragraph 8.12), with transaction prices often being less than the nominal values, because the market price takes account of the possibility of default. To account for the inconsistency between the market valuation of transactions and nominal valuation of positions, the seller records other price changes during the period in which the sale occurs, equal to the difference between the nominal and the transaction value and the buyer records an opposite amount as other price changes.

**9.17** There can also be differences between transaction prices and the values recorded in the IIP for other types of instruments. For instance, unlisted equity is sometimes traded at values that deviate significantly from the IIP values. In such cases, compilers should use all the information available to improve the quality of the estimated positions when they become aware that they are under or over-estimated (e.g., by implementing backward revisions according to their national revision policy).

## 6. IMPLICATIONS OF TREATMENT OF INTEREST AND SIMILAR RETURNS

**9.18** Any indexation amounts not included in interest are classified as revaluation. The treatment of interest on index-linked instruments is discussed in more detail in paragraphs 12.82–12.88.

**9.19** Revaluations also arise from changes in market yields on fixed-interest debt securities. The value of interest is determined by the yield to maturity at inception (see paragraphs 12.75–12.76), so the effect of any subsequent change in the value of the security due to changes in market interest rates is classified as being due to revaluation.

## C. OTHER CHANGES IN THE VOLUME OF FINANCIAL ASSETS AND LIABILITIES

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**9.20** *Other changes in the volume of financial assets and liabilities are changes in the value of financial assets and liabilities that are neither due to transactions nor due to revaluations. They include, amongst others, economic appearance and disappearance of financial assets and liabilities, catastrophic losses, cancellations and write-offs of debt, uncompensated seizures, reclassifications, and the changes in financial assets and liabilities arising from units changing their economy of residence. Because of the heterogeneous*



nature of other changes in volume, analysts may sometimes wish to identify the major components. While other changes in volume are part of the standard presentation, “of which” items for cancellations and write-offs of debt and reclassifications are included in the external accounts as supplementary items.

## 1. CANCELLATIONS AND WRITE-OFFS OF DEBT

**9.21** A number of circumstances may lead to reduction or cancellation, by other than normal repayment, of liabilities. Debt assumption and debt forgiveness involve transactions and are discussed in paragraphs 8.40–8.43 and 14.28–14.29, respectively. Valuation changes associated with debt reorganization are dealt with in paragraph 9.11. Debt reorganization and related issues are discussed in more detail in Annex 2.

**9.22** Changes in claims resulting from write-offs are excluded from the financial account. Specifically, a creditor may recognize that a financial claim can no longer be collected because of bankruptcy or other factors, and it may remove the claim from its balance sheet.<sup>1</sup> This recognition (by the creditor) should be accounted for as other changes in volume of assets. (The corresponding liability should also be removed from the balance sheet of the debtor.) If there is collateral, only the part of the claim that is not covered by the collateral should be recorded as other changes in volume. The remaining part should be treated as a repayment of the original instrument with a corresponding transaction that would account for the creditor taking economic ownership of the collateral (see also paragraph 9.30).

**9.23** Unilateral cancellation of a financial claim by a debtor (debt repudiation) is not recognized. Debt forgiveness, which is a capital transfer, usually concerns government debt; most commercial situations where the impossibility of debt collection is recognized by the creditor are treated as write-offs.

**9.24** If an employee stock option is extinguished between the grant and vesting dates (e.g., if the employee departs) without an agreed settlement between the parties, an other change in volume is recorded (namely, a loss of an asset by the employee and a reduction of liabilities by the employer).

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<sup>1</sup> Usually, debt is written off as uncollectible because of the bankruptcy or liquidation of the debtor; however, it may also be written off for other reasons, such as a court order or to account for public announcements where nominal valuation clearly provides unrealistic values for loans. The write-off may be full or partial; partial write-offs may arise, for example, under a court order, or if the liquidation of the debtor's assets will allow some of the debt to be settled. Recognition that the debt is uncollectible should be distinguished from internal accounting provisions of the creditor for the possibility of default (such as adjustments to fair value, nonperforming loans). Although such provisions may be useful for analysis, they do not mean that the debt should no longer be recognized as existing. The treatment of provisions is different in business accounting and monetary and financial statistics where such provisions are recognized directly on the balance sheet. Therefore, for external sector statistics purposes, compilers need to adjust data in cases where the source is accounting or monetary and financial statistics data.

## 2. APPEARANCE AND DISAPPEARANCE OF FINANCIAL ASSETS AND LIABILITIES

### *Monetization and Demonetization of Gold Bullion*

**9.25** Gold bullion can be a financial asset (monetary gold) or a good (nonmonetary gold), depending on the holder and the motivation for holding. Monetization is the change in the classification of gold bullion from nonmonetary to monetary. Demonetization is change in the classification of gold bullion from monetary to nonmonetary. The treatment of particular transactions is as follows:

- (a) When a monetary authority sells gold bullion that is a reserve asset to a nonresident unit that is not a monetary authority or international financial organization, an entry for nonmonetary gold is recorded in the goods account. Demonetization of the gold bullion occurs immediately before the transaction and is shown in the other changes in the volume of financial assets and liabilities account of the monetary authority.
- (b) When a monetary authority sells gold bullion that is a reserve asset to a resident unit that is not a monetary authority, there is no external transaction. As in case (a) above, demonetization of the gold bullion occurs immediately before the transaction.
- (c) When a monetary authority purchases gold bullion from a nonresident that is not a monetary authority or international financial organization, the transaction is recorded in nonmonetary gold in the goods account. Monetization of the gold bullion occurs immediately after the transaction and is shown in the other changes in the volume of financial assets and liabilities account of the monetary authority.
- (d) When a monetary authority purchases gold bullion from a resident for its reserve assets, there is no external transaction. As in case (c) above, monetization of the gold bullion occurs immediately after the transaction.
- (e) When buyer and seller are monetary authorities of different economies and both hold the gold bullion as part of their reserve assets, there is a transaction in gold bullion (recorded in the financial account; see paragraph 8.53). The same treatment applies for transactions in gold bullion between a monetary authority and an international financial organization.
- (f) If the monetary authorities deposit gold bullion that they own in an unallocated gold account, the gold bullion is demonetized immediately before the transaction. If the account is with a nonresident, a transaction in nonmonetary gold is recorded in the goods account with a corresponding entry in currency and deposits, and then a reclassification to monetary gold—unallocated gold accounts—if held as a reserve

- asset. However, if the deposit is with another monetary authority or an international financial institution, transactions in monetary gold are recorded (see paragraph 6.85).
- (g) Similarly, if the monetary authorities withdraw gold bullion from an unallocated gold account held as a reserve asset, a reclassification to currency and deposits is recorded before the transaction. As the account is with a nonresident, a transaction in currency and deposits is recorded with a corresponding entry in nonmonetary gold in the goods account. The gold bullion is monetized as monetary gold—gold bullion, if held as a reserve asset. However, if the deposit is with another monetary authority or an international financial institution, transactions in monetary gold are recorded (see paragraph 6.85).
  - (h) If monetary authorities engage in gold swaps, monetary gold provided as collateral that is not readily available for meeting BOP financing needs should be excluded from the cash borrower's reserve assets and either be demonetized and classified as nonmonetary gold (gold bullion) or reclassified to other investment (unallocated gold accounts) through other changes in volume. Once the gold swap has been settled and the gold is again available for meeting BOP financing needs, it should be reclassified to monetary gold.
  - (i) In other cases, gold bullion is nonmonetary at all times and any external transactions are recorded in nonmonetary gold under goods (as discussed in paragraphs 10.51–10.55).

(The above cases relating to a monetary authority also apply to an international financial organization.)

### ***Treatment of Assets Declared Under Tax Amnesty***

**9.26** A tax amnesty is a limited-time opportunity for a specified group of taxpayers to report undeclared income and assets relating to an earlier tax period and pay an amount in exchange for forgiveness of the tax liability, without fear of criminal prosecution. If the declared income and assets were not estimated and considered significant for the economy, or significantly differ from the current estimates, adjustments should be undertaken to record the data on the corresponding instruments. Such adjustments should ideally be implemented as transactions in the relevant periods, ensuring that adjustments for both income and assets are consistent. However, if it is not possible to adjust historical series on assets declared under tax amnesties, as a second best these assets could be recorded in the IIP in the current period through other changes in volume.

### 3. EXTERNAL EVENTS

#### ***Catastrophic Losses***

**9.27** *Catastrophic losses are the result of large scale, discrete, and recognizable events that may destroy a significantly large number of assets within any of the asset categories.* Such events will generally be easy to identify. They include major earthquakes, volcanic eruptions, tidal waves, exceptionally severe hurricanes, drought, and other natural disasters; acts of war, riots, and other political events; and technological accidents such as major toxic spills or release of radioactive particles into the air. Catastrophic losses mostly occur for nonfinancial assets, but they may also arise for financial assets and are recorded as other changes in volume. This could be the case when a foreign-owned property is destroyed in a natural disaster since a notional unit is identified and recorded under direct investment when a nonresident owns real estate (see paragraph 6.30). If the property's value is completely wiped out, the loss should be recorded under direct investment as other changes in volume on the asset side for the economy of the direct investor and on the liability side for the economy of the direct investment enterprise as the notional unit effectively ceases to exist. However, if some value remains, the loss should be recorded under direct investment as an other price change on the asset side for the economy of the direct investor and on the liability side for the economy of the direct investment enterprise (see also paragraph 9.14). This is because the direct investor technically owns equity in the notional unit and not the real estate itself. In addition, where evidence of ownership of financial assets depends on written records and these records are destroyed, it may not be possible to re-establish ownership, and other changes in volume should therefore be recorded. Similarly, accidental destruction of currency or bearer securities may result from a natural catastrophe or political events.

#### ***Uncompensated Seizures***

**9.28** Governments or other institutional units may take possession of the assets of other institutional units, including nonresident units, without full compensation for reasons other than the payment of taxes, fines, or similar levies. If the compensation falls substantially short of the values of the assets as shown in the balance sheet, the difference should be recorded in other changes in volume as an increase in assets for the institutional unit doing the seizing and a decrease in assets for the institutional unit losing the asset. Such actions are called uncompensated seizures of assets. For seizures between residents and nonresidents relating to nonfinancial assets, a supplementary item can be recorded. When units are only indirectly impacted by uncompensated asset seizures through their ownership of units that had their assets seized, then the impact should be recorded as other price changes rather than other changes in volume (see also paragraph 9.14).

### ***Insurance Reserves, Pension Entitlements, and Provisions for Standardized Guarantee Schemes***

**9.29** Changes in model assumptions can give rise to other changes in the volume of insurance reserves, pension entitlements, and provisions for standardized guarantee schemes. For an annuity, the relationship between premiums and benefits is usually determined when the contract is entered into, taking account of mortality data available at that time. Any subsequent changes to mortality data used in the model will affect the liability of the annuity provider towards the beneficiary, with the consequent changes in provisions recorded as other changes in volume. In contrast to changes in model assumptions, changes in pension entitlements negotiated between the parties are transactions, so would be classified as financial transactions, with a concomitant current or capital transfer.

## **4. RECLASSIFICATIONS**

**9.30** A reclassification entry is necessary when a financial asset or liability or an institutional unit changes its characteristics or status without there having been a cross-border transaction. In contrast to reclassifications, other cases—such as the conversion of a convertible bond (see paragraph 8.27) and the exercise of a warrant (see paragraph 5.98)—are shown as transactions involving repayment of the original instrument and creation of a new one because they arise from bilateral agreements.

### ***Tradable Loans***

**9.31** A loan may become a security in the circumstances discussed in paragraph 5.52. In that case, the deduction of nominal value of the old loan is a reclassification, as is the appearance of the new security at market prices. Any difference between the two values at the time of conversion should be recorded as a revaluation of the loan (see also paragraph 9.16).

### ***Change in Contractual Terms***

**9.32** The original terms of a contract may provide that the maturity and interest rate terms change as a result of an event such as a default or decline in credit rating; then this involves a reclassification. In contrast, a change in the terms as a result of renegotiation by the parties is a transaction, and thus is shown as a repayment of the old instrument and issue of a new one in the financial account.

### ***Transactions in Existing Assets***

**9.33** Transactions in existing assets can result in changes in the composition of assets and liabilities in the IIP. As noted in paragraph 3.23, when a financial instrument issued by a nonresident is sold by a resident in one institutional sector to a resident in another sector,

the composition of assets in the IIP is changed by a reclassification entry and not by imputing transactions in the financial account.

### ***Changes in Functional Category***

**9.34** As a result of a change in the relationship between the parties or change in the liquidity of assets, the functional category may be changed. For example, if the relationship between the parties changes to direct investment because an investor adds to its holdings and so qualifies as a direct investor, the previous holdings would be reclassified to direct investment. (See also paragraph 6.35.) Another example is a loan that is reclassified as securities (see paragraphs 5.52 and 9.31) and so from other investment to portfolio investment.

### ***Reclassification of Unallocated Gold Accounts***

**9.35** Unallocated gold accounts are classified as currency and deposits unless they are held by the monetary authorities as part of reserve assets. Unlike gold bullion, unallocated gold accounts have counterpart liabilities. To be classified as monetary gold, the unallocated gold accounts must be held as part of reserve assets, and so the counterpart liability is necessarily on a nonresident.

**9.36** If a monetary authority acquires an unallocated gold account to be classified as reserve assets, it is recorded first as a transaction in currency and deposits and then reclassified to monetary gold (unallocated gold accounts) as a change of classification in the other changes in the volume of assets and liabilities account of the monetary authority. Removing an unallocated gold account from reserve assets is recorded as, first, a change in classification from monetary gold to a currency and deposit in the other changes in the volume account and then a transaction in currency and deposits. However, transactions between monetary authorities and with international financial institutions are recorded as transactions in unallocated gold accounts within monetary gold if the unallocated account is held as a reserve asset.

### ***Financial Assets and Liabilities of Persons and Other Units Changing Residence***

**9.37** The conditions under which units can change their economy of residence were discussed in Chapter 4. When persons and other units change their economy of residence, their existing financial assets and liabilities are added to or removed from the IIP through a reclassification, not by imputing transactions in the BOP. The change in the residence does not involve a transaction between two units, but a change in the status of a single unit. Because of the treatment of ownership of land and buildings, as well as certain other cases (discussed in paragraphs 4.59–4.65), notional units may be created or eliminated as a result of the change in residence status of an owner. The treatment of change in residence applies

to all the financial assets and liabilities, not just those that are shifted to the new economy of residence.

**9.38** In addition to change in the status of existing assets, new financial claims and liabilities may be created by transactions around the time of change of residence. For example, new bank accounts may be created in the new economy of residence. In those cases, the treatment is determined by the residence status of the owner at the time of the transaction. If the relation of the timing of the transaction and the change of residence is unknown or effectively simultaneous, a convention can be adopted, such as that the change of residence occurs first.

**9.39** Corporations sometimes change residence. Most cases labeled as corporate migration involve moving assets between entities (see paragraph 8.20 on corporate inversion). However, in the case when corporate change of residence occurs (see paragraph 4.231), the change in the residence of the owner of financial assets and liabilities is treated as a reclassification, in the same way as a change of residence of individuals.

### ***Change in the Sector of an Institutional Unit***

**9.40** Corporations may also change sector. For instance, other financial corporations may become deposit-taking corporations, or vice versa. In such cases, the change in the sector classification of the owner of financial assets and liabilities is also treated as a reclassification.

## Chapter 10. Goods Account

### A. OVERVIEW OF THE GOODS ACCOUNT

#### References:

- 2025 SNA, Chapter 7, Production Account
- United Nations, *International Merchandise Trade Statistics: Concepts and Definitions*
- United Nations, *International Merchandise Trade Statistics: Compilers Manual*

**10.1** The goods account shows international transactions in goods. *Goods are physical, produced objects, over which ownership rights can be established and whose ownership can be transferred from one institutional unit to another by engaging in transactions on markets.* In addition, electricity which is not a physical object is shown in the goods account. Goods may be used to satisfy the needs or wants of households or the community or used to produce other goods or services. The production of a good can be separated from its subsequent sale or resale. Goods are shown separately from services. Services are defined in paragraph 11.1–11.2.

**10.2** Table 10.1 shows the broad structure of the goods account. The italics show supplementary items that relate to distribution (merchanting and re-exports) and global manufacturing (processing and factoryless goods production) arrangements.

Table 10.1. Overview of the Goods Account		
	Exports (Credits/ Revenues)	Imports (Debits/ Expenditures)
General merchandise on a BOP basis		
<i>Of which: Re-exports</i>		<i>n.a.</i>
<i>Of which: Goods traded within a global manufacturing arrangement</i>		
Net exports of goods under merchanting		<i>n.a.</i>
Goods acquired under merchanting (negative exports)		<i>n.a.</i>
<i>Of which: Material inputs acquired abroad from third parties by the principal within a global manufacturing arrangement</i>		<i>n.a.</i>
Goods sold under merchanting (exports)		<i>n.a.</i>



<i>Of which: Material inputs sold by the principal to a contractor abroad within a global manufacturing arrangement</i>	<i>n.a.</i>
Nonmonetary gold	
Total goods	
Balance on international trade in goods	
Note: This Table is expository; for Standard Components, see Annex 14.	

## Goods and Services

**10.3** The goods account and the services account show transactions in items that are outcomes of production activities. The focus of these accounts is the point at which goods and services are exchanged between a resident and a nonresident. The national accounts also focus on other points, such as their production, consumption, or use in capital formation.

**10.4** *Production is an activity carried out under the responsibility, control, and management of an institutional unit, that uses inputs of labor, capital and goods and services to produce outputs of goods and services.* The term “product” refers to both goods and services.

**10.5** The corresponding entries to goods and services flows may be in the financial, current, or capital accounts. If payment is made at the same time as the provision of the good or service, the corresponding entry is in the financial account, such as in currency and deposits. When payment is made after the time of change of ownership, a trade credit or another form of financial instrument (such as a bill of exchange) is established. If payment is made before change of ownership, there is an advance from the importer to the exporter (see also paragraph 3.152). In some cases, goods and services are exchanged for something other than financial assets; for example, in the case of barter, there is a corresponding entry in goods or in services or in the capital account.<sup>1</sup> In the case of aid or gifts, the corresponding entries are under current or capital transfers.

**10.6** The distinction between goods and services and other entries is determined by the nature of economic value supplied. Goods and services represent outcomes of the production process. In contrast, when other resources, such as labor, land, or other natural resources, or financial resources, are supplied, they are shown in other accounts. Both the goods account and the services account can include transactions in products that were generated in previous periods (e.g., second-hand goods, goods sold from inventories, and

<sup>1</sup> For example, a merchandise import that is paid for using crypto assets without a corresponding liability designed to act as a general medium of exchange would give rise to a debit/expenditure entry in the goods account and a credit/revenue entry in the capital account.

knowledge-capturing products such as software and research embodied in patents) and goods and services that embody a large proportion of output of other economic territories (e.g., re-exports and goods under merchanting).

**10.7** In the BOP, the valuation of goods usually includes transport within the exporting economy as well as wholesale and retail services indistinguishably in the price of the goods. Furthermore, the value of some service items includes the values of some goods in the cases of travel, construction, and government goods and services *n.i.e.* Some services, particularly manufacturing services, repairs, and freight transport, also relate to goods. In practice, the distinction made between goods and services sometimes takes into account other considerations, such as data sources (see, for example, paragraph 10.12(c)).

**10.8** International trade in goods and services includes digital trade. *Digital trade comprises all international trade that is digitally ordered and/or digitally delivered.*<sup>2</sup> Digitally ordered trade is aligned with the 2009 OECD definition of e-commerce but focuses only on international transactions in goods and services. Both goods and services can be digitally ordered whereas only services can be digitally delivered. Digital trade is discussed further in Annex 5 and digitalization is discussed in Chapter 16. Shipping charges associated with digital trade are allocated in line with the FOB valuation principle (see paragraph 10.24). Digital trade is often facilitated by nonfinancial digital intermediation platforms (online marketplaces) that charge a fee for the intermediation service (see paragraph 110.112).

## B. GENERAL MERCHANDISE

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### a. Introduction

**10.9** *General merchandise on a BOP basis covers goods whose economic ownership is changed between a resident and a nonresident and that are not included in the following specific categories: goods under merchanting (see paragraphs 10.40–10.50), nonmonetary gold (paragraphs 10.51–10.55), and parts of travel (paragraph 11.34), construction (paragraph 11.50–51), and government goods and services n.i.e. (paragraph 11.138).*

**10.10** International merchandise trade statistics (IMTS) are usually the main data source for general merchandise in the goods account. The international standards for merchandise trade data are set out in United Nations *IMTS: Concepts and Definitions*. IMTS cover goods “which add to or subtract from the stock of material resources of a country by entering (imports) or leaving (exports) its economic territory” (United Nations *IMTS: Concepts and Definitions 2010*,

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<sup>2</sup> See IMF/OECD/UN/WTO, *Handbook on Measuring Digital Trade*, second edition, 2023

paragraph 1.2).<sup>3</sup> This basis differs from the change of ownership between residents and nonresidents required for BOP, so adjustments need to be made. In other respects, the *IMTS* standards are closely linked to those in this *Manual*.

**10.11** The data used as sources for general merchandise include customs data, international transactions reporting systems, other administrative data (including value-added tax systems), surveys of traders, and direct reporting by enterprises, or combinations. Adjustments to the IMTS source data may be needed to account for coverage, timing, valuation, and classification that do not meet BOP guidelines. It should be noted that United Nations *IMTS: Concepts and Definitions 2010* recommends items for inclusion and for exclusion that are closely aligned with some, but not all, of the items to be included and items to be excluded in general merchandise outlined below (see United Nations *IMTS: Concepts and Definitions 2010*, paragraphs 1.10–1.55). BOP compilers are therefore required to be aware of national practices for coverage of IMTS.

***b. Items to be Included in General Merchandise***

**10.12** Because there is a change of ownership of goods between a resident and a nonresident, the following cases are included in the BOP definition of general merchandise:

- (a) Banknotes and coins not in current circulation and unissued securities (see also paragraph 5.41). They are valued as commodities, rather than at face value.<sup>4</sup> Banknotes and coins may not be in circulation because they have not yet been issued, or they have been withdrawn from circulation and demonetized. Sales of coins to or between collectors at a premium are valued at the transaction price, rather than the face value. (Banknotes and coins in circulation and issued securities are financial instruments and are excluded from goods.);
- (b) Electricity, gas, oil, and water. However, charges invoiced separately for the transmission, transport, or distribution of these products are included in services under transport and other business services—see paragraphs 11.19 and 11.123. Allowing water to flow when that flow is required by international law on river flows is not an external transaction;
- (c) Noncustomized packaged software (systems and applications), information services and video and audio recordings, on physical media, such as disks and other devices, with a license for perpetual use are included in general merchandise. These products

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<sup>3</sup> The update of the United Nations *IMTS: Concepts and Definitions* was underway during the completion of this *Manual*. References are made to the most recently published version of *IMTS: Concepts and Definitions* (2010) (and to the *IMTS Compilers Manual, Revision 1*). Similar content will be available in the forthcoming updated version of *IMTS: Concepts and Definitions* (and the *IMTS Compilers Manual*).

<sup>4</sup> Unissued securities do not meet the definition of financial assets.

are included at their full transaction value (i.e., not at the value of the empty disks or other storage device). Software provided in this manner is included in goods; other software is included in services—see paragraphs 10.18(e) and 11.102–11.103.<sup>5</sup> (Noncustomized software is for general use, rather than being made to order. For classification of customized software and other cases, see Table 11.3.);

- (d) Goods procured in ports by carriers. Goods such as fuels (bunkering), provisions, stores, ballast, and dunnage procured by nonresident transport operators in ports from resident providers are included in exports of general merchandise. Similarly, goods procured by resident transport operators from nonresident providers are included in imports. Ports are defined widely to include sea and ocean terminals, airports, inland waterways, and providers of goods and services used in a territory by road and rail transport service providers that are residents of another economy. Goods procured by ship's crew, drivers, etc. for their own use are included in travel. Fuel costs of small-scale transport operators are goods procured in port by carriers rather than travel (see paragraph 11.29);
- (e) Goods supplied or acquired by carriers away from the territory of residence of the operator. For example, fish and other marine products caught by ships operated by residents of the compiling economy and sold abroad directly should be included. Similarly, oil and minerals retrieved from the ocean floor by resident operators and sold abroad directly should be included. The goods could be acquired or sold in foreign ports or at sea to foreign vessels;
- (f) Goods acquired by a lessee under a financial lease. Financial leases are defined in paragraph 5.63. Because the lessee is the economic owner, a change of ownership between the seller of the goods and the lessee is recorded at the start of the lease. The lessor has legal title but does not have economic ownership. In contrast, goods under operating leases do not change ownership to the lessee, and thus are not included in general merchandise when delivered to the lessee. (Operating leases are discussed in paragraphs 11.113–11.116.);
- (g) Goods sent abroad without a change of ownership, but later sold. Goods sent abroad on consignment or for storage, repair, exhibition, processing, and so forth without a change of ownership are not recorded at the time they are sent abroad, but if they are later sold to a resident of an economy different from that of the owner, they should be recorded in general merchandise. (See paragraph 10.23 for further information on goods on consignment.);

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<sup>5</sup> To assist in analyzing software as a whole, it may be useful to identify separately software included in goods so as to compare or combine it with software included in services.

- (h) Export sales to merchants and import purchases from merchants (the corresponding entries of the merchant are recorded in goods under merchanting, see paragraph 10.45);
- (i) Goods sold to or purchased from nonresidents without the goods leaving the reporting economy. Examples include export sales to merchants and import purchases from merchants under an inverse merchanting arrangement (see paragraph 10.46); and, within global manufacturing arrangements (from the perspective of the economy where the contractor or processor is resident) purchases and sales of goods, by the principal, from or to, residents of the same economy as the contractor or processor, and where the goods do not leave the reporting economy (see paragraphs 10.61(b), 10.62(b), and 10.69(b));
- (j) Goods acquired from, or sold to, nonresidents in a global manufacturing arrangement (from the viewpoint of the economy where the principal is resident) without the goods passing through the reporting economy (see paragraphs 10.61(b), 10.62(b), and 10.69(b));
- (k) Equipment that is sold or given away while outside the territory of residence of its original owner. For example, equipment originally taken out of the territory for temporary purposes, such as construction, exhibition, or fishing, may be subsequently sold or given away;
- (l) Illegal goods;
- (m) Smuggled goods that are otherwise legal;
- (n) Gifts in kind;
- (o) Parcel post where there is a change of ownership;
- (p) Goods lost or destroyed after ownership has been acquired by an importer but before the goods have crossed a frontier. (However, goods lost or destroyed before ownership has been acquired by an importer are excluded from merchandise trade.);
- (q) Livestock that changes ownership;
- (r) Government sales of goods to and purchases of goods from nonresidents. Acquisitions of military equipment from nonresidents should be included in general merchandise. Goods supplied by governments to their own embassies, military bases, and so forth involve resident-to-resident transactions and so are not covered in the external accounts. Expenditure by embassies, military bases, and so forth is included under government goods and services n.i.e. (see paragraph 11.141);

- (s) Goods where there is no associated payment, such as those financed by grants or loans;
  - (t) Humanitarian aid in the form of goods;
  - (u) Goods transferred to or from a buffer stock organization;
- and
- (v) Any other goods not identified in the data sources (e.g., *IMTS*) where there is a change of ownership.

**10.13** When a customs system is used as a source of data on goods, there is a need to make adjustments to include any goods not recorded in customs data where there is a change of ownership (except for goods that should be included elsewhere, such as in parts of travel, construction, or government goods and services n.i.e.). Cases that sometimes arise include shuttle trade (see paragraph 10.14); acquisition of ships, aircraft, and satellites; trade between customs free zones and other special zones of an economy and residents of other economies, or goods that enter customs warehouses, in economies that use the special trade system (see paragraph 10.19); and amounts below customs thresholds.

**10.14** Goods for resale acquired by travelers while on visits (sometimes called shuttle trade) are included in general merchandise. *Shuttle trade covers transactions involving the purchase of goods in an economy by travelers (nonresidents) who then transport these goods back to their economy of residence where they are to be sold; goods purchased by travelers in their home country for resale abroad; and goods purchased by travelers abroad in one economy and sold abroad in a second economy.* Because the intent is not to acquire goods for personal use—recorded under travel—but to engage in a business and to make a profit, the goods acquired and sold are recorded under general merchandise. (Other expenses incurred by these traders are dealt with in paragraphs 10.12(d), 11.17, and 11.29.) Shuttle trade, conducted by a person or economic unit not covered by formal arrangements, is usually considered part of the informal economy. This is discussed further in Chapter 18.

**10.15** Goods for own use or to give away acquired by travelers in excess of customs thresholds and included in customs statistics are also included in general merchandise. For example, durable goods (such as cars and electrical goods) and valuables (such as jewelry) may be acquired in this way and be brought back to the territory of residence of the owner. This treatment is consistent with *IMTS*, but care is needed to avoid double counting such goods by including them also under travel. (See paragraphs 11.34–11.38 for goods included in travel.)

**10.16** When an international transactions reporting system is used as a source of data on goods, there is a need to make adjustments to include any goods where there is a change of ownership but no associated payment. Examples include humanitarian goods as aid, goods as gifts, goods provided to affiliated enterprises, goods under barter transactions, goods under trade credit, and goods where payment involves residents' bank accounts held in other economies.

***c. Items to be Excluded from General Merchandise Because There Is No External Transaction***

**10.17** Because there is no change of ownership of goods between a resident and a nonresident, or because the goods have no value, the following cases are excluded from general merchandise:

- (a) Transit trade. These goods are admitted under special customs procedures that allow the goods to pass through the territory. They are excluded from the general merchandise of the territory of transit;
- (b) Migrants' personal effects. The personal property that accompanies people changing residence is not classified as a transaction because there is no change in ownership;
- (c) Goods consigned to embassies, military bases, and so forth from their home authorities and vice versa;
- (d) Goods sent to an enterprise's external operations where those operations are not sufficiently substantial to constitute a branch. A common example is goods sent abroad from the home base for use in a construction project not undertaken by a separate unit; these goods are not included in exports of general merchandise of the territory of the home base;
- (e) Goods temporarily exported or imported without a change of ownership. Examples include goods for repair, as part of an operating lease, and for storage, and animals or artifacts for participation in exhibitions or competitions. (Such movements of goods should be tracked, so as to identify cases where the goods are subsequently sold, rather than returned; see paragraph 10.12(g). Identification of these movements may help identify associated items, such as repair, operating leases, storage services, exhibition charges, and competition winnings.);
- (f) Inward and outward flows of goods for processing, assembly, labeling or packing by a unit that does not own the goods concerned. (Movements of such goods should be tracked to reconcile *IMTS* with general merchandise on a BOP basis and to assist in identifying associated services charges to be recorded in manufacturing services on physical inputs owned by others, as discussed in paragraphs 11.10–11.16. These

values also help identify cases where the goods are subsequently sold, rather than returned, in which case they are identified as an export from the owner's economy at the time of sale, see paragraph 10.12(g));

- (g) Goods with no positive value (e.g., dangerous goods exported for disposal or storage). These goods are not general merchandise but could give rise to associated disposal or storage services; see paragraph 11.122. However, waste and scrap with positive values are included in general merchandise;
- (h) Returned goods. In these cases, the goods were not accepted, or a change of ownership occurred but the parties later agreed to annul the change of ownership. It is recommended that revised entries should be made to exports and imports for the period when the goods were initially recorded, so as to remove the voided transaction especially for returns of occasional, high-value goods. However, for statistical convenience, deductions from exports and imports may be made in the periods when the goods are returned for minor cases;
- (i) Samples of no commercial value;
- (j) Trade in goods between customs free zones and residents of the same economy; and
- (k) Any other goods that have been included in the data source although there was no change of ownership.

***d. Items to be Excluded from General Merchandise Because They Are Included Elsewhere***

**10.18** The following items are excluded from general merchandise because they are included in other components of the goods account or the services account:

- (a) Goods acquired and subsequently resold by residents but that do not enter the economic territory are shown separately as goods under merchanting, as discussed in paragraphs 10.40–10.50 (except when the goods are the results of factoryless goods production, then the goods transactions are recorded under general merchandise, as discussed in paragraphs 10.68–10.69, and 10.82);
- (b) Nonmonetary gold, as bullion and other forms, is shown as a separate item within goods, as discussed in paragraphs 10.51–10.55;
- (c) Goods that are included in travel, as discussed in paragraphs 11.34–11.38;
- (d) Goods locally acquired for construction undertaken by enterprises that are nonresident in the territory of the location of the work. These goods are included under construction, as discussed in paragraph 11.53;



- (e) Devices, such as disks, with stored computer software, information services or video and audio recordings, that have been customized to order are included under the relevant service item, as discussed in paragraph 11.102;
- (f) Products such as packaged software (systems and applications), video and audio recordings, and so forth that are delivered on disks, magnetic media, or storage devices, but are obtained with a fixed-period license to use (so that they require ongoing periodic payments) rather than with change of economic ownership. (These products are included in computer or audiovisual and related services; see paragraphs 11.102(d) and 11.126, respectively. For related products included in goods, see paragraph 10.12(c).);
- (g) Licenses to reproduce or distribute (or both) audio and video that are conveyed on physical media are included under charges for the use of intellectual property n.i.e., as discussed in paragraph 11.96; and
- (h) Customized blueprints and nonbulk newspapers and periodicals sent on the basis of direct subscription are included in information services. (However, the bulk provision of newspapers and periodicals is included in general merchandise.)

### ***e. General and Special Trade***

**10.19** IMTS may be prepared on either a general or special trade basis:

- The general trade basis covers goods registered to enter the economic territory, including customs free zones (such as commercial free zones, industrial free zones, and premises for inward processing) and customs warehouses. The general trade system is preferred in the United Nations *IMTS: Concepts and Definitions*. It is also preferable for external accounts because it captures transactions involving goods for the whole economy and is more consistent with the coverage of the corresponding financing entries.
- The special trade basis in the strict sense covers goods cleared to enter the free circulation area only. If only special trade system data are available, adjustments are needed for goods movements into and out of customs free zones and customs warehouses.

### ***f. Time of Recording***

**10.20** Transactions involving general merchandise should be recorded at the time of the change of ownership of the goods. If corresponding financial account entries are made (such as currency and deposits or trade credit), goods would be considered to change ownership when parties record the sale or purchase of the goods in their books and make a corresponding change in their financial assets and liabilities.

**10.21** *IMTS: Concepts and Definitions* recommends that the time of recording be based on when the goods enter or leave the territory, with the date of lodgment of the customs declaration a suitable approximation. In practice, some data sources may be based on the time of processing the declarations, which is unsatisfactory if there are either long or variable lags in the time taken to process records. There will be lags between the time of export of a good and the time of its corresponding import arising from the period in which the goods are at sea or in transit through other countries. Ideally for BOP purposes, source data would be adjusted by:

- (a) removing recorded merchandise movements that did not involve a change of ownership in the period, and
- (b) adding merchandise that changed ownership during the period but was recorded in the source data in earlier or later periods.

In practice, the timing of the change of ownership is usually assumed to be approximately the same as the time of customs recording.

### ***High-Value Capital Goods***

**10.22** The production of high-value capital goods such as ships, heavy machinery, and other equipment may take several months or years to complete. As with other goods, the transaction should be recorded at the time that economic ownership is conveyed from the seller to the buyer. The timing in data sources may or may not coincide with the change of ownership; for example, payments data are on the basis of stage payments, whereas customs data are on the basis of the time that the completed item crosses the customs frontier. A progressive transfer of ownership of the high-value capital goods would be evidenced if the buyer were to own the partially completed assets in case of, for example, bankruptcy of the producer. In this case, the output produced each period is recorded as a transaction between seller and the buyer. In the absence of information, the existence of stage payments could be used as an indication of a progressive transfer of ownership. (If change of ownership differs from time of payment, trade credit and advances arise, as discussed in paragraph 5.81.)

### ***Goods on Consignment***

**10.23** *Goods on consignment are goods intended for sale, which are dispatched before they are sold.* Similarly, for goods sent for auction or for temporary storage before sale, the change of ownership may not occur until later. Such goods should not be included in the BOP until ownership changes, to avoid a source of discrepancies between the goods flow and the corresponding financial entries. However, if it is impractical to record the transactions in this way, they can be approximated by the time of recording in IMTS. If there

is a substantial delay in the sale of the goods, it is good practice in major cases to make adjustments to the actual time of change of ownership.

### ***g. Valuation***

**10.24** The principle for valuation of general merchandise in this *Manual* is the market value or market price of goods at the point of uniform valuation. The point of uniform valuation is where goods are valued at the exporter's border—that is, including the cost of insurance and freight incurred up to the point of the goods leaving the economy of the exporter. This is a free-on-board type or FOB-type valuation. See also paragraphs 3.97–3.101.

**10.25** There may be cases where the application of FOB-type values is problematic, such as nonmonetary gold changing ownership without delivery, so a transaction value is used. Goods under merchanting and goods traded within a global manufacturing arrangement where the change of ownership differs from the country of dispatch or arrival of the goods, are problematic because, for instance, the goods may not enter the economy of the merchant or the principal. For this reason, the goods should be valued at transaction prices as agreed by the parties. It is acknowledged that this may lead to some bilateral asymmetries in the valuation of the goods. These asymmetries are further elaborated in Annex 11.

**10.26** The terms of delivery of goods are the responsibility of the buyer and seller of goods under each contract. The arrangements made between exporters and importers vary. As a result, transaction prices agreed between exporters and importers include varying amounts of distribution costs, including none, some, or all of wholesaling, transport, insurance, and taxes. Data from international transactions reporting systems and business surveys use transaction prices, and so have a variable mix of valuation bases.

**10.27** *IMTS* use FOB-type valuation as the statistical value of exports and CIF-type for imports. FOB-type valuations include:

- (a) FOB—at port on the frontier of the exporting country (for goods dispatched by sea or inland waterway);
- (b) “free carrier” (FCA)—at terminal on the frontier of the exporting country (for goods dispatched by means of transport to which FOB is not applicable); and
- (c) “delivered at frontier” of the exporting country (for goods dispatched by means of transport to which FOB and FCA are not applicable; e.g., when goods are exported by railroad or pipeline).

(Where the customs frontier is not applicable, such as where there is a single market, the territorial frontier is used in its place.)

**10.28** CIF-type valuations include:

- (a) “cost, insurance, and freight” (CIF) at the border of the importing country; and
- (b) “carriage and insurance paid” to the border of the importing country.

**10.29** To convert imports from CIF to FOB valuation for BOP purposes, the value of freight services and insurance premiums incurred from the frontier of the exporting country to the border of the importing country should be deducted. Ideally, CIF to FOB adjustment for imports should be obtained for each goods transaction, or at a detailed level. The relationship of FOB to CIF prices varies according to factors such as the type of good, weight, scale (bulk or not), special needs (such as refrigeration or careful handling), mode of transport, and the distance traveled. CIF to FOB ratios change over time, due to factors such as fuel prices, competition, and technology in the transport industry, change in the proportion of different types of goods, and changes in source economies. For goods when the customs points of the exporting and importing territory are contiguous, the CIF and FOB values would be the same.<sup>6</sup> The FOB valuation point means that export taxes are treated as payable by the exporter and that import duties and other taxes of the importing economy are payable by the importer. To the extent that this is not the case, adjustments like those for freight and insurance are necessary.

**10.30** In some cases, an estimate of a market equivalent price may need to be made. (See paragraphs 3.103–3.109 for more details.) For example, barter trade, aid goods, provision of goods between affiliated enterprises, under- or over-invoicing, goods on consignment or for auction, or where goods change ownership but a final price is determined later may all require adjustment to the goods value. Such adjustments may also require corresponding financial account items, such as trade credit; in the case of goods supplied by direct investors to their direct investment enterprise below cost or without charge, the corresponding entry is direct investment equity.

**10.31** Compilers should verify that realistic valuations have been used in customs declarations, rather than notional figures, such as zero, or a price that is small or highly rounded. In the cases when the price is determined later, subsequent adjustments should be made to take into account the final price when it becomes available. The recording of possible adjustments is discussed further in paragraph 3.110.

**10.32** Although the FOB-type valuation is recommended in this *Manual*, the valuation of imports and exports at the observed transaction value, which is closely aligned to the

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<sup>6</sup> However, for some merchandise trade between neighboring territories, insurance and freight costs may be incurred between the customs frontiers, such as for air shipments, or in other cases when either customs frontier is away from the border, such as where goods are cleared for customs in sealed containers from the point of dispatch.

invoice value, is conceptually preferred and, subject to further testing and agreement of the parties involved, will be introduced as the standard in the next version of this *Manual*.

Compilers are strongly encouraged to take steps towards the collection of invoice values (in addition to FOB values) as part of the collection of IMTS.

#### ***h. Deliveries Between Affiliated Enterprises***

**10.33** Many cross-border movements in goods are between affiliated enterprises. The goods may be moved for processing, resale, and other purposes. The question may arise as to whether there has been a change of economic ownership. (For example, paragraph 10.17(f) and 10.57 covers the treatment of goods delivered for processing without a change of ownership; another example is where a direct investor temporarily provides equipment to its direct investment enterprise, possibly under an operating lease.) Whether there has been a change in economic ownership is determined according to the usual principle that the economic owner is the party that bears the risks and rewards of ownership. In cases where there has been a cross-border movement of goods between affiliated enterprises, but it is not known whether there has been a change in ownership, the following factors should be considered:

- When affiliated enterprises are separate legal entities, their transactions should be treated according to the parties' own arrangements as to whether there is a change of ownership or not.
- Between a quasi-corporation and its owner, legal title is not usually available as evidence of the nature of the movement of goods. The preferred treatment in this case is to identify which part of the legal entity assumes the risks and rewards of ownership, based on evidence such as which location has the goods recorded in its accounts and is responsible for the sale of the goods. The treatment should be consistent with reporting by the branch in business accounts and enterprise or establishment surveys.

**10.34** Transactions between affiliated enterprises may give rise to issues of valuation, as discussed in paragraphs 3.113–3.116 and 10.30. Consequential effects on income are discussed in paragraphs 12.120–12.121.

#### ***i. Re-exports***

**10.35** *Re-exports are goods produced in other economies and previously imported with a change of economic ownership that are exported with no substantial transformation from the state in which they were previously imported.*<sup>7</sup> The price of the re-exported good may differ

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<sup>7</sup> For treatment of re-exports in IMTS, see United Nations, IMTS: Concepts and Definitions 2010, paragraphs 2.17 and 2.18.

from its price at the time it was originally imported, due to factors such as transport costs, dealer's margins, and holding gains or losses. For goods to be included in re-exports for BOP statistics, a resident must acquire and subsequently resell the goods with the goods passing through the territory. Goods that are bought and resold but do not pass through the territory of the unit initially purchasing the goods are included in goods under merchanting—see paragraph 10.40. The distinction between re-exports and goods traded within global manufacturing arrangements is discussed in paragraphs 10.80–10.82.

**10.36** Goods in transit are not recorded in imports or in re-exports—see also paragraph 10.17(a). As well, goods cleared by customs, but re-exported without coming into ownership by a resident of that economy, should not be included in re-exports for BOP statistics purposes. In contrast to re-exports, in the case of returned goods, there is no change of ownership, or the parties later agree to annul the change of ownership (see paragraph 10.17(h)).

**10.37** In cases where the state of the imported goods is substantially transformed, which could be indicated by a change in Harmonized System (HS) code,<sup>8</sup> goods are recorded as domestically produced exports rather than re-exports (e.g., goods that have been assembled or processed, or goods that have become rags, waste, scrap, antiques). Used goods that were previously imported and retain the same HS code, but have suffered wear and tear, could in most cases be included in re-exports depending on the rules of origin that the economy applies. Whereas international recommendations<sup>9</sup> on rules of origin exist, the origin of the goods will be determined at a national level. The case of imported goods processed without change of ownership is discussed in paragraphs 10.57–10.64 and 11.62. Goods temporarily imported or exported without a change of ownership, such as for repair or operating lease, are not included in either re-exports or re-imports, as discussed in paragraph 10.17(e).

**10.38** Where possible, re-exports should be shown separately as a supplementary item, particularly in economies where re-exports are a significant proportion of exports. Because re-exported goods are not produced in the economy concerned, they have less connection to the economy than other exports. Economies that are major transshipment points and locations of wholesalers often have large values of re-exports. It may be of interest to derive the value of imports destined for re-export, calculated from re-exports with any timing adjustment. (Box 10.1 provides a numerical example of the entries for re-exports.)

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<sup>8</sup> World Customs Organization, *Harmonized Commodity Description and Coding System*

<sup>9</sup> World Customs Organization, *International Convention on the Simplification and Harmonization of Customs Procedures (Revised Kyoto Convention)*

**10.39** *Re-imports are domestically produced goods imported in the same state as previously exported, without any substantial transformation occurring on the goods while they were outside the territory.* Where significant, re-imports may be shown separately. Re-imports tend to arise in order to reverse a previous export, while re-exports generally arise because of transport, storage, or distribution through a territory other than that of the buyer or seller. For the goods to be included in re-imports, a nonresident must have acquired the goods, then resell them to a resident with the goods leaving and re-entering the territory. (In cases where there was no change of ownership, they are omitted from imports; e.g., goods for repair or goods sent for processing.)

## C. OTHER GOODS

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### ***a. Goods Under Merchanting***

**10.40** *Merchanting is defined as the purchase of goods by a resident (of the compiling economy) from a nonresident combined with the subsequent resale of the same goods to another nonresident without the goods being physically moved in and out of the compiling economy.* Merchanting occurs for transactions involving goods where physical possession of the goods by the owner is unnecessary for the process to occur. (If guidance is needed about the meaning of same goods, the criteria in paragraphs 10.37 and 10.56 can be used.) The distinction between merchanting and global manufacturing arrangements is discussed in paragraphs 10.81–82.

**10.41** Goods under merchanting are recorded in the accounts of the owner in the same way as any other goods it owns. However, the goods are shown separately in the external accounts of the economy of the merchant because they are of interest in their own right and because they are not covered by the customs system of that economy.

**10.42** The treatment of merchanting is as follows:

- (a) The acquisition of goods by merchants is shown under goods acquired under merchanting as a negative export of the economy of the merchant;
- (b) The sale of goods by merchants is shown under goods sold under merchanting as a positive export of the economy of the merchant;
- (c) The difference between sales over purchases of goods for merchanting is shown as the item “net exports of goods under merchanting.” This item includes merchants’ margins, holding gains and losses, and changes in inventories of goods under merchanting. As a result of losses or increases in inventories, net exports of goods under merchanting may be negative in some cases; and

- (d) Because the change of ownership differs from the physical flow of goods, merchanting entries are valued at transaction prices as agreed by the parties, not FOB (see paragraph 10.25).

(Box 10.1 provides a numerical example of the entries for goods under merchanting with minor processing.)

**10.43** The partner allocation of net exports of goods under merchanting should be done by summing the positive and negative entries of goods under merchanting for each partner economy.<sup>10</sup>

**10.44** The rationale for recording goods for merchanting in the goods account and for treating purchases of goods for merchanting as a negative export rather than an import is as follows: firstly, the merchant acts similar to a wholesaler or a retailer whose output is measured by the distribution margin realized on the goods they purchase for resale; next, the treatment of the net exports as goods rather than services maintains a global trade in goods balance; and finally, if the amounts of the purchase and resale of goods were recorded as gross imports and exports of the merchant, this would artificially inflate the merchandise trade in the economy of the merchant.

**10.45** The merchanting label is only used in the accounts of the economy in which the merchant is resident. In the counterpart exporting and importing economies, export sales to merchants and import purchases from merchants are included under general merchandise.

**10.46** *Inverse merchanting is a special case of merchanting, occurring when both the unit that is selling to the nonresident merchant and the unit that is subsequently purchasing from the nonresident merchant are both resident in the same economy and the goods do not leave and re-enter the economy of the units selling to and purchasing from the nonresident merchant.* For the economy of the merchant, this is recorded in the usual way as net exports of goods under merchanting. For the counterpart to the merchanting economy, it may be challenging to identify inverse merchanting, because there are no physical cross-border flows. However, the goods account of the non-merchant economy should reflect that a change of economic ownership happens twice, first, when the goods are sold to the nonresident merchant and, second, when the goods are subsequently purchased from the nonresident merchant, and appropriate adjustments should be made if IMTS flows are used as a source.

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<sup>10</sup> When compiling economy allocation of goods for merchanting, it is common to see negative net exports for economies from which the merchant acquires the goods.



**10.47** Wholesaling, retailing, commodity dealing, and management of manufacturing may also be carried out under arrangements where the goods are present in the economy of the owner, in which case they are recorded as general merchandise, rather than as merchanting.

**10.48** Sometimes a purchaser may be uncertain whether the goods will be resold to residents of the same economy or others. In this case, intentions can be used as an indicator, with subsequent adjustment if intentions are not realized.

**10.49** When a merchant resells goods to a resident of the same economy as the merchant, this does not meet the definition of merchanting. Accordingly, the purchase of goods is shown as imports of general merchandise to the economy in that case. If the unit that purchased from a merchant in the same economy subsequently resells the goods to a resident of another economy, whether or not the goods enter the economy of the merchant, the sales of goods are recorded in exports of general merchandise from the economy where both the merchant and the unit that purchased the good from the merchant are resident. (Although such a case is very similar to merchanting, it does not meet the definition given above. In addition, it is impractical for the first merchant to record the purchases as merchanting because that merchant may not know whether or not the second merchant will bring the goods into the economy.)

**10.50** Merchanting of nonmonetary gold is included under the nonmonetary gold item, discussed in paragraphs 10.51–10.55. This treatment means that the nonmonetary gold item is comprehensive and conceptually symmetric.

### **Box 10.1. Examples of Goods Under Merchanting and Re-exports**

#### **Example 1—Merchanting with manufacturing services that do not change the condition of the goods**

A resident of Economy A acquires books from a resident of Economy C for 10. The resident of Economy A has them sent to Economy B, without the books passing through Economy A, for a resident of Economy B to put in boxes, for a charge of 3 payable by the resident of Economy A. The books are then sold by the resident of Economy A to a resident of Economy D for 20.

Since the goods are in the same condition, the merchanting treatment applies. The goods and services account entries for Economy A would be:

Goods acquired under merchanting (from Economy C)	–10 Credit/Revenue (negative revenues)
Goods sold under merchanting (to Economy D)	20 Credit/Revenue
Net exports of goods under merchanting	10 Credit/Revenue

Manufacturing services on physical inputs owned	3 Debit/Expenditure by others (with Economy B)
<p>Economy C records goods exports of 10 to Economy A under general merchandise; Economy B records services exports of 3 with Economy A; and Economy D records goods imports of 20 under general merchandise with Economy A (goods under merchanting is only used for the economy of the merchant).</p>	
<p><b>Example 2—Re-exports</b></p> <p>A seaport in Economy A serves as a gateway hub for international trade for economies in the region. One practice is for car dealerships to set up near the port. Individuals can travel to the seaport and buy new and secondhand cars directly from the dealer in Economy A.</p> <p>A car dealer of Economy A imports a car from Economy C for 1000. A resident of Economy B travels to the seaport and buys the car for 1200 driving home through Economy A to Economy B.</p> <p>Since the goods are imported and subsequently exported, with a change of ownership happening twice in Economy A, and the goods pass through Economy A, the goods are recorded gross in the imports and exports of economy A as follows:</p>	
General merchandise imports (from Economy C)	1000 Debit/Expenditure
General merchandise exports (to Economy B)	1200 Credit/Revenue
*Of which Re-exports	1200 Credit/Revenue
<p>(As the goods are in excess of customs thresholds in this example, they are included in general merchandise rather than in travel (see paragraphs 10.15 and 11.34)).</p>	
<p>* Re-exports are recommended to be shown separately as a supplementary item (see paragraph 10.38).</p>	

### ***b. Nonmonetary Gold***

**10.51** Nonmonetary gold covers all gold other than monetary gold. Monetary gold, as defined in paragraphs 5.85–5.86, is owned by monetary authorities and held as a reserve asset. Nonmonetary gold can be in the form of bullion (i.e., gold bullion takes the form of coins, ingots, or bars with a purity of at least 995 parts per 1,000 including such gold held in allocated gold accounts), gold powder, and gold in other unwrought or semimanufactured forms. Jewelry, watches, and so forth that contain gold are included under general merchandise, not nonmonetary gold. Nonmonetary gold sales and purchases that are not shipped are valued at transaction prices, not FOB. The price should include any dealer's margins or commissions not billed separately.

**10.52** Allocated gold accounts are treated as being arrangements for the storage of gold bullion. A change in ownership of an allocated gold account holdings is, therefore, treated in the same way as gold bullion (see paragraph 9.25). For the same reason, allocated gold accounts are not treated as deposits. If a unit puts gold it already owns into an allocated account, or withdraws gold from an allocated account without selling it, no change of ownership occurs so no transaction is recorded. In contrast, unallocated gold accounts are financial assets (included under monetary gold or deposits, depending on the holder). As a result, a deposit of bullion to an unallocated gold account is shown as an exchange of nonmonetary gold for a financial asset; and a withdrawal is the reverse unless both parties are monetary authorities or international organizations. (See also paragraphs 5.87–5.88 on gold accounts and 9.25 on transactions in gold bullion.)

**10.53** When both parties to a gold transaction are either monetary authorities that hold the gold as reserve assets or international financial organizations, gold sales are recorded as monetary gold in the financial account, as discussed in paragraph 8.53. Otherwise, gold sales are recorded under nonmonetary gold.

**10.54** Nonmonetary gold is shown separately from other goods because of the special role of gold in financial markets, because gold sales and purchases largely relate to existing stocks, and because the values of sales and purchases may be particularly large in some cases, such as gold dealing centers. In many cases, there is no physical delivery to the new owner, because the gold is held at specialized bullion storage centers. However, change in ownership is the criterion for the recording of nonmonetary gold, so gold sales and purchases should be recorded even when there is no physical movement.

**10.55** Nonmonetary gold may be held either as a store of value or for other (industrial) purposes, such as manufacturing of jewelry or for use in dental work. When feasible, nonmonetary gold can be subdivided into gold held as a store of value and other (industrial) gold as supplementary data.

## **D. GLOBAL MANUFACTURING ARRANGEMENTS**

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**10.56** A significant proportion of external transactions in goods are within global manufacturing arrangements whereby a principal manufacturer outsources the transformation of goods to a nonresident, possibly affiliated, manufacturing unit. Such arrangements can result in changes of ownership that differ from the physical flow of goods. Two distinct arrangements have emerged: processing arrangements and factoryless goods production. In both cases, the lead enterprise (the principal) has control over the design, selling price and other aspects of the global production process but outsources some or all of the manufacturing activities to a nonresident processor or contractor. The principal also

retains ownership of critical inputs such as materials and/or intellectual property rights during the production process but material inputs and finished goods may never pass through the economy of the principal. In a processing arrangement the principal is considered a producer of goods while the processor provides a service (manufacturing services on physical inputs owned by others). Both the principal and the contractor in a factoryless goods production arrangement are considered producers of goods. Under these global manufacturing arrangements, material inputs are substantially transformed by the processor or contractor, which may be indicated by a change in HS code, or may have come about through the supply of intellectual property. Figures 10.1, 10.2, and 10.3 present illustrations and a decision tree and Box 10.2 provides some numerical examples.

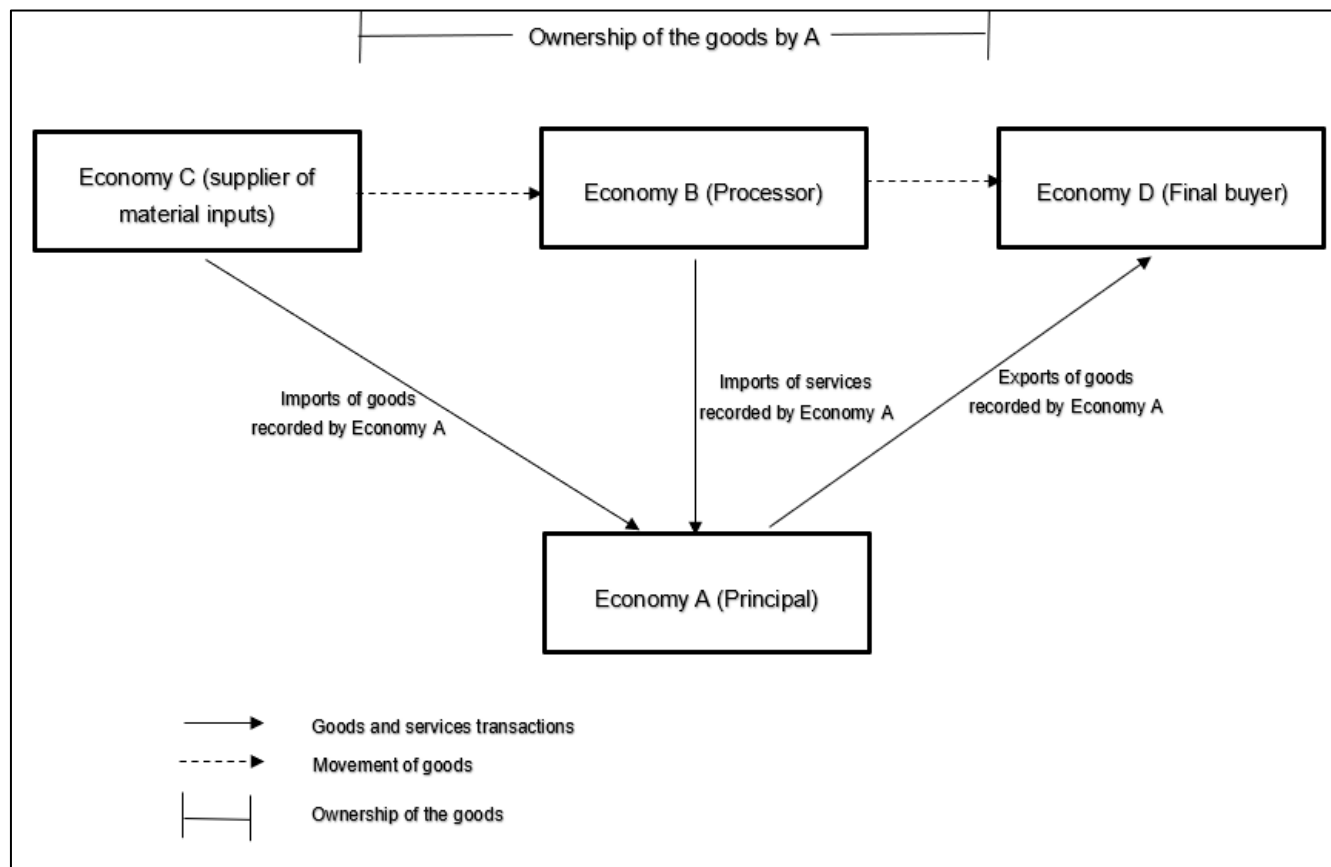
### ***Processing Arrangement***

**10.57** Under a processing arrangement, the principal owns or acquires material inputs and purchases manufacturing services (see paragraphs 11.10–11.13), from a nonresident processor (who may provide some material inputs), to substantially change the goods. The ownership of the goods does not change during the manufacturing process. The finished goods are then returned to the principal, sent elsewhere for further processing or dispatched to final customers. In the simplest scenario, goods are sent physically abroad from the economy of the principal to the economy of the processor and returned after processing. In this case, the movement of the goods are recorded in the IMTS of both economies, but no general merchandise transactions would be recorded in the goods account. Figure 10.1 illustrates a more complex example of a processing arrangement.

**10.58** Goods transactions between the principal in a processing arrangement and other parties may be shown as a supplementary sub-item of general merchandise (see paragraph 10.78).

**10.59** In some cases, the processor provides other materials that are used in the manufacturing process alongside the material inputs owned by the principal. In many cases the principal supplies inputs of intellectual property such as product design without charging the processor for the right of use.

Figure 10.1. Goods for Processing Arrangement



The principal in Economy A purchases material inputs from Economy C. The goods are shipped to Economy B for further processing. The final goods are sold to Economy D. The principal has ownership of the goods during the processing, but the goods may not pass through Economy A during the production process.

There are variations of processing arrangements. Material inputs may also be sourced from Economy A, Economy B or Economy D. Similarly finished goods may be sold in Economy A, or to Economy B or Economy C. The key aspect in all variations is that the processor in Economy B does not take ownership of the goods during the processing. In all variations, the physical flow of goods differs from the change of ownership to some extent.

**10.60** As there is no change of ownership of goods between the processor and the economy from which the goods have arrived or between the processor and the economy to which the goods are dispatched, no general merchandise transactions are recorded by the processor.

**10.61** Purchases of material inputs (i.e., goods to be processed) by the principal in a processing arrangement may be obtained from residents of the same economy as the

principal, the same economy as the processor, or a third economy. The treatment is as follows:

- (a) when the goods are acquired from residents of the same economy as the principal, there is no international transaction; and
- (b) when the goods are acquired from residents of the same economy as the processor or a third economy, the principal records imports of general merchandise.

**10.62** Sales of finished goods (i.e., goods after processing) are treated as follows:

- (a) when the goods are sold to residents of the same economy as the principal, there is no international transaction; and
- (b) when the goods are sold to residents of the same economy as the processor or a third economy, the principal records the sale as exports of general merchandise.

**10.63** The principal could report merchanting in the case of minor processing (see paragraph 10.40 and the decision tree in Figure 10.3).

**10.64** The manufacturing services fee that the processor charges the principal is shown in the services account (see paragraph 11.10).

### ***Factoryless Goods Production***

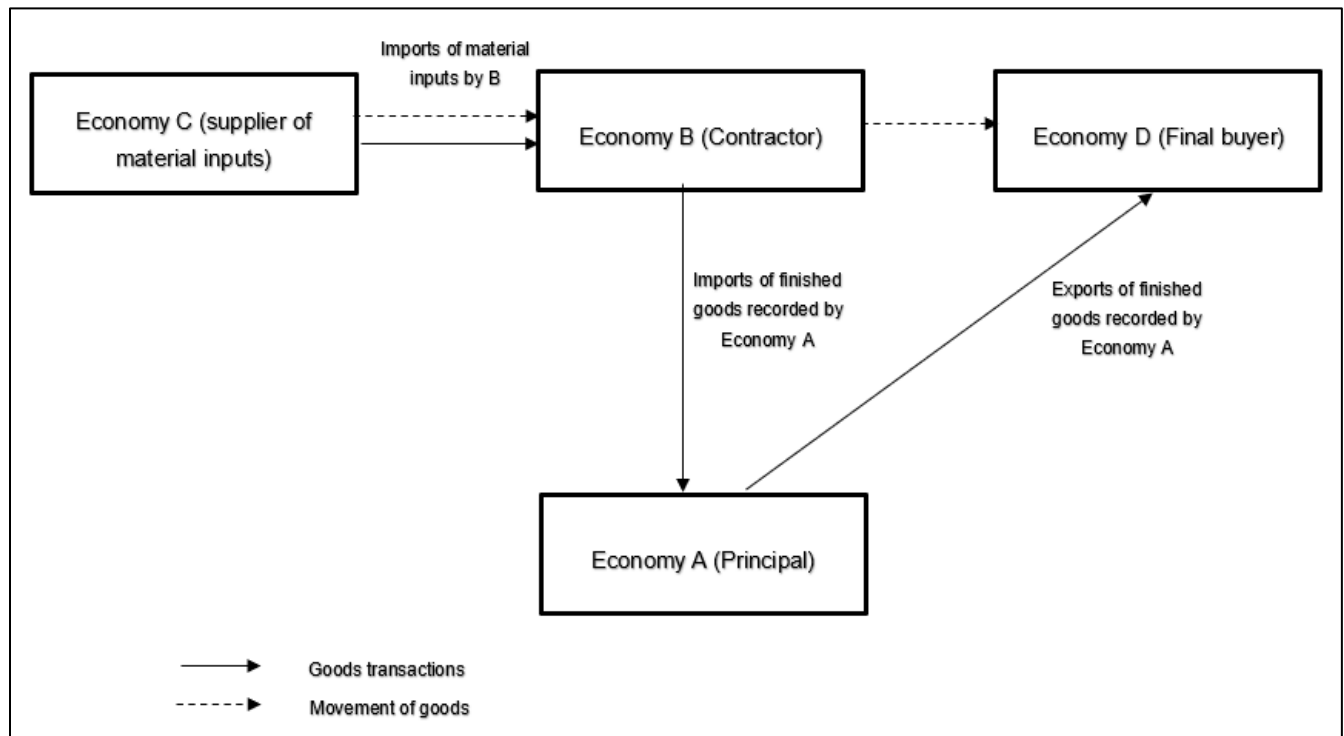
**10.65** *A factoryless goods producer is a principal that controls the production of a good by undertaking the entrepreneurial steps and providing the technical specifications required to produce the good, but that outsources all or most of the material transformation process required to produce the output.* The factoryless goods producer supplies inputs of intellectual property such as product design, without charging for the right to use the intellectual property, but outsources both the acquisition of all or most of the material inputs and the manufacturing process to a nonresident contractor. The factoryless goods producer buys the finished goods from the contractor at a price that includes the value of material inputs and processing but does not include the value of intellectual property used in the transformation process. The finished goods may be used by the principal as inputs into further production, sent elsewhere for further processing or dispatched to final customers. Figure 10.2 illustrates one example of a factoryless goods production arrangement.

**10.66** Transactions between the factoryless goods producer and other parties may be shown as a supplementary sub-item of general merchandise (see paragraph 10.77–10.79).

**10.67** Under factoryless goods production, the material inputs are substantially transformed by the contractor. The role of intellectual property products (such as of research and development, design and innovation) provided by the principal to the contractor, without receiving a payment for right to use, should be significant. As a general guideline, the input

values of intellectual property products as well as marketing assets (such as trademarks, brand names and logos) supplied by the factoryless goods producer will be at least as large as the amount paid to the contractor less the cost to the contractor of the material inputs.

**Figure 10.2. Factoryless Goods Production**



The principal in Economy A supplies the design specifications but outsources the acquisition of the material inputs and the manufacturing to a contractor in Economy B. The contractor acquires the material inputs from Economy C. The contractor sells the finished goods to the principal at a price that includes the cost of the material inputs plus the manufacturing costs. The goods are then sold to the final buyer in Economy D at a price that will further reflect the input of the design specification or other intellectual property by the principal. The final goods may be shipped directly from Economy B to Economy D without passing through Economy A.

There are variations of factoryless goods production. Material inputs may also be sourced from Economy A, Economy B, or Economy D. Furthermore, the principal may source the material inputs and sell them via merchanting to the contractor. Finished goods may also be sold in Economy A, or to Economy B, or Economy C. In all variations, the contractor has ownership of all or most of the material inputs and the principal supplies inputs of the intellectual property without charging for the right to use.

**10.68** The goods that the factoryless goods producer buys from the contractor are recorded as general merchandise imports at the value agreed between the principal and the contractor. These goods are considered inputs to production of the factoryless goods producer.

**10.69** Sales of finished goods are treated as follows:

- (a) when the goods are sold to residents of the same economy as the factoryless goods producer, there is no international transaction; and
- (b) when the goods are sold to residents of the same economy as the contractor or a third economy, the factoryless goods producer records the sale as exports of general merchandise.

**10.70** There are no manufacturing services to record between the contractor and the principal in a factoryless goods production arrangement.

### ***Sales of Material Inputs by the Principal***

**10.71** Material inputs that the processor or contractor contribute to the manufacturing process may be acquired from the principal, in which case there is a change of ownership of goods between the principal and the processor or contractor. Materials may also be procured by the principal from abroad and sold to the processor or contractor in which case the principal may act also as a merchant. Where the principal sells goods directly or is engaged in merchanting to provide materials into the global manufacturing arrangement to the processor, compilers may include these transactions in a supplementary item of general merchandise or supplementary items of goods under merchanting (see paragraphs 10.77–10.78).

### ***Adjustments to the Source Data***

**10.72** In each of the economies where the change of ownership differs from the physical flow of goods, compilers may need to make adjustments to the source IMTS data. Adjustments that impact the total imports and exports should be shown in the table reconciling between merchandise trade data and total trade on a BOP basis (Table 10.2).

**10.73** In a goods for processing arrangement, adjustments to the source data of each of the economies are needed to record changes of ownership between residents and nonresidents, and to remove flows where a change of ownership has not occurred.

**10.74** In a factoryless goods production arrangement, if the contractor dispatches the goods directly to the final buyer, then compilers in the economy of the principal need to record the purchase and resale of finished goods that would not be included in the IMTS data. Also, in this scenario, the export value recorded by IMTS compilers in the contractor economy may be different from the price agreed between the principal and the contractor which should be recorded in the BOP, so adjustments to the value of exports may be needed in the contractor economy.



**10.75** Under both processing and factoryless goods production arrangements, whenever the physical movement of goods differs from the change of ownership, adjustments to source data may further be needed to show the correct allocation of partner economy of goods on a BOP basis (see also Annex 11, Section B).

### ***Differences Between Processing and Factoryless Goods Production Arrangements***

**10.76** A principal in a global manufacturing arrangement may be engaged in both processing arrangements and factoryless goods arrangements and may switch from one manufacturing arrangement to another. The difference between the two arrangements is based on the level of ownership of material inputs and intellectual property by the principal. In a processing arrangement the principal has ownership of all or most of the material inputs. In a factoryless goods arrangement the principal may provide some material inputs but must supply the intellectual property or knowhow (without receiving payment for the right to use the intellectual property) that goes into the manufacturing process.

#### **Box 10.2. Examples of Processing Arrangements and Factoryless Goods Production**

##### **Example 1 – Processing arrangement: Manufacturing services that change the condition of the goods**

A resident of Economy A (the principal) acquires oil from a resident of Economy C for 10. The oil is sent to Economy B, without passing physically through Economy A, for refining by a resident of Economy B, for a charge of 15; the oil continues to be owned by the resident of Economy A. The refined product, for instance fuel, is then sold to a resident of Economy D for 30.

Since the goods are not in the same condition, the merchanting concept does not apply. The goods account and services account entries for Economy A would be:

*General merchandise import (from Economy C)	10 Debit/Expenditure
*General merchandise export (to Economy D)	30 Credit/Revenue
Import of manufacturing services on physical inputs owned	15 Debit/Expenditure by others (from Economy B)

(See also paragraphs 11.10–11.16 on manufacturing services and related issues associated with processing.)

Economy C records goods exports of 10 to Economy A, Economy B records only manufacturing services exports of 15 to Economy A (not exports or imports of goods), and Economy D records goods imports of 30 from Economy A under general merchandise (not goods imports from Economy B).

Economy B may wish to identify the values of material inputs received and goods sent abroad after processing as supplementary items.

### **Example 2 – Factoryless goods production**

A resident of Economy A (the principal, or factoryless goods producer) contracts the production of sportswear to a manufacturer in Economy B. The contractor in Economy B purchases the material inputs from Economy C for 3. The transformation of the material inputs by the contractor in Economy B is done under specifications provided by the principal. The principal purchases the finished sportswear from the contractor for 7 (which was agreed as part of the contracting arrangement), and resells these goods directly to the final buyer in Economy D for 28 without the goods passing through Economy A.

The goods account entries for Economy A would be:

*General merchandise imports (from Economy B)	7 Debit/Expenditure
*General merchandise exports (to Economy D)	28 Credit/Revenue

The goods account entries for Economy B would be:

General merchandise imports (from Economy C)	3 Debit/Expenditure
General merchandise exports (to Economy A)	7 Credit/Revenue

Economy D and Economy C should record the counterpart transactions with Economy A and Economy B, respectively. No trade is recorded between Economy B and Economy D.

### **Example 3 – Factoryless goods production with material inputs acquired and resold under merchanting by the principal to the contractor**

A resident of Economy A (the principal, or factoryless goods producer) contracts the production of sportswear to a manufacturer in Economy B. The principal sources the material inputs from Economy C for 3 and resells the material inputs to the contractor in Economy B for 4, without the goods passing through Economy A. As in Example 2, the transformation of the material inputs by the contractor in Economy B is done under specifications provided by the principal. The principal purchases the finished goods from the contractor for 8, and resells these goods to the final buyer in Economy D for 28 without the goods passing through Economy A.

The goods account entries for Economy A would be:

*Goods acquired under merchanting (from Economy C)	–3 Credit/Revenue (negative exports)
*Goods sold under merchanting (to Economy B)	4 Credit/Revenue
Net exports of goods under merchanting	1 Credit/Revenue
*General merchandise imports (from Economy B)	8 Debit/Expenditure
*General merchandise exports (to Economy D)	28 Credit/Revenue

Economy C records goods exports of 3 to Economy A; Economy B records goods imports of 4 and goods exports of 8 with Economy A; and Economy D records goods imports of 28 from Economy A.

\* Items marked with an asterisk are recommended to be shown separately as supplementary items for recording global manufacturing arrangements of Economy A (see paragraphs 10.77–10.78).

### ***Providing Information on Global Manufacturing to Users***

**10.77** In order to make visible trading activities within a global manufacturing arrangement and to give insight into deviations from the IMTS source data, supplementary sub-items in the BOP presentation may be recorded in the economy of the principal, where these activities are important (see Table 10.1).

**10.78** A sub-item of general merchandise, “Goods traded within a global manufacturing arrangement” may be introduced to record transactions between the principal and other parties irrespective of whether the goods pass through the economy of the principal. Goods traded under a global manufacturing arrangement include the following general merchandise trade transactions:

- material inputs purchased by the principal from nonresidents in a processing arrangement (see paragraph 10.61);
- sales of finished goods to nonresidents in a processing arrangement (see paragraph 10.62);
- purchases of finished goods by a factoryless goods producer from the contractor (see paragraph 10.68);
- sales by the factoryless goods producer of finished goods to nonresidents (see paragraph 10.69(b)); and
- material inputs sold to a processor or contractor by the principal in a processing or factoryless goods production arrangement, except when sold via merchanting (see paragraph 10.71 and 10.79).

**10.79** When, as part of a global manufacturing arrangement, the principal acquires material inputs and sells them via merchanting to the processor or contractor (see paragraph 10.71), supplementary sub-items of goods under merchanting are recorded as follows:

- (a) Goods acquired by the principal are recorded as negative exports under “Material inputs acquired abroad from third parties by the principal within a global manufacturing arrangement”; and

- (b) Goods sold by the principal to the contractor are recorded as exports under “Material inputs sold by the principal to the contractor abroad within a global manufacturing arrangement.”

### ***Valuation of Transactions in a Global Manufacturing Arrangement***

**10.80** For goods traded within a global manufacturing arrangement (for instance transactions discussed in paragraphs 10.77–10.78) and where the change of ownership differs from the physical movement of the goods, the application of FOB-type values does not apply. Instead, transport and insurance costs are shown as payable according to the arrangements of the parties; that is, the amount is payable by the party invoiced to pay the expense (see also paragraph 10.25). For the movement of goods not included in general merchandise, such as goods that the processor receives or dispatches with no change of ownership in a processing arrangement, a similar treatment applies, that is, the transport and insurance costs are shown as payable according to the arrangements of the parties.

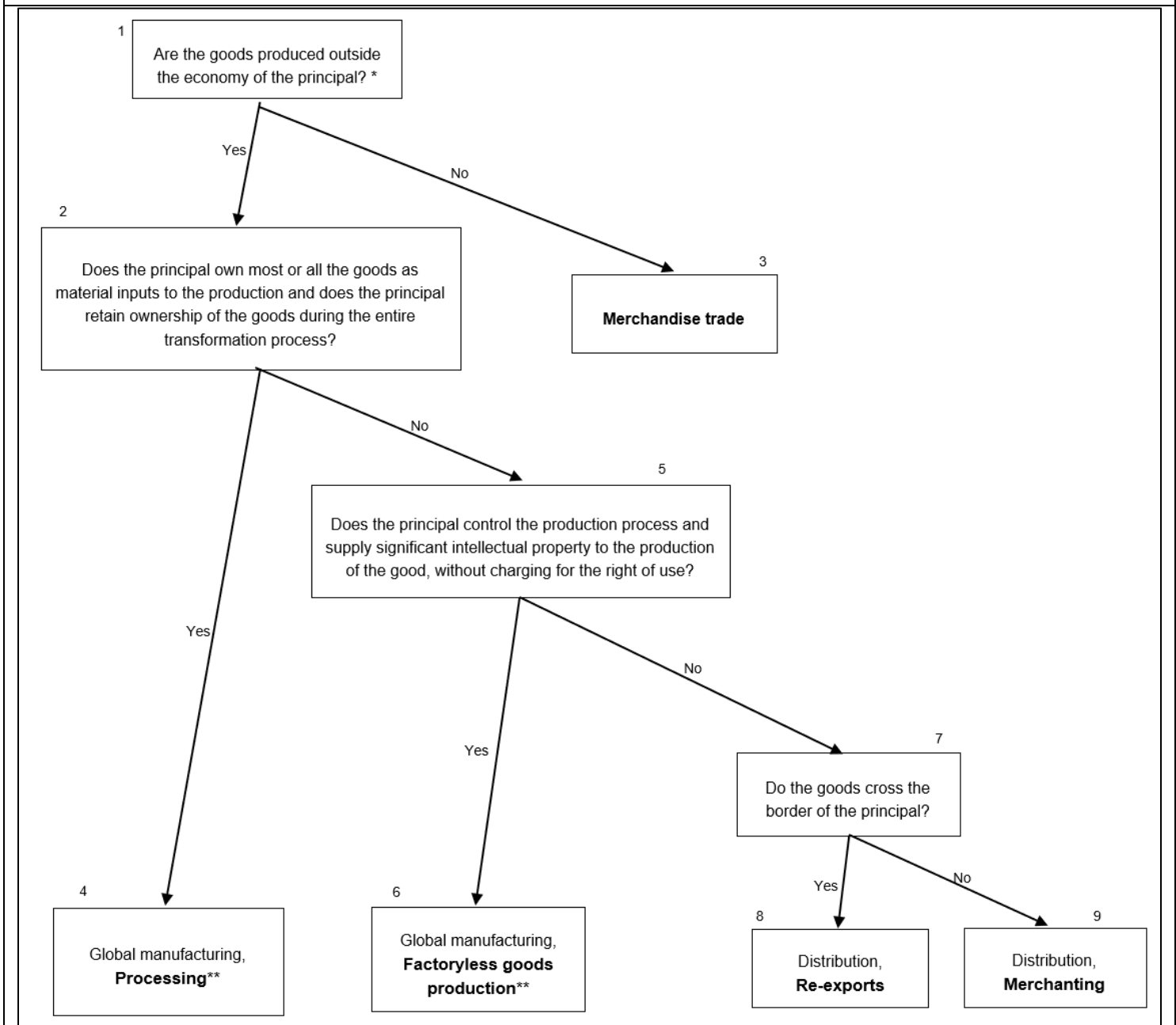
### ***Distinction Between Global Manufacturing and Global Distribution Arrangements***

**10.81** Merchanting and re-exports are used for wholesaling and retailing. They may also be used in commodity dealing and for the management of global manufacturing arrangements (see, for instance, 10.79). If the goods are substantially changed during the period the goods are owned, as a result of manufacturing services performed by other units, or if the goods are the results of factoryless goods production, then the goods transactions are recorded under general merchandise and may be recorded as goods traded under a global manufacturing arrangement. In other cases where there is no substantial change to the goods, then the goods may be recorded as re-exports if they pass through the economy of the owner, and are included under merchanting if they do not pass through the economy of the owner, with the selling price reflecting minor processing costs as well as wholesale margins.

**10.82** Factoryless goods producers, merchants and re-exporters may all purchase goods from nonresidents and sell the same goods to other nonresidents. The factoryless goods producer however controls the production process and supplies the intellectual property or the ‘knowhow’ for the production of the good. For this reason, a factoryless goods producer is considered a manufacturer and is different from a merchant or re-exporter, and the purchase of the finished goods from the contractor and subsequent sale to the final buyer are recorded gross under general merchandise in the economy of the factoryless goods producer (not as net exports under merchanting or re-exports).

**10.83** Figure 10.3 presents a decision tree to identify whether an international transaction is traditional merchandise trade, or part of a processing arrangement, a factoryless goods production arrangement, re-exports or merchanting.

Figure 10.3. Global Manufacturing and Distribution Arrangements Decision Tree



## Notes.

\* The decision tree is from the point of view of the principal enterprise that organizes or arranges the manufacture and/or movement of goods between different economies and has ownership of the goods at some stage.

\*\* Supplementary items are recorded in global manufacturing arrangements (see paragraph 10.78).

## E. ADDITIONAL BREAKDOWNS AND SUPPLEMENTARY PRESENTATIONS OF THE GOODS ACCOUNT

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**10.84** General merchandise is shown as a single item in the standard components. This Manual encourages additional presentations according to the priorities of the compiling economy.

**10.85** More detailed breakdowns could include major products (or commodities), major product groups, industry of origin, and broad economic categories. The international standard product (or commodity) classifications include the Harmonized System (HS), the Standard International Trade Classification, the Central Product Classification (CPC) and the Broad Economic Categories (BEC).<sup>11</sup> Trade in goods classification systems are discussed further in Annex 5. In addition, or alternatively, cross-references could be made to additional details available in other trade in goods publications, while noting coverage, timing, valuation, and classification differences.

**10.86** For comprehensive and integrated data on international trade and globalization, insights into the types of enterprises that are engaged in cross-border trade is important. Disaggregation of total exports and imports of goods by characteristics of the trading enterprises, known as Trade by Enterprise Characteristics (TEC), is recommended as a supplementary presentation to highlight the role of enterprises with different characteristics in the current account. Characteristics such as ownership, size of enterprise, and breakdown by main trade partners are themes that can be developed in these statistics. This is discussed further in Chapter 15 within the context of multinational enterprises.

**10.87** A supplementary presentation of the goods account classified by currency to be published at least annually is recommended. Currency composition of international trade is discussed further in Annex 5.

## F. RECONCILIATION BETWEEN MERCHANDISE TRADE DATA AND TOTAL GOODS ON A BOP BASIS

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**10.88** It is a good practice for compilers to produce and publish a reconciliation table of the differences between merchandise trade statistics and goods on a BOP basis. A sample reconciliation table is shown in Table 10.2. Such a table ensures transparency and avoids confusion and doubts as a result of different sources, coverage, classification, valuation,

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<sup>11</sup> World Customs Organization, *Harmonized Commodity Description and Coding System*. United Nations, *Standard International Trade Classification*. United Nations, *Central Product Classification*, *Broad Economic Categories*.

timing, and so forth. It illustrates for users the conceptual differences between merchandise trade data and total goods on a BOP basis and is a useful tool for analysis of global value chains. It is recommended that the reconciliation table is published by compilers of BOP statistics at least on an annual basis.

**10.89** The table summarizes the steps taken in compilation. Some of the items are discussed in more detail in this chapter above (and paragraph references are given). Chapter XXIV of *IMTS: Compilers Manual, Revision 1* and of the updated *IMTS: Concepts and Definitions* list differences between IMTS and *BPM6* standards. In addition to changes from *BPM6* in this *Manual*, other adjustments may arise if there are differences between *IMTS* standards and the national practices for coverage of international merchandise trade statistics.

<b>Table 10.2. Reconciliation between Merchandise Source Data and Total Goods on a Balance of Payments Basis</b>		
	Exports	Imports
<b>Merchandise trade statistics as provided in source data</b>		
<b>Adjustments, as relevant<sup>1</sup></b>		
<b>Valuation adjustments</b>		
– CIF/FOB adjustment (10.29)	<i>n.a.</i>	
± High-value capital goods, if delivery differs from change of ownership (10.22)		
<b>Adjustments arising from the change of economic ownership principle</b>		
± Goods lost or destroyed in transit (10.12(p))		
± Goods changing ownership in customs warehouses or other special zones (10.19)		
- Migrants' personal effects (10.17(b))		
- Returned goods (10.17(h))		
- Goods for storage without change of ownership (10.17(e))		
<b>Adjustments relating to merchanting and global manufacturing arrangements</b>		
+ Net exports of goods under merchanting (10.42(c))		<i>n.a.</i>
+ Exports to and imports from a merchant in an economy of inverse merchanting (10.46)		



+ Goods sold to or purchased from a nonresident principal within a processing or factoryless goods production arrangement, without the goods leaving the reporting economy (see 10.12(i))		
- Dispatches of goods from, or arrivals of goods to, either the economy of the principal or the economy of the processor without change of ownership in a processing arrangement (10.60)		
+ Goods acquired from other economies for processing abroad, and goods sold abroad after processing, without the goods passing through the economy of the resident principal (10.12(j), 10.61, 10.62)		
+ Acquisition from and sale to other economies of finished goods by a factoryless goods producer without the goods passing through the economy of the factoryless goods producer (10.68, 10.69)		
± Adjustment to the contractor's valuation of exports of finished goods to a factoryless goods producer if different from IMTS valuation of dispatches to final buyer (10.74)		n.a.
<b>Other conceptual adjustments</b>		
- Goods imported for construction projects by nonresident enterprises (10.18(d))		
+ Goods changing ownership entering / leaving territory illegally (10.12(l) / (m))		
+ Nonmonetary gold sales and purchases that are not shipped (10.51-55)		
<b>= Total goods on a BOP basis</b>		
<sup>1</sup> This list is not comprehensive, but indicative of commonly made adjustments. The table should be read in parallel with the list of inclusions and exclusions recommended in <i>IMTS: Concepts and Definitions</i> . Some of the adjustments listed may be unnecessary because international merchandise trade statistics data for the economy may treat the item in the same way. For example, an adjustment for goods entering or leaving customs warehouses is not necessary if data are sourced from international merchandise trade on a general trade basis. Furthermore, other adjustments not shown in Table 10.2 may be needed to account for gaps in the compiling economy's IMTS data. For example, if the compiling economy does not include fish catch or minerals from the seabed and salvage, then compilers would need to make adjustments to include these transactions if they are significant for the economy.		

# Chapter 11. Services Account

## References:

- United Nations and others, *Manual on Statistics of International Trade in Services*, especially Chapter III, Services Transactions Between Residents and Nonresidents.
- United Nations World Tourism Organization, *International Recommendations on Tourism Statistics and The Tourism Satellite Account: Recommended Methodological Framework*.

## A. CONCEPTS AND COVERAGE

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**11.1** *Services are the result of a production activity that changes the conditions of the consuming units, or facilitates the exchange of products, nonproduced nonfinancial assets or financial assets.* The focus of the services account in the balance of payments is the point at which services are exchanged between a resident and a nonresident.

**11.2** *Services are not generally separate items over which ownership rights can be established and cannot generally be separated from their production.* However, as seen later in this chapter, some knowledge-capturing products, such as computer software and other intellectual property products, may be traded separately from their production, like goods. The cross-border transactions in those products (e.g., computer software, audiovisual products, research and development, and other intellectual property products and/or knowledge capturing products) are also recorded as services in balance of payments—excluding when provided on physical media with right to perpetual use (see paragraph 10.12(c)). In addition, cross-border transactions concerning the use of property rights related to marketing assets (such as franchises, trademarks, and brand names) are recorded as services. For discussion on the conceptual issues relating services in the context of national accounts, refer to paragraphs 7.16–7.21, 2025 SNA.

**11.3** *Knowledge-capturing products concern the provision, storage, communication and dissemination of information, advice and entertainment in such a way that the consuming unit can access the knowledge repeatedly.* They have many of the characteristics of goods in that ownership rights over these products can be established and they can be used repeatedly. Whether recorded as goods or services, these products possess the essential common characteristic that they can be produced by one unit and supplied to another.

**11.4** Following the general principles in paragraph 3.155, the time of recording of service entries in the external accounts is the time at which the service is delivered. The provision of services should be recorded on an accrual basis in each accounting period, that is, they

should be recorded as they are rendered. Payment may be made up front, at the end, or as progress payments. To the extent that the time of payment differs from the time of delivery, there may be trade advances (financial assets/liabilities that are extinguished as the service is provided) or trade credit (financial assets/liabilities that arise as the service is provided).

**11.5** Services provided by a self-employed individual such as a consultant, independent contractor, or employment agency are distinguished from remuneration of employees. Paragraphs 12.14–12.16 discuss the difference between an employee and a service provider.

**11.6** Business and other services, such as transport, construction, and computing, may be subcontracted, that is, when a company contracts another (specialist) company to provide the services they have agreed to provide to a customer. When a company contracts another company to provide services that were previously internal company functions, this arrangement may be called "outsourcing." Services that are subcontracted or outsourced should be classified to the appropriate specific services item, such as transport, construction, computing, or technical, environmental, and other business services (see also paragraph 11.21 for transport). The value of services exported and imported in the economy of the service arranger is recorded on a gross basis. (This treatment is applicable because the arranger buys and sells the services, i.e., the purchase of the services is treated as intermediate consumption by the arranger; conversely, if the arranger acted as an agent on a commission basis, then only the commission would be recorded as the service provided by the arranger<sup>1</sup>—see paragraph 11.112). However, if the activity is significant for an economy, net data could be provided on a supplementary basis. Services supplied by "call centers" and similar types of operations should be classified according to the type of service provided. For example, call centers selling products are included in nonfinancial intermediation services, whereas call centers providing computer support are included in computing services.

## 1. OTHER INTERNATIONAL STANDARDS RELEVANT FOR TRADE IN SERVICES

**11.7** The *Manual on Statistics of International Trade in Services (MSITS)* is a source of additional information for compilers of international trade in services data. *MSITS* uses the same conceptual framework as the 2025 SNA and this *Manual*. *MSITS* responds to information needs related to the General Agreement on Trade in Services (GATS) and other trade agreements, as well as growing information needs of governments, business, and

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<sup>1</sup> Moreover, in the former, the arranger carries the risk and responsibility for the provided service, whereas in the latter, they do not carry the risks and responsibilities of the supplied services.

analysts. It describes the four modes<sup>2</sup> through which services can be supplied internationally, and as such extends the meaning of trade in services to cover services delivered through locally established enterprises (see Chapter 15). Building on the services classification included in this *Manual*, *MSITS* provides a further breakdown of the classification of transactions by type of services through the Extended Balance of Payments Services (EBOPS) Classification. For more details, see *MSITS*.<sup>3</sup>

## B. CLASSIFICATION

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**11.8** An overview of the classification of services is shown in Table 11.1. The classification is mainly product-based, but is transactor-based for travel, construction, and government goods and services n.i.e. The classification is according to the type of service, rather than the unit that provides it;<sup>4</sup> for example, if a bank provides pension fund services as a secondary activity, the service is classified as pension fund services. A correspondence between the CPC and services classification is given in *MSITS*. The detailed listing of CPC items included in each service item in *MSITS* can be used to classify any services not specified in the following text to the appropriate external accounts service item.

**11.9** Disaggregation of total exports and imports of services by characteristics of the trading enterprises, known as services trade by enterprise characteristics (STEC), is recommended as a supplementary presentation to highlight the role of enterprises with different characteristics in the current account. Characteristics such as ownership and size of enterprise as well as breakdown by main trade partners are details that can be developed in these statistics. This is discussed further in Chapter 15 within the context of multinational enterprises. In addition, a supplementary presentation of the services account classified by currency to be published at least annually is recommended. Currency composition of international trade is discussed further in Annex 5.

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<sup>2</sup> The four modes of supplying services are: cross-border supply (services delivered from one country to another), consumption abroad (consumers traveling to another country for services), commercial presence (a foreign company's local branch or subsidiary providing services), and presence of natural persons (individuals temporarily traveling to another country to provide services). See Annex 5 and Section B, Chapter V, *MSITS*, 2010 for additional details.

<sup>3</sup> Updated *MSITS* incorporates the guidance from the 2025 *SNA* and this *Manual*.

<sup>4</sup> This is only relevant for product-based categories.

**Table 11.1. Overview of the Services Account**

	<b>Exports (credits/revenues)</b>	<b>Imports (debits/expenditures)</b>
Manufacturing services on physical inputs owned by others		
Maintenance and repair services n.i.e.		
Transport		
Travel		
Construction		
Insurance and pension services		
Financial services		
Charges for the use of intellectual property n.i.e.		
Telecommunication services		
Computer and information services		
Research and development services		
Professional and management consulting services		
Nonfinancial intermediation services		
Operating leasing services		
Technical, environmental, and other business services		
Personal, Cultural, and recreational services		
Government goods and services n.i.e.		
Balance on international trade in services		
Note: This table is expository; for standard components, see Annex 14.		

## 1. MANUFACTURING SERVICES ON PHYSICAL INPUTS OWNED BY OTHERS

**11.10** *Manufacturing services on physical inputs owned by others cover processing, assembly, labeling, packing, and so forth undertaken by enterprises that do not own the goods concerned.* The manufacturing is undertaken by an entity that does not own the goods and that is paid a fee by the principal (processing arrangement, see paragraphs 10.57–10.64). In these cases, the ownership of the goods does not change, so no general

merchandise transaction is recorded between the processor and the principal (see Figure 10.1) Manufacturing services on physical inputs owned by others is distinguished from factoryless goods production in which the contractor acquires ownership of the goods. See Section D, Chapter 10 for additional details.

**11.11** Examples of processes that are often undertaken under arrangements for manufacturing services on physical inputs owned by others include gold and oil refining, liquefaction of natural gas, assembly of clothing and electronics, assembly (excluding assembly of prefabricated constructions, which are included in construction), labeling, and packing (excluding those incidental to transport, which are included in transport services).

**11.12** Manufacturing services on physical inputs owned by others cover the transaction between the principal and processor, and only the fee charged by the processor is included under this item. The fee charged may cover the cost of materials purchased by the processor. Manufacturing services on physical inputs owned by others refer to all work done on goods by a resident of one economy for the owner of goods (principal) who is resident in another economy; the treatment of these services is not conditional on whether the goods were previously or subsequently in the physical possession of the principal or not.<sup>5</sup> For details on the recording of related purchases and sales of goods, refer to paragraphs 10.60–10.61. The recording of related goods movements is explained in paragraphs 11.14–11.16.

**11.13** The value of manufacturing services on physical inputs owned by others is not necessarily the same as the difference between the values of goods sent for processing and the goods after processing recorded in supplementary items discussed in paragraph 11.14. Possible causes for differences include holding gains or losses as well as the inclusion of the processor's overhead expenses (such as financing, marketing, and know-how)<sup>6</sup> in the value of goods after processing, and other measurement errors associated with the valuation of goods movements where there is no sale.

### ***Recording of Related Goods Movements***

**11.14** The gross values of goods associated with processing services can be identified as supplementary items in economies where they are significant. Whereas the manufacturing service is consistent with what is recorded in business accounts and actual transactions, the

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<sup>5</sup> For further details refer to Boxes 10.1 and 10.2.

<sup>6</sup> The manufacturing services should include overhead costs only to the extent they relate to the processing of the goods.

gross values of the physical movements of goods without a change of ownership are useful for analysis of processing activities. Values of the following items may be identified:

- (a) for principals (customers of manufacturing services on goods processed abroad, with no change of ownership to the processor):
  - goods supplied for processing (goods sent); and
  - goods dispatched after processing (goods returned);
- (b) for processors (providers of manufacturing services on goods processed in the compiling economy):
  - goods received for processing (goods received); and
  - goods dispatched after processing (goods returned).

**11.15** A market-equivalent valuation for goods supplied or received might be required. Gross values of the goods are shown after processing, and again a market-equivalent valuation might be required. The value of goods input and dispatched could be reported either by the principal or supplier (processor) of manufacturing services, or from customs data:

- If the values are reported by the principals or processors, coverage should be irrespective of whether the input goods were supplied by the principal from the principal's territory, the processor's territory, or a third territory; or whether the goods are dispatched to the owner's territory, the processor's territory, or a third territory.
- If reported from customs, coverage may be incomplete to the extent that some inputs and some processed goods provided by the principal do not pass through customs. For example, goods sourced or sold locally will not be covered. Additionally, customs may not separately identify goods as being subject to processing. Therefore, efforts should be made to collect data to distinguish the nature of those transactions.

There may be interest in breaking down these values by product or product groups.

**11.16** Transport and insurance costs may be incurred on movements of goods undergoing processing. See paragraph 10.80 for guidance on their recording.

## **2. MAINTENANCE AND REPAIR SERVICES N.I.E.**

**11.17** *Maintenance and repair services n.i.e. cover maintenance and repair work by residents on goods that are owned by nonresidents (credits/revenues) and that by nonresidents on goods that are owned by residents (debits/expenditures).* Maintenance and repair services n.i.e. cover both minor repairs that maintain the good in working order and

major repairs that extend the efficiency or capacity of the good or extend its life.<sup>7</sup> No distinction is made between those repairs included by the customer in intermediate consumption and those in capital formation. The repairs may be performed at the site of the repairer or elsewhere. Repairs and maintenance on ships, aircraft, and other transport equipment are included in this item. Cleaning of transport equipment is included in transport services (see paragraph 10.80). Construction maintenance and repairs are excluded; they are included under construction. Maintenance and repairs of computers are included under computer services.

**11.18** The value recorded for maintenance and repairs is the value of the work done—not the gross value of the goods before and after repairs. The value of maintenance and repairs includes any parts or materials supplied by the repairer and included in the charge. (Parts and materials charged separately should be included in general merchandise.) As noted in paragraph 10.17, goods leaving from, arriving in, and returning to a territory for repair, processing, or other activity without a change of ownership are excluded from general merchandise.

### 3. TRANSPORT

**11.19** Transport is the process of carriage of people and objects from one location to another as well as related supporting and auxiliary services. This includes postal and courier services. Transport can be classified according to:

- (a) mode of transport, namely, sea, air, or other (“other” may be further broken down into rail, road, internal waterway, pipeline, and space transport as well as electricity transmission); and
- (b) what is carried—passengers or freight.

Services that are auxiliary to transport and not directly provided for the movement of goods and persons are covered under other transport services (see paragraph 11.27).

**11.20** In the standard components, transport services are classified according to both dimensions. A breakdown of combined modes of transport into passenger transport, freight transport, and other transport is proposed as simplified standard components for those countries that are unable (e.g., for reasons of confidentiality) to provide the full breakdown by mode of transport.

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<sup>7</sup> This includes modifying or upgrading various systems or components to meet new regulations, enhance operational capabilities, or extend the lifespan of ships, aircraft, and other transport equipment (known as retrofitting).



**11.21** A transport provider may subcontract to use the services of other operators to provide part of the final transport service. Such services should be recorded on a gross basis. For example, a courier service provider might contract separately to more than one transport operator. In contrast, transport services may also be subject to intermediation arrangements. In these cases, any commissions payable by providers of transport services to an agent should be separately recorded as nonfinancial intermediation services, see paragraphs 11.6 and 11.47.

### ***Passenger Services***

**11.22** Passenger services cover the transport of people. The category covers all services provided in the international transport of nonresidents by resident carriers (credits/revenues) and that of residents by nonresident carriers (debits/expenditures) through any mode of transport (see 11.19(a)). Also included are passenger services performed within a territory by nonresident carriers. Passenger services provided within a territory by residents to nonresidents and provided or purchased separately from international transport are excluded from passenger transport; these services are included in travel.

**11.23** Passenger services include fares and other expenditure related to the carriage of passengers. The valuation of passenger transport should include fees payable by the carriers to travel agencies and other providers, as well as any taxes levied on passenger services, such as value-added taxes.<sup>8</sup> Passenger services include fares purchased as a part of package tours (see Box 11.2). Cruise fares are included in travel. Passenger services include such items as charges for excess baggage, vehicles, or other personal accompanying effects and food, drink, or other items purchased on board carriers. Also included in passenger services are rentals, charters, and leases of vessels, aircraft, coaches, or other commercial vehicles with crews for the carriage of passengers. Excluded are rentals or charters that are financial leases (included in loans), and rentals and time charters without crew (included in operating leasing services—see paragraphs 11.113–11.119).

### ***Freight Services***

**11.24** Freight services cover the transport of objects other than people.<sup>9</sup> The treatment of freight services is a consequence of adopting FOB as the uniform valuation principle for

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<sup>8</sup> The taxes and fees are recorded in turn as payable by the carriers to the relevant authorities or service providers.

<sup>9</sup> In general, transport of animals is recorded under freight, but small pet animals carried with their owners could be included under passenger services.

exports and imports of goods. As discussed in paragraphs 10.24–10.29, FOB valuation is at the customs frontier of the exporting economy, so:

- (a) all freight costs up to the customs frontier are shown as incurred by the exporter, and
- (b) all freight costs beyond the customs frontier are shown as incurred by the importer.

In addition to freight on exports and imports, freight transport services may relate to goods where there is no change of ownership, such as goods sent for storage or processing and migrants' personal effects. Also included are freight services provided by nonresident carriers within the domestic economy and vice versa.

**11.25** Rentals, charters, or operating leases of vessels, aircraft, freight cars, or other commercial vehicles with crews for the carriage of freight are included in freight services. Also included are towing and services related to the transport of oil platforms, floating cranes, and dredges. Operating leases of vessels, aircraft, freight cars or other commercial vehicles without crews and financial leases of transport equipment are excluded from transport services (see paragraphs 11.118 for the former and 5.63–5.66 and 10.12(f) for the latter).

**11.26** When actual arrangements for paying freight costs differ from FOB terms of delivery, rerouting is needed, as defined in paragraph 3.35. Rerouting of freight services may mean that a transaction that is actually between two residents is treated as a transaction between a resident and a nonresident, and vice versa, as shown in Box 11.1. The timing of the provision of freight services may differ from the timing of the change of ownership of those goods, such as goods sent abroad on consignment where the sale occurs in a different accounting period from when the goods crossed the exporter's customs frontier. In principle, freight services should be recorded in the period they are rendered but are attributed to the importer in the period when the goods are purchased. However, in practice, the aggregated nature of recording of freight services and lack of information on individual freight movements means that timing adjustments to deal with this issue may not be feasible, material, or appropriate (e.g., if the importer pays for the service in the period it is rendered).

#### **Box 11.1. Numerical Examples of the Treatment of Freight Services**

A piece of equipment costs 10,000 units at the factory at which it was produced in Economy A. It costs 200 to transport it to the customs frontier of Economy A, 300 to transport it from the customs frontier of Economy A to the customs frontier of Economy B, where a customs duty of 50 is levied, and it costs 100 to deliver it from the customs frontier to the customer. (For simplicity, insurance of the equipment during transport is not covered in the example.)

Under all contractual arrangements between the parties, the FOB value is 10,200 and the CIF value is 10,500. However, how the related services components are recorded depends on the

arrangements for paying the transport costs and the residence of the transport provider. A few of the possible arrangements are discussed below:

**Example 1:**

The parties contract on an FOB basis (i.e., the invoice price is 10,200; the exporter is responsible for costs up to the frontier of A and the importer is responsible for subsequent costs). In this case, no rerouting is needed. All freight is shown as being provided by the actual provider and payable by the actual invoiced party.

**Example 2:**

The parties contract on an “ex works” basis (i.e., the invoice price is 10,000; the buyer pays for transport from the seller’s premises).

- In one scenario, the freight from the factory to the customs frontier of Economy A is provided by a resident of Economy A. The 200 payable, which is actually a service provided by a resident of Economy A and payable by a resident of Economy B, must be rerouted to be shown as a resident-to-resident transaction within A, as all costs up to the frontier of the exporting economy are treated as being payable by the exporter and included in the price of the goods.
- In another scenario, the freight from the factory to the customs frontier of Economy A is provided by a resident of Economy B. The 200 payable, which is actually a domestic service transaction within Economy B, must be rerouted as being a service provided from B to A, as all costs up to the frontier of the exporting economy are treated as being payable by the exporter.

**Example 3:**

The parties contract on a CIF basis (i.e., the invoice price is 10,500). The 300 payable for freight from the customs frontier of Economy A to that of Economy B is rerouted, because the contract makes it payable by the exporter, but it is treated as payable by the importer in BOP (i.e., following FOB valuation). As a result, if the freight provider is a resident of A, a domestic transaction within A is treated as being a BOP transaction. Conversely, if the freight provider is a resident of B, an external transaction is treated as being a domestic transaction within B.

It is not normally possible to study every contract, so general patterns of freight cost arrangements need to be identified. When contract terms other than FOB are used, actual payment arrangements for freight may need adjustments to meet the FOB valuation convention.

In all cases where apparently domestic transactions are rerouted to be recorded as external transactions, or vice versa, goods trade must be recorded on a consistent basis, so that the financial payment from B to A equals the sum of its goods and services imports, both before and after rerouting adjustments. (If the goods are recorded at FOB values, the adjustments to freight bring them into consistency with goods; if the goods are recorded at transaction values, the goods values need corresponding adjustments.)

### ***Other Transport Services***

**11.27** Other transport services include services that are auxiliary to transport and not directly provided for the movement of goods and persons. The category includes cargo handling charges billed separately from freight, storage and warehousing, packing and repackaging, towing not included in freight services, pilotage and navigational aid for carriers, air traffic control, cleaning performed in ports and airports on transport equipment, and salvage operations.

**11.28** The services of freight forwarders are also included in this category. Freight forwarders arrange the transportation of goods and related logistics on behalf of shippers (clients) to ensure that goods reach their destination efficiently. Their services output is measured in terms of the total revenue they generate, net of associated expenses.

**11.29** Some related activities are excluded from transport: freight insurance (included in insurance and pension services); goods procured in ports by nonresident carriers (included in goods); maintenance and repairs on transport equipment (included in maintenance and repair services n.i.e.); and repairs of railway facilities, harbors, and airfield facilities (included in construction); agents' fees including the fees of nonfinancial intermediation platforms associated with transport (included in nonfinancial intermediation services).

### ***Postal and Courier Services***

**11.30** *Postal and courier services cover the pick-up, transport, and delivery of letters, newspapers, periodicals, brochures, other printed matter, parcels, and packages. It also includes post office counter services such as sales of stamps and money orders, poste restante services, telegram services, and mailbox rental services.* Postal and courier services facilitate parcel trade, where consumers purchase goods online and receive them through parcel delivery.

**11.31** Excluded from postal services are financial services rendered by postal administration entities, such as postal giro, banking and savings account services (recorded under financial services), mail preparation services (recorded under technical, environmental, and other business services), and administration services related to postal communication systems (included in telecommunication services). Postal services are subject to international agreements, and the service entries between operators of different economies should be recorded on a gross basis. Postal services provided to travelers are included in travel.

**11.32** Courier services include express and door-to-door delivery. Express delivery services might include, for example, on-demand pick-up or time-definite delivery. Excluded are the movement of mail carried by air transport enterprises (recorded under transport, air, freight), storage of goods (recorded under transport, other, auxiliary and supporting

services), and mail preparation services (recorded under technical, environmental, and other business services).

**11.33** The principles for recording postal and courier services on exports and imports of merchandise are the same as for other freight services, as discussed in Box 11.1. This treatment is a consequence of the FOB valuation of the goods concerned. The principles for recording postal and courier services on other items, such as documents, personal effects, and goods for repair, are that the service is payable by the party responsible for payment. Courier services may encompass combinations of road, sea, air, and other methods of transport.

#### 4. TRAVEL

**11.34** *Travel credits/revenues cover goods and services for own use or to give away acquired from an economy by nonresidents during visits to that economy. Travel debits/expenditures cover goods and services for own use or to give away acquired from other economies by residents during visits to these other economies.* The goods and services may be purchased by the persons concerned or by another party on their behalf. For example, business travel may be paid or reimbursed by an employer, tuition and living costs of a student may be paid by a government, or health costs may be paid or reimbursed by a government or insurer. Goods and services supplied by the producer without charge are also included, such as tuition and board provided by a university. In addition, goods and services provided free to nonresidents by government and NPISHs of the economy they are visiting known as social transfers in kind<sup>10</sup> (e.g., free health services received by a foreign tourist from a hospital within general government) should be recorded under travel.

**11.35** The standard component breakdown of travel is between business and personal travel, with supplementary data for groups of special interest, such as border, seasonal, and other short-term workers. A separate supplementary breakdown of travel into types of goods and services is suggested (see paragraph 11.43).

**11.36** Unlike most other service categories, travel is not a specific type of service, but a transactor-based component that covers an assortment of goods and services. In the case of travel, the consumer moves to another territory to consume the goods and services that he or she acquires. For these reasons, travel is not identified as a service in the CPC. Goods and services provided to visitors while on their trips that would otherwise be classified under another item such as postal services, telecommunications, local transport, hire of equipment, or gambling are included under travel.

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<sup>10</sup> Social transfers in kind consist of goods and services provided to households by government and NPISHs either free or at prices that are not economically significant (paragraph 9.45, 2025 SNA)

**11.37** Goods or services acquired by persons undertaking study or medical care while outside their territory of residence are included in travel. Acquisitions of goods and services by border, seasonal, and other short-term cross-border workers in their economy of employment are also included in travel.<sup>11</sup> Acquisitions of goods and services by diplomats, consular staff, military personnel, and so forth and their dependents (but not locally engaged staff and their dependents) in the territory in which they are posted are included under government goods and services n.i.e.

**11.38** Travel excludes goods for resale, which are included in general merchandise. The acquisition of valuables (such as jewelry), consumer durable goods (such as cars and electronic goods), and other consumer purchases for own use or to give away that are included in customs data in excess of customs thresholds is included in general merchandise. (The inclusion of these goods in general merchandise is discussed in paragraph 10.13.) Valuables and consumer durables that have not been included in general merchandise data should be included in travel (e.g., locally acquired goods kept in a vacation home). Travel includes local transport (i.e., transport within the economy being visited and provided by a resident of that economy) but excludes international transport (which is included in passenger transport; see paragraph 11.22).

### ***Business Travel***

**11.39** *Business travel covers goods and services acquired for personal use by persons whose primary purpose of travel is for business.* Examples include the expenditure of carrier crews stopping off or laying over; government employees on official travel; employees of international organizations on official business; employees traveling on behalf of their employer<sup>12</sup> (except for diplomatic staff, etc., employed in government enclaves, whose expenditure in their territory of physical location is included in government goods and services n.i.e., as discussed in paragraph 11.144); self-employed nonresidents traveling for business purposes; and seasonal, border, and other short-term workers who are not resident in the economy in which they are employed. The business activities may include production or installation work, sales campaigns, market exploration, commercial negotiations, missions, conferences, conventions, other meetings, or other business purposes on behalf of an enterprise resident in another economy.

**11.40** Business travel includes the goods and services acquired for personal use by persons whose main purpose of travel is for business (including goods and services for

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<sup>11</sup> These acquisitions are not considered as tourism expenditure, so showing them separately as supplementary items allows travel data from the balance of payments to be reconciled with tourism statistics.

<sup>12</sup> When the employee and the employer are residents of different economies, care must be taken to attribute payments made by the employer to the country of the employee.

which business travelers are reimbursed by employers) but not the sales or purchases that they may conclude on behalf of the enterprises they represent.

**11.41** A supplementary item may be provided to show the total credits/revenues and debits/expenditures for acquisition of goods and services by border, seasonal, and other short-term workers.

### ***Personal Travel***

**11.42** *Personal travel covers goods and services acquired by persons going abroad for purposes other than business, such as vacations, shopping, participation in recreational and cultural activities, visits with friends and relatives, pilgrimage, and education- and health-related purposes.* Where important, there may be supplementary items to break down personal travel into subcomponents:

- (a) health-related travel (e.g., medical services, other health care, food, accommodation, local transport, acquired by those traveling for medical reasons). The scope of “medical reasons” for health-related travel is consistent with “health and medical care” from the *International Recommendations for Tourism Statistics 2008 (IRTS 2008)*. Health and medical care cover services received from hospitals, clinics, convalescent homes, health and social institutions, thalassotherapy, health and spa resorts, other specialized places to receive medical treatments based on medical advice, as well as cosmetic surgeries using medical facilities and services (see paragraph 3.17, *IRTS 2008*).
- (b) education-related travel (e.g., tuition, food, accommodation, local transport, health services, acquired by nonresident students); and
- (c) all other personal travel. This component includes health expenditure by those not traveling for health or educational purposes. In addition, travel expenses of companions of patients, education-related travelers, and those traveling on short-term work or other business are included in this component, treating companions as normal travelers.

The residence of international patients and students is discussed in paragraphs 4.203–4.204. Health and educational services not included in travel are discussed in paragraph 10.130.

### ***Other Issues Related to Travel***

**11.43** A separate supplementary breakdown of travel may be provided according to product group, namely:

- (a) Goods,

## (b) Services

Local transport services,

Accommodation services,

Food and beverage services,

Health services,

Education services,

Cultural, recreational, and other personal services,<sup>13</sup>

Other services.

**11.44** This breakdown allows for closer links with tourism satellite accounts as well as supply and use tables. Further information on tourism statistics is presented in United Nations, *Tourism Satellite Account: Recommended Methodological Framework 2008*<sup>14</sup> and United Nations World Tourism Organization, *International Recommendations for Tourism Statistics 2008*. To highlight the link between travel and passenger transport services and tourism statistics, an approximation to tourism expenditure may be shown as a supplementary item that identifies relevant tourism-related goods and services in the travel and passenger transport items.<sup>15</sup>

**11.45** Travel covers stays of any length provided there is no change of residence. (Principles for determining residence of households are shown in paragraphs 4.199–4.213.) In some cases, it may be useful to break down travel by length of stay. For example, expenditure of those who do not remain overnight may be shown on a supplementary basis if this is significant.

**11.46** In line with the accrual principle, goods and services acquired during the visit but paid for earlier or later are included in travel. Goods and services may be acquired by being paid for by the person going abroad, paid for on his or her behalf, or provided without a quid pro quo (e.g., free room and board received, in such case there is also a corresponding transfer),

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<sup>13</sup> Includes (a) audiovisual and related services (e.g., expenditures on audio/video streaming services, encrypted television channels); and (b) other personal, cultural and recreational services excluding educational and health services discussed in paragraphs 11.131–11.132 (e.g., expenditures associated with museums and other cultural, sporting, gambling, and recreational activities), obtained while traveling.

<sup>14</sup> The tourism satellite account has the concept of usual environment as an additional criterion to that of residence. As a result, acquisitions of goods and services by border, seasonal, and other short-term cross-border workers in their economy of employment can be identified separately in travel for compatibility with tourism statistics.

<sup>15</sup> This supplementary item includes all personal travel and those parts of business travel and passenger transport services that do not cover expenditure of border, seasonal, and other short-term workers.



or produced on own account (as in some cases of notional units for ownership of real estate and time-share accommodation).

<b>Table 11.2. Treatment of Alternative Time-Share Arrangements</b>				
Type of arrangement	Classification	Up-front payment	Transaction in Asset	Periodic Flow
Deeded ownership	Ownership of land and buildings	Direct investment in notional unit in economy where the time share is located	Equity of the time-share holder (direct investment)	Accommodation services in travel (imputed based on equivalent market prices) and investment income (income on equity)
Right to use	Transferable right to use (amounts to economic asset)	Prepayment of accommodation + Contracts, leases, and licenses (only recognized when resold, difference between selling price and value of prepaid accommodation services, recorded in capital account)	Trade credit and advances + Nonproduced nonfinancial asset (capital account)	Accommodation services in travel
Membership system	Membership is nontransferable right to use (does not amount to asset)	Prepayment of accommodation	Trade credit and advances	Accommodation services in travel

**11.47** Travel services may be arranged through a travel agent, tour operator, time-share exchange agent, or other channels, such as a nonfinancial digital intermediation platform. In some of these cases, the agent may pay the travel providers an amount that deducts a fee

or commission.<sup>16</sup> If the agent is a resident of the same economy as the customer, then the fee or commission is a resident-to-resident transaction, and the net amount payable to service providers resident in other economies (after the fee or commission receivable by the agent is deducted) is included in travel (Box 11.2 explains the recording of balance of payments transactions associated with package tours). In other cases, the nonresident provider of the services may pay the resident agent's commission and the gross amount is payable by the customer to nonresidents, and thus is included in travel. Fares for cruises provided by operators resident in economies other than that of the passenger are included in travel (not passenger transport).

**11.48** In the case of a nonresident owner of land and buildings, any accommodation services provided by the identified notional unit to its owner (see paragraph 4.61) are shown in travel.

**11.49** The term “time-share” covers a wide range of arrangements. They can be classified in the three categories, as described in Table 11.2:

- (a) The acquisition of deeded ownership, or a similar arrangement, is equivalent to the acquisition of a notional direct investment enterprise. In this case, after deeded ownership is acquired, accommodation services provided to the owner should be imputed based on market prices, which in turn gives rise to direct investment income on equity. (An example of a similar arrangement is a long-term lease that is of such duration that it represents an effective change in ownership.)
- (b) Payments for rights to use a property under a membership system time-sharing arrangement, where the right to use the time share is not transferable (the third category shown in the table), is equivalent to prepaying for accommodation services (recorded in trade credit and advances). After initial acquisition, the prepayment is drawn down, and imputed accommodation services should be recorded in travel.
- (c) A “right to use” time-share arrangement that carries a transferable right should be accounted for as prepaying for accommodation services (recorded in trade credit and advances), identical to the recording of a membership system time-sharing arrangement discussed above. However, if the right is resold, the difference between the selling price and the amount remaining in trade credit and advances (reflecting the value of the remaining prepaid accommodation services) should be recorded as a transaction in a nonproduced nonfinancial asset, in the capital account.

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<sup>16</sup> Assumes that the customer is specifically invoiced for the margin/commission by the agent.

### Box 11.2. Recording of Package Tours

Tour operators (TOs) are businesses that combine international transport and two or more travel related services (for example, local transport, accommodation, meals, entertainment, sightseeing) and sell them through travel agencies or directly to final consumers as a single product called a package tour for a single price. The components of a package tour might be pre-established or can result from an “à la carte” procedure where the visitor chooses a combination of services from a pre-established list.

This *Manual* recommends that a package tour should not be treated as a new product. The relevant economic interactions should be unbundled in order to record the transactions by different services providers that can be residents or nonresidents, and that contribute to the package tour separately: a) the services themselves (for example, transport, accommodation); b) the services provided by the tour operator; and c) services provided by the travel agency (usually different from the tour operator) selling the tour. In cases b) and c), the services are measured by a fee or commission. The services arranged (international and local transportation, accommodation, etc.) are not considered intermediate consumption of the tour operator or the travel agent. These services are in fact consumed and recorded in the external accounts<sup>17</sup> by the traveler weeks or months after the tour was booked and payments were made to the tour operator.<sup>18</sup> The fee of the travel agency is included under nonfinancial intermediation services as is the case with the services of the tour operator,<sup>19</sup> whereas international transportation is included under passenger transport and accommodation (e.g., hotels, guesthouses) under travel, provided the relevant transactions are between residents and nonresidents.

To support the calculation of price statistics, countries may record travel packages as a separate supplementary item in *BPM7*.

The following numerical examples explain the recording of travel packages under two typical scenarios.

#### Example 1:

A tourist resident in country A wants to visit country C and buys a package tour from a travel agent, resident in country A, for 1000. The travel agent charges 50 as intermediation fee. The travel agent intermediates the procurement of the package tour from a tour operator (TO), also resident in country A, for 950. The TO charges a fee of 100 for his intermediation service. The TO buys international transport for 300 from an enterprise resident in country A and accommodation for 550 from an enterprise resident in country C.

<sup>17</sup> *BPM7* paragraph 3.155 states: “Transactions in services are recorded when the services are provided...”

<sup>18</sup> For more details, see the World Tourism Organization (WTO) paper of 2004, “*Clarifying the Treatment of Travel Agency, Tour Operator, Travel Agency Services, and Package Tours in SNA, Balance of Payments, and TSA and their Mutual Relationship*”.

<sup>19</sup> Services of TO are treated as nonfinancial intermediation as their output mainly comes from intermediation fees or commissions. They may also earn from advertising/sponsorships, ancillary services such as visa/passport services, etc.

The following recording is recommended in the balance of payments of Country A. For completeness, the recording of domestic transactions in national accounts is also included.

Transactions	Balance of Payments Services Account		Domestic Transactions (not recorded in BOP)
	Credits/revenues	Debits/expenditures	
Tourist → Travel agent (Country A)	-	-	50
Tourist → Tour operator (Country A)	-	-	100
Tourist → Airline (Country A)	-	-	300
Tourist → Hotel (Country C)	-	550	-

**Example 2:**

A tourist resident in country A wants to visit country C and buys a package tour from a travel agent, resident in country A, for 1000. The travel agent charges 50 as intermediation fee. The travel agent intermediates in the procurement of the package tour from a tour operator, resident in country B, for 950. The TO charges a fee of 100 for his intermediation service. The TO buys international transport for 300 from an enterprise resident in country B and accommodation for 550 from an enterprise resident in country C.

The following recording is recommended in the balance of payments of Country A. For completeness, the recording of domestic transactions in national accounts is also included.

Transactions	Balance of Payments Services Account		Domestic Transactions (not recorded in BOP)
	Credits/revenues	Debits/expenditures	
Tourist → Travel agent (Country A)	-	-	50
Tourist → Tour operator (Country B)	-	100	-
Tourist → Airline (Country B)	-	300	-
Tourist → Hotel (Country C)	-	550	-

## 5. CONSTRUCTION

**11.50** *Construction covers the creation, renovation, repair, or extension of fixed assets in the form of buildings, land improvements of an engineering nature, and other such engineering constructions as roads, bridges, dams, and so forth. It also includes related installation and assembly work. It includes site preparation and general construction as well as specialized services such as painting, plumbing, and demolition. It also includes management of construction projects.*

**11.51** Acquisition of goods and services by the enterprises undertaking that construction work from the economy of location of the construction work is also recorded under construction. Goods and services provided from the home economy of the construction enterprise are resident-to-resident transactions, and so should be excluded (see also paragraph 10.17(d)).<sup>20</sup> Goods and services acquired from third economies (i.e., neither the residence of the enterprise, nor the location of the construction work) are recorded under the appropriate general merchandise or service item for the economy of the enterprise.

**11.52** If the external operations of a construction enterprise are substantial enough, they constitute a branch resident in the economy of operations (see paragraphs 4.51–4.54). Therefore, a large-scale construction project contracted by a nonresident enterprise that takes a year or more to complete will usually give rise to a resident branch. Accordingly, there would be a direct investment relationship between the parent and the branch; there may also be goods and services supplied between the branch and the parent, such as for materials. As a result of this treatment, the construction contracts covered in international trade in services are generally of a short-term nature.

**11.53** Construction can be disaggregated into construction abroad and construction in the compiling economy. This disaggregation allows for the recording on a gross basis of both the construction work undertaken and the goods and services acquired from the economy in which the construction activity is being undertaken by the nonresident enterprise that undertakes the construction.

### ***Construction Abroad***

**11.54** Construction abroad (less than one year) consists of:

- (a) construction work for nonresidents by enterprises resident in the compiling economy (credits/revenues), and

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<sup>20</sup> This treatment is applicable if the construction work doesn't give rise to a resident branch, as explained in paragraph 11.52.

- (b) the goods and services acquired from the economy in which the construction activity is being undertaken by these enterprises (debits/expenditures).

### ***Construction in the Compiling Economy***

**11.55** Construction in the compiling economy (less than one year) consists of

- (a) construction work for residents of the compiling economy by nonresident construction enterprises (debits/expenditures), and
- (b) the goods and services acquired in the compiling economy from resident enterprises by these nonresident construction enterprises (credits/revenues).

### ***Valuation***

**11.56** Construction is valued on a gross basis—that is, inclusive of all goods and services provided by the construction contractor as inputs to the work, and also inclusive of other costs of production and the operating surplus that accrues to the construction contractor. The transfer of ownership of construction under a contract may be deemed to occur in stages as value is put in place. In such cases, stage payments made by the owner can often be used to approximate the value of the partially completed assets<sup>21</sup> although stage payments may sometimes be made in advance or in arrears of the completion of the stage, in which case advances or trade credit are also extended. Construction can be undertaken in a similar way to manufacturing services on physical inputs owned by others. That is, a customer may provide goods and services as inputs to a construction project, but the goods and services do not change ownership to the construction contractor. In such cases, the treatment, as with manufacturing services, is to record actual changes of ownership, not physical movements of goods. Repairs on embassies, bases, and so forth owned by the government that occupies them are included in government goods and services n.i.e. (see paragraph 11.143).

### ***Existing Buildings***

**11.57** As noted in paragraph 4.59, because of the imputation of notional units for ownership of land, most transactions involving acquisitions of existing buildings and land are treated as being between two resident units. International transactions of construction can arise when a building for an embassy, consulate, military base, or international organization changes hands with a resident of the economy in which the building is physically located. The ownership could change because of a sale or gift. Transactions in construction may also

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<sup>21</sup> 2025 SNA recommends recording the acquisitions of partially completed products as work-in-progress in the accounts of the final owner until the completion of the fixed asset. If the effective transfer of ownership cannot be determined in practice, stage payments could be used as a proxy for the transfer of ownership (see paragraphs 11.62–64, 2025 SNA for additional details).

occur for buildings in an area that is exchanged between economies (see paragraph 4.196). The change in ownership of the land component is shown in the capital account (see paragraph 14.10); separate estimates should be made for the structure and land components. Transactions in existing buildings are included in construction in the same way as new buildings, to avoid having to distinguish new and existing buildings, and this treatment is analogous to the treatment in merchandise trade where both new and second-hand equipment are combined.

## 6. INSURANCE AND PENSION SERVICES

**11.58** *Insurance and pension services include services of providing life insurance and annuities, nonlife insurance, reinsurance, pensions, standardized guarantees, and auxiliary services to insurance, pension schemes, and standardized guarantee schemes. More information on insurance and pensions is provided in Annex 8.*

**11.59** The processes undertaken by insurers and pension funds include charging premiums, paying claims, and investing funds. To analyze the underlying economic nature of these operations, it is necessary to rearrange these processes to identify separately the service element. Annex 8 provides some background to the way insurance and pension schemes operate and the value of their services is calculated. The usual starting point for deriving the exported and imported components is the value of premiums and claims, which are observable, rather than derived.

**11.60** In overview, the total value of insurance and pension services is derived as the margin between the amounts accruing to the companies (namely, premiums, contributions, and supplements) and the amounts accruing to the policyholders (namely, claims and benefits). That is, for nonlife insurance, the value of output of nonlife insurance services can be expressed with the following formula:

$$\begin{array}{rcl}
 & \text{Actual premiums earned;} & \\
 + & \text{Premium supplements;} & \\
 - & \text{adjusted claims incurred.} & 
 \end{array}$$

**11.61** More elaboration is provided in Annex 8: nonlife insurance (paragraphs A8.18–A8.26), reinsurance (paragraph A8.27), life insurance (paragraph A8.35), and pension schemes (paragraph A8.47).

**11.62** The supplementary breakdown of insurance and pension services is between direct insurance (life and nonlife), reinsurance, auxiliary insurance services, and pension and standardized guarantee services. In addition, data on actual premiums earned (see paragraph A8.21) and unadjusted claims (claims payable before adjustments for claims

volatility; see paragraphs A8.25–A8.26) may be provided as supplementary items, with separate details on nonlife, life, pension, and standardized guarantee components, as considered appropriate.

**11.63** For exports of nonlife insurance services, the service charge can be estimated from total nonlife insurance output by multiplying the actual premiums earned from nonresidents by the ratio of service charge to actual premiums earned for all nonlife insurance operations. (This calculation is illustrated in Box 11.3, Example 2.) The same prorating technique can be used for life insurance (including annuities), pension funds, and standardized guarantees. To the extent that these ratios vary for different lines of business (reinsurance, marine, term life, etc.), the calculations should be made separately. Similarly, if it is known that there are different margins between resident and nonresident customers, data from the operations most relevant to nonresident policyholders should be used. The ratios should be calculated according to the formula for output in paragraph 11.60, so they take into account premium supplements and claims volatility. (See Box 11.3 for an example of calculations.)

**11.64** For imports of nonlife insurance services, the available information is less complete than that for exports. For reinsurance, the only customers are insurance companies, so data on premiums payable and claims receivable may be readily available from them. However, premium supplements are not observable. For direct insurance, there is a wider range of customers and, so, available data may be more limited, such as premiums paid and actual claims only. To derive a service charge from these values, ratios need to be obtained using the most suitable available indicator:

- (a) Ratios from other economies or from published accounts of large international insurance companies may be used. International trade in some types of nonlife insurance is dominated by relatively large, specialized companies;

### **Box 11.3. Numerical Examples of the Calculation of Nonlife Insurance Services**

*(This example is applicable to types of insurance not subject to fluctuations in claims; for an example with an adjustment for claims volatility, see Annex 8.)*

#### **Example 1. For resident insurers with separate data on policyholders abroad:**

Premiums earned from abroad	100 (premiums received 105)
Claims payable abroad	95 (claims paid 85)
Technical reserves relating to insurance with nonresidents	200 (beginning of period)
Income attributable to policyholders	20 (premium supplements)

The resulting entries are:

Services	Insurance service charge = 25 (derived as 100 + 20 – 95)
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Earned income	Income attributable to policyholders = 20
Current transfers	Premiums less service charges receivable = 95 (premiums plus supplements less service = 100 + 20 – 25)
Claims payable = 95 (actual; equal to premiums less service charges receivable if no adjustment of claims for volatility)	
Financial account	Increase in insurance technical reserves = 15 (for prepaid premiums 105-100; for unpaid claims 95 – 85)
International investment position	Insurance technical reserves 215 (end of period)
<b>Example 2. For resident insurers with separate data on policyholders abroad for premiums only:</b>	
Total insurance services (to residents and nonresidents) combined	50
Total premiums	200
Of which: Premiums from residents	120
Premiums from nonresidents	80
Estimated insurance services provided to nonresidents	20 (= 80 / (200) * 50)
<b>Example 3. For nonresident insurers with resident policyholders:</b>	
Premiums from residents	40
Ratio of service charge to premiums (average from data on insurers abroad) =	25 percent
Estimated insurance services from nonresidents	10 (= 40 * 0.25)

- (b) Ratios from the resident insurance industry may be considered. In some economies, there may be equivalent lines of business; or
- (c) Ratios based on premiums payable abroad and claims receivable from abroad over a medium- to long-term period. International insurance trade includes direct insurance of large items (like ships and aircraft) and reinsurance, so claims receivable for a particular economy may be highly volatile. An adjustment for premium supplements would also be needed, or there could be an understatement of the value of services.

Such ratios should be calculated as consistently as possible with those for total services and exports outlined above, so they would also take into account premium supplements and claim volatility. Although premium supplements are not readily observable for imports, some adjustment is needed, or there would be an understatement of the value of services and asymmetry with exports. Premium supplements to premiums ratios observed from other

cases could be used to avoid this understatement. The same prorating techniques can be used for life insurance, annuities, pension funds, and standardized guarantee.

**11.65** Data on reinsurance imports can be collected from the policyholders, because they are all insurance companies. The value of direct insurance service produced relates to the whole of the risk that is insured, including any reinsured component. Thus, direct premiums and claims are recorded gross of reinsurance.

**11.66** Freight insurance is a form of nonlife insurance that raises particular issues. Freight insurance premiums payable on international traded goods before they reach the customs frontier of the economy of the exporter are included in the FOB price of the good. Freight insurance premiums payable subsequent to the goods leaving the customs frontier of the exporter's economy are treated as payable by the importer. When the parties have not arranged the payment of insurance premiums in the same way as this methodology, partitioning and rerouting are needed (see paragraphs 3.35–3.37). These adjustments are of the same nature as those discussed for freight services. The service elements for freight insurance can be derived in the same way as other insurance.

**11.67** Auxiliary insurance services consist of the provision of services that are closely related to insurance and pension scheme operations. Included are agents' commissions, insurance brokering and agency services, insurance and pension consultancy services, evaluation and loss adjustment services, actuarial services, salvage administration services, and regulatory and monitoring services on indemnities and recovery services. These services are charged through explicit charges.

**11.68** In order to avoid overstating insurance services, a ratio can be used to estimate services from the reported insurance premiums recorded in the transfer income account. The ratio may be derived from the domestic nonlife insurance industry and applied to premiums paid.

**11.69** Islamic insurance (Takaful) and re-insurance (Re-takaful) are discussed in Chapter 17, Islamic Finance. While these insurance schemes have some similarities with the conventional insurance presented in this section, there are notable differences in the business arrangements as explained in Chapter 17. Insurance services provided through fintech (commonly known as InsurTech) should be covered under respective insurance services categories.

## 7. FINANCIAL SERVICES

**11.70** *Financial services cover services related to financial intermediation, financial risk management, liquidity transformation or auxiliary financial activities, except insurance and pension scheme services.* These services include those usually provided by banks and

other financial corporations. They include deposit taking and lending, letters of credit, credit card services, commissions and charges related to financial leasing, factoring, underwriting, and clearing of payments. Also included are financial advisory services, custody of financial assets including crypto assets with a corresponding liability or bullion, financial asset management, monitoring services, liquidity provision services, risk assumption services other than insurance, services of foreign exchange bureaus and money transfer operators, merger and acquisition services, credit rating services, stock exchange services, and trust services. Financial services enabled by Fintech<sup>22</sup> including those facilitated by financial digital platforms such as payment services, peer-to-peer lending services, crowd funding platform services, services of platforms/exchanges intermediating (including lending/borrowing) in crypto assets with a corresponding liability, and other financial services such as capital raising/investment management are included under this category without introducing new services categories. Nevertheless, if a country has a strong need to identify the financial services provided through fintech, introducing an “of which” category may be considered. See Section D, Chapter 16 for the discussion on digitalization and financial system.

**11.71** Financial services<sup>23</sup> may be charged for by:

- (a) explicit charges;
- (b) margins on buying and selling transactions;
- (c) asset management costs deducted from property income receivable in the case of asset-holding units; or
- (d) margins between interest payable and the reference rate on loans and deposits (called implicit financial services on loans and deposits).

**11.72** For financial intermediaries, the balance between explicit and implicit charges may vary over time and from institution to institution, so data on both are needed to get a complete picture of their supply of services.

### ***Explicit Charges***

**11.73** Services are charged for by explicit charges in the case of many financial services and require no special calculation. Some explicit charges associated with deposit and lending services include application and commitment fees, fees for one-off guarantees, early or late repayment fees or penalties, and account charges. (However, an increase in interest

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<sup>22</sup> See paragraph 4.124 for the definition of fintech.

<sup>23</sup> The EBOPS classification presented in *MS/ITS* includes additional details on financial services product classification.

rates as a result of late payment would not be classified as an explicit fee, but would be included with other interest and, so, taken into account as implicit financial services on loans and deposits.)

**11.74** Explicit charges also include commissions and other fees related to letters of credit, bankers' acceptances, lines of credit, financial leasing, money transfer, foreign exchange transactions, fees related to financial digital platforms that intermediate funding or payment transactions (see paragraphs 16.76-16.78), fees associated with credit cards<sup>24</sup> and factoring (see paragraph 11.75). Also included are commissions and other charges related to transactions in securities: brokerage, placements of issues, underwritings, and redemptions; commissions and fees paid for the arrangement of financial derivative contracts; commissions of commodity futures traders; and asset management services, financial market operational and regulatory services, security custody services, and so forth.<sup>25</sup> Service charges on purchases of IMF resources are included among an economy's financial service payments, as are charges (similar to commitment fees) associated with undrawn balances under stand-by or extended arrangements with the IMF.<sup>26</sup> Charges payable to a financial institution for arranging the provision of financial resources, which are services, should be distinguished from amounts payable to the suppliers of financial resources for the use of these resources (which are income; see paragraph 12.3(b)).

**11.75** Factoring is a transaction in which a financial company (factor, which can be a bank, a specialized factoring company, or other financial organization) buys trade accounts receivable from a supplier at a discount (see paragraph 5.69 for additional details on factoring). The discount is equal to the difference between the nominal value of the accounts receivable and the actual payments by the factor to the supplier and may consist of three elements: (i) fees; (ii) interest; and (iii) compensation for possible credit defaults. From a conceptual perspective, the service provided by the factor (i.e., output of the factor) is

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<sup>24</sup> For example, fees charged by credit cards on the purchase of goods and services, in certain cross-border transactions. The charge is usually calculated as a percentage of the sale. In addition, foreign transaction fees and cash advance fees on the use of credit cards in cross-border transactions are included under explicit charges.

<sup>25</sup> Financial derivative transactions may take place directly between two parties or through intermediaries. In the latter case, there may be implicit or explicit service charges. It is not usually possible to distinguish implicit service charges. Therefore, it is recommended that net settlement payments of derivative contracts be recorded as financial transactions. However, when possible, service charge components should be recorded separately.

<sup>26</sup> The International Monetary Fund (IMF) imposes several types of charges and fees on the use of its financial resources. These charges are designed to cover the IMF's operating costs and to ensure that borrowing countries have an incentive to repay their loans promptly. Service charge on purchases of IMF resources is a one-time charge of 0.5 percent on each drawing (disbursement) from the IMF's General Resources Account (GRA). This fee is assessed at the time of the disbursement. Commitment fee is charged on the undrawn portion of the credit line for Stand-By Arrangements (SBA), Extended Fund Facility (EFF), and other similar arrangements. The fee is refundable if the member draws on the committed resources.

represented by the first element only. For additional details on factoring refer to paragraph 7.195, 2025 SNA.

### ***Margins on Buying and Selling Transactions***

**11.76** Dealers or market-makers in financial instruments may charge, in full or part, for their services by having a spread between their buying and selling prices. Dealers, market-makers, foreign exchange bureaus, and other intermediaries producing this kind of service are distinguished from other traders by the existence of a buy-sell spread, which shows that they serve the market in a somewhat similar way to a wholesaler, by providing liquidity and inventory. Foreign exchange, shares, bonds, notes, financial derivatives, and other financial instruments are often bought and sold in this way.

**11.77** The dealers' service charges are included indistinguishably in the financial transactions to which they relate. In such cases, the difference between the reference price and the dealer's buying price at the time of purchase represents the service charge to the seller. Similarly, the difference between the reference price and the dealer's selling price at the time of sale represents the value of the service provided to the buyer. The reference price is usually a mid-price between the buying and selling prices; some dealers may have their own internal price for determining their buying and selling prices. In contrast to the reference price, the prices actually paid or received include the financial service component. By using the reference price at the time of purchase or sale, any holding gains or losses on the dealer's trading activity are excluded from services. The service can also be measured by applying the dealers' average margin as a percentage to the value of transactions through dealers.

**11.78** In practice, margins can be very difficult to accurately compile. This is usually due to the fact that (a) not all instruments are traded in a way that generates margins;<sup>27</sup> (b) not all transactions by dealers generate margins; (c) buy-sell spreads may be very different for each transaction; and (d) the geographical and sector allocation of this service is complex to accurately determine.

### ***Asset Management Costs Deducted from Property Income***

**11.79** Some institutional units have the sole or predominant function of holding financial assets on behalf of their owners. For example, some mutual funds, holding companies, trusts, and special purpose entities serve this purpose. In the process of managing those assets, these enterprises incur administrative expenses, such as payments to fund

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<sup>27</sup> Trading in equities might not generate margins. Equities can be purchased either in primary or secondary markets. In both cases, margins are typically not generated as only explicit fees are charged during the transactions. There are, however, secondary market situations in which trading in equities can generate margins.

managers, custodians, banks, accountants, lawyers, or their own staff. The expenses can be charged for explicitly as a fee, or implicitly by being paid out of investment income received or out of the assets of the enterprise. The expenses implicitly paid for should be recognized as a service to the owners. For example, a hedge fund may distribute a proportion of the net income of the fund to the unit that manages the fund, which should be recorded as a charge for services. Similarly, a custodian may charge lower fees in exchange for the right to on-lend securities (the income from on-lending securities is discussed in paragraphs 12.90–12.91).

**11.80** Implicit asset management service charges can be measured at cost. The corresponding entry is to increase the net value of investment income payable to the investor to the gross value before deduction of the expenses. Without the recognition of the output of such services, the costs incurred would lead to negative operating surplus for the asset management enterprises. With this treatment, these enterprises have a net operating surplus of zero.

**11.81** Institutional units may be set up for holding and managing assets on behalf of others. They may have employees of their own, but more often engage the services of administrators, trustees and/or portfolio managers to manage the operations of the funds. This is generally the case for investment funds. Importantly, the funds themselves are treated as separate institutional units, distinct from the unit managing them. The investment funds pay fees to these service providers and make use of the required human resources to support the funds operations (buying and selling of securities, providing legal, accounting, and other services required to ensure that the fund is operating efficiently). The fund in turn charges a service fee to investors which is equivalent to the amount of operating expenses and is usually reported as an annual percentage of the assets in the fund. In addition, holders of investment fund shares/units may be charged with fees on specific transactions, such as redemption fees, exchange fees imposed for transferring shares/units within the same fund group or account fees. Both types of fees are treated as payments for services that are provided directly from the original professional providers to the shareholders (see paragraph 12.59 for additional details). Investment funds are thus not treated as providers or consumers of services, and their output and intermediate consumption is equal to zero.

### **Implicit Financial Services on Loans and Deposits**

**11.82** Actual interest on deposits and loans can be seen as including both an income element and a charge for a service. Lenders and deposit-takers operate by offering rates of interest to their depositors that are lower than the rates that they charge to their borrowers. The resulting interest margins, charged in the form of either the difference between a reference rate and the interest rate actually paid to depositors, or the difference between the interest rate charged to borrowers and a reference rate, is termed implicit financial services

on loans and deposits.<sup>28</sup> These implicit service charges are used by the financial corporations to defray their expenses and to provide an operating surplus. Interest margins are an alternative to charging customers explicitly for financial services. In addition to financial intermediation, where funds are taken in as deposits and loaned, lending of own funds can give rise to implicit financial services on loans in the cases of money lenders and loans made from banks' own funds.

**11.83** By convention, these implicit charges in respect of interest apply only to loans and deposits and only when those loans and deposits are provided by, or deposited with, financial corporations (as defined in paragraph 4.117). While loans by holding companies, special purpose entities, and other captive financial institutions to their affiliates are not normally expected to generate implicit financial services, they may do so if they charge a margin. Financial corporations may generate implicit financial services even if they have only loans or only deposits; for instance, a credit card issuer that raises all of its funds by debt securities can earn implicit financial services on its loans to credit card customers.

**11.84** The rate of implicit financial services on loans and deposits may vary owing to a range of factors, such as the accessibility of funds, services included such as arrangements for check-writing facilities (for deposits), perceptions of the credit risk of the borrower, and the collateral provided (for loans). Additionally, large-scale ("wholesale") loans and deposits tend to have lower rates of implicit financial services than small-scale ("retail") loans and deposits.

**11.85** Implicit financial services on loans and deposits payable by each of the depositors and borrowers are calculated by using the concept of a "reference" rate of interest. The reference rate to be used in the calculation of actual interest is a rate between bank interest rates on deposits and loans. However, because there is no necessary equality between the level of loans and deposits, it cannot be calculated as a simple average of the rates on loans or deposits. As liquidity transformation services are considered to be part of the implicit financial services on loans and deposits, it is recommended to use a single temporal reference rate, and not two reference rates distinguishing short-term and long-term loans and deposits. The calculation of the single reference rate should be determined according to domestic circumstances, using any of the following approaches: The reference rate should contain no service element and reflect the risk and maturity structure of deposits and loans. The reference rate will change over time with market conditions.

- a reference rate based on a single observable exogenous rate for a specific instrument, such as interbank lending rates;

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<sup>28</sup> These were formerly known as financial intermediation services indirectly measured (FISIM).

- a reference rate based on a weighted average of observable exogenous rates of maturities with different terms (weighted by the stock of loans and deposits in each maturity); or
- a weighted average of the endogenous interest rates on loans and deposits.

**11.86** As noted before, liquidity transformation is considered to be part of implicit financial services on loans and deposits. Less clarity exists around the inclusion or exclusion of credit default risk. While there is conceptual merit in excluding credit default risk from implicit financial services on loans and deposits, at present many countries are not in a position to do this in a way that ensures reasonable comparability across most countries. Having said that, a number of countries have demonstrated that it is feasible, in their cases, to produce meaningful results and these countries have compiled estimates of implicit financial services on loans and deposits on this basis. Recognizing that these improvements will take some time to materialize, it is recommended that in the interest of maintaining international comparability, those countries that exclude credit default risk from their estimates of implicit financial services on loans and deposits should also provide supplementary estimates that include credit default risk.

**Box 11.4. Numerical Example of Calculation of Implicit Financial Services on Loans and Deposits**

The data requirements for the calculation of implicit financial services on loans and deposits are:

- (1) values of loans and deposits (available from the IIP);
- (2) the corresponding interest payable/receivable (available from the earned income account); and
- (3) the applicable reference rate (usually available from central bank bulletins and other publications).

In this example, all loans and deposits are denominated in domestic currency and are issued by financial corporations. The interbank interest rate is 5 percent per annum.

Average value of loans during the year = 1000

Actual interest (known as bank interest in SNA) receivable by financial corporations on loans = 70 partitioned into:

50 pure interest (known as SNA interest in SNA) receivable (derived as 1000 at 5 percent)

20 implicit financial services receivable (derived as 70 – 50)

Average value of deposits during the year = 500

Actual interest payable by financial corporations on deposits = 10 partitioned into:



25 pure interest payable (derived as 500 at 5 percent)

15 implicit financial services receivable (derived as 25 – 10)

Total implicit financial services on loans and deposits receivable by financial corporations = 35 (20+15)

Notes:

The difference between interest receivable and payable is not the same as implicit financial services on loans and deposits. In this example, the difference is 25, which differs from the correct figure because the loan assets do not match the deposit liabilities. (For example, an economy which had external loan assets funded entirely from domestic sources, there would be zero interest payable, so the difference between external interest payable and receivable is an unsuitable estimate of implicit financial services on loans and deposits.) Unlike the reference rate concept, the method fails to separate the services provided to depositors from those to borrowers, so it does not provide a basis to identify the partner economy.

The average value of loans or deposits should be used in the calculation, as it corresponds to the amount on which interest accrues. If values change significantly during the period, the use of an end-of-period value as a proxy for the average may give an unsatisfactory result.

A more detailed calculation may take into account different currencies and maturities.

**11.87** For cross-border deposits and loans, different currencies may be involved, so separate reference rates should be applied for each currency that is a significant proportion of loans or deposits. To be closest to the definition of the reference rate and for international symmetry of recording, the rate should be taken from the financial markets of the home market of the currency, and preferably be the same as used by statistical compilers in that economy. (The data compiled for the currency composition in Tables I-II of Annex 14 can provide relevant information on calculation of implicit financial services on loans and deposits for each major currency.)

**11.88** Implicit financial services on loans and deposits is calculated as follows:

- (a) for loans from financial corporations—the difference between the interest actually payable on loans and the amount that would be payable if the reference rate were used, and
- (b) for deposits with financial corporations—the difference between the interest that would be earned if a reference rate were used and the interest actually earned.

(See Box 11.4 for a numerical example.)

**11.89** Because a repo with supply of cash is treated as involving a loan or deposit, as stated in paragraphs 5.59, it may give rise to implicit financial services on loans and deposits. Similarly, a financial lease is treated as giving rise to a loan (see paragraphs 5.63–5.65 and Box 12.3) so it may also give rise to implicit financial services on loans and deposits if provided by a financial corporation. Interbank loans and deposits generally occur

at or close to the reference rate, in which case there is no implicit financial services on loans and deposits. However, where there are significant international interbank transactions at interest rates above the reference rate (e.g., if the debtor bank has a lower credit rating), it would be suitable for implicit financial services on loans and deposits to be identified. See also paragraphs 12.66–12.67 on the effects of implicit financial services on loans and deposits on interest.

**11.90** Estimates of cross-border implicit financial services on loans and deposits can be calculated from data on the international investment position or banking data on deposits and loans from financial corporations in conjunction with the amounts of actual interest payable and receivable and reference interest rates. For economies where cross-border implicit financial services on loans and deposits is small, it can be measured with relatively simplified methods based on aggregated data.

**11.91** During periods of volatile movements in reference rates and when liquidity markets begin to malfunction, considerable care should be taken in determining estimates of implicit financial services on loans and deposits. These periods may be characterized by negative estimates of implicit financial services on loans and deposits, particularly for depositors, but also for borrowers. Negative implicit financial services on loans and deposits can also occur owing to measurement error. For example, some large international transactions between banks may be at or near the reference rate, so a small error in measuring the reference rate could cause negative implicit financial services on loans and deposits. This gives rise to interpretation problems, as it is not possible for output to be negative. Therefore, when such incidences occur, countries are encouraged to review the applicability of the underlying reference rate for that period to calculate the implicit financial services on loans and deposits. The first, and simplest approach, is that countries consider taking the simple weighted average of the interest rates on loans and deposits for those years with negative implicit service charges for either depositors or borrowers. The second, and slightly more complicated approach, takes the view that, during periods when markets are dysfunctional, banks may offer financial inducements to attract depositors, meaning that part of what is now typically recorded as bank interest may actually consist of a transfer element. In this approach, during periods of negative implicit financial services on loans and deposits calculated using the conventional approach, the implicit service charges should instead be calculated by assuming that the margin (implicit financial services as a percent of deposits or loans) banks charge on deposits or loans is broadly stable over time.

**11.92** Negative interest rates may cast doubts on the right reference rates to be used in the calculation of implicit financial services on deposits and loans (see paragraph 12.71 for the discussion on negative interest rates). Further, negative interest rates raise the risk of negative implicit financial services on deposits and loans as banks may offer interest rates higher than reference rates, to retain depositors. Therefore, compilers should review the

reference rates to be used with a view to avoid negative implicit financial services, in coordination with the national accounts compilers.

**11.93** The identification of implicit financial services on loans and deposits as the financial service implicitly included in interest requires corresponding adjustments to interest as recorded in the earned income account. Actual interest payable by borrowers is partitioned between a pure interest charge at the reference rate (in earned income) and implicit financial services on loans and deposits (a service). Similarly, pure interest receivable by depositors is calculated by applying the reference rate to depositors, and depositors are shown as consuming a service equivalent to the difference between the actual interest and interest at the reference rate. The interest shown in the earned income account is shown after adjusting for implicit financial services on loans and deposits—“pure interest”; also, there is a memorandum item for interest before adjusting for implicit financial services on loans and deposits—“actual interest” (see paragraphs 12.66–12.67).

**11.94** Financial services in *BPM7* exclude pure interest, dividends, life insurance and pension services, other insurance services, nonfinancial advisory services provided by banks (included under other business services), and holding gains and losses on purchases and sales of financial instruments.

## 8. CHARGES FOR THE USE OF INTELLECTUAL PROPERTY N.I.E.

**11.95** *Intellectual property products are assets resulting from research, development, investigation, or innovation, leading to knowledge, or the creation of artificial intelligence systems that the developers can market or use to their own benefit in production because use of this knowledge or system is restricted by means of legal or other protection.*

**11.96** Charges for the use of intellectual property n.i.e. include:<sup>29</sup>

- (a) Charges for licenses to use proprietary rights from research and development (such as patents, copyrights, industrial processes and designs, and trade secrets) as well as from marketing (such as franchises, trademarks, and brand names); and
- (b) Charges for licenses to reproduce or distribute (or both) intellectual property embodied in produced originals or prototypes (such as copyrights on books and manuscripts, computer software, data and databases, cinematographic works, and sound recordings) and related rights (such as for live performances and television, cable, or satellite broadcast).

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<sup>29</sup> While charges for the use of intellectual property n.i.e. pertain primarily to intellectual property products, they also include charges for the use of proprietary rights pertaining to marketing assets (franchises, trademarks, and brand names).

(As shown in Table 11.3, transactions in some other kinds of intellectual property are included in other categories.)

**11.97** The production of books, recordings, films, software, disks, and so forth is a two-stage process of which the first stage is the production of the original and the second stage the production and use of copies of the original. The output of the first stage is the original itself over which legal or de facto ownership can be established by copyright, patent, or secrecy. The owner of the asset may use it directly to produce copies that give the purchaser a license to use. Alternatively, the owner may issue a license to other producers to reproduce and distribute the content. The payments made by the licensee to the owner may be described in various ways, such as fees, commissions, or royalties. The treatment of flows relating to intellectual property is summarized in Table 11.3. In contrast to proprietary rights to use (including both license to use and license to reproduce and/or distribute) the outcomes of research and development which are included under charges for the use of intellectual property n.i.e., outright sales of patents, copyrights arising from research and development, and industrial processes and designs are included under research and development services (discussed in paragraph 11.107). A slightly different approach is used for computer software, audiovisual and other originals. While the licenses to use and outright sales of these products are included under computer services, audiovisual and related services, or information services, license to reproduce and/or distribute are included under charges for the use of intellectual property n.i.e (as shown in Table 11.3).

**11.98** The time of recording of charges for the use of intellectual property follows the substance of the license agreement. If the rights to use intellectual property are sold for a fixed fee, under a noncancellable contract, and where the licensor has no remaining obligations to perform, then the whole sum is a sale. Otherwise, charges are allocated over the life of the agreement. In practice, it may be feasible to record the payments only when they are made.

**11.99** Franchise fees, trademark revenue, payments for use of brand names, and so forth include aspects of property income (i.e., putting a nonfinancial nonproduced asset at the disposal of another unit) as well as aspects of services (such as the active processes of technical support, product research, marketing, and quality control). In principle, it would be desirable to separate the income and service elements. However, it may not generally be feasible to do so in practice; in which case, a convention is adopted that the entire values are to be classified as charges for the use of intellectual property n.i.e. Such a convention would be taken as a starting point, but if additional information to make a split is available, the compiler should do so.

### ***Other Issues Related to Intellectual Property***

**11.100** In *BPM7*, no distinction is made in the treatment of licenses to use and licenses to reproduce based on whether they will be used in production for more than one year or less, and whether the licensee assumes risks and rewards of ownership.<sup>30</sup> The concept of the sale of part of the original also does not exist in *BPM7*. However, it is acknowledged that such a distinction helps in harmonizing the cross-border IPP related transactions with distinction between fixed capital formation and intermediate consumption in national accounts. Therefore, the updated *MS/TS* includes additional details through Extended Balance of Payments Services Classification (EBOPS) for aligning trade in IPP related services items with fixed capital formation/intermediate consumption categories in national accounts.

Table 11.3. Treatment of Intellectual Property			
	Use of intellectual property		Sale/purchase of ownership rights <sup>3</sup> 4
Franchises and trademarks	charges for the use of intellectual property n.i.e.		capital account entry
Outcomes of research and development	charges for the use of intellectual property n.i.e.		research and development services
Computer services; Information services; Audiovisual and related services:	License to use excluding reproduction and distribution <sup>1</sup>	License to reproduce and/or distribute <sup>2</sup>	relevant service item <sup>5</sup>
(a) Customized all types	relevant service item <sup>4</sup>	charges for the use of intellectual property n.i.e.	
(b) Noncustomized—downloaded or otherwise electronically delivered	relevant service item <sup>4</sup>		
(c) Noncustomized—provided on physical media with periodic license fee	relevant service item <sup>4</sup>		
(d) Noncustomized—provided on physical media with right to perpetual use	goods		

<sup>1</sup> Covers the case where a specific product is supplied with the right to use the intellectual property embodied in it, but not to copy it for further distribution. The transactions should be classified under the appropriate goods or services items. This includes cross-border transactions in nonfungible tokens (NFTs) that convey no ownership rights and only allow for personal use of a specified asset (first type of NFTs), which

<sup>30</sup> In the SNA (a) copies sold under license to use may be treated as fixed assets (i.e., produced assets that are used repeatedly or continuously in production for more than one year) if they will be used in production for more than one year and the licensee assumes all the risks and rewards of ownership; and (b) a license that allows the licensee to reproduce the original and subsequently assume responsibility for the distribution, support, and maintenance of these copies, should be regarded as the sale of part or whole of the original to the unit holding the license to reproduce (see paragraph 11.99 , 2025 SNA).

should be recorded under the relevant service category (computer services, audiovisual and related services, or information services) depending on the content of related asset. See paragraphs 16.34-16.38 for additional details on NFTs.

<sup>2</sup> Covers the case where authority to reproduce and/or distribute the intellectual property is delegated by its owner.

<sup>3</sup> Covers the case where there is a change of economic ownership of the whole of the intellectual property right in question. The seller no longer has any rights or obligations associated with the intellectual property. This case also includes second or subsequent outright sales of intellectual property rights as well as cross-border transactions in NFTs that convey full ownership rights (third type of NFTs). These should be recorded as computer services, audiovisual and related services, or information services, if the underlying asset is digital.

<sup>4</sup> NFTs that convey limited ownership rights to a specified asset or commodity that go beyond personal use (second type of NFTs) are treated as nonproduced nonfinancial assets and are recorded in the capital account (see paragraph 14.16).

<sup>5</sup> The relevant service item is either computer services (see paragraph 11.102), or audiovisual and related services (see paragraphs 11.125–11.129), or information services (see paragraph 11.106) depending on the nature of the content provided.

For example, the sale/purchase of a copy of a software package that is mass-produced, and is obtained by an individual to load onto a single computer is covered by a license to use that excludes reproduction and distribution; this situation would be recorded in goods or services depending on the examples (see examples (b), (c), and (d) under software). If a manufacturer pays for the right to include the software on computers that it produces, then the payment would be a license to reproduce and/or distribute (charges for the use of intellectual property provided by the owner of the original).

## 9. TELECOMMUNICATIONS SERVICES

**11.101** *Telecommunications services encompass the broadcast or transmission of sound, images, data, or other information by telephone, radio and television cable transmission, radio and television satellite, electronic mail, and so forth, including business network services, teleconferencing, and support services.* They do not include the value of the information transported. Also included are mobile telecommunications services, Internet backbone services, and online access services, including provision of access to the Internet. Excluded are installation services for telephone network equipment (included in construction) and database services (included in information services).

## 10. COMPUTER AND INFORMATION SERVICES

### **Computer Services**

**11.102** *Computer services consist of hardware- and software-related services.* Table 11.3 shows the classification of various arrangements for software and other types of intellectual property products. Computer services include:

- (a) sales of customized software (however delivered) and related licenses to use;

- (b) the development, production, supply, and documentation of customized software, including operating systems, made to order for specific users;
- (c) noncustomized (mass-produced) software downloaded or otherwise electronically delivered, whether with a periodic license fee or a single payment;
- (d) licenses to use noncustomized (mass-produced) software provided on a physical storage device with a periodic license fee (noncustomized software on storage devices with licenses that convey perpetual use is included in goods; see paragraph 10.12(c) and Table 11.3);
- (e) sales and purchases of originals and ownership rights for software systems and applications;
- (f) hardware and software consultancy and implementation services, including the management of subcontracted computer services;
- (g) hardware and software installation, including installation of mainframes and central computing units;
- (h) maintenance and repairs of computers and peripheral equipment;
- (i) data recovery services; provision of advice and assistance on matters related to the management of computer resources;
- (j) analysis, design, and programming of systems ready to use (including web page development and design), and technical consultancy related to software;
- (k) systems maintenance and other support services, such as training provided as part of consultancy;
- (l) web page hosting services (i.e., the provision of server space on the Internet to host clients' web pages) and data hosting services (i.e., provision of server space on cloud or other means for storing and managing data);
- (m) provision of applications, hosting clients' applications, and computer facilities management;
- (n) artificial intelligence (AI)<sup>31</sup> systems such as virtual assistants, chatbots,<sup>32</sup> speech/image recognition, smart home devices;

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<sup>31</sup> AI is classified as a special type of software even though AI systems frequently include data and hardware elements, because the system is controlled by software even when these elements are present. However, the equipment that contains an embedded AI system (or other embedded software) is still classified as goods (see Section B.3, Chapter 16 for additional details on AI).

<sup>32</sup> A software application designed to simulate human conversation and interact with users via text or voice, often powered by rules, artificial intelligence, and natural language processing to provide automated responses and perform tasks. Chatbots range from simplistic models that operate off scripts to provide quick responses to

- (o) software applications facilitating online meetings and video conferencing;
- (p) cloud computing services (i.e., computing, data storage, software, and related ICT services accessed remotely over a network, supplied on demand and with measured resource usage). See paragraphs 16.12–16.19 for additional details;
- (q) validation of transactions relating to crypto assets provided by miners/validators See Box 11.5 for additional details.
- (r) staking,<sup>33</sup> cloud,<sup>34</sup> and pooled mining<sup>35</sup> of crypto assets.

While the above categories are expected to be mutually exclusive, in practice, there could be overlaps between some of these categories.

**11.103** Software includes general business productivity software, computer game software, and other applications. However, as shown in Table 11.3 and paragraph 10.12(c), some forms of software are classified under goods. It may be analytically useful to be able to identify all software, whether in goods or services. The time of recording those transactions in software that are classified as services follows the same principles as for other intellectual property, identified in paragraph 11.98.

**11.104** Telecommunication services (Section i) and computer services are defined in terms of the nature of the service, not the medium of delivery.<sup>36</sup> To illustrate, provision of accounting services is included under professional and management consulting services, even if these services are entirely delivered by telephone, computer, or the Internet. Only amounts payable for transmission should be included under telecommunications services; downloaded content should be included in the appropriate item (computer, information, audiovisual and related, etc., services).

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specific questions, to AI and machine learning models that can converse with users and complete more complex tasks.

<sup>33</sup> Crypto staking is a process where users allocate a certain amount of crypto assets in a designated wallet to actively participate in and support the operations of a blockchain network based on a proof-of-stake (PoS) mechanism.

<sup>34</sup> Cloud mining is an arrangement that allows for mining of crypto assets by renting computing power from large companies owning significant resources of computing power.

<sup>35</sup> Pool mining is a method of mining crypto assets where a group of miners combine their computing power to work together on solving a cryptographic puzzle. By pooling their computing power, they increase chances of finding the solution and earning reward in the form of a new crypto asset.

<sup>36</sup> However, the medium of delivery is taken into account in some cases in distinguishing between goods and services, as shown in Table 11.3.



### Box 11.5. Validation of Crypto Asset Transactions

Validation of crypto asset transactions is a service. Crypto assets without a corresponding liability designed to act as a medium of exchange are considered as nonproduced nonfinancial assets and recorded within a separate category in the capital account (see paragraph 14.19). The miners solving cryptographic puzzles for validating the transactions in these assets on the blockchain are producers of validation services.

Most mineable crypto assets without a corresponding liability come into circulation via the work of miners that solve cryptographic puzzles (proof-of-work) and validate transactions on the blockchain. Nonmineable crypto assets without a corresponding liability and crypto assets with a corresponding liability (e.g., stablecoins) may be released via an explicit sale and/or as payment to validators that validate transactions in different ways than via proof-of-work (e.g., via proof-of-stake).

The services of miners/validators should be measured as the sum of both explicit validation fees and implicit fees. The explicit fee in crypto assets is paid by the party initiating the transaction.

The implicit fee (newly released crypto assets/staking rewards) is assumed to be collectively consumed by the existing holders of units of that crypto asset (these concern multiple institutional units that may be spread across a wide range of countries), while those rewarded by the explicit fee are consumed by the transactor paying the fee.

The following example explains the recording of transactions associated with validation services. For additional guidance and examples refer to the *Compilation Guidance on Crypto Assets (forthcoming)*.

A unit in Economy A is providing validation services of transactions in crypto assets without a corresponding liability for transactions originated in Economy B. The Economy B consumer pays a transaction fee of 10 in crypto assets. In addition, the Economy A unit receives 15 in crypto assets as implicit fee. The following entries are recorded in the balance of payments of Economy A.

#### **Services account**

Computer services (credits/revenues) = implicit fee (15) + explicit fee (10) = 25

#### **Capital account**

Acquisition/disposal of nonproduced nonfinancial assets/Crypto assets without corresponding liabilities (debits/expenditures) = 25

**11.105** Excluded from computer services are computer training courses not designed for a specific user (included in other personal, cultural, and recreational services). Charges for licenses to reproduce or distribute software (or both) which are included in charges for the use of intellectual property n.i.e., are also excluded. Leasing of computers without an operator is included in operational leasing. Further, leasing of data center buildings to cloud computing enterprises (lessee) is typically included under financial lease provided the lessee bears the operating risks (see paragraphs 16.15-16.16).

## **Information Services**

**11.106** *Information services include news agency services such as the provision of news, photographs, and feature articles to the media.* Information services also include outright sale of copyrights related to books and manuscripts, data and databases, and related services such as compilations of information content produced by accessing and observing phenomena; data-processing services, such as data entry, tabulation, compilation and processing on a time-sharing basis; database conception, entering and maintaining data in databases, and the dissemination of data and databases (including directories and mailing lists), both online and through magnetic, optical, or printed media; web search portals (search engine services that find information for clients who input keyword queries) and services of chatbots that provide summarized information or translation for the questions of clients on a wide range of topics. Also included are direct nonbulk subscriptions to newspapers and periodicals, whether by mail, electronic transmission, or other means; other online content provision services; and library and archive services. (Bulk newspapers and periodicals are included under general merchandise.) Downloaded content that is not software (included in computer services) or audio and video (included in audiovisual and related services) is included in information services.

## **11. RESEARCH AND DEVELOPMENT SERVICES**

**11.107** *Research and development services consist of services that are associated with basic research, applied research, and experimental development of new products and processes.* In principle, such activities in the natural sciences, engineering, technology, medical and health sciences, social sciences, humanities, and interdisciplinary research and development services are covered. Also included is commercial research related to electronics, pharmaceuticals, and biotechnology.

**11.108** The definition of research and development services used here and in the CPC is largely aligned with the Frascati definition (see the *Frascati Manual 2015*), which is used to define the scope of capital formation in the 2025 SNA; however, it includes other product development that may give rise to patents. Outright sales of the results of research and development (such as represented in patents, copyrights, and sale of information about industrial processes) are included in research and development. However, amounts payable for use of proprietary rights arising from research and development are included under charges for the use of intellectual property n.i.e.; see paragraphs 11.96–11.99.

## 12. PROFESSIONAL AND MANAGEMENT CONSULTING SERVICES

**11.109** *Professional and management consulting services include:*

- (a) legal services, accounting, management consulting, managerial services, and public relations services; and*
- (b) advertising, market research, and public opinion polling services.*

**11.110** The users of free online platforms (which are mostly organized as commercial enterprises) may create content such as videos, images, text, and audio, and make them available on the platforms. If the content creators receive remuneration (income) from the advertisers (via platform) that place advertisements next to the content (or on the spaces of their channels) on the platform, it should be recorded as supply of advertisement services. Although the "free" platform collects the fee from the advertiser and passes it on after deducting the charges for its services, the content creator is treated as providing advertisement services to the advertiser and consuming the services of the platform rather than as providing services to the platform (see paragraphs 16.62-64 for additional details on the content created by the platform users).<sup>37</sup> The services that the content creator on the free platform provides to the advertiser should have the same classification as the revenues that other content creators and distributors (such as broadcasters) receive from advertisers.<sup>38</sup>

**11.111** Services for the general management of a branch, subsidiary, or associate provided by a parent enterprise or other affiliated enterprise are included under professional and management consulting services. However, reimbursements of ancillary services supplied by affiliated enterprises, such as transport, purchasing, sales and marketing, or computing, should be shown under the relevant specific heading. Management fees are included in technical, environmental, and other business services. However, disproportionately large values of services between affiliated enterprises should be examined for signs that they are disguised dividends, such as large fluctuations that do not reflect actual changes in the services provided.

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<sup>37</sup> If content creators receive remuneration through subscriptions or by a means other than advertising, their services should be included under audiovisual and related services.

<sup>38</sup> The alternative approach that treats the free content as providing audiovisual and related services consumed by viewers is discussed in the extended account on free platforms (see Section F.3, Chapter 22, 2025 SNA). In the extended account of national accounts, the imputed value of these audiovisual and related services is measured by their cost of production.

### 13. NONFINANCIAL INTERMEDIATION SERVICES

**11.112** Nonfinancial intermediation services cover fees or commissions related to transactions in goods, services, and nonproduced nonfinancial assets payable to merchants, commodity brokers, dealers, auctioneers, commission agents as well as nonfinancial digital intermediation platforms. For example, these services include the auctioneer's fee or agent's commission on sales of ships, aircraft, and other goods. These services also include fees or commissions for the intermediation of services and of nonproduced nonfinancial assets such as crypto assets without a corresponding liability designed to act as a medium of exchange. Nonfinancial intermediation platforms, including digital intermediation platforms facilitate, for a fee, the direct interaction between multiple buyers and multiple sellers, without the platform taking economic ownership of the goods, nonproduced nonfinancial assets or rendering the services that are being sold (intermediated)<sup>39</sup> (see paragraphs 16.43–16.51 for further details on nonfinancial digital intermediation platforms). If the trader owns the goods being sold, the trader's margin is generally included indistinguishably in general merchandise FOB (if the goods pass through the economy of the trader) or under goods under merchanting (otherwise). However, any fees not included in the FOB price of the goods are included in nonfinancial intermediation services. Brokerage on financial instruments and fees related to financial digital platforms that intermediate funding or payment transactions are excluded from nonfinancial intermediation services (included in financial services).

### 14. OPERATING LEASING SERVICES

**11.113** *Operating leasing is the activity of renting out produced assets under arrangements that provide use of a tangible asset to the lessee, but do not involve the transfer of the bulk of risks and rewards of ownership to the lessee.* Operating leasing may also be called leasing or rental services of specified produced assets, such as buildings or equipment, as specified in the CPC. Rental is also used as a term for the amounts payable under operating leases for produced assets, and is a service.<sup>40</sup>

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<sup>39</sup> When the fees are separately invoiced to the buyer and and/or the seller, they should be recorded as payments from the buyer and/or seller to the digital intermediation platform (see paragraphs 16.43-16.51 for further details on nonfinancial digital intermediation platforms). The same principles for allocation of intermediation services between buyer and seller apply to nondigital intermediation services.

<sup>40</sup> In contrast, rent is used to describe the income receivable by the owner of nonproduced nonfinancial assets (the lessor or landlord) for putting the assets at the disposal of another institutional unit (a lessee or tenant) for use in production. Rent is recorded in the earned income account, as discussed in paragraphs 12.103–12.110.

**11.114** Operating leasing can be identified by the following characteristics:

- (a) The lessor, or owner of the equipment, normally maintains a stock of assets in good working order that can be hired on demand, or at short notice, by users;
- (b) The assets may be leased out for varying periods of time. The lessee may renew the rental when the period expires; and
- (c) The lessor is frequently responsible for the maintenance and repair of the asset as part of the service that is provided to the lessee. The lessor must normally be a specialist in the operation of the asset and may also undertake to replace the equipment in the event of a serious or prolonged breakdown.

Thus, in addition to the provision of an asset, the service provided under operating leasing by the lessor includes other elements, such as convenience and security, servicing, and back-up facilities.

**11.115** Operating leasing services cover leasing (rental) and charters of ships, aircraft, and transport equipment, such as railway cars, containers, and rigs, without crew. Also included are operating lease payments relating to other types of equipment without an operator, including computers and telecommunications equipment. License payments for the right to use intangible produced assets, such as software, intellectual property, and so forth are included under specific headings (computer services, charges for the use of intellectual property n.i.e., etc.) rather than operating leasing. Also excluded from operating leasing services are leasing of telecommunications lines or capacity (included in telecommunications services) and rental of ships and aircraft with crew (included in transport services).

**11.116** An operating lease is distinguished from:

- (a) a financial lease, where the risks and rewards of ownership of the asset are transferred to the lessee; with an operating lease, the lessor has the risks and benefits (see paragraphs 5.63–5.67 for definition and elaboration on financial leases);<sup>41</sup>
- (b) a natural resource lease, where the asset provided is a nonproduced natural resource, rather than a produced asset (see paragraphs 5.67(b) and 12.103–12.112 for a definition and elaboration on natural resource leases and rent); and

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<sup>41</sup> International Financial Reporting Standards (IFRS) 16 “Leases” is not aligned with the 2025 SNA/BPM7 concept of economic ownership for determining and recording operating and financial lease transactions. Practical guidance on distinguishing operating and financial leasing from the financial statements of corporation applying IFRS 16 to be provided in the *BPM Compilation Guide*.

- (c) a lease included under contracts, leases, and licenses, where the lease itself—rather than the underlying asset—becomes an economic asset of the lessee. (See paragraph 14.12 for elaboration on these leases.)

**11.117** In some instances, MNEs may establish special purpose entities (SPEs) for undertaking operating and financial leasing arrangements within the group companies. For example, SPEs may hold assets such as planes and lease them to the parent company under operating lease. In such cases, SPEs remain separate institutional units from their nonresident parents and responsible for the immediate risks and rewards of the assets they own/lease. Therefore, such captive leasing arrangements should be treated as operating leases following the guidance provided in paragraphs 11.114. See IMF's Technical Notes and Manuals, *Special Purpose Entities: Guidelines for a Data Template*, and Section C.2, Chapter 15 for further information on the typology and description of SPEs including those engaged in captive financial and operating leasing.

**11.118** Two main types of leasing arrangements, largely prevalent in the aircraft industry, are elaborated further:

- Wet leasing (covers provision of an aircraft, complete crew, maintenance, and insurance for which payment is by hours operated), which is normally used for short-term leasing (for balance of payments purposes recorded under transport services); and
- Dry leasing (covers provision of an aircraft without insurance, crew, ground staff, supporting equipment, maintenance, etc.), which is more usual for the longer-term leases and is recorded, for balance of payments purposes, under operating leasing services.<sup>42</sup> The aircraft industry also uses combinations of wet and dry when, for example, the aircraft is wet-leased to establish new services and then, as the airlines flight or cabin crews become trained, they are switched to a dry lease.

**11.119** Operating leases of dwellings and other buildings are included in this item, if not included in travel. If there is no objective basis on which to split the payment between rent on land and rental on the buildings, it is recommended to treat the whole amount as rental when the building component is believed to exceed the land component, and as a rent otherwise. However, rent of land alone and rent of other nonproduced natural resources

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<sup>42</sup> Dry leasing could be considered as a special kind of operating lease, where the lessor remains the economic and legal owner, but the expenses on insurance, repair and maintenance are the responsibility of lessee. In practice, it may be difficult to know whether such lease is financial or operational. Invoices issued by the lessor is one of the useful sources for distinguishing between financial and operating leases. Typically, for an operating lease, an invoice includes an amount of a single payment, whereas for a financial lease, the invoice provides information about the amount of principal and interest separately. See Box 8, *Eurostat's Handbook on the compilation of statistics on sea and air transport in national accounts and balance of payments*, for additional guidance.

(such leases are called natural resource leases; see paragraphs 12.103–12.104) as well as rent related to other nonproduced nonfinancial assets are classified as earned income. Rental of buildings by international organizations, embassies, and so forth, is included under government goods and services n.i.e. Rental of accommodation and vehicles to nonresidents during visits to other economies is included in travel (see paragraphs 11.34–11.38).

## **15. TECHNICAL, ENVIRONMENTAL, AND OTHER BUSINESS SERVICES**

**11.120** *Technical, environmental, and other business services include:*

- (a) architectural, engineering, scientific and other technical services (discussed further in paragraph 11.121);*
- (b) environmental, agricultural, and mining services (discussed further in paragraph 11.122); and*
- (c) other business services (discussed further in paragraph 11.123).*

### ***Architectural, Engineering, Scientific and Other Technical Services***

**11.121** Architectural services include transactions related to the design of buildings. Engineering services include the design, development and utilization of machines, materials, instruments, structures, processes, and systems. Services of this type involve the provision of designs, plans and studies related to engineering projects. Mining engineering is excluded and included instead in environmental, agricultural, and mining services (see paragraph 11.122). Scientific and other technical services include surveying; cartography; product testing and certification; and technical inspection services.

### ***Environmental, Agricultural, and Mining Services***

**11.122** Environmental services consist of waste treatment and depollution services, including materials recovery (recycling) services, sewerage, sewage treatment and septic tank cleaning services, waste collection and disposal, remediation, sanitation, and other environmental protection services. They also include treatment of air pollution, carbon capture and storage services that are not classified under any other specific category. Agricultural and mining services include services incidental to agriculture, forestry, fishing, mining and oil and gas extraction, as are veterinary services (see *MSITS* for additional details).

### ***Other Business Services***

**11.123** Other business services include distribution services related to water, steam, gas, and other petroleum products and air-conditioning supply, where these are identified

separately from transmission services; placement of personnel, security, and investigative services; translation and interpretation; photographic services; publishing; building cleaning; and real estate services. Also included under other business services are forfeited down payments not able to be specified to any other service.

## **16. PERSONAL, CULTURAL, AND RECREATIONAL SERVICES**

**11.124** *Personal, cultural, and recreational services consist of (a) audiovisual and related services and (b) other personal, cultural, and recreational services.*

### ***Audiovisual and Related Services***

**11.125** Audiovisual and related services consist of services and fees related to the production of motion pictures (on film, videotape, disk, or transmitted electronically, etc.), radio and television programs (live or on tape), and musical recordings. Table 11.3 summarizes the treatment of intellectual property associated with audiovisual and related services, as well as other types of intellectual property.

**11.126** Included are amounts receivable or payable for rentals of audiovisual and related products, and charges for access to audio and video streaming services, encrypted television channels (such as cable and satellite services). Fees to actors, directors, and producers involved with theatrical and musical productions, sporting events, circuses, and other similar events are included in this item (unless they are employees of the unit making payments, in which case the transactions are classified as remuneration of employees). The users of free online platforms (which are mostly organized as commercial enterprises) may create content such as videos, images, text, and audio, and make them available on the platforms. If the content creator receives remuneration from an advertiser or platform for use of their uploaded content, it should be recorded as supply of audiovisual related services to the platform (see paragraphs 16.52–16.53 for additional details on free online platforms).

**11.127** Mass-produced recordings and manuscripts that are purchased or sold outright or for perpetual use are included under audiovisual and related services if downloaded (i.e., delivered electronically). However, those on physical media, are included in general merchandise. Similar products obtained through a license to use (other than when conveying perpetual use) are included in audiovisual and related services, as is the use of other online content related to audio and visual media. (See paragraph 11.129 for the treatment of originals.) The principles for the timing for related audiovisual and related services, such as for music and film copyrights and for master recordings, are the same as those for other types of intellectual property, as discussed in paragraph 11.98.



**11.128** Charges or licenses to reproduce or distribute (or both) radio, television, film, music, and so forth are excluded from audiovisual and related services and included in charges for the use of intellectual property n.i.e.

**11.129** Purchases and sales of original manuscripts, sound recordings, films, and so forth are included in audiovisual and related services.

### ***Other Personal, Cultural, and Recreational Services***

**11.130** Other personal, cultural, and recreational services include health services, education services, and others, as discussed in the following paragraphs.

**11.131** Health services consist of services provided by hospitals, doctors, nurses, and paramedical and similar personnel, as well as laboratory and similar services, whether rendered remotely (sometimes referred to as tele-healthcare) or on-site. However, health services provided to nonresidents who are present in the territory of the service provider are included in travel (see also paragraph 11.42). Veterinary services are included in environmental, agricultural, and mining services (see paragraph 11.122).

**11.132** Education services consist of services relating to education, such as correspondence courses and education via television or the Internet (sometimes referred to as tele-education), as well as by teachers and so forth who supply services directly in host economies. However, education services provided to nonresidents who are present in the territory of the service provider are included in travel (see also paragraph 10.42).<sup>43</sup>

**11.133** Other personal, cultural, and recreational services include those associated with museums and other cultural, sporting, gambling, and recreational activities, except those included in travel. The fees and prizes of athletes are included.

**11.134** In addition, services provided by fee-based digital platforms that facilitate interactions between users, other than transactions in goods and services or financial transactions (e.g., online dating/ matrimonial platforms and fee-based versions of social networking platforms) are included (see paragraph 16.42).

**11.135** The amounts paid for lottery tickets or placed in bets consist of two elements:

- (a) a service charge receivable by the unit organizing the lottery or gambling (this charge may also have to cover taxes on gambling); and
- (b) transfers to cover the amounts payable to the winners and, in some cases, amounts payable to charities.

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<sup>43</sup> Educational and health services provided by residents employed by a host-country educational/health institution should be included in remuneration of employees (see paragraph 12.14).

The value of the lottery and other gambling services supplied by or to nonresidents is estimated as the amount wagered by nonresidents multiplied by the overall ratio of services to the total amount wagered for that gambling operator or type of gambling. This method for separately identifying the service component is similar to the method used for insurance services. For current transfers associated with gambling, see paragraphs 13.24–13.25.

**11.136** Acquisition of other personal, cultural, and recreational services (such as education, health, museums, and gambling) by persons while outside their territory of residence is included in travel (see paragraph 11.36) and excluded from this item.

**11.137** This category also includes social services, membership dues of business associations, domestic services, etc.

## **17. GOVERNMENT GOODS AND SERVICES N.I.E.**

**11.138** *Government goods and services n.i.e. cover:*

- (a) goods and services supplied by and to enclaves, such as embassies, military bases, and international organizations;*
- (b) goods and services acquired from the host economy by diplomats, consular staff, and military personnel located abroad and their dependents; and*
- (c) services supplied by and to governments and not included in other categories of services.*

**11.139** Transactions of public corporations (defined in paragraph 4.103) are not included, unless the other party is one of the specified types of institutions.

### ***Goods and Services Supplied by and to Government and International Organization Enclaves***

**11.140** As government and international organization enclaves are not residents of the territory in which they are physically located (as discussed further in paragraph 4.11), their transactions with residents of the territory of location are external transactions. For the same reason, transactions of embassies, military bases, and so forth with their home economies are resident-to-resident and outside the scope of external accounts.

**11.141** Government goods and services n.i.e. credits/revenues include the supply of goods and services to embassies, consulates, military units or bases, defense agencies, and other official units (such as aid missions; government tourism, information, and trade promotion offices) of foreign governments located in the compiling economy.

**11.142** Government goods and services n.i.e. debits/expenditures include acquisition of goods and services by embassies, and so forth of the government of the compiling economy

in other territories. Charges for visas and other services provided by embassies and consulates are also included in government goods and services n.i.e. The supply and purchase of goods and services by international organizations are also included in government goods and services n.i.e. The acquisition of goods and services for joint military arrangements, peacekeeping forces, and other services, such as those provided by the United Nations, are also included in government goods and services n.i.e.

**11.143** All types of goods and services, such as office supplies, vehicles, repairs, electricity, and rental of premises, for embassies, military bases, international organizations, and so forth purchased from the host economy or economies other than the home economy are included under government goods and services n.i.e. However, construction of new and existing structures is included under construction (see paragraph 11.57).

### ***Goods and Services Acquired by Staff Employed in Enclaves and Their Dependents***

**11.144** All expenditure on goods and services by diplomats, consular staff, and military personnel located abroad in the economies in which they are located is also included in government goods and services n.i.e. (These staff are classified as nonresidents of the territory of their location, as discussed in paragraph 4.206.) The expenditure of dependent members of the same household is also included. However, the expenditure of locally engaged staff of embassies, military bases, and so forth and international organization staff is not included in government goods and services n.i.e. (and is usually a resident-to-resident transaction). (These staff are classified as residents of the territory of their location, as discussed in paragraphs 4.206–4.207.) The supply of goods and services to foreign diplomats and so forth located in the compiling economy is shown as credits/revenues, while the expenditure of the compiling economy's diplomats and so forth in the economy of their posting is shown as debits/expenditures. (Goods disposed of by diplomats, and so forth are similarly recorded with the signs reversed; for example, a car sold at the end of a posting is shown as a debit/expenditure to the local economy.)

### ***Other Services Supplied by and to Governments***

**11.145** As far as possible, only items corresponding to CPC division 91 (public administration and other services provided to the community as a whole; compulsory social security services) and CPC division 99 (services provided by extraterritorial organizations and bodies) need to be included within this category to ensure harmonization with the System of National Accounts. Services supplied by and to governments (other than those related to government functions) should be classified to specific services (construction, health, etc.), if possible. For instance, acquisition of new and existing buildings for an embassy, consulate, and so forth is classified as construction, rather than government goods and services n.i.e. (see paragraph 11.57). However, some services are related to

government functions that are not able to be classified to another specific service category, so are classified as government services n.i.e. For example, technical assistance on public administration is included in government services. Also, payments for police-type services (such as keeping order), such as those supplied with mutual agreement by a foreign government or international organization, are included in government services n.i.e. Additionally, government supply of licenses and permits that are classified as services (as discussed in paragraphs 11.146) are also government services n.i.e. Box 11.6 covers issues associated with technical assistance.

### *Government Licenses, Permits, and so forth*

**11.146** One of the regulatory functions of governments is to forbid the ownership or use of certain goods or the pursuit of certain activities, unless specific permission is granted by issuing a license or other certificate for a fee. As indicated in paragraph 13.28, if a payment for a license is compulsory and the license is not transferable then the payment is generally considered a tax. However, under limited scenarios, such as when it can be demonstrated that the payment is required and a service commensurate to the payment is consumed by the individual, the payment should be recorded as a sale of service.<sup>44</sup>

#### **Box 11.6. Technical Assistance**

##### ***Who provides technical assistance?***

Technical assistance is provided by the unit that employs the personnel delivering the services (technical assistance personnel), which could include a nongovernment unit. The provider is not necessarily the same as the party that provides the funding.

##### ***What is the residence of the technical assistance provider?***

Technical assistance provided by a unit resident in the donor economy should be recorded as an export of a service by the donor economy to the recipient economy.

##### ***How is technical assistance classified?***

Technical assistance covers a wide variety of different services, including computing and business services, and should be classified by the nature of the service provided to specific services, if possible. Technical assistance provided by government, or an international organization, is classified as government services only when not classified to a specific service, and where the technical assistance personnel are employed by the donor government or an international organization.

<sup>44</sup> In the case of permits issued by the private sector, treatment as a tax is not an option, so the fee can only be a service or contract, lease, or license asset. In the case of licenses (government or private) that may be resold by the holder, the resale is recorded in the capital account under contracts, leases, and licenses (see paragraphs 14.11–14.16).

***How is technical assistance funded?***

Technical assistance may be subject to payment by the recipient or funded by a current or capital transfer from the donor.

When cross-border technical assistance is provided without a fee being charged to the recipient, a current or capital transfer for the value of the services provided is recorded. If a third-party funds the costs of technical assistance, then the funds provided are routed through the recipient economy to the service (or technical assistance) providing economy.

In principle the value of the services provided is estimated by the costs incurred by the donor government (including any costs in the donor economy, recipient economy, or a third economy) in providing technical assistance. In the absence of detailed information, the value could be estimated by the salary paid to the technical assistance personnel plus any other identifiable costs (such as travel costs).

***How are payments to technical assistance personnel classified?***

If the technical assistance personnel are resident in the donor economy and employed by the donor government, payments to these technical assistance personnel are only recorded in the domestic accounts of the donor economy.

If the technical assistance personnel are resident in the recipient economy (or any economy other than the donor economy) but employed by the donor government, remuneration of employees payable by the donor economy is recorded in the external accounts (paragraph 12.19).

If the technical assistance personnel are resident in the recipient economy, considered employed by the recipient government, but their salaries are paid by the donor government, a current transfer from the donor to the recipient economy (paragraph 13.50) is recorded in the external accounts, with the recipient government imputed as paying remuneration to the resident technical assistance personnel in the domestic accounts of the recipient economy. In this case, the output of the technical assistance is attributed to the recipient economy.

If the technical assistance personnel are resident in the recipient economy but are not considered to be in an employer-employee relationship with the donor or the recipient unit (see paragraphs 12.14–12.15) then payments to them are classified as payments for services, not the remuneration of employees.

If the technical assistance activities in the recipient economy are such that a branch is recognized (paragraphs 4.51–4.53) and the technical assistance personnel are employed by the branch, payment of remuneration by the donor economy is rerouted through the branch as equity.

## Chapter 12. Earned Income Account

### A. OVERVIEW OF THE EARNED INCOME ACCOUNT

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Reference:

- 2025 SNA, Chapter 8, Earned Income Accounts and Chapter 25, Selected Issues on Financial Instruments; Section E, Recording of Flows Associated with Financial Assets and Liabilities.

**12.1** *The earned income account records income flows earned by institutional units as a consequence of their involvement in processes of production or ownership of assets that may be needed for purposes of production.* In the SNA, earned income is recorded in two accounts, namely, the generation of earned income account (which records earned income generated in the production process) and the allocation of earned income account (which records earned income allocated to institutional units for the provision of labor, financial assets, and nonproduced nonfinancial assets). In the external accounts, all earned income flows relate to the allocation of earned income account.

**12.2** The main components and structure of the account are shown in Table 12.1. Credit/revenue entries reflect earned income receivable by the compiling economy and debit/expenditure entries reflect earned income payable by the compiling economy. The balance on earned income shows net earned income receivable by the compiling economy, which is defined as the total value of earned income receivable by the compiling economy less the total value of earned income payable.

**12.3** Two types of earned income are distinguished:

- (a) Income associated with the production process; and
- (b) Income associated with the ownership of financial and nonproduced nonfinancial assets.

**12.4** Income associated with the production process includes remuneration of employees (which is income for the contribution of labor inputs to the production process) as well as taxes on production and on imports, and subsidies.

**12.5** *Property income is the income receivable by the owner of a financial asset or the owner of a nonproduced natural resource or another nonproduced nonfinancial asset in return for providing funds to, or putting the nonfinancial assets at the disposal of, another institutional unit.* Property income is therefore made up of investment income and rent.

**12.6** *Investment income is the income receivable by the owner of a financial asset in return for providing funds to another institutional unit.* Investment income consists of dividends and withdrawals from income of quasi-corporations, reinvested earnings, interest and similar returns, and investment income attributable to policyholders in insurance, pension, and standardized guarantee schemes. However, ownership of financial derivatives and employee stock options does not give rise to investment income. The relationship between financial assets and the type of investment income they generate is shown in Table 5.2. Rent is described in more detail below.

**12.7** Cross-border earned income flows provide a link between the concept of gross domestic product (GDP) and gross national income (GNI). GDP is linked to the concept of production, in which value added is generated. Contributors to the value added (such as labor, finance, and entrepreneurship) receive returns for their contributions. The economic process of income generation from production together with earned income distributions result in the GNI for an economy. The difference between the GNI and GDP is equal to the difference of earned income receivable from nonresidents and earned income payable to nonresidents, often described as “net income from abroad.” When labor, financial resources, and nonproduced nonfinancial assets owned by residents are put at the use of nonresidents, earned income is received. When labor, financial resources, and nonproduced nonfinancial assets owned by nonresidents are put at the use of residents, earned income is paid. GNI is larger (smaller) than GDP if more (less) income is generated from the provision of labor, financial resources, and nonproduced nonfinancial assets owned by residents to nonresidents than the similar income payable to nonresidents.

**12.8** Earned income should be distinguished from transfer income. Earned income captures returns for the provision of labor and financial assets and renting of nonproduced nonfinancial assets. Transfer income captures further redistribution of income through current transfers, such as by governments or charitable organizations. Transfer income is described in Chapter 13.

<b>Table 12.1. Overview of the Earned Income Account</b>		
	Credits/ Revenues	Debits/ Expenditures
<b><i>Balance of goods and services</i></b>		
<b>Remuneration of employees</b>		
<b>Investment income</b>		
Direct investment <sup>1</sup>		
Income on equity		

Dividends and withdrawals from income of quasi-corporations		
Reinvested earnings		
Interest and similar returns		
Portfolio investment		
Income on equity and investment fund shares/units		
Dividends on equity other than investment fund shares/units		
Investment income attributable to investment fund shareholders		
Dividends on investment fund shares/units		
Reinvested earnings on investment fund shares/units		
Interest and similar returns		
Other investment		
Income on equity and investment fund shares/units		
Interest and similar returns		
Investment income attributable to policyholders in insurance, pension, and standardized guarantee schemes		
Reserve assets		
Income on equity and investment fund shares/units		
Interest and similar returns		
<b>Other earned income</b>		
Rent		
Taxes on production and on imports		
Subsidies		
<b>Total earned income credits/revenues and debits/expenditures</b>		
<b>Balance on earned income</b>		
<b>Balance on goods, services, and earned income</b>		
<p>Note: This table is expository; for standard components, see Annex 14.</p> <p><sup>1</sup> Investment income attributable to insurance policyholders and to units paying fees to a standardized guarantee scheme, where a direct investment relationship exists, is included in the interest and similar returns component of direct investment (see paragraph 12.116).</p>		



**12.9** The structure of the earned income account is consistent with that of the corresponding financial flows and positions, thus facilitating the analysis of rates of return.<sup>1</sup> For example, rent is shown separately so that it is not mixed with returns on financial assets. Investment income attributable to policyholders in insurance, pension, and standardized guarantee schemes is also to be shown as a separate item, if relevant. Specific further groupings of earned income are discussed in the subsequent sections.

**12.10** Section B of this chapter discusses the coverage, timing, and valuation issues for each type of earned income (remuneration of employees, dividends and withdrawals from income of quasi-corporations, reinvested earnings, interest and similar returns, investment income attributable to policyholders in insurance, pension, and standardized guarantee schemes, rent, and taxes on production and on imports, and subsidies). Section C explains specific issues and possible classification of investment income by functional category of financial assets and liabilities (direct investment, portfolio investment, other investment, and reserve assets).

## B. TYPES OF EARNED INCOME

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**12.11** The external accounts distinguish the following types of earned income:

1. remuneration of employees;
2. dividends and withdrawals from income of quasi-corporations;
3. reinvested earnings;
4. interest and similar returns;
5. investment income attributable to policyholders in insurance, pension, and standardized guarantee schemes;
6. rent; and
7. taxes on production and on imports, and subsidies.

These income categories are described in paragraphs 12.12–12.114.

**12.12** Table 12.1 presents investment income using both functional and instrument classifications of financial assets. Investment income is generally linked to a particular type of financial instrument. For example, dividends are returns on equity and investment fund shares/units. Sometimes, a group of financial instruments has the same type of investment income. For example, deposits, loans, and debt securities all give rise to interest and similar

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<sup>1</sup> The only exceptions are fees for securities lending, gold loans, and crypto lending, which are treated as interest by convention, even though no underlying positions are recorded (see paragraphs 12.90–12.92).

returns. This section describes various types of investment income and other types of earned income. The next section includes a description of specific issues on investment income related to the functional categories of financial assets and liabilities.

## 1. REMUNERATION OF EMPLOYEES

**12.13** *Remuneration of employees includes total remuneration, in cash or in kind, payable by an enterprise to an employee in return for work done by the latter during the accounting period.* In the external accounts, remuneration of employees is recorded when the employer (the producing unit) and the employee are resident in different economies. For the economy where the producing units are resident, remuneration of employees is the total remuneration, in cash or in kind, payable by resident enterprises to nonresident employees in return for work done by the latter during the accounting period. For the economy where the individuals are resident, it is the total remuneration, in cash or in kind, receivable by them from nonresident enterprises in return for work done during the accounting period. Residence of enterprises and individuals is described in Section J of Chapter 4.

**12.14** Cross-border remuneration of employees arises only when a resident individual is employed by a nonresident or when a resident employs a nonresident individual. Therefore, it is important to establish whether an employer-employee relationship exists between a resident individual and a nonresident employer or between a nonresident individual and a resident employer. An employer-employee relationship exists when there is an agreement, which may be formal or informal, between an institutional unit and an individual, normally entered into voluntarily by both parties, whereby the individual works for the unit in return for remuneration in cash or in kind. The remuneration is normally based on either the time spent at work or some other objective indicator of the amount of work undertaken. If an individual is contracted to produce a given result, it suggests a service contract relationship between the unit and a self-employed individual, rather than an employer-employee relationship. Self-employed individuals are deemed to operate their own unincorporated enterprises, and thus sell output they produce. Self-employed individuals may also employ others. Self-employed individuals are generally responsible for decisions on markets, scale of operations, and finance, and are also likely to own or rent machinery or equipment on which they work.

**12.15** When an individual performs work for an institutional unit, it may not always be clear whether an employer-employee relationship exists between the individual and the unit. Provision of several types of services may pose such problems because units may choose either to purchase a service (including those services provided remotely) from a self-employed worker or to hire an employee to perform the job. The status of the worker has important implications for the external accounts. If an employer-employee relationship exists between the worker and the producing unit, the payment constitutes remuneration of employees. If an employer-employee

relationship does not exist, the payment constitutes a purchase of services. (See Chapter 11 for specific categories of services.)

**12.16** Several factors may have to be considered in determining whether an employer-employee relationship exists. An important test of whether an employer-employee relationship exists is that of control. The right to control or to direct, both as to what shall be done and how it shall be done, is a strong indication of an employer-employee relationship. The method of measuring or arranging for the payment is not important as long as the employer has the effective control on both the method and the result of the work undertaken by the individual. However, certain control on the work being undertaken may also exist for the purchase of a service. Therefore, other criteria should also be used to define more clearly the employer-employee relationship. If the individual is solely responsible for social contributions, that would suggest that the individual is a self-employed service provider. Payment of social contributions by the employer is an indication of employer-employee relationship. If the individual is entitled to the same kind of benefits (e.g., allowances, holidays, sick leave) that the enterprise generally provides to its employees, this indicates an employer-employee relationship. Payment of taxes on the provision of services (such as sales tax or value-added tax) by the individual is an indication that the individual is a self-employed service provider.

**12.17** Cross-border employees include seasonal or other short-term workers (less than one year) and border workers who are residents of one economy and work in another economy. Nonresidents who are employed as domestic helpers or housekeepers (for less than one year) by resident households are also treated as nonresident employees. Because embassies, consulates, military bases, and so forth are considered extraterritorial to the economies in which they are located (see paragraphs 4.10–4.15 and Chapter 4, Section J, for the definition and further elaboration of the concept of residence), the remuneration receivable by local (host country) staff of these institutional units is classified as payable to resident units by nonresident units. Remuneration receivable by employees from international organizations, which are extraterritorial units, represents receipts from nonresident units.

**12.18** Remote work, also known as telecommuting, telework, work from home, and other similar terms, refers to the practice of employees working from locations other than the traditional office. When employers and employees reside in different economies, the payment for remote work should be recorded as remuneration of employees. Some employers offer their employees the opportunity to work for extended periods away from the office. Paragraph 4.209 outlines factors that need to be considered where the principal residence of the employee is difficult to establish. Remuneration of such workers is recorded in the BOP only if the employee is classified as being resident in a different economy than the employer.

**12.19** According to the residence principles for households as explained in paragraphs 4.199–4.213, technical assistance personnel employed by international organizations or governments on long-term assignments (for one year or more) are residents of the economy in which they live and work (unless they are government employees with diplomatic status). Similarly, employees of parent enterprises working in an affiliated enterprise in another economy for one year or more are residents of the economy in which they live and work. Although such employees continue to be legally employed and paid by the parent enterprise (which may be an international organization, foreign government, or commercial enterprise), their employer-employee relationship may not always be clear. They should be considered employees of the institutional unit for which they work if this unit effectively manages and controls their work. The contractual arrangement for hiring or paying salaries may simply be a matter of convenience. In some cases, it may be difficult to determine who is managing and controlling the work. In such cases, the workers should be considered to be employed by the unit that pays them.

**12.20** Remuneration of employees is recorded on an accrual basis. It is measured by the value of the remuneration in cash or in kind that an employee becomes entitled to receive from an employer with respect to work undertaken during the relevant period, whether paid in advance, simultaneously, or in arrears of the work itself. To the extent that payment has not been made for work performed, the economy of the employer must record an entry in other accounts payable and the economy of the employee must record an entry in other accounts receivable.

**12.21** Although not shown explicitly in the external accounts, it is helpful to note that remuneration of employees has three main components:

- (a) wages and salaries in cash,
- (b) wages and salaries in kind, and
- (c) employers' social contributions.

#### ***a. Wages and Salaries in Cash***

**12.22** Wages and salaries in cash consist of remuneration of employees payable in cash (or any other financial instruments used as means of payments), except for social contributions payable by employers. Included are basic wages and salaries; extra pay for overtime, night work, and weekend work; cost of living allowances, local allowances, and expatriation allowances; bonuses; annual supplementary pay, such as "thirteenth month" pay; allowances for transportation to and from work; holiday pay for official holidays or annual holidays; and housing allowances. Wages and salaries in cash do not include the reimbursement by employers of expenditures made by employees in order to enable them to take up new or relocated jobs (e.g., reimbursement for travel and related expenses) or

expenditures on items needed to carry out their work (e.g., tools or special clothing). These are considered acquisitions by the employer of goods and services (if the provider and employer are resident in different economies). Wages and salaries in cash include any social contributions, income taxes, etc., payable by the employee even if they are actually withheld by the employer for administrative convenience or other reasons and paid directly to tax authorities.

### ***b. Wages and Salaries in Kind***

**12.23** Wages and salaries in kind consist of amounts payable in the form of goods, services, interest forgone, and shares to employees in return for labor input rendered. Examples are meals; accommodation; a vehicle; sports, recreation, or holiday facilities for employees and their families; transportation to and from work; goods and services from the employer's own processes of production; bonus shares distributed to employees; and so forth. Benefits in kind should be valued at the market-equivalent price (for instance, in the case of a vehicle, the value would be the actual cost to the employer). The goods or services may be provided free or at a reduced cost. For example, when employees receive loans at reduced or zero rates of interest, the interest forgone is the difference between the interest charged and a market-equivalent interest charge and is recorded as a continuous stream of remuneration payments. To provide a consistent and economically meaningful way of recording remuneration in kind, some "rerouting" may be involved (see paragraph 3.35 for an example of rerouting). That is, although the good or service is purchased by the employer, it is treated as if the employer paid the amount to the employee who, in turn, acquired the item. The rerouting may affect the resident-to-nonresident nature of the transaction.

**12.24** Employee stock options (ESOs) are a way of paying wages and salaries in kind. ESOs are valued by reference to the fair value of the equity underlying the ESO awarded. The value of ESOs at the time of granting provides the measure of remuneration of employees that should be recorded as accruing over the period to which the option relates, generally the period between the granting and vesting dates (see paragraph 8.39). Sometimes, the options may cover the period before the granting date, which should also be taken into account in allocating the remuneration of employees. The value of the ESO accumulates as remuneration of employees is recorded, so that at vesting date, it has accumulated to the value of the ESO at granting. Changes in the value of ESOs at or after the vesting date are not remuneration of employees but are holding gains and losses (see paragraph 9.12). Flows and positions in ESOs are recorded within financial derivatives and ESOs, with a supplementary item for economies in which cross-border transactions in ESOs are significant.

**12.25** In cross-border situations, a multinational parent company may directly provide ESOs to employees of its foreign subsidiaries. The value of ESOs should be recorded as remuneration of employees payable by the subsidiary, the actual employer, and hence this transaction is domestic. The liabilities of the parent companies and acquisition of assets by the employees of the subsidiary in the form of ESOs are recorded in the respective economies' external accounts. If the ESO is supplied free or below cost to the subsidiary, a transaction between the parent and actual employer should be imputed for the value of the ESO similar to the treatment of transfer pricing (see paragraphs 12.120–12.121).

### ***c. Employers' Social Contributions***

**12.26** *Employers' social contributions are actual and imputed social contributions payable by employers to social security funds and other social insurance schemes to secure social benefits for their employees.* Social security schemes are operated by general government; other social insurance schemes may be operated by the employers themselves or by an insurance corporation or may be an autonomous pension scheme. Examples of social benefits include pensions, life insurance, and health insurance; allowances for children, spouse, family, education, or other payments with respect to dependents; payments made to workers absent from work because of illness, accidental injury, maternity leave, and so forth; and severance payments. Both actual and imputed social contributions are included in the remuneration of employees. For defined contribution pension schemes, the actual amounts payable by employers are included. For defined benefit pension schemes, including unfunded pension schemes, the amount of employers' social contributions should be determined on the basis of actuarial calculations that yield contributions required to secure the increase in entitlements resulting from the employee service in the current period (the current service increase). (See paragraph 5.75 for the definition of pension entitlements.)

**12.27** As employers' social contributions are made for the benefit of their employees, their value is recorded as one of the components of remuneration of employees together with wages and salaries in cash and in kind. The social contributions are then recorded as being paid by the employees as current transfers to the social security schemes or other social insurance schemes (see also paragraphs 13.31 and 13.35).

**12.28** Employees who are employed outside their economy of residence may incur costs for transportation to and from work in the economy of their employment for which they receive an allowance from their employer. Furthermore, nonresident employees (including remote workers) may be subject to the payment of income taxes (see paragraph 13.26). These flows should be recorded on a gross basis respectively as travel expenditures and taxes on income; that is, they should not be deducted from remuneration of employees.

## 2. DIVIDENDS AND WITHDRAWALS FROM INCOME OF QUASI-CORPORATIONS

**12.29** *Dividends are earnings distributed to the owners of corporate equity for placing funds at the disposal of corporations.* Raising equity through the issue of shares is an alternative way of raising funds compared to borrowing. In contrast to debt financing, however, equity finance does not give rise to a liability that is fixed in monetary terms and does not entitle the holders of shares of a corporation to a fixed or predetermined income. Owners of equity receive their share of distributed earnings, the timing and amounts of which are decided by corporations. Owners are also entitled to the residual value of the assets of the corporation in the event of its liquidation (see paragraph 5.23).

**12.30** The concept of dividends is linked to the instrument classification; namely, they are the return payable by corporations to their shareholders or owners.<sup>2</sup> Dividends are most often quoted in terms of the amount of money declared payable per share. They may also be quoted in terms of a percentage of the market value of shares, referred to as dividend yield. Income on nonparticipating preferred shares (see paragraph 5.53) is treated as interest income, rather than dividend income, because such shares are classified as debt instruments. Share buybacks are not treated as the distribution of dividends. They are recorded as financial transactions, as purchases of own shares by the relevant corporations.

**12.31** In addition to dividends from corporations, withdrawals from income of quasi-corporations (such as distributed branch profits) should be included under this heading. In legal terms, quasi-corporations cannot distribute income in the form of dividends. Nevertheless, the owner, or owners, of a quasi-corporation may choose to withdraw some or all of the income of the enterprise, and some quasi-corporations formally organized as trusts, partnerships, or other institutions may formally distribute some or only a portion of their earnings. From an economic point of view, the withdrawal of such income is equivalent to the distribution of corporate income through dividends and is treated in the same way. Income from rent earned on land and rentals earned on buildings directly held by nonresidents less costs involved is also classified under dividends and distributed incomes from a notional direct investment enterprise (see paragraphs 4.59–4.65).

**12.32** Dividends are also identified for equity in investment funds. Investment in investment funds is usually classified in portfolio investment. Investment in investment funds may also occur in other investment or reserve assets but never in direct investment (even if the investor holds an equity stake that is 10 percent or more). For equity in investment funds

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<sup>2</sup> Dividends under reverse transactions and manufactured dividends are discussed in paragraph 12.93 and Annex 7.

and direct investment, the owners' earnings include both the distributed income and reinvested earnings.

**12.33** Dividends paid by corporations to direct investors and withdrawals from income of quasi-corporations by their direct investors include any distributions to their owners from the current period's ordinary earnings or accumulated reserves from ordinary earnings in previous periods. Corporations often smooth the payments of dividends, sometimes paying out less than the current period's entrepreneurial income but other times paying out more (see paragraph 12.43 for a definition of entrepreneurial income). Corporations may also choose to make large infrequent distributions to their shareholders from accumulated earnings of previous periods. Similarly, owners of quasi-corporations may make withdrawals from accumulated earnings of previous periods. For distributions to direct investors, no attempt is made to align dividend payments with earnings for any given period.

**12.34** Dividends and withdrawals from income of quasi-corporations do not include funds realized by the sale or disposal of assets of the corporation or the quasi corporation (e.g., the sale of inventories, fixed assets, land or other natural resources, or the liquidation of financial assets). Transmittal of funds resulting from such disposals or liquidations of assets is recorded as a withdrawal of equity in the financial account.

**12.35** For portfolio investment and other investment, all exceptional payments made out of accumulated reserves, as well as payments arising from nonoperating activities (such as sales of assets), are considered superdividends and are treated as withdrawals of equity in the financial account. *Superdividends are large and irregular payments made by corporations to their shareholders or owners that are funded from accumulated reserves or sales of assets other than cash. If the distributable income is positive, the difference between the payment and the distributable income of the relevant accounting period is recorded as a superdividend under withdrawal of equity. The remainder of the payment (equal to the distributable income) is recorded as a dividend. If the distributable income is negative, the entire dividend payout is recorded as a superdividend under withdrawal of equity. The concept of superdividends does not apply to direct investment where distributions from accumulated reserves are also treated as dividends. However, in the case of direct investment, any additional distributions, e.g., from sales of assets, are recorded as withdrawal of equity. (See also paragraphs 8.17 and 8.26.)*

**12.36** The treatment of payments from accumulated reserves to direct investors is therefore different from similar payments to portfolio or other investors, or to domestic shareholders. However, the recording of dividends does not affect the total direct investment income. This is because direct investment income on equity is made up of dividends or withdrawals of income from quasi-corporations and reinvested earnings. The treatment makes visible the conscious decision on the part of the direct investor to distribute or to



reinvest income earned over current and past periods. It may be useful to separately identify large and irregular payments from accumulated reserves to direct investors, for their analytical value and for comparability with the treatment of superdividends on other types of investment. Such payments from accumulated reserves are thus introduced as a supplementary sub-item of dividends and withdrawals from income of quasi-corporations under direct investment income in the external accounts.

**12.37** Stock dividends arise where stockholders elect to receive payments of dividends in the form of issue of new shares. The stock dividends are essentially a capitalization of earnings and an alternative to distributing cash dividends. Therefore, stock dividends are treated as dividend income (in the earned income account), which is then immediately reinvested (in the financial account).

**12.38** Bonus shares refer to issues of new shares to all stockholders in proportion to existing ownership. These arrangements are not treated as transactions because no new resources have been provided. The claim of the shareholders on the unit is the same before and after the issuance of bonus shares. (See also paragraph 8.31.)

**12.39** Liquidating dividends, whether partial or total, arise mainly at the time of the termination of a company. These are treated as a withdrawal of equity, shown in the financial account, as a convention based on the assumption that liquidating dividends are more likely to involve previously existing equity finance rather than current income.

**12.40** Supplementary information on the reduction in equity arising from the disposal or sale of assets (including from liquidating assets) may be displayed as “of which, from sales of assets” in the financial account.

**12.41** Dividends are recorded at the time the shares go ex-dividend (see paragraphs 3.158–3.159 for recording of dividends). In some cases (such as when the equity is unlisted), the ex-dividend date may not be known, and the payment date can be used. Withdrawals from income of quasi-corporations, that is, distributed profits, are recorded when they are withdrawn by their owners. Dividends and withdrawals from income of quasi-corporations are recorded gross of any withholding taxes. These taxes are deemed to be payable by recipients of such income.

### 3. REINVESTED EARNINGS

**12.42** This section describes the treatment in the external accounts of reinvested earnings from equity participation. Reinvested earnings of a corporation or quasi-corporation are earnings accruing to direct investors less the amounts already payable to direct investors through dividend distribution or through withdrawals from income of quasi-corporations. Reinvested earnings of investment funds are defined in the same way. Attribution of

cross-border income (of which reinvested earnings is a part) is particularly important for deriving consistent and comparable measures of national disposable income and national saving.

**12.43** When discussing reinvested earnings of a corporation or quasi-corporation, it is helpful to introduce the associated concepts of entrepreneurial income and distributable income.

Entrepreneurial income is formally stated as:

- Income earned by the production of goods and services (operating revenue *minus* operating expenses and depreciation)
- + Property income receivable (including dividends or withdrawals from income of quasi-corporations, reinvested earnings, interest and similar returns, rent, and other property income)
- Property income payable excluding dividends or withdrawals from income of quasi-corporations and reinvested earnings.

Distributable income is formally stated as:

- Entrepreneurial income
- + Current transfers receivable less current transfers payable
- Adjustment for the change in pension and nonpension entitlements relating to the pension scheme or other social insurance scheme of that corporation.

(These items refer to domestic and cross-border transactions of the enterprise and correspond exactly to *SNA* items; see also paragraphs 12.52–12.53 as well as additional information on the treatment of particular items of revenue and expenditure in the 2025 *SNA*.)

**12.44** The term distributable income refers to income arising from current operations, from property income, and from current transfers (before any dividends or reinvested earnings are deemed payable) that are available to corporations for distribution to investors in proportion to their equity participation. If the corporation makes a dividend distribution, this will reduce each investor's share of distributable income by the amount received as a dividend. The difference between the distributable income and dividends paid to shareholders is retained by the corporation.

**12.45** In macroeconomic statistics, corporations are defined as institutional units separate from their owners and able to take economic decisions (see paragraphs 4.2 and 4.6–4.7 for the definition of corporations as institutional units). Owners receive dividends and face

other financial gains and losses arising from the activity of the corporations they own.<sup>3</sup> For corporations, the notion that the institutional units are decision-making entities implies that retained earnings are treated as the income and saving of that unit rather than those of its owners. So, the undistributed income arising from the net operating surplus, net property income, and net current transfers is recorded as retained earnings or net saving of corporations. Losses are negative net saving. Quasi-corporations, such as branches and notional units, are treated in the same way as incorporated institutional units (except that dividends would be replaced by withdrawals from income).

**12.46** However, when retaining earnings is a deliberate decision of owners to reinvest, treating them as if they were retained by corporations would not reflect economic reality. Although most economic relationships between a corporation and its owners may be considered to take place in an arm's length situation, the distribution or nondistribution of its net earnings to its owners can be seen to be approved by its owners. In particular, because of the control and influence direct investors have on corporate decisions, reinvested earnings are treated as being distributed to the owners who then are deemed to reinvest back in their enterprises.

**12.47** Reinvested earnings are recorded in the period in which the distributable income and dividend distribution or withdrawals from income of quasi-corporations accrue. The attribution of reinvested earnings to direct investors applies also to investors in investment funds.

**12.48** The imputation of income to direct investors and to the owners of investment funds is shown in the earned income account as "reinvested earnings" and the corresponding flow is recorded in the financial account as "reinvestment of earnings" (see paragraphs 8.15–8.16 for the recording of financial account entries). Reinvestment of earnings is an imputed financial transaction. In the position data, reinvestment of earnings is not shown separately but included implicitly in the total value of equity.

**12.49** Although reinvested earnings are recorded only for equity in direct investment and investment in investment funds, it might be argued that the treatment should be consistent for all types of equity investment. For this reason, compilers are encouraged to provide supplementary reporting of information on the implied reinvested earnings of other types of equity investment. A possible change in the guidance, after having gained more experience on this alternative recording, has been put on the research agenda (see Annex 15).

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<sup>3</sup> The amount of dividends payable in any given accounting period depends on a range of factors, including the corporation's judgment of its own investment opportunities relative to those available in the market, differences in the tax treatment of distributed and undistributed income, and the degree of influence and control of the owners in management decisions.

**a. Reinvested Earnings on Direct Investment**

**12.50** Investment income attributable to direct investors on their equity includes dividends, withdrawals from income of quasi-corporations, and reinvested earnings. *Reinvested earnings on direct investment consist of the direct investors' proportion of distributable income of a direct investment enterprise, less amounts declared for dividend distribution to direct investors, or less withdrawals from income of quasi-corporations by the direct investors. Reinvested earnings are treated as being distributed and subsequently reinvested.* Reinvested earnings are attributed to direct investors who are in an immediate direct investment relationship with the direct investment enterprises (i.e., when equity participation by direct investors meets the 10 percent threshold). See Box 12.8 for an example of the calculation of reinvested earnings. However, reinvested earnings are not attributed to direct investors when the equity participation provides less than 10 percent of the voting power. (For example, a direct investor may directly hold a stake of 1 percent of an indirectly held subsidiary; although it is a direct investor by virtue of the chain of ownership, it is not shown as a direct recipient of reinvested earnings on its 1 percent holding.) Paragraphs 6.8–6.24 define direct investment relationships. In the case of a government-owned nonresident unit used solely for fiscal purposes, transactions are imputed between the government and the government-owned nonresident unit to reflect the fiscal activities of the government (see paragraphs 8.21–8.23). Therefore, such government-owned units do not give rise to reinvested earnings.

**12.51** As discussed above, the rationale behind the current treatment of reinvested earnings on direct investment is that, because a direct investment enterprise is, by definition, subject to control, or influence, by a direct investor or investors, the decision to retain and reinvest some of its earnings within the enterprise represents an investment decision on the part of the direct investor(s). Many factors may influence the decisions of direct investors on the proportions of net earnings of direct investment enterprises to be distributed or retained, including taxation systems, transfer costs, investment opportunities in the ongoing business and elsewhere, relative costs of moving financial resources, and need to expand the ongoing business.

**12.52** Reinvested earnings are measured on the basis of distributable income after dividends have been distributed to direct investors, or after withdrawals from income of quasi-corporations, and thus linked to the concept of operational earnings generated from production, lending and borrowing financial assets, and renting nonproduced nonfinancial assets, and current transfers. They do not include any costs or income arising from the acquisition or sale of fixed assets. (Fixed assets include buildings and other structures, machinery and equipment, intellectual property products, and other assets recognized in the macroeconomic statistical standards. Expenditure on research and development and own-account production of software are treated as assets and not as expenses.) Reinvested

earnings do not include any realized or unrealized holding gains or losses. Holding gains and losses may arise from valuation changes, including exchange-rate-related gains and losses, revaluation of nonfinancial assets, and changes in market prices of financial assets and liabilities. Reinvested earnings also do not include gains or losses due to other changes in volume of assets, such as write-offs of nonproduced nonfinancial assets, write-offs of bad debts, and uncompensated seizures of assets. Because business accounting measures of profits often include holding gains or losses, adjustments to business accounting records may be necessary. Holding gains and losses and other changes in volume of financial assets and liabilities are described in Chapter 9. Provisions for various types of losses, such as for bad debts, are internal bookkeeping entries that should not be taken into account in determining the net saving and reinvested earnings.

**12.53** Reinvested earnings of a direct investment enterprise are measured after deducting corporate taxes charged on the income of the enterprise. Such taxes are payable by the enterprise and not by its owners. Furthermore, reinvested earnings should be calculated after deducting depreciation. Depreciation is measured by the value, at current replacement cost, of the fixed assets used up (as a result of physical deterioration, normal obsolescence, or normal accidental damage) during an accounting period. In the calculation of depreciation, the expected economic life of an individual asset should be taken into account. (Expected life and normal obsolescence or damage do not include losses due to wars or major natural disasters.) Depreciation used in the business accounts is not necessarily the same as depreciation used in the national accounts as the business accounts may base depreciation on historic cost or book values or may use a different depreciation model from the models recommended in the national accounts. Compilers should make adjustments to depreciation based on business accounts where the calculation of depreciation rates diverge significantly from the rates used in the national accounts.

**12.54** Payments of fines and penalties and of compensation could impact the calculation of reinvested earnings. In the case of large fines and penalties (which are treated as current transfers in the external accounts), compilers should base their determination about whether to include fines or penalties as part of the calculation of retained earnings on the specific characteristics of the fine or penalty, including whether it is considered extraordinary (see paragraph 13.56 for a definition of fines and penalties). In the case of compensation payments, only those compensation payments considered current transfers are to be included in the calculation of retained earnings (see paragraph 13.58 for a definition of compensation payments).

**12.55** Reinvested earnings can be negative when a direct investment enterprise has a loss on its operations, or the dividends declared in a period are larger than distributable income in that period. If direct investment abroad generates negative earnings, the entry should be shown as a negative income credit/revenue by the direct investor. Similarly, the economy of

the direct investment enterprise should record the losses as negative income debit/expenditure.

**12.56** In a chain of direct investment relationships, reinvested earnings need only be recorded between the direct investor and directly owned direct investment enterprises. The passing of reinvested earnings from indirect holdings should be taken into account through the chain of direct investment relationships. Retained earnings of an enterprise in the chain would include reinvested earnings derived from its immediate direct investment enterprise (see paragraphs 6.8–6.24 for a definition of direct investment relationships), which as a direct investor would receive reinvested earnings from its immediate direct investment enterprise, and so on. Therefore, reinvested earnings are passed on to the indirect direct investors through the chain indirectly, as illustrated in Box 12.1.

### Box 12.1. Reinvested Earnings with Chain of Ownership

Enterprise A has a 100 percent subsidiary Enterprise B, which in turn has a 100 percent subsidiary Enterprise C.

Enterprise A is owned 95 percent by portfolio investors, while Enterprise C owns 5 percent (reverse investment).

In the following example, earnings are as stated and none of the enterprises pays dividends during the period—all earnings are retained; so the following results are obtained for reinvested earnings:

			Reinvested earnings	
			Payable	Receivable
	Earnings from own operations			
Enterprise A	100	0	120	
Enterprise B	40	120	80	
Enterprise C	80	80	0	

Notes:

- The reinvested earnings receivable for Enterprise A consist of the reinvested earnings receivable from its immediate direct investment enterprise, Enterprise B. However, the reinvested earnings of Enterprise C are indirectly taken into account through reinvested earnings of Enterprise B. (See paragraph 12.56.)
- No reinvested earnings are payable on the reverse investment equity of Enterprise C in Enterprise A. (See paragraph 12.117(b).)

### ***b. Investment Income Attributable to Investment Fund Shareholders***

**12.57** *Investment income attributable to investment fund shareholders are dividends and retained earnings of investment funds, which are attributable to the shareholders.*

Investment funds provide a convenient, accessible, and affordable vehicle for financial investment. Typically, investment funds sell shares or units to the public and invest in a diversified portfolio of securities, although they may also invest in other assets, or they may be limited to a small number of investors (see paragraphs 4.133–4.138 on investment funds as an institutional subsector). Each share represents a proportional equity in the investment portfolio managed by investment funds.

**12.58** Earnings from investment funds can be viewed as being passed on to their shareholders (or unitholders) as they are earned in the form of investment income on their equity. Investment funds earn income by investing the money received from shareholders. Shareholders' income from investment funds is defined as the investment income earned on the fund's investment portfolio. When only a part of the net earnings is distributed to shareholders as dividends and imputed dividends (as discussed in the next paragraph), the retained earnings should be treated as if they were distributed to the shareholders (including resident shareholders) and then deemed reinvested. The consequence of the treatment of the retained earnings of investment funds is that the saving of investment funds is always zero.

**12.59** There are direct and indirect fees that are borne by the shareholders in investment funds. The direct fees are charges paid directly by the shareholders to fund managers, brokers and custodians or other service providers. These fees are not considered either as an expenditure from the investment fund (or out of the fund assets) to the service provider or as income paid from the shareholder to the investment fund. Indirect fees are paid out of the income generated by the fund or out of the fund assets. These are expenses paid by the investment fund to third parties, such as fund management companies. However, because the fees are paid by the investment fund on behalf of the shareholder from the income generated from the investments of the fund, these costs incurred by the fund in its day-to-day operations are treated as services provided directly from the professional providers to the shareholders (see paragraph 11.81). They are not considered as operating expenses of the fund. The amounts should be treated as an additional component of the investment income attributable to the shareholders from the fund which would be considered as "imputed dividends" and recorded under dividends and withdrawals from income of quasi-corporations, which are subsequently paid to the service providers for indirect service charges. As a consequence, the total income attributable to the shareholders in the form of dividends (including this additional imputation) and reinvested earnings would be equal to the total earnings on investments by the fund (see Box 12.2 for an example of the calculations).

**Box 12.2. Numerical Example of the Treatment of Indirect Fees Paid by the  
Shareholder of Investment Fund Units to Service Providers**

An investment fund in Economy A invests in securities and other assets in Economy C on behalf of shareholders in Economy B. During the period, the investments yield income to the fund of 20; and the investment fund incurs day-to-day costs of 4 paid to other financial service providers in Economy D (these are indirect fees) which are financed from the income received on investment. The investment fund pays a dividend of 5 to shareholders.

The earned income account entries in Economy A would be:

<i>Investment income to the investment fund (with Economy C)</i>	<i>20 credit/revenue</i>
<i>Dividends paid by the investment fund (with Economy B)</i>	<i>9 debit/expenditure</i>
of which, “imputed” dividends (with Economy B)	<i>4 debit/ expenditure</i>
<i>Retained earnings of the investment fund (with Economy B)</i>	<i>11 debit/ expenditure</i>

Note that the savings of the investment fund is zero.

The services account and earned income account entries in Economy B would be:

<i>Investment income to the shareholder (with Economy A)</i>	<i>20 credit/revenue</i>
Made up of,	
<i>dividends</i>	<i>9 credit/revenue</i>
of which “imputed” dividends	<i>4 credit/revenue</i>
<i>reinvested earnings</i>	<i>11 credit/revenue</i>
<i>Imputed service charge (with Economy D)</i>	<i>4 debit/expenditure</i>

It is acknowledged in paragraph A11.29 that the treatment of indirect fees may create practical difficulties for compilers.

**12.60** Dividends and retained earnings attributable to owners of investment funds exclude holding gains and losses arising from investment by the funds. Holding gains and losses are recorded as revaluations in the integrated IIP.

#### 4. INTEREST AND SIMILAR RETURNS

References:

- IMF and others, *External Debt Statistics: Guide for Compilers and Users*, Chapter 2, Appendix, Accrual of Interest Costs—How Should This Be Implemented? and paragraphs 6.15–6.17.
- IMF and others, *Handbook on Securities Statistics*
- IMF, *Monetary and Financial Statistics Manual and Compilation Guide*, Annex 5.2



**12.61** *Interest and similar returns are a form of investment income or interest-like income that is receivable by the owners of certain kinds of financial assets, namely: deposits, debt securities, loans, trade credit and advances, and other accounts receivable and some similar instruments in the case of Islamic finance, for putting the financial asset at the disposal of another institutional unit. Income on SDR holdings and allocations is also treated as interest and similar returns. By convention, lending fees on securities, gold loans, gold swaps, and crypto assets without a corresponding liability designed to act as a general medium of exchange are classified as interest and similar returns. Not all current account flows associated with debt instruments are interest and similar returns; some may be commissions or fees, which are charges for financial services (see paragraphs 11.70–11.94 for a discussion of financial services).*

**12.62** Interest and similar returns are recorded on an accrual basis; that is, interest and similar returns is recorded as accruing continuously over time to the creditor on the amount outstanding. Depending on the contractual arrangements, interest and similar returns may be a percentage of the amount outstanding, a predetermined sum of money, a variable sum of money dependent on a defined indicator, or some combination of these methods. In the case of Islamic finance, interest or similar returns would be a pre-determined share of profit related to the sourcing or the use of certain types of funds. Under the accrual basis, as interest and similar returns accrues, the amount outstanding increases; that is, accrued interest and similar returns not yet paid is a part of the amount outstanding. What are commonly referred to as interest payments, therefore, are financial account transactions that reduce the debtor's existing liability. The amount initially advanced or borrowed is also known as initial principal. Periodic coupon payments may cover part or whole of the interest and similar returns accrual during that period as well as payments that reduce the initial principal.

**12.63** The guidance below is mainly focused on interest as commonly known. Economies with significant Islamic financial activities are encouraged to create a sub-category within interest and similar returns to present investment income for putting financial assets, such as deposits (or sources of funds), debt securities, loans (or uses of funds), trade credit and advances, and possibly other accounts receivable, at the disposal of another institutional unit. Specific types of interest-like income, as practiced in Islamic finance, are further elaborated in Chapter 17.

#### ***a. Currency of Denomination and Fixed-Rate vs. Index-Linked Instruments***

**12.64** For the purpose of defining and measuring interest, it is useful to distinguish between the following three types of arrangements:

- (a) **Domestic-currency-denominated fixed-rate instruments.** At inception, the contracting parties determine all future cash flows that the debtor must make in

domestic currency. Interest for these instruments is the difference between the sum of all debtor's payments and the funds the creditor makes available to the debtor. The information on the amount outstanding and future cash flows needed to calculate interest accruals is known at inception.

- (b) **Foreign-currency-denominated fixed-rate instruments.** At inception, future cash flows are determined in the relevant foreign currency. The recording of interest on foreign currency fixed-rate instruments is also straightforward. Interest is defined as described in (a) above, with the only difference being that, in the first instance, a foreign currency is used as the currency of denomination. Interest expressed in foreign currency is to be converted into the domestic currency at the mid-point market exchange rate for the periods in which the interest accrues. The information on amount outstanding and cash flows needed to calculate interest accruals in the currency of denomination is known at inception. Debt instruments with both the amount to be paid at maturity and all periodic payments (such as coupons) linked to a foreign currency are treated as though they are denominated in that foreign currency.
- (c) **Index-linked instruments.** The indexation mechanism links the amount to be paid at maturity or periodic payments (such as coupons) (or both) to indicators agreed by the parties, and the values of the indicators are not known in advance. As a result, the amount of interest cannot be known at the time of issue. For some instruments, it can be determined only at the time of redemption. Indexed instruments include those indexed to the consumer price index, a stock exchange index, a commodity price, and so forth.

Index-linked debt instruments are those on which payments are linked to a reference item that normally changes over time in response to market pressures. All other debt instruments should be classified as fixed-rate. As noted in paragraph (b) above, debt instruments with both the amount to be paid at maturity and periodic payments linked to a foreign currency are classified and treated as though they are denominated in that foreign currency. All other types of index-linked instruments, including those that are partially linked to exchange rates (e.g., those for which either only the amount to be paid at maturity or only periodic payments are linked to an exchange rate), are treated as being denominated in domestic currency for the recording of interest and other economic flows. The calculation of interest accrual for index-linked instruments is described in paragraphs 12.82–12.88.

### ***b. Interest on Loans, Deposits, Trade Credit and Advances, and Other Accounts Receivable/Payable***

**12.65** The nature of financial assets and liabilities in the form of deposits, loans, trade credit and advances, and other accounts receivable/payable is explained in Chapter 5. In

general, the interest accrual on these financial assets and liabilities is determined by applying the relevant interest rate as specified in the contractual arrangements between parties to the amount outstanding at each point of time throughout the accounting period. Some instruments have a fixed interest rate for the entire life of the instrument. Some instruments may have terms for changes in interest rates, once or several times, during the life of the instrument. For each period, the relevant interest rate should be used to calculate interest accrued in that period. Some loans and deposits may also have indexation of the amount to be paid at maturity or periodic payments (or both). Interest accruals arising from indexation as described in paragraphs 12.82–12.88 also apply to indexed loans and deposits.

### ***c. Pure Interest (Excluding Implicit Financial Services on Loans and Deposits)***

**12.66** Typically, financial intermediaries offer lower rates of interest to their depositors than the rates that they charge to their borrowers. The resulting interest margins are used by the financial intermediaries to defray their expenses and to provide an operating surplus. This method of operation is an alternative to charging customers directly for services. The treatment of this margin (implicit financial services on loans and deposits, formerly referred to as financial intermediation services indirectly measured, or FISIM) and its measurement are described in paragraphs 11.82–11.94.

**12.67** The earned income account records “pure interest” by eliminating the implicit charges component from “actual interest.” “Actual interest” payable to a financial intermediary includes the service charge, which should be subtracted to give the interest recorded as investment income in the external accounts. Similarly, “actual interest” receivable from a financial intermediary is seen as having had a service charge already deducted, so the actual interest receivable from the financial intermediary will be increased by the value of the service received to provide interest recorded as investment income in the external accounts. The “pure interest” is calculated using the reference interest rate. The concept of “reference” interest rate and its application are described in paragraphs 11.85–11.87 and in Box 11.4. “Actual interest” charged or received by banks is needed for certain analytical purposes (for instance, for debt sustainability analysis and analysis of rates of return) and should be disseminated as a memorandum item.

### ***d. Accrual of Interest on Nonperforming Debt***

**12.68** Amount outstanding of nonperforming debt remains a legal liability of the debtor, so interest should continue to accrue unless the liability has been extinguished (e.g., by repayment or as a result of a bilateral arrangement between debtor and creditor). However, for some analysis, it may be more useful to exclude, from earned income measures, interest that is not realistically expected to be paid. It would, therefore, be useful for the creditor to provide supplementary information on accrued interest on nonperforming debt when it is

significant and quantifiable. It is important that metadata should provide information on the method adopted for defining nonperforming debt. Nonperforming loans are described in paragraphs 7.55–7.58.

**12.69** Following the accrual principle, arrears on debt repayments (both periodic payments and amount to be paid at maturity) that are not paid on due dates should continue to be shown in the same instrument until the liability is extinguished (see also paragraph 3.167). For arrears arising from a debt contract, interest should accrue at the same interest rate as on the original debt, unless a different interest rate for arrears was stipulated in the original debt contract, in which case this stipulated interest rate should be used. The stipulated rate may include a penalty increase to the periodic payments on the original debt. If the terms and characteristics of the financial instrument automatically change when it goes into arrears, and its classification is changed, the change should be recorded as a reclassification in the other changes in financial assets and liabilities account (see paragraph 3.167 for treatment of arrears). If the contract is renegotiated, transactions are recorded as a new instrument is created. If an item is purchased on credit and the debtor fails to pay within the period stated at the time the purchase was made, any extra charges incurred should be regarded as interest and accrue until the debt is extinguished.

**12.70** When a one-off guarantee covering a debt that becomes nonperforming is activated, the guarantor assumes the liability for that debt. From the time of activation of the debt guarantee, the interest accrual becomes the liability of the guarantor. A guarantor may make payments for interest that are due on loans or other interest-bearing liabilities of other units for which it acts as the guarantor. Any interest accruing before the guarantor assumes the debt is a liability of the original debtor and payments by the guarantor should be classified on the basis of contractual arrangements between the guarantor and the original debtor. In most cases, such payments establish a claim by the guarantor on the original debtor, who is obliged to service the debt. In other cases, the claim on the debtor may be an increase in the existing equity participation (e.g., the activation of a guarantee made by a parent company for debt of its subsidiary will improve the balance sheet of the subsidiary and hence the parent company's equity in it). If the guarantor does not obtain a claim on the original debtor, a capital transfer from the guarantor to the debtor is recorded, particularly when the guarantor is a government unit. The treatment of one-off guarantees is described in paragraphs 8.40–8.43.

### ***e. Negative Interest***

**12.71** In extraordinary circumstances and in periods of economic distress, negative interest rates can be observed on the deposits of central banks and of commercial banks and on government debt securities. For index-linked bonds where accrued interest is based on movement of the index, negative interest could be observed if the index declines (see

paragraph 12.85 and Box 12.6). In the BOP, negative interest payable on financial instruments is recorded as a negative debit/expenditure and negative interest receivable is recorded as a negative credit/revenue. Economies with significant negative-yielding deposits could consider the incorporation of an “of which” category showing the negative interest income separately in their national publications.

**12.72** Negative interest can occur also for securities under a reverse transaction as explained in paragraph 12.93.

#### ***f. Interest Under High Inflation***

**12.73** High inflation gives rise to specific issues in measuring and interpreting interest. An obvious example is that interest rates for domestic-currency-denominated instruments could be significantly higher than those for foreign-currency-denominated instruments. Thus, nominal interest for domestic-currency-denominated instruments includes compensation for the loss of purchasing power on the monetary value of the funds advanced. The topic of accounting under high inflation is important and more pervasive in the accounts than simply the question of how to measure interest in these circumstances. Indeed, the whole issue of the measurement of transactions on a current price basis is called into question when prices at the end of the period are several times higher than those at the start of the period. Chapter 20, Section E of the 2025 SNA provides guidance on compiling data in conditions of high inflation.

#### ***g. Interest on Financial Leases***

**12.74** Financial leases are defined and distinguished from operating leases in paragraphs 5.63–5.66. The implication of treating financial leases as a loan is that interest accrues on the loan. The lessor is treated as making a loan to the lessee equal to the market value of the asset, this loan being gradually paid off over the period of the lease. The rate of interest on the imputed loan is implicitly determined by the total amount payable in rentals over the life of the lease in relationship to the market value of the asset at the time of lease initiation. The initial loan to the lessee, together with the lessee’s subsequent repayments of the loan, are recorded in the financial account of the lessor and lessee. The interest payable on the loan is recorded in the earned income account. (A numerical example of calculation of items for financial leases is shown in Box 12.3.)

### Box 12.3. Numerical Example of Financial Lease

A piece of imported equipment worth 1,000 is provided under a financial lease from a nonresident financial corporation. The lease begins on January 1, an annual payment of 140 is made on December 31 each year for 10 years, at which time the lessee has the option to purchase the equipment at an agreed price. The contract is based on an interest rate of 7 percent per annum, while the reference rate of interest is 5 percent per annum.

For the economy of the lessee, the following entries are made in the first two and final years:

<b>Year 1</b>		
<i>Current account:</i>	<b>Credits/revenues</b>	<b>Debits/expenditures</b>
Goods		1,000
Services—Financial services (implicit financial services on loans and deposits)		20
Earned income—Investment income (interest and similar returns)		50
	<b>Net acquisition of financial assets</b>	<b>Net incurrence of liabilities</b>
<i>Financial account:</i>		
Other investment—Loans		930
Other investment—Currency and deposits	-140	

Actual interest is 70, of which 20 is implicit financial services on the loan and 50 is pure interest. The value of the loan debt is 930 at the end of year 1 ( $1000 + 20 + 50 - 140$ ).

<b>Year 2</b>		
<i>Current account:</i>	<b>Credits/revenues</b>	<b>Debits/expenditures</b>
Services—Financial services (implicit financial services on loans and deposits)		18.6
Earned income—Investment income (interest and similar returns)		46.5
	<b>Net acquisition of financial assets</b>	<b>Net incurrence of liabilities</b>
<i>Financial account:</i>		
Other investment—Loans		-74.9
Other investment—Currency and deposits	-140	

Actual interest is 65.1, of which 18.6 is implicit financial services on the loan and 46.5 is pure interest. The value of the loan debt is 855.1 at the end of year 2 ( $930 + 18.6 + 46.5 - 140$ ).

<b>Year 10</b>		
	<b>Credit</b>	<b>Debit</b>
<i>Current account:</i>	<b>Credits/revenues</b>	<b>Debits/expenditures</b>
Goods	32.8	

Services—Financial services (implicit financial services on loans and deposits)	3.2	
Earned income—Investment income (interest and similar returns)	8.1	
<i>Financial account:</i>	<b>Net acquisition of financial assets</b>	<b>Net incurrence of liabilities</b>
Other investment—Loans		-161.5
Other investment—Currency and deposits	140	

Actual interest is 11.3, of which 3.2 is implicit financial services on the loan and 8.1 is pure interest. The residual value of the good purchased is 32.8, which is recorded as a goods transaction if the good is returned to the lessor, extinguishing the loan liability (as in the example) rather than the lessee purchasing it.

#### ***h. Interest on Debt Securities—Traded Debt Instruments and Concept of Interest***

**12.75** Defining and measuring interest for traded debt securities, or bonds, is not straightforward. While debtors have obligations to settle according to the terms and conditions set at the inception of the debt instruments, holders of securities acquired in the secondary markets may not know or even care about the interest rate at the time of issue. There are three approaches for defining and measuring interest for traded debt instruments:

- (a) Interest is equal to the amounts the debtors will have to pay to their creditors over and above the repayment of the amounts advanced by the creditors. Interest accrual on a debt instrument is determined for the entire life by the conditions set at inception of the instrument. Interest accrual is determined using the original yield-to-maturity. A single effective yield, established at the time of security issuance, is used to calculate the amount of accrued interest in each period to maturity. This approach is also known as the debtor approach.
- (b) Interest is the income that follows from applying, at any point in time, the discount rate of future receivables implicit in the instrument's market value. The accrual of interest under this approach reflects current market conditions and expectations. Interest accrual at any given time is determined using the current yield-to-maturity. The effective interest rate for calculating the accrued interest varies with period-to-period changes in the market price of the securities. This approach is also known as the creditor approach.
- (c) Interest is the income that follows from applying the discount rate implicit in the cost at which the instrument was acquired. The accrual of interest under this approach

reflects market conditions and expectations at the time of acquisition. Interest is determined using the remaining yield-to-maturity at the time the debt instrument is acquired. The effective interest rate will change only if the security is resold in the secondary market. This approach is also known as the acquisition approach.

**12.76** In the external accounts, interest is recorded following the first approach described above in paragraph 12.75(a). The same approach is followed in other macroeconomic statistical standards. Interest calculated according to the market rates as described in paragraph 12.75(b) may be reported as a supplementary item, which is important particularly for analyzing rates of return. It should be noted that for debt securities the valuation and recording of transactions in the financial account and positions in the balance sheets do not depend on the method used for the calculation and recording of interest accrual. Acquisitions and disposals of debt securities are recorded at transaction prices and the positions are recorded at market prices or fair values.

### ***Debt Securities with Known Cash Flows***

**12.77** For debt securities for which the issue and redemption prices are the same (i.e., issued at par), total interest accruals over the whole life of the securities are given by the periodic coupon payments. If coupon payments are fixed, accrued interest can be calculated by allocating the coupon payment to the relevant period using a daily compound formula.

**12.78** Certain debt securities, such as short-term bills of exchange and zero-coupon bonds, are such that the debtor is under no obligation to make any payments to the creditor until the liability matures. In effect, the debtor's liability is discharged by a single payment covering both the amount of the funds originally borrowed and the interest accrued and accumulated over the entire life of the liability. Instruments of this type are said to be discounted because the amount initially borrowed is less than the amount to be repaid. The difference between the amount to be repaid at the end of the contract and the amount originally borrowed is interest that must be allocated over the accounting periods between the beginning and end of the contract. The interest accruing in each period is recorded in the earned income account with the same amount increasing the debtor's liability for the same instrument in the financial account. An example is shown as Box 12.4.

#### **Box 12.4. Numerical Example of Calculation of Interest Accrual on a Zero-Coupon Bond**

A bond is issued on January 1, Year 1, with 100 repayable in five years, with no coupons. If the market rate of interest at the time of issue is 10 percent for that maturity and credit rating, then the bond will be issued at a price of 62.09 (that is,  $100/1.15^5$ ).



The annual interest calculations and associated values of the principal are as follows:			
	IIP	Income	IIP
	Value of Debt Securities January 1	Interest Accrued	Value of Debt Securities December 31
Year 1	62.09	6.21	68.30
Year 2	68.30	6.83	75.13
Year 3	75.13	7.51	82.64
Year 4	82.64	8.26	90.91
Year 5	90.91	9.09	100.00

Notes:

- According to the debtor approach (see paragraph 12.75(a)), the interest in each period is fixed at inception.
- The sum of interest over the five years is 37.91, equal to the difference between 62.09 (price at issue) and 100 (price at redemption).
- Interest accrued each year increases in line with the growing accumulated value of accrued interest.
- The corresponding entry to the interest accrued is an increase in debt securities in the financial account. The values of the bond during the period are unknown, because of holding gains and losses. While fluctuations in market interest rates will cause changes in the value, the calculation of interest is unaffected.

(For further details, see *External Debt Statistics: Guide for Compilers and Users* (2014), paragraph 2.66 and Table 2.3.)

**12.79** A slightly more complicated case is a discounted instrument that also requires periodic coupon payments. In such cases, the interest rate should be that one at which the present value of future coupon and principal payments equals the issue price of the security. However, the accrued interest may be approximated by summing the amount of the coupon payable periodically plus the amount of interest accruing in each period attributable to the difference between the redemption price and the issue price. Interest accrual from the periodic coupon payments is derived as explained in paragraph 12.77. Interest accrual from the amortization of the discount (the difference between the issue and redemption prices) can be calculated by summing daily amortizations for the reporting period. Although amortization rates could be calculated on monthly or quarterly bases, amortization at a daily rate facilitates the allocation of the amortized discount to the individual reporting periods.

**12.80** In some cases, debt securities are issued at a premium rather than at a discount. The method of determining the interest accrual is identical to the case of a discounted instrument except that when issued at a premium, the difference between the redemption and issue price is amortized over the life of the instrument and reduces (rather than increases as in the case of the discounted instrument) the amount of interest accruing in

each period. Examples of securities issued at par, at a discount and at a premium are shown in Box 12.5. For further discussion and examples, see *Handbook on Securities Statistics* (2015), Annex 1, and *Monetary and Financial Statistics Manual and Compilation Guide* (2016), Annex 5.2, for examples with semi-annual accruals.

**12.81** Stripped securities raise special issues for accrual of interest. Unofficial strips are issued by a third party without the authorization of the original issuer and, hence, the stripped securities are new instruments—a liability of the strip issuer. The original debt securities continue to accrue interest according to the term specified in the contract. Interest on stripped securities accrues at the rate determined at the time of issuance of strips. Official strips (issued with the authorization of the original issuer through a strip dealer it appoints) simply change the arrangements for holding the original instrument, and thus the strips remain the direct obligation of the original issuer. Stripping therefore provides no change to the cost of borrowing to the issuer and interest on official strips is assumed to accrue at the rate on the underlying security, but the cash flows change for the parties because of the issuance of zero-coupon bonds (see *External Debt Statistics: Guide for Compilers and Users* (2014), paragraphs 2.85–2.88 and *Handbook on Securities Statistics* (2014), paragraph 6.35).

**Box 12.5. Numerical Examples of Calculation of Interest Accrual on Securities Issued at Par, at Discount, and at a Premium**

**Example 1: A fixed interest rate bond issued at par**

Issue price: 1,000; annual coupon payments: 100; original maturity: 5 years; redemption price: 1,000.

Implied interest rate,  $r=10\%$

<b><i>Stocks and Flows During the Life of a Bond Issued at Par</i></b>						
	Nominal value					
	a. before coupon payment (= $b_{(t-1)} + c$ )	b. after coupon payment (= $a - d$ )	c. accrued interest <sup>(c)</sup> (= $b_{(t-1)} * r$ )	d. coupon payment	e. market value <sup>(b)</sup>	f. revaluation <sup>(a)</sup>
Start year 1	1000	1000			1000.0	
End year 1	1100	1000	100	100	969.0	-31.0
End year 2	1100	1000	100	100	1025.3	56.3
End year 3	1100	1000	100	100	1054.2	28.9
End year 4	1100	1000	100	100	982.1	-72.1
End year 5	1100	1000	100	100	1000.0	17.9

**Example 2: A fixed interest rate bond issued at discount with periodic payments**

Issue price: 900; annual coupon payments: 73.6; discount payment at redemption; original maturity: 5 years; redemption price: 1,000

It is seen that 900 is the present value of future payments of 73.6 at the end of years 1 to 5 and a payment of 1,000 in year 5, corresponding to approximately 10 percent rate of interest.

Implied interest rate,  $r=10\%$

<b><i>Stocks and Flows During the Life of a Bond Issued at Discount</i></b>						
Nominal value						
	a. before coupon payment (= $b_{(t-1)}+c$ )	b. after coupon payment (= $a - d$ )	c. accrued interest <sup>(c)</sup> (= $b_{(t-1)}*r$ )	d. coupon payment	e. market value <sup>(b)</sup>	f. reval- uation <sup>(a)</sup>
Start year 1	900	900			900.0	
End year 1	990.0	916.4	90.0	73.6	887.1	-29.3
End year 2	1,008.0	934.4	91.6	73.6	958.5	53.4
End year 3	1,027.9	954.3	93.4	73.6	1006.5	28.2
End year 4	1,049.7	976.1	95.4	73.6	958.6	-69.7
End year 5	1,073.7	1,000	97.6	73.6	1000.0	17.4

**Example 3: A fixed interest rate bond issued at a premium with periodic payments**

Issue price: 1,100; annual coupon payments: 126.4; discount payment at redemption; original maturity: 5 years; redemption price: 1,000

It is seen that 1,100 is the present value of future payments of 126.4 at the end of years 1 to 5 plus a payment of 1,000 in year 5 corresponding to approximately 10 percent rate of interest.

Implied interest rate,  $r=10\%$

<b><i>Stocks and Flows During the Life of a Bond Issued at a Premium</i></b>						
Nominal value						
	a. before coupon payment (= $b_{(t-1)}+c$ )	b. after coupon payment (= $a - d$ )	c. accrued interest <sup>(c)</sup> (= $b_{(t-1)}*r$ )	d. coupon payment	e. market value <sup>(b)</sup>	f. reval- uation <sup>(a)</sup>
Start year 1	1,100.0	1,100			1,100.0	
End year 1	1,210.0	1,083.6	110.0	126.4	1,049.0	-34.6
End year 2	1,192.0	1,065.6	108.4	126.4	1,105.3	74.3

End year 3	1,172.1	1,045.7	106.6	126.4	1,094.2	8.7
End year 4	1,150.3	1,023.9	104.6	126.4	982.1	-90.3
End year 5	1,126.3	1,000	102.4	126.4	1,000.0	41.9

Notes:

In each year the difference between the accrued interest and the coupon payment is capitalized (reinvested into the principal amount). Revaluations can be calculated as the difference between the current market value and the sum of the previous market value and capitalized interest. The revaluations over the lifetime of the bond sum to zero.

Apart from the initial and final amounts, the market value amounts of the debt securities in the examples are chosen arbitrarily.

Interest accrues for every period (daily, monthly, quarterly, and annually). If the timing of the coupon payment differs from the reporting period end-date, then a further accrued interest would apply in each period up to the final payment.

### ***Index-Linked Debt Securities***

**12.82** As explained in paragraph 12.64(c), an indexation mechanism links the amount to be paid at maturity or coupon payments (or both) to indicators agreed by the parties. The values of the indicators are not known in advance. For debt securities with indexation of the amount to be paid at maturity, they may be known only at the time of redemption. As a result, coupon payments before redemption are uncertain and cannot be determined with certainty. For estimating interest accruals before the values of the reference indicators are known, some proxy measures will have to be used. In this regard, it is useful to distinguish the following three arrangements:

- (a) indexation of coupon payments only with no indexation of amount to be paid at maturity,
- (b) indexation of the amount to be paid at maturity with no indexation of coupon payments, and
- (c) indexation of both the amount to be paid at maturity and coupon payments.

The principles described in paragraphs 12.83–12.88 for index-linked debt securities apply to all index-linked debt instruments.

**12.83** When only coupon payments are index-linked, the full amount resulting from indexation is treated as interest accruing during the period covered by the coupon. It is most likely that by the time data are compiled for a reporting period, the date for the coupon payment would have been passed and hence the value of index is known. When the date for the coupon payment has not been passed, the movement in the index during that part of the reporting period covered by the coupon can be used to calculate the interest accrual.

**12.84** When the amount to be paid at maturity is index-linked, the calculation of interest accruals becomes uncertain because the redemption value is unknown; in some cases, the maturity time may be several years in the future. Two approaches can be followed to determine the interest accrual in each accounting period:

- (a) Interest accruing in an accounting period due to the indexation of the amount to be paid at maturity may be calculated as the change in the value of this amount outstanding between the end and beginning of the accounting period due to the movement in the relevant index. (See Box 12.6 for an example.)
- (b) Interest accruals may be determined by fixing the rate of accrual at the time of issue. Accordingly, interest is the difference between the issue price and the market expectation, at inception, of all payments that the debtor will have to make, which is recorded as accruing over the life of the instrument. This approach records as income the yield-to-maturity at issuance, which incorporates the results of the indexation that are foreseen at the moment the instrument was created. Any deviation of the underlying index from the originally expected path leads to holding gains or losses that will not normally cancel out over the life of the instrument. (See Box 12.7 for an example.)

**12.85** Although the first approach (using the movement in the index) has the advantage of simplicity, interest includes all changes and fluctuations in the value of the amount to be paid at maturity in each accounting period due to the movement in the relevant index. If there is a large fluctuation in the index, this approach may yield negative interest in some periods even though market interest rates at the time of issue and current period may be positive. Also, fluctuations behave like holding gains and losses. The second approach (fixing the rate at the time of issue) avoids such problems, but the actual future cash flows may differ from the initially expected cash flows unless ex ante market expectations are exactly met. This means that interest for the life of the instrument may not be equal to the difference between the issue price and redemption value.

**12.86** The first approach works well when a broad-based indexation of the amount to be paid at maturity is used (e.g., a consumer price index or nominal GDP) when such indexation is expected to change relatively smoothly over time. However, the first approach may give counter-intuitive results when the indexation of the amount to be paid at maturity combines motives for both interest income and holding gains (e.g., a narrow price index such as a commodity price, stock price, or gold price). Therefore, when indexation includes a holding gain motive, typically indexation based on a single, narrowly defined item, the second approach is preferred; otherwise, the first approach should be used for the measurement of interest accrual.

### Box 12.6. Numerical Example of Calculation of Interest Accrual on an Index-Linked Bond—Broad-Based Index

A bond is issued on Jan 1, Year 1 at a price 1,000 for five years, with no coupons, indexed to a broad price index. The index value at the beginning of the period is 100.

The index and bond values, with the derived interest and revaluations are as follows:

	Broad Price Index			Bond
	End of Period	Interest	Revaluation	Dec 31
Start year 1	100			1,000
Year 1	107.0	70	–12	1,058
Year 2	113.0	60	–17	1,101
Year 3	129.0	160	58	1,319
Year 4	148.0	190	10	1,519
Year 5	140.3	–77	–39	1,403
Year 1–5		403	0	

Notes:

- Total interest over the five years (i.e., 403) is determined by the movement of the index (i.e., 40.3 percent increase).
- Since this is a bond, revaluations also arise because of changes in market conditions, such as changes in market interest rates, credit ratings, and expectations about the future path of the index. However, they are zero over the life of the bond when it is repaid at its indexed value.
- Negative values of interest can arise in the periods when the index declines.
- The corresponding entry to the interest accrued is an increase in debt securities in the financial account.
- Fluctuations in market interest rates cause changes in the value of the bond (shown in the final column), but the calculation of interest is unaffected.

**12.87** Because debt instruments with both the amount to be paid at maturity and coupon payments indexed to foreign currency are treated as though they are denominated in that foreign currency, interest, other economic flows, and positions for these instruments should be calculated using the same principles that apply to foreign-currency-denominated instruments. Interest should accrue throughout the period using the foreign currency as the currency of denomination and converted into the domestic currency using mid-point market exchange rates. Similarly, the amount outstanding should be valued using the foreign currency as the unit of account with the end of period exchange rate used to determine the

domestic currency value of the entire debt instrument (including any accrued interest) in the IIP. Changes in market values of debt securities due to exchange rate movements and interest rate changes are treated as revaluations.

**12.88** When both the amount to be paid at maturity and coupon payments are indexed to a broad-based reference item, interest accruals during an accounting period can be calculated by summing two elements: the amount resulting from the indexation of the coupon payment (as described in paragraph 12.83) that is attributable to the accounting period, and the change in the value of the amount outstanding between the end and beginning of the accounting period arising from the movement in the relevant index (as described in paragraph 12.84(a)). When both the amount to be paid at maturity and coupon payments are indexed to a narrow index that includes a holding gain motive, interest accruals for any accounting period can be determined by fixing the yield-to-maturity at issuance as explained in paragraph 12.84(b).

### ***Debt Securities with Embedded Derivatives***

**12.89** For debt securities with embedded derivatives, such as call, put, or equity conversion options, the accounting for accrued interest is the same as for securities that do not have such features. For all periods leading up to the exercise of the option, the interest accrual is unaffected by the presence of the option. When the embedded option is exercised, the securities are redeemed and accrual of interest ceases.

#### **Box 12.7. Numerical Example of Calculation of Interest Accrual on an Index-Linked Bond—Narrowly Based Index**

A bond is issued on January 1, Year 1 at a price 1,000 for five years, with no coupons, indexed to a narrow price index. The index value at the beginning of the period is 100. (The numbers are the same as the example in Box 12.6, but the treatment differs because the narrow index treatment is applied in Box 12.7.) Market interest rates are 8 percent per annum at the time of issue.

The index and bond values, with the derived interest and revaluations are as follows:

	Broad Price Index			Bond
	End of Period	Interest	Revaluation	Dec 31
Start year 1	100			1,000
Year 1	107.0	80	–22	1,058
Year 2	113.0	86	–43	1,101
Year 3	129.0	93	124	1,318
Year 4	148.0	101	100	1,519
Year 5	140.3	109	–225	1,403
Year 1–5		469	–66	

## Notes:

- The total increase in value over the five years (i.e.,  $469 - 66 = 403$ ) is determined by the movement of the index (i.e., 40.3 percent increase).
- According to the debtor approach (see paragraph 12.75(a)), the interest in each period is fixed according to the interest rate at inception. The interest in Year 1 is 80 (8 percent of 1,000), in Year 2 it is 86 (8 percent of  $1000 + 80$ ), in Year 3 it is 93 (8 percent of  $1,000 + 80 + 86$ ), and so on.
- The revaluation for the whole life of the bond is due to the difference between the increase in the index and the compound increase that would have occurred at the market rate of interest. (Revaluations also arise for individual periods during the life of the bond because of changes in market conditions, such as changes in market interest rates, credit ratings, and expectations about the future path of the index.)
- Fluctuations in market interest rates cause changes in the value of the bond, but the calculation of interest is unaffected.

### ***i. Fees on Securities Lending, Gold Loans, and Crypto Lending***

**12.90** Securities lending without cash collateral consists of the delivery of securities for a given time period. (This is discussed further in paragraphs 7.63–7.67.) Usually the borrowers (e.g., brokers) subsequently on-sell the securities outright to other clients. The ability of the borrower to on-sell the securities reflects that legal ownership is transferred to the borrower, while the economic risks and rewards of ownership remain with the original owner. In return, the “lender” receives a fee from the “borrower” for the use of the security. Gold loans consist of the delivery of gold for a given time period. They may be associated with physical gold or (less frequently) unallocated gold accounts. As with securities lending, legal ownership of the gold is transferred (the temporary borrower may on-sell the gold to a third party), but the risks and benefits of changes in the gold price remain with the lender. Gold borrowers (usually market dealers or brokers, but also gold producers and industrial gold users) often use these transactions to cover their sales to third parties in periods of (temporary) gold shortage. A comparable fee is paid to the original owner for the use of the gold. The amount of the fee is determined by the value of the underlying asset and the duration of the reverse transaction. Warrants may also sometimes be lent.

**12.91** Securities and monetary gold are financial instruments and thus the fees for securities lending without cash collateral and gold loans are payments for putting a financial instrument at the disposal of another institutional unit. Accordingly, fees on securities lending (equity securities as well as debt securities) and gold loans accrue to the security owner or gold owner and are treated as interest (with the corresponding entry in other accounts receivable/payable; see paragraph 5.83). As a simplifying convention, fees paid on loans of nonmonetary gold are also treated as interest. For securities lending, although, in some circumstances, the fee is payable to the custodian in the first instance (and used to defray custodial charges, in whole or in part), in principle, all of the fee is payable to the



owner of the security who, in turn, is deemed to pay part or all of it to the custodian in a separate transaction. (Amounts accruing to custodians are included under custodial services, discussed under financial services in paragraphs 11.74 and 11.79.)

**12.92** Crypto lending is a process where institutional units lend their crypto assets to other institutional units for a specified period in exchange for an agreed payment/revenue in crypto assets or in fiat currencies. Fees payable to the owners of crypto assets without a corresponding liability designed to act as a medium of exchange (see paragraph 14.19) used for crypto lending should be recorded, by convention, as interest.

***j. Investment Income Accrued While Securities Are Under Reverse Transactions***

**12.93** The economic owner of securities continues to record dividends and the accrual of interest on the securities even when the legal ownership changes under a reverse transaction (see paragraph 7.63) or a custodian has on-sold the securities to a third party (see paragraph 11.79). If the reverse transaction covers the period when dividends or coupons are payable, the security taker is typically obliged to pass these amounts on to the security lender. Even if securities under a reverse transaction are on-sold by the security taker to a third party, the security taker is still obliged to compensate the amounts to the security lender. The payments are called “manufactured interest” and “manufactured dividends.” Manufactured interest and dividends are recorded as negative credits/revenues for a security taker who has on-sold the securities. See also Annex 7, Section C.

**5. INVESTMENT INCOME ATTRIBUTABLE TO POLICYHOLDERS IN INSURANCE, PENSION, AND STANDARDIZED GUARANTEE SCHEMES**

Reference

- 2025 SNA Chapter 8: Earned income accounts, Section E.4.

**12.94** *Investment income attributable to insurance policyholders consists of investment income receivable from the investment of insurance technical reserves, which is attributed to the policy holders. Investment income payable on pension and nonpension entitlements consists of investment income received from the investment of assets accumulated for defined contribution schemes, and the unwinding of the discount of the entitlements for defined benefit schemes. The latter may also include some entitlements related to nonpension social insurance schemes. For an institutional unit operating a standardized guarantee scheme against fees, there may also be investment income earned on the reserves of the scheme and this should also be shown as being distributed to the units paying the fees.*

**12.95** The operations of insurance corporations, pension, and standardized guarantee schemes include charging premiums, paying claims, and managing and investing funds. However, the observed transactions do not always reflect the underlying economic relationships between the insurance corporations or pension funds and policyholders, and it is necessary to rearrange these operations so that the underlying economic behavior is reflected in the economic accounts. One such rearrangement is the imputation of investment income attributable to policyholders in insurance corporations, pension, and standardized guarantee schemes. The measurement of insurance and pension services is described in paragraphs 11.58–11.67.

**12.96** Insurance corporations, pension funds, and standardized guarantees schemes hold technical reserves, provisions and entitlements to meet obligations arising from claims and entitlements. The definition and classification of these items are described in paragraphs 5.70–5.71 and 7.69–7.75. The technical reserves, provisions, and entitlements represent a liability of the insurer, pension fund, or issuer of standardized guarantees, and a corresponding asset of the policyholders and beneficiaries. To meet their liabilities, the insurers, pension funds, and guarantors make investments in various assets, such as financial assets, land, or buildings. However, the investments by insurers, pension funds, and guarantors are not necessarily equal to the technical reserves and entitlements.

**12.97** For nonlife insurance policies, the technical reserves represent prepayment of premiums and reserves against outstanding claims. Guarantors have technical provisions for calls under standardized guarantees. The investment income on these technical reserves, excluding any holding gains and losses, is treated as income attributable to the policyholders.

**12.98** For life insurance, the insurers' liability equals the present value of expected claims from existing policyholders. It is common also for "bonuses" to be attributed to the policy holders each year (see also paragraph A8.38). The bonuses declared to holders of life policies should be recorded as part of investment income receivable by the policyholders and are treated as premium supplements being paid back to the insurance corporations. The fact that some of it may derive from holding gains does not change this designation; as far as the policyholders are concerned it is the return for making the financial asset available to the insurance corporation.

**12.99** For defined contribution pension schemes, the investment income payable on pension entitlements is measured in the same way as for the investment income attributable to nonlife insurance policyholders (i.e., equal to the investment income on accumulated assets, excluding any holding gains and losses, plus any income earned by renting land and buildings owned by the fund). For defined benefit pension schemes, because the value of entitlements is the present value of future payments, the investment income payable on pension entitlements is measured as the increase in benefits payable because the date when the

entitlements become payable is closer. The amount of the increase is not affected by whether the pension scheme actually has sufficient funds to meet all the obligations nor by how it is funded (whether from investment income or holding gains, for example). (In contrast, changes in model assumptions are recorded under other changes in volume—see paragraph 9.29.)

**12.100** A pension sponsor (such as the employer) may be obliged to meet liabilities of a defined benefit scheme in case of shortfall. The shortfall should be recorded as a claim of the pension fund on the pension sponsor. Imputed investment income on this claim, is recorded as income from the pension sponsor to the pension fund, which would be negative in the case of an excess.

**12.101** Investment income attributable to policyholders is retained by the insurance corporations, guarantors, and pension funds in practice. It is therefore treated as being paid back by the policyholders to the insurance corporations, guarantors, and pension funds in the form of premium supplements that are additional to actual premiums payable under the terms of the insurance and pension policies. The corresponding entries to the investment income attributable to insurance policyholders for nonlife insurance, including standardized guarantees, are called premium supplements and taken into account in deriving insurance and pension services. (See paragraphs 11.60, 13.40–13.41, and Annex 8.)

**12.102** The total amount of investment income attributable to policyholders is allocated among policyholders. The allocation to policyholders could be made in proportion to actual premiums payable by them. Investment income payable by resident insurers, guarantors, and pension funds to nonresident policyholders can be estimated by multiplying the gross premiums earned from nonresidents by the ratio of investment income attributable to policyholders to gross premiums earned for all operations. To the extent that these ratios vary for different lines of business (reinsurance, marine, life, pension funds, standardized guarantees, etc.), the calculations should be made separately. Such investment income receivable by resident policyholders from nonresident insurers, guarantors, and pension funds is not readily observable. Ratios of investment income attributable to policyholders to premiums that are observed in other similar cases could be used to calculate investment income receivable.

## 6. RENT

Reference:

- 2025 SNA, Chapter 8, Earned Income Accounts, Section E.5

**12.103** *Rent covers income receivable by the owner of a nonproduced natural resource or another nonproduced nonfinancial asset (the lessor or landlord) for putting the asset at the disposal of another institutional unit (a lessee or tenant) for use in production. The terms under which rent is payable are often expressed in a natural resource lease. A natural*

*resource lease is a contractual agreement whereby the legal owner of a natural resource makes it available to a lessee in return for a regular payment recorded as rent.*

**12.104** Examples of rent include amounts payable for the use of land, for the extraction of mineral deposits and other subsoil assets, and for fishing, forestry, and grazing rights. The regular payments made by the lessees of natural resources such as subsoil assets are often described as royalties, but they are classified as rents. Payments or receipts by government of rent on land without buildings (e.g., for military bases) should be shown as rent, not as government goods and services n.i.e. If a single payment covers both the return on land and structures on it and there is no objective basis on which to split the payment for the use of land and structures, the whole amount should be treated as rent when the value of land is believed to exceed the value of structures, and as purchase of services (rental) otherwise. Other types of rent relate to, for example, payments for rights to use marketing assets, when the income component (rent) can be separated from the service component (see also paragraph 11.99), fees paid between sporting clubs for so-called loan agreements on players, and payments to households giving explicit consent to monitor their behavioral patterns in the form of observable phenomena. *(Observable phenomena related to data is a term referring to a fact or situation whose characteristics or attributes may be recorded for the collection of data. Observable phenomena are by nature nonproduced.)*

**12.105** Usually, the unit using land or natural resources is a resident institutional unit. In relation to the use of natural resources, there are instances where a split asset approach is followed as discussed in 2025 SNA Chapter 27, and a notional unit would need to be created if there is not already a resident institutional unit. However, notional units are never created in the case of nonresident fishing operators (see paragraph 4.63).

**12.106** If the user is a nonresident and does not have ownership of the resource, then a cross-border transaction on rent arises. For example, a fishing operation that pays for access to naturally growing fish in another economy's territorial waters gives rise to rent in the external accounts. It is also possible that natural resources adjoining a border could be leased from a base on the other side of the border, thus giving rise to rent. Payments for overflight rights are also rent, unless they relate primarily to air traffic control, in which case they would be other transport services. Rent arrangements can be contrasted with:

- (a) outright ownership of the resources concerned, which would be recorded as an external transaction in a natural resource (see paragraph 14.8) or, more likely, give rise to a notional direct investment enterprise that owns the resource (paragraphs 4.59–4.65));
- (b) when the right to use an asset amounts to an economic asset but not outright ownership of the underlying asset, the purchase and sale are classified under

contracts, leases, and licenses (e.g., a right to use a natural resource for 10 years, such as a spectrum license; see paragraph 14.11); or

- (c) rentals, which represent charges for the use of fixed assets, such as houses and machinery (see paragraphs 11.113–11.119 on rentals arising from operating leases).

**12.107** Notional direct investment enterprises created for holding land and leases on land for long periods will normally generate rent (or travel or operational leasing services if there is a building on the land). Notional units are described in paragraphs 4.59–4.65. When the land or buildings are used by the owners (who are nonresidents) of the notional unit, an imputation for rent (in the case of use of land) or travel services (e.g., in territories that had a large number of vacation homes owned by nonresidents) or operational leasing (if nonresident enterprises own premises for their own use) would be necessary. These imputations are recorded under relevant categories of the current account. The income arising from the notional direct investment enterprise is recorded under direct investment income. For example, if the vacation home is rented, the notional unit receives the payment for accommodation and generates net earnings that are considered withdrawals from income of quasi-corporations, generated by the provision of accommodation services.

**12.108** Rent is recorded on an accrual basis; that is, rent is treated as accruing continuously to the owner throughout the period of the contract agreed between the owner and the user. The rent recorded for a particular accounting period is, therefore, equal to the value of the accumulated rent payable over that period of time, as distinct from the amount of rent due to be paid during that period or the rent actually paid. An up-front rent payment covering several periods gives rise to a financial asset of the lessee and liability of the lessor, classified under accounts receivable/payable. Similarly, a payment after the rent period(s) gives rise to other accounts receivable/payable.

**12.109** If a lessee subleases a nonproduced nonfinancial asset, the income from the subleasing should be classified as rent, as should the income payable to the owner of the nonproduced nonfinancial asset by the owner of the lease.

**12.110** If significant, payments for the use of nonproduced nonfinancial assets other than natural resources can be shown separately as a supplementary sub-item of rent.

## 7. TAXES ON PRODUCTION AND ON IMPORTS, AND SUBSIDIES

**12.111** Taxes on production and on imports and subsidies are included in the earned income account. (See paragraphs 11.146 and 13.30 for distinction between taxes and services.) Taxes on income and wealth are included in the transfer income account (see paragraphs 13.26–13.29 for taxes on income and wealth). Cross-border taxes on production and on imports and subsidies are normally not significant except perhaps in economic unions. They

arise if an international or regional organization levies its own taxes or pays subsidies (which may also be done through national governments). They may also arise when economic activity by nonresidents (such as short-term construction or installation projects) is insufficient to constitute a branch. Although taxes on products may be levied at various stages (production, distribution, or use), they are included in the prices of goods and services. Therefore, for purchasers, the prices paid include relevant taxes on products, while for governments such taxes are considered earned income. Taxes on production and on imports may include payments of stability fees levied by governments on financial institutions to assist ailing financial institutions, sometimes called bank levies. Payments to stability schemes should be classified as either a tax or as a payment for an insurance-type of transaction. The treatment in the BOP should be consistent with the national accounts treatment.

**12.112** Taxes on production and on imports, and subsidies should be recorded in the earned income account to maintain the conceptual consistency with *SNA*. The 2025 *SNA* distinguishes between:

- (a) Taxes on products, which are payable per unit of a good or service. Examples include value-added tax, import duties, export taxes, and excise; and
- (b) Other taxes on production. Examples include payroll taxes, recurrent taxes on buildings and land, and business licenses.

The same distinction is made for subsidies. As mentioned in paragraph 12.7, the balance on the earned income account makes up the difference between GDP and GNI. Subsidies are shown separately from taxes, rather than being deducted from taxes.

**12.113** In some cases, an exporter of a good contractually agrees to pay import duties. In such cases, the duties are outside the scope of the distribution of earned income in the external accounts. This treatment is adopted because the duties arise from the process of importation, and so they are an obligation of the importer. They are, therefore, treated as payable by the importer, and are resident-to-resident transactions. The amount of import duties paid by the exporter, therefore, is not included in the FOB value of the goods. Similarly, if an importer agrees to pay export taxes, the tax is still an obligation of the exporter. The amount of the export tax paid by the importer, therefore, is included in the FOB value of the goods and rerouted through the exporter. (See also paragraph 10.29.) (This treatment is the same as applies to arrangements to pay freight and insurance services.)

**12.114** In some circumstances, a duty or other tax may be imposed by the customs authorities without ownership being acquired by a resident of that territory. Examples may include goods to be processed, repaired, or stored, or for use by visitors. In such cases,

when customs duties are payable by nonresidents, the duties are recorded as taxes on products payable by nonresidents.

## C. INVESTMENT INCOME AND FUNCTIONAL CATEGORIES

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**12.115** This section deals with investment income that is included under each functional category of financial assets and liabilities. It also discusses specific issues related to investment income for a functional asset category. A functional asset category includes different types of financial instruments that serve the same function, and hence a functional category can include different types of investment income. Financial derivatives and employee stock options do not give rise to investment income.

### 1. DIRECT INVESTMENT INCOME

**12.116** Direct investment income includes all investment income arising from direct investment positions between resident and nonresident institutional units. A numerical example of the calculation of reinvested earnings is given in Box 12.8. As noted in paragraph 6.28, debt between selected affiliated financial intermediaries is not included in direct investment, so the corresponding income on those instruments is also classified as portfolio or other investment income. Rare cases of other earned income, such as remuneration of employees and rent between direct investors and direct investment enterprises, are not included under direct investment income. Investment income attributable to insurance policyholders and to units paying fees to a standardized guarantee scheme, where the parties are in a direct investment relationship, is recorded as direct investment income (see paragraph 6.27); considering that it is relatively uncommon, this *Manual* includes it under interest and similar returns.

**12.117** Direct investment relationships are defined in paragraphs 6.8–6.24. Dividends, withdrawals from income of quasi-corporations, and interest and similar returns can apply for any of these types of direct investment relationships. Reinvested earnings are attributed to direct investors only when equity participation by the direct investor meets the 10 percent threshold. Three types of direct investment relationships and associated investment income flows can be distinguished:

- (a) Direct investors' investment in direct investment enterprises. This category includes investment income flows (distributed earnings, reinvested earnings, and interest) between the direct investor and its direct investment enterprises (whether in an immediate relationship or not).
- (b) Reverse investment (defined in paragraph 6.42). This type of relationship covers investment income flows on liabilities of direct investors to their direct investment

enterprises and on claims of direct investment enterprises on their direct investors. This category includes distributed earnings and interest. There are no reinvested earnings on reverse equity because the 10 percent threshold has not been met.

- (c) Between fellow enterprises (see paragraph 6.17(c)). This covers investment income flows between all fellow enterprises that belong to the same direct investment group. This category includes distributed earnings and interest. There are no reinvested earnings between fellows because the 10 percent threshold has not been met.

**12.118** Investment income associated with various types of financial instruments is discussed in Section B above. Direct investment income should be presented by the type of income (income on equity, and interest and similar returns) for both income receivable on holdings of direct investment assets and income payable on direct investment liability positions (see Table 12.1). Interest can be broken down further by type of financial instruments.

### Box 12.8. Numerical Example of Calculation of Reinvested Earnings of a Direct Investment Enterprise

Profit and Loss Statement of Enterprise A

Nonresident direct investors own 50 percent of the equity of Enterprise A.

Revenue:		
1.	Sales of finished goods	20,000
1a.	+ increase in inventories of finished goods	500
2.	Transport services provided	3,000
3.	Repair services	6,000
4.	Dividends	3,000
5.	Interest on bonds	1,000
6.	Profit on sale of property	1,000
7.	Total revenue (1 through 6)	34,500
Expenses		
8.	Raw materials purchased	12,000
8a	– increase in inventories of materials	2,000
9.	Salaries and wages	5,000
10.	Office rental	500
11.	Travel of employees	2,000
12.	Fuel, electricity, other costs	500
13.	Depreciation	1,000
14.	Interest on loans	1,000
15.	Bad debt provisions	2,000
16.	Total expenses (8 through 15)	22,000
17.	Net income (before taxes)	12,500
18.	Taxes on income	4,000
19.	Net income (after taxes)	8,500
20.	Dividends payable	5,000

Reinvested earnings can be derived by:

- (a) Adjusting net income after taxes:



Net income after taxes (line 19 = 8,500)

– revenue not part of output, earned income or transfer income (namely, holding gains, line 6 = 1,000)

+ expenses not being a transaction (namely, bad debt provisions, line 15 = 2,000)

=9,500, multiplied by 0.5

= 4,750

-dividend payable to direct investors (5,000 multiplied by 0.5 = 2,500)

= 2,250

(b) From the national accounting relationships

**First calculate entrepreneurial income:**

Operating revenue (line 1+line 1a + line 2 + line 3; which gives 29,500);

– operating expenses; (line 8-line 8a + line 9 + line 10 + line 11 + line 12; which gives 18,000)

– depreciation (line 13, which gives 1,000) (Assumes business accounts depreciation is an acceptable approximation to national accounts depreciation. Adjustments may be possible if it is not.)

+ property income receivable (line 4 + line 5, which gives 4,000);

– property income payable (line 14 , which gives 1,000)

=13,500 (entrepreneurial income)

**Next calculate distributable income:**

Entrepreneurial income (13,500)

+ current transfers receivable (none)

-current transfers payable (line 18 = 4,000)

=9,500 (distributable income)

**Finally calculate reinvested earnings on direct investment:**

Distributable income multiplied by the direct investor's share in the equity of the enterprise

9,500 multiplied by 0.5 = 4,750

- direct investor's share of dividends (=line 20 multiplied by 0.5 = 2,500)

=2,250

In practice, data for these calculations may not always be available monthly or quarterly, or may not be available for the most recent period(s). As a result, it may be necessary to derive some items from partial data or by methods, such as extrapolation, ratios, and models.

**12.119** Direct investment income can be further classified by domestic institutional sectors (see Chapter 4, Section D) for direct investors abroad and for direct investment enterprises in the reporting economy. Direct investment income by institutional sector and other

supplementary disaggregations, such as by ownership and by size, can provide analytically useful information on the types of enterprise and the main partner economies involved in these flows (see also Chapter 15, Section E.2).

### ***Transfer Pricing***

**12.120** Transfer pricing at values that differ significantly from arm's length prices is usually associated with shifting resources between related enterprises, so it relates to direct investment income measures. Transfer pricing may be motivated by income distribution, equity buildups or withdrawals, or to shift income to an affiliate in a lower tax economy. Examples may be the provision of goods and services without explicitly charging, or at understated or overstated values. Where distorted transfer pricing is identified and quantified with a high degree of certainty, the relevant entry could be adjusted to an arm's length value (see also paragraphs 3.113–3.116). In addition to the adjustment to the flow itself, there should be a corresponding entry, as stated below.

Scenario 1 (hidden dividend):

- (a) If a direct investment enterprise is overinvoiced on a good or service provided by the direct investor or
- (b) if a direct investor is underinvoiced on a good or service provided by the direct investment enterprise,

then the transfer pricing acts as a hidden dividend from the direct investment enterprise, so dividends should be increased by the difference between the market value of the goods and services and the prices actually charged.

Scenario 2 (hidden investment):

- (a) If a direct investment enterprise is underinvoiced on a good or service provided by the direct investor or
- (b) if a direct investor is overinvoiced on a good or service provided by the direct investment enterprise,

then the transfer pricing acts as a hidden investment in the direct investment enterprise, so direct investment equity flows should be increased by the difference between the market value of the goods and services and the prices actually charged.

**12.121** The adjustments for distorted transfer pricing have implications for direct investment income and for data of the counterpart economy. It is, therefore, useful to exchange information to the extent possible with counterpart economies in order to avoid asymmetrical recordings.

## 2. PORTFOLIO INVESTMENT INCOME

**12.122** Portfolio investment income includes income flows between residents and nonresidents arising from positions in equity and debt securities other than those classified under direct investment or reserve assets. Financial instruments covered in portfolio investment are described in paragraphs 6.57–6.60.

**12.123** Two types of portfolio investment income are distinguished at the first level, namely, income on equity securities and investment fund shares/units, and income on debt securities. The income on investment fund shares/units includes both dividends and reinvested earnings. Income on equity securities other than investment fund shares/units includes only distributed earnings (dividends). Interest can be classified by types of debt security and by maturity. Such a detailed classification of portfolio investment income would ensure consistency with both instrument and functional classifications of financial assets and liabilities.

**12.124** Portfolio investment income can be further classified by domestic institutional sectors for owners of securities as well as issuers of securities. A variety of other supplementary disaggregations by foreign sector, currency of denomination, and so forth may be desirable for specific analytical purposes.

## 3. OTHER INVESTMENT INCOME

**12.125** Other investment income covers flows between resident and nonresident institutional units in regard to interest on deposits, loans, trade credit and advances, and other accounts receivable/payable; income on equity and investment fund shares/units that are not classified in any other functional categories; and investment income attributable to policyholders in insurance, pension, and standardized guarantee schemes.<sup>4</sup> Interest payable on SDR allocations is also recorded under other investment income. Fees for nonmonetary gold loans and fees on lending of crypto assets without a corresponding liability designed to act as a medium of exchange should also be included in interest under other investment income (see paragraphs 12.91–12.92). Table 12.3 shows various types of other investment income and associated financial instruments.

Table 12.2. Detailed Breakdown of Other Investment Income			
		Credits/ Revenues	Debits/ Expenditures

<sup>4</sup> Interest is not generally charged on other accounts receivable or payable. However, when the time gap becomes unusually long and the amount of other accounts receivable or payable is very large, the conclusion may be that implicitly an interest fee has been charged.

<b>Other investment income</b>	
Income on equity and investment fund shares/units	
Income on equity other than investment fund shares/units	
Dividends and withdrawals from income of quasi-corporations	
Income on investment fund shares/units	
Dividends	
Reinvested earnings	
Interest and similar returns	
Deposits	
Loans	
Similar instruments in the case of Islamic finance	
Trade credit and advances	
Other accounts receivable and payable	
SDR allocations	n.a.
Nonmonetary gold loans and crypto lending	
Investment income attributable to policyholders in insurance, pension, and standardized guarantee schemes	
Note: This table is expository; for standard components, see Annex 14.	

**12.126** Other investment income on equity excludes income on direct investment equity and portfolio investment in equity securities. Equity participation in some incorporated or unincorporated enterprises (such as partnership or joint ventures) does not qualify either as direct investment (because the equity participation is below the 10 percent threshold) or as portfolio investment (because they are not equity securities). Such equity participation is classified under other investment (see also paragraphs 5.28 and 6.66) and any income distributed to the owners should be classified in other investment income. Similarly, some investment funds may be organized by and limited to a small number of members whose investment in the investment fund is not negotiable and may not meet the definition of portfolio investment. Both distributed and reinvested earnings on such investment fund shares/units are classified under other investment income. Income on equity in international organizations that is not tradable is also classified under other investment income on equity.

**12.127** Other investment income should be further classified by type of financial instruments. It can also be classified by the domestic institutional sectors (for both income receivable on holdings of external assets and income payable on external liability positions).

#### 4. INCOME ON RESERVE ASSETS

**12.128** Data on income on reserve assets is useful for studying rates of return on reserves, and for ensuring that rates of return on other categories exclude reserves. Investment income on reserve assets includes income on equity and investment fund shares/units, and interest. Fees on security lending and monetary gold loans (as discussed in paragraph 12.90) and interest on unallocated gold accounts (as discussed in paragraph 6.85) are also included under interest on reserve assets.<sup>5</sup> Income on equity and investment fund shares/units can be further classified into dividends on equity securities and income attributable to investment fund shareholders. The latter includes both distributed and reinvested earnings. Interest receivable can also be further classified by type of financial instruments. If not available for publication, income from reserve assets should be included in other investment - interest.

**12.129** Interest on SDR holdings is shown on a gross basis under income on reserve assets. That is, the value of interest payable on SDR allocations is not deducted. (Interest payable on SDR allocations is shown as income under other investment liabilities, as shown in Table 12.3.)

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<sup>5</sup> Fees on security lending and monetary gold loans are only included in income on reserve assets if the underlying instruments remain available for BOP financing needs and are therefore still classified as reserve assets (see paragraph 6.91 and 6.98–6.103). Otherwise, they are recorded as income on other investment.

## Chapter 13. Transfer Income Account

### A. OVERVIEW OF THE TRANSFER INCOME ACCOUNT

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Reference:

- 2025 SNA, Chapter 9, Transfer Income Accounts.

**13.1** *The transfer income account records current transfers between residents and nonresidents.* Various types of current transfers are recorded in this account to show their role in the process of income distribution between the economies. Transfers may be made in cash or in kind. Capital transfers are shown in the capital account (see paragraphs 14.25–14.44).

**13.2** Whereas earned income affects national income (see paragraph 12.7) for the definition of gross national income), transfer income, together with earned income, affects gross national disposable income. Capital transfers do not affect disposable income and, hence, are recorded in the capital account.

**13.3** The balance on the transfer income account presents total credits/revenues less total debits/expenditures of current transfers. In addition, the balance of the sum of all current account transactions can also be shown at the end of this account because it is the last account in the sequence of current accounts. The balance on all current accounts is called the current account balance, an important economic aggregate in analyzing external imbalance. The current account balance also links to the national accounts as it is equal to gross saving less gross capital formation (or net savings plus depletion less net capital formation) for the economy (see paragraphs 19.4–19.5).

**13.4** The structure of the transfer income account is shown in Table 13.1. Current transfers can be further classified by institutional sectors receiving or providing the transfers. In some cases, compilers may be interested in compiling data classified by sector of provider for credits/revenues and sector of recipient for debits/expenditures. For economies that are major recipients of assistance, it would be desirable to show current and capital transfers with consistent classifications to allow them to be compared and aggregated.

<b>Table 13.1. Overview of the Transfer Income Account</b>		
	Credits/ Revenues	Debits/ Expenditures
<b><i>Balance on goods, services, and earned income</i></b>		
Personal transfers		
Current taxes on income, wealth, etc.		
Social contributions		
Social benefits		
Nonlife insurance premiums less service charges		
Nonlife insurance claims		
Current international cooperation		
Miscellaneous current transfers		
<b><i>Total current transfers credits/revenues and debits/expenditures</i></b>		
<b><i>Balance on transfer income</i></b>		
Adjustment for change in pension entitlements		
<b><i>Current account balance</i></b>		
<b><i>Current account balance (excluding reinvested earnings)</i></b>		
Note: This table is expository; for Standard Components, see Annex 14.		

## B. CONCEPTS AND COVERAGE

**13.5** In describing the content of the transfer income account, two important distinctions are made: (a) transfers are distinguished from other types of transactions (see paragraphs 13.6–13.11) and (b) current transfers are distinguished from capital transfers (see paragraphs 13.12–13.15).

## 1. TRANSACTIONS: EXCHANGES AND TRANSFERS

**13.6** As explained in paragraphs 3.30–3.32, every transaction is either an exchange or a transfer. An exchange involves a provision of something of economic value in return for a corresponding item of economic value.

**13.7** *A transfer is a transaction in which one institutional unit provides a good, service or asset to another unit without receiving from the latter any good, service or asset in return as a direct counterpart.* Transfers can also arise where the value provided in return for an item is well below the value of the item. The accounting system in the external accounts requires that each party to a transaction record two entries (see paragraphs 3.90–3.95 for the description of the accounting system). When something of economic value (e.g., goods, services, or an asset) is provided without a corresponding return of an item of economic value, the corresponding entry is made as a transfer. A cash transfer consists of the payment of currency or transferable deposit by one institutional unit to another without anything supplied in return. A transfer in kind consists of either the transfer of ownership of a good or asset, other than cash, or the provision of a service, again without any corresponding return of an item of economic value. A transfer is classified as a current or capital transfer (see paragraphs 13.12–13.15).

**13.8** A unit making a transfer receives no specific quantifiable benefit in return that can be recorded as part of the same transaction. Nevertheless, certain transfers (e.g., nonlife insurance premiums less service charges) may entitle the unit making the payment to some contingent future benefits. Taxes are usually used to provide certain collective and individual services that the taxpayers may be able to consume. Even in the context of taxes payable by residents, such benefits are generally uncertain or not quantifiable, and hence items such as nonlife insurance premiums less service charges, and taxes other than those on products and production are treated as transfers. Taxes on products and production (that is, “taxes on production and on imports” in the SNA) are, however, treated as earned income. (See paragraphs 12.111–12.114.)

**13.9** The borderline between transfers and exchanges may, in some cases, be unclear. One such case, the distinction between taxes and charges for government services, is described in paragraph 13.28. In other cases, it is challenging due to missing or not fully available data to distinguish the borderline in practice, such as between personal transfers and remuneration of employees when individuals go abroad for employment. The distinction between the recording of one or the other of these transactions is based on the nature of the transaction and how long the individuals stay in the economic territories where they are working, that is, whether they are considered residents of the economies where they are working. Similarly, a case of distinction between financial transactions and personal transfers is described in paragraph 13.23.



**13.10** A nonprofit institution serving households (NPISH, as defined in paragraph 4.112) may be a direct investor in a corporation. However, flows between two NPISHs are generally transfers, rather than investment, because it is considered that flows in these cases are seldom driven by commercial considerations.

**13.11** Transfers do not generally arise between commercial units. For example, provision of goods and services without an explicit charge or at understated or overstated value between institutional units in a direct investment relationship does not represent a transfer. In this instance, the corresponding entry is a transaction in direct investment equity (see paragraphs 12.120–12.121). However, nonlife insurance premiums less service charges, and nonlife insurance claims are transfers that may occur between commercial units. Likewise, a commercial unit may be involved in the provision of current or capital transfer to another commercial unit as a compensation for damages to properties or other losses. An enterprise may also make voluntary transfers to NPISHs and other units in the form of charitable donations.

## 2. DISTINCTION BETWEEN CURRENT AND CAPITAL TRANSFERS

**13.12** Transfers may be either current or capital. To avoid duplication, the distinction between current and capital transfers is discussed primarily in this chapter rather than in Chapter 14. To distinguish current transfers from capital transfers, it is preferable to focus on the special characteristics of capital transfers.

**13.13** *Capital transfers are unrequited transfers, either in cash or in kind, linked to the acquisition, disposal or transfer of an asset (other than cash or inventories); or where a liability is forgiven or assumed; or where the transfers are intended to address accumulated losses incurred over a multi-year period.* A capital transfer results in a commensurate change in the stocks of assets and/or liabilities of one or both parties to the transaction without affecting the saving of either party. Capital transfers are typically large and infrequent but cannot be defined in terms of size or frequency. A transfer in kind without a charge is a capital transfer when it consists of (a) the transfer of ownership of a nonfinancial asset (other than inventories, i.e., fixed assets, valuables, or nonproduced assets) or (b) the forgiveness of a liability by a creditor or assumption of a liability when no corresponding value is received in return. However, capital equipment provided by a direct investor to its direct investment enterprise without a charge is not a capital transfer but involves a transaction in direct investment equity. A transfer of cash that is linked to, or conditional on, the acquisition or disposal of a fixed asset by one or both parties to the transaction (e.g., an investment grant) is a capital transfer. Major compensation payments as described in paragraph 14.37 are also capital transfers.

**13.14** *Current transfers are unrequited transactions between two parties where one party provides a good, service or cash to the other party, with no expectation of anything of economic value in exchange. Unlike capital transfers, they are not linked to the acquisition or disposal of an asset, either financial or nonfinancial (other than cash and inventories).*

Current transfers directly affect the level of disposable income and influence the consumption of goods or services. That is, current transfers reduce the income and consumption possibilities of the donor and increase the income and consumption possibilities of the recipient. For example, social benefits and food aid are current transfers.

**13.15** It is possible that some cash transfers may be regarded as capital by one party to the transaction and as current by the other party. A large economy that regularly makes investment grants in cash to a number of smaller economies may regard the outlays as current, even though they may be specifically intended to finance the acquisition of assets. So that a donor and a recipient do not treat the same transaction differently, a transfer should be classified as capital for both parties even if it involves the acquisition or disposal of an asset, or assets, by only one of the parties. When there is doubt about whether a transfer should be treated as current or capital, it should be treated as a current transfer. The treatment of nonlife insurance claims as current or capital is discussed in paragraphs 13.46–13.47.

### 3. RECORDING AND VALUATION OF TRANSFERS

**13.16** Although no good, service, or asset is received in return from the counterpart, the recording of a transfer nevertheless must give rise to two entries for each party to the transaction. For a transfer in cash, the donor records a decrease in currency and deposits and a transfer payable (i.e., a debit/expenditure entry in the transfer income account); the recipient records an increase in currency and deposits and a transfer receivable (i.e., a credit/revenue entry in the transfer income account). For a provision of goods or services in kind without a charge, the donor records an export of goods or services and a transfer payable; the recipient records an import of goods or services and a transfer receivable. When a liability is forgiven, the creditor and debtor extinguish the financial asset and liability, respectively, with the corresponding entries recorded as transfers.

**13.17** In general, the time of recording of transfers is determined by the time of the change of economic ownership of the resources (such as goods, services, financial assets) that are corresponding entries to transfers. Determining the time of recording for grants and other voluntary transfers can be complex because 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 have been satisfied, such as the prior incurrence of expenses for a specific purpose or the passage of legislation. These transfers are recorded when all requirements and conditions are satisfied. The corresponding entry to voluntary and

compulsory transfers that are accrued but not yet paid is other accounts receivable or other accounts payable. In cases where the transfer recipient never has a claim on the donor, the transfer should be attributed to the time at which the cash payment is made, the asset conveyed, or liability forgiven.

**13.18** Taxes and other compulsory transfers to government units should be recorded when the activities, transactions, or other events occur that create the government's claim to the taxes or other payments. The time of recording of taxes is the time at which the tax liability arises. Accordingly, the amount of taxes is determined by the amount due for payment as evidenced by tax assessments, declarations, or other instruments, such as sales invoices or customs declarations, that create liabilities in the form of obligations to pay on the part of taxpayers. If data on taxes are on a cash basis, adjustments should be made for large differences to approximate the accrual basis of recording. If a tax amnesty establishes tax obligations for previously undisclosed activities, transactions or other events, then the tax revenue should be recorded when the tax obligation is established (recording in the earned income account or in the transfer income account would depend on the nature of the tax for which the amnesty is granted). Some compulsory transfers, such as fines, penalties, and property forfeitures, are determined at a specific time. These transfers are recorded on an accrual basis when the receiving unit has an unconditional legal claim to the funds or property, which may be when a court provides judgment, or an administrative ruling is made. If such judgment or ruling is subject to further appeal, then the time of recording is when the appeal is resolved.

**13.19** Because a transfer is the corresponding entry to an actual resource flow or a forgiven liability, the value of the transfer equals the value of the corresponding flow. Generally, transfers in kind give rise to valuation difficulties for the actual resource flow and, accordingly, also the corresponding transfer entries. The principles for the valuation of in-kind transactions are described in paragraphs 3.55–3.111.

## C. TYPES OF CURRENT TRANSFERS

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**13.20** The external accounts classify the following types of current transfers:

### Personal Transfers

### Other Current Transfers

- (a) current taxes on income, wealth, etc.,
- (b) social contributions,
- (c) social benefits,

- (d) nonlife insurance premiums less service charges,
- (e) nonlife insurance claims,
- (f) current international cooperation, and
- (g) miscellaneous current transfers.

These categories of current transfers are described in paragraphs 13.21–13.62 in the context of the external accounts. The recording of current transfers in cash and of current transfers in kind is illustrated in Box 13.1. (If the transfers illustrated in Box 13.1 were capital transfers, they would be recorded in the capital account instead of the transfer income account.)

### **Box 13.1. Examples of Recording of Transfers**

Nongovernment sectors in the examples refer to financial corporations, nonfinancial corporations, households, and NPISHs.

#### **Example 1, a current transfer in cash:**

**A government social security fund in Economy A makes a payment of 10 in cash to a resident in Economy B.**

Although no good or service is received as a direct consequence of the transfer, the transfer must give rise to two entries in the accounts of each economy.

The recording in Economy A would be:

Transfer income account, General Government, Social benefits	10 debit/expenditure
Financial account, currency and deposits	-10 net acquisition of financial assets

The recording in Economy B would be:

Transfer income account, nongovernment sectors, Social benefits	10 credit/revenue
Financial account, currency and deposits	10 net acquisition of financial assets

#### **Example 2, a current transfer in kind:**

**An enterprise producing medicines in Economy A donates some of its output (valued at 75) free of charge to a nongovernmental organization resident in Economy B.**

The transfer should give rise to two entries in the accounts of each economy.

The recording in Economy A would be:

Transfer income account, nongovernment sectors, Miscellaneous current transfers	75 debit/expenditure
Goods account, General merchandise	75 exports (credit/revenue)
The recording in Economy B would be:	
Transfer income account, nongovernment sectors, Miscellaneous current transfers	75 credit/revenue
Goods account, General merchandise	75 imports (debit/expenditure)

## 1. PERSONAL TRANSFERS

Reference:

- IMF, 2009, *International Transactions in Remittances: Guide for Compilers and Users*.

**13.21** *Personal transfers consist of all current transfers, in cash or in kind, made or received by resident households to or from nonresident households.* Personal transfers thus include all current transfers between resident and nonresident individuals, independent of:

- the source of income of the sender (irrespective of whether the sender receives income from labor, entrepreneurial or property income, social benefits, and any other types of transfers; or disposes assets); and
- the relationship between the households (irrespective of whether they are related or unrelated individuals).

By convention, current transfers between households with regard to lotteries and other gambling are included under personal transfers (discussed in paragraph 13.25).

**13.22** The connection to the residence status of the person concerned is important in determining whether a personal transfer is involved. For example, in the case of workers, personal transfers include only those transfers abroad made by workers who are residents of the economy in which they are employed. Resources may be sent abroad by residents of an economy for the purpose of financing other residents of the same economy who are staying abroad (such as those sent by parents to children who are studying in other territories). These transactions should not be recorded as current transfers in the BOP because the parties are residents of the same economy. The expenses abroad constitute a purchase of education services in the case of students. Expenditures incurred abroad by

residents staying for less than one year in foreign economic territories are generally recorded as travel (see paragraphs 11.34–11.49).

**13.23** Funds sent abroad by individuals who are resident in the economy in which they are employed, self-employed, or operating a business, for the purpose of making a deposit in his or her own account with a bank located abroad, represent a financial investment, which is recorded in the financial account, rather than as a personal transfer. But any withdrawals to provide resources to a relative or another person (without a *quid pro quo*) should be recorded as a personal transfer. The situation of joint accounts can arise with workers resident abroad who have joint bank accounts with relatives in their home countries. The treatment of such joint accounts is discussed in paragraph 4.227. If the joint account emigrant workers hold in their home country is freely usable by its holders in the home country, the account may be considered to be held by residents in the home economy (liability to residents). In such a case, the deposits made to the account by the nonresident should be shown as funded by a transfer from abroad, withdrawals from the account by the nonresident would be shown as a transfer abroad, and deposits and withdrawals by residents to and from the account would be domestic transactions. Conversely, for deposits of emigrant workers in an account held in the host economy that are freely usable by relatives in the home economy, a convention can be adopted that withdrawals by relatives in the home economy would be treated as personal transfers.

### Box 13.2. Remittances

Annex 4 describes the concept of remittances for measuring and analyzing international remittances and resource flows (not all of which are found in the transfer income account) to households and NPISHs. Three categories of remittances are defined—personal remittances, total remittances, and total remittances and transfers to NPISHs—which may be included as supplementary items, as follows:

(a) **Personal remittances.** From the perspective of the recipient economy, personal remittances are defined as:

Personal transfers receivable;

+ Remuneration of employees receivable (see paragraph 12.13);

– Taxes and social contributions payable (related to remuneration of employees, see paragraphs 13.26 and 13.30) ;

– Transport and travel expenditures payable by residents employed by nonresidents (as defined under business travel in paragraphs 11.39–11.41);

+ Capital transfers receivable from households.

(b) **Total remittances.** From the perspective of the recipient economy, total remittances are defined as:

Personal remittances receivable;

+ Social benefits receivable.

(c) **Total remittances and transfers to NPISHs.** From the perspective of the recipient economy, this category is defined as:

Total remittances receivable;

+ Current transfers receivable by NPISHs;

+ Capital transfers receivable by NPISHs.

Current and capital transfers to NPISHs are generally recorded under miscellaneous current transfers or other capital transfers (discussed in paragraphs 13.55 and 14.39)

Notes:

Workers' remittances are a further supplementary sub-item of personal transfers that include only *current transfers by migrants who are employed in new economies and considered residents there*.

Conceptually, total remittances could include the part of nonlife insurance premiums less service charges and nonlife insurance claims that are redistributive flows between households. However, these transactions are excluded on practical grounds.

### ***Lotteries and Other Gambling***

**13.24** The amounts paid for lottery tickets or placed in bets consist of:

- (a) a service charge to the unit organizing the lottery or gambling (discussed in paragraph 11.135); and
- (b) current transfers that are payable from the gamblers to the winners and, in some cases, to charities.

The transfers are regarded as taking place directly from those participating in the lottery or gambling to the winners and charities. That is, they are not recorded as transfers to or by the unit operating the lottery or gambling. Some of the service charge at purchasers' prices may include gambling taxes, which are shown as payable by the operator, not the customers.

**13.25** When nonresident households take part in gambling there may be net transfers between residents and nonresidents. In some cases, the winner of a lottery does not receive a lump sum immediately but a stream of payments over future periods. For this type of arrangement, a current transfer equal to the present value of the payment stream should be recorded along with the immediate purchase of an annuity. The recording of annuities is described in paragraphs A8.33–A8.40.

## 2. OTHER CURRENT TRANSFERS

### a. Current Taxes on Income, Wealth, etc.

Reference:

- 2025 SNA, Chapter 9, Transfer Income Accounts; Section C, Current Taxes on Income, Wealth, etc.

**13.26** *Current taxes on income, wealth, etc. consist mainly of taxes on the incomes of households or profits of corporations and of taxes on wealth that are payable regularly every tax period (as distinct from capital taxes levied infrequently).* Current taxes on income, wealth, etc., in the external accounts consist mainly of taxes levied on the income earned by nonresidents from the provision of their labor or financial assets. Taxes on capital gains arising from assets of nonresidents are also included. Taxes on wages and salaries earned by nonresident employees are recorded as payable by the nonresident employees. Taxes on income and capital gains from financial assets can be payable by individuals, corporations, nonprofit institutions, governments, and international organizations. Taxes on interest and dividends are recorded as payable by the recipients of the interest or dividends. Taxes on financial transactions (such as taxes on issue, purchase, and sale of securities) payable by nonresidents are also current transfers. (However, if such taxes have been classified as other taxes on products and production in the national accounts, by convention, they should be recorded in the earned income account.) Taxes on income and wealth may be imposed by and payable directly to international organizations, such as the agencies of an economic union. Taxes on rent and ownership of land are treated as payable by the resident producers or resident notional institutional units; hence, they generally should not be recorded in the BOP. Inheritance taxes are treated as capital transfers (see paragraph 14.28 for the treatment of inheritance taxes). Refunds of taxes to taxpayers are treated as negative taxes; that is, the amount of taxes is reduced by tax refunds.

**13.27** Any other current taxes (other than taxes on income and wealth, as explained in the preceding paragraph, and taxes on products and production that are recorded in the earned income account as explained in paragraph 12.111) are also included in the transfer income account.

**13.28** Governments may grant licenses, permits or certificates, which provide the recipient with the permission to use or own goods or assets or engage in certain activities. If a payment for such a license is compulsory and the license is nontransferable then this payment is generally considered a tax. Only under limited scenarios, such as when it can be demonstrated that the payment is required and a service commensurate to the payment is consumed by the individual, is such a payment to be recorded as a sale of a service. Licenses and permits, which are recorded as taxes, should be recorded as taxes on



products or production in the earned income account or as taxes on income wealth etc. in the transfer income account. Most such permissions are recorded as current taxes on income, wealth, etc. but if an enterprise incurs the cost of the license as a result of engaging in production, then this is a tax on production and on imports (see paragraphs 12.111–12.113). Compilers are recommended to maintain consistency with the national accounts in the recording of taxes.

**13.29** Any fines or penalties on the late payment of taxes are included in the amount of associated taxes.

### ***b. Social Contributions***

Reference:

- 2025 SNA, Chapter 9, Transfer of Income Accounts; Section D, Social Insurance Schemes and Section E, Social Contributions less Service Charges.

**13.30** Social contributions are the actual or imputed contributions payable to social insurance schemes *in order for a designated beneficiary to be entitled to receive the social benefits covered by the scheme*. Social insurance schemes include social security schemes (which cover the entire community or large sections of it and are imposed, controlled, and financed by government units) and employment-related schemes (including funded and unfunded pension schemes). Employer-independent schemes with a strong resemblance to similar arrangements organized by employers or government generally also qualify as social insurance schemes if separate institutional units are established that are subject to regulation or supervision similar to employer-related pension schemes and in which accumulated contributions are set aside for retirement income.

**13.31** In the external accounts, social contributions are recorded when a resident makes contributions to social security and other social insurance schemes in another economy for his or her employment in that economy, or a nonresident employer makes actual or imputed contributions on behalf of the employee. (Social contributions by an employer on behalf of its employees are included in remuneration of employees; see paragraphs 12.26–12.28.) Similarly, social contributions are recorded when a nonresident makes social contributions to the resident social security and other social insurance schemes, or a resident employer makes actual or imputed contributions on behalf of a nonresident employee.

**13.32** The calculation of the amount of social contributions varies for social security and other social insurance schemes. For social contributions to social security schemes, the amount of social contributions recorded in the transfer income account includes the actual contributions payable by the employers and employees. Because the amount payable by employers is included in the remuneration of employees, the total of social contributions payable to social security schemes is recorded as a transfer payable by the employees.

**13.33** The calculation of social contributions to other social insurance schemes, which are related to the provision of pensions, involves contribution supplements and service charges. Contribution supplements, which represent investment income payable on pension entitlements, are described in paragraph A8.48, and charges for pension fund services are explained in paragraph 11.60. Furthermore, the treatment of social contributions is designed to treat social insurance transactions simultaneously as income transactions and financial transactions.

**13.34** Total social contributions, less service charges to pension schemes are determined as follows:

- Employers' actual contributions;
- + Employers' imputed contributions;
- + Policyholders' actual contributions;
- + Policyholders' contribution supplements corresponding to investment income payable by pension schemes on pension entitlements;
- Service charges payable to pension schemes.

**13.35** Employers' actual and imputed contributions are rerouted through employees (for explanation of rerouting, see paragraph 3.35). All the service charges are treated as charges payable by policyholders, because the beneficiaries are the ultimate users. For determining the contribution supplements and service charges for a group or groups of policyholders, ratios of these items to actual contributions payable from various similar sources may have to be used.

**13.36** Pension entitlements represent claims of beneficiaries on the funds. The payments of social contributions into the pension schemes and the receipts of pensions by beneficiaries therefore constitute the acquisition and disposal of financial assets. In addition, they are recorded as current transfers in the transfer income account as social contributions and social benefits, respectively, so that disposable incomes of households reflect these flows. Negotiated changes in pension entitlements are current transfers (if they relate to current periods) or capital transfers (otherwise). In contrast, changes arising from revision to model assumptions are other changes in volume (see paragraph 9.29).

**13.37** In order to reconcile the treatment of pensions as current transfers with the treatment of pension entitlements as financial assets, it is necessary to introduce a separate adjustment item to the balance on transfer income. This adjustment item adds back total social contributions less service charges to, and subtracts pension benefits from, the balance on transfer income. It may also include a similar adjustment for nonpension schemes. After the adjustment, the current account balance is the same as what it would

have been if social contributions and benefits related to pensions (and non-pensions) would have been considered as pure financial transactions, and not recorded as current transfers. This item is called “adjustment for change in pension entitlements” and is equal to:

- total social contributions less service charges;
- + the total value of contribution supplements payable out of the property income attributed to pension fund beneficiaries;
- the total value of the pension benefits paid out as social benefits by pension schemes (see paragraph 13.39).

(Changes in pension entitlements arising from capital transfers are not included in this item.)

**13.38** When cross-border flows of pension contributions and pension benefits are significant, the adjustment item must be recorded in order to reconcile the current and financial accounts. For the economy of the policyholders, the adjustment item is added to the balance on transfer income (a credit/revenue entry) and for the economy of the pension schemes, the opposite adjustment is needed; that is, the adjustment item is deducted from the balance on transfer income (a debit/expenditure entry). When cross-border flows are minor, the adjustment item may be omitted.

### **c. Social Benefits**

Reference:

- 2025 SNA, Chapter 9, Transfer Income Accounts; Section F, Social Benefits Other Than Social Transfers in Kind

**13.39** Social benefits are *current transfers receivable by households intended to provide for the needs that arise from certain events or circumstances, for example, sickness, unemployment, retirement, housing, education or family circumstances*. Social benefits include pension and nonpension benefits payable under social security and other social insurance schemes. Also included are social benefits payable to households by government units or NPISHs to meet the same needs as those under social insurance schemes but that are not made under a social insurance scheme. Such social assistance benefits may be in cash or in kind. When goods or services are provided free to nonresidents by government and NPISHs a current transfer debit/expenditure is recorded in the accounts of the economy they are visiting, with a corresponding credit/revenue recorded under travel services (see paragraph 11.34). Cross-border social benefits may be insignificant but can be important in economies where a significant number of residents have or had employment in other economies.

**d. Premiums Less Service Charges on Nonlife Insurance and Standardized Guarantees**

**13.40** Nonlife insurance premiums less service charges are recorded in the transfer income account and consist of *the sum of actual nonlife insurance premiums payable by policyholders to obtain insurance cover during the accounting period (actual premiums earned) and the premium supplements payable out of the investment income attributed to insurance policyholders less the service charges payable to the insurance corporation*. The service charges constitute purchases of services by the policyholders and are recorded as insurance services.

**13.41** *Actual nonlife insurance premiums are the actual amounts payable to the direct insurer or reinsurer to secure insurance cover for a specific event over a stated time period, as covered by a nonlife insurance (or reinsurance) policy.*

**13.42** *Nonlife insurance premium supplements consist of the investment income earned from the investment of the (nonlife) insurance technical reserves, excluding any holding gains and losses. The amounts involved cover earnings foregone by the insurance policyholders by putting the funds at the disposal of the insurance corporation.*

**13.43** The total of the nonlife insurance premiums and premium supplements payable have to cover payments of service charges to the insurance enterprises for arranging the insurance and payments for the insurance itself. The way in which the service charges are calculated is explained in paragraph 11.60. After the service charges are deducted from total nonlife insurance premiums and premium supplements, the remainder is described as nonlife insurance premiums less service charges. These are the amounts available to provide cover against various events or accidents resulting in damage to goods or property or harm to persons as a result of natural or human causes—fires, floods, crashes, collisions, sinkings, theft, violence, accidents, sickness, and so forth—or against financial losses resulting from events such as sickness, unemployment, and accidents.

**13.44** Hybrid insurance products are defined in paragraph 5.74 (see also paragraph A8.10). If a hybrid product is allocated to nonlife insurance, then the full amount of premiums less service charges is recorded in the transfer income account. Conversely, if a hybrid product is allocated to life insurance, no part of premiums less service charges is recorded in the transfer income account even though the product may have some features of nonlife insurance (instead, in this case, the premiums less service charges are recorded in the financial account).

**13.45** Some units, especially government units, may provide guarantees in large numbers, for small amounts, with identical conditions, and where the probability of default can be well established. These types of guarantees are called standardized guarantees. Standardized

guarantees have the same characteristics as nonlife insurance. The fees payable (and the investment income earned on the technical provisions for calls) are treated in the same way as nonlife insurance premiums and premium supplements, and the calls under the guarantees are treated in the same way as nonlife insurance claims. Therefore, premiums less service charges on standardized guarantees are derived from total premiums and premium supplements after deducting the service charges.

#### ***e. Nonlife Insurance Claims and Calls Under Standardized Guarantees***

**13.46** Nonlife insurance claims are *the amounts payable in settlement of injuries or damages that result from an event covered by a nonlife insurance (or reinsurance) policy occurring in the period for which the policy is valid. In the case of major catastrophic events, some proportion of the claims may be recorded as capital transfers.* Claims become due at the moment when the eventuality occurs that gives rise to a valid claim. They are equal to claims paid within the accounting period plus changes in the technical reserves against outstanding claims.

**13.47** The nonlife insurance claim is treated as a transfer to the claimant that accrues at the time that the insured event occurs. Insurance claims have a mix of current and capital elements. As a convention, cross-border nonlife insurance claims are generally treated as current transfers. In the case of major catastrophic events, some proportion of the claims may be recorded as capital transfers (see paragraph 14.34).

**13.48** The treatment of claims and benefits to policyholders on hybrid insurance products depends on the allocation of the product as either life or nonlife, similar to the treatment of premiums less service charges on hybrid products (see paragraph 13.44).

**13.49** Claims and calls payable under standardized guarantees and other government schemes where the payments into the scheme are treated as nonlife insurance premiums are recorded under this item in the transfer income account (see also paragraph 13.45).

#### ***f. Current International Cooperation***

**13.50** Current international cooperation consists of *current transfers in cash or in kind between the governments of different countries or between governments and international organizations.* This includes:

- (a) transfers between governments that are used by the recipients to finance current expenditures, including emergency aid after natural disasters; they include transfers in kind in the form of food, clothing, blankets, medicines, and so forth;
- (b) annual or other regular contributions paid by member governments to international organizations (excluding taxes payable to supranational organizations) and regular

transfers made as matter of policy by the international organizations to governments (for the treatment of capital contributions, see paragraph 14.40); and

- (c) payments by governments or international organizations to cover the salaries of those technical assistance staff who are deemed to be resident in the economy in which they are working and who are in an employer-employee relationship with the host government. Also included is technical assistance supplied in kind.

Current international cooperation does not cover transfers intended for purposes of capital formation; such transfers are recorded as capital transfers. Contributions that give rise to equity are acquisitions of shares or other equity (as in paragraph 5.28).

**13.51** External aid provided by governments through a nonresident unit created to undertake fiscal functions is also considered to be current international cooperation. These transfers are described in paragraphs 8.21–8.23.

**13.52** When goods and services acquired from market producers are provided to governments or other units by international organizations, other governments, or NPISHs, without charge to the recipient, they should be valued at market prices, that is, the prices paid by the purchasers. When a transfer in kind involves goods and services produced by international organizations, other governments, or NPISHs, the valuation should be based on cost of production, consistent with the general principles for the valuation of services produced by general government and NPISHs.

**13.53** Generally, funding of technical assistance has characteristics of current transfers. However, technical assistance that is tied to or part of capital projects is classified as capital transfers because investment grants are capital transfers. (See also paragraphs 14.31–14.32 concerning investment grants, which are capital transfers.)

### ***g. Miscellaneous Current Transfers***

**13.54** In the external accounts, *miscellaneous current transfers include all current transfers, in cash or in kind, other than personal transfers, current taxes on income, wealth, etc.; social contributions less service charges and social benefits; nonlife insurance premiums less service charges and nonlife insurance claims; and current international cooperation.* The categories of miscellaneous current transfers between residents and nonresidents are described in paragraphs 13.55–13.62.

### ***Current Transfers to NPISHs***

**13.55** Current transfers to NPISHs are transfers received by resident NPISHs from nonresident institutional units in the form of membership dues, subscriptions, donations, and so forth whether made on a regular or occasional basis. Grants and donations between NPISHs are generally classified as current transfers (e.g., donations for relief works).

## ***Other Miscellaneous Current Transfers***

### ***Fines and Penalties***

**13.56** *Fines and penalties are compulsory payments imposed on institutional units by courts of law or quasi-judicial bodies.* Fines and penalties are generally punitive in nature and are treated as miscellaneous current transfers. Fines and penalties imposed by courts of law or other government bodies that are actually intended to compensate for injury to persons, damage to property, or other losses should be considered as compensation payments (instead of fines and penalties) and would be recorded as either current or capital transfers as explained in paragraphs 13.58 and 13.59. Early or late repayment penalties agreed as part of a contract are not included in current transfers; they should be treated along with the associated good, or service, or income, as appropriate.

**13.57** Some fines and penalties may be established in contracts of mergers and acquisitions where the contract may include contingent fines or penalties based, for instance, on profitability, or a pending lawsuit, and resulting in a payment between the buyer and seller after the initial transaction. In these cases, the fines and penalties would be interpreted as an adjustment or update of the market price of the acquired enterprise and are treated as a direct investment transaction (or a portfolio investment transaction if the buyer has less than 10 percent of the voting power), instead of a current transfer.

### ***Compensation Payments***

**13.58** *Compensation payments consist of transfers paid by institutional units to other institutional units in compensation for injury to persons, damage to property or other losses (usually caused by the former) that are not settled as payments of nonlife insurance claims.* Payments of compensation could be either compulsory payments awarded by courts of law or settlements agreed out of court. Compensation may cover nonfulfillment of contracts, injuries to persons, damages to property, or other losses that are not covered by insurance policies. This heading covers compensation for injuries or damage caused by other institutional units. It also includes ex gratia payments made by government units or NPISHs in compensation for injuries or damages caused by natural disasters.

**13.59** Major compensation payments for extensive damages (e.g., oil spillages or side effects of pharmaceutical products, or anti-competitive behavior) are treated as capital rather than current transfers (see also paragraph 14.37).

### ***Nonrefundable Contributions Under Citizenship-by-Investment Type Programs***

**13.60** Some countries may offer citizenship or passports to individuals who make economic contributions to the country. Where such a program consists of a nonrefundable contribution

(as opposed to an investment) by a nonresident individual to the government, nominated development funds, or possibly NPISHs, this transaction is recorded as a transfer. If the program is not intended for capital investment projects, then the transfer is treated as a current transfer. Nonrefundable contributions under citizenship-by-investment type programs are not identified separately in the external accounts, however countries for which these programs are important can publish a supplementary item within other miscellaneous current transfers.

### *Other*

**13.61** Gifts and donations of a current nature not included elsewhere are regarded as current transfers. However, payments of membership dues or subscriptions to market nonprofit organizations serving businesses, such as chambers of commerce or trade associations, are treated as payments for services rendered and are therefore not transfers (see paragraph 11.137). (See also paragraphs 14.37–14.44 on other capital transfers.)

**13.62** Payments to international or supranational authorities that are regarded as being compulsory, and for which nothing is provided in return, but which are not taxes, are classified as miscellaneous transfers.



# Chapter 14. Capital Account

## A. CONCEPTS AND COVERAGE

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Reference:

- 2025 SNA, Chapter 11, Capital Account.

**14.1** *The capital account of the external 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.*

**14.2** An overview of the capital account is shown in Table 14.1. The balance on the capital account shows the difference between the sum of disposals of nonproduced nonfinancial assets and capital transfers receivable and the sum of acquisitions of nonproduced nonfinancial assets and capital transfers payable.<sup>1</sup> In addition, the sum of the balances on current and capital accounts can also be shown as a balancing item. The balancing item is labeled as net lending (+)/net borrowing (–) from the current and capital accounts. That sum is also conceptually equal to net lending (+)/net borrowing (–) from the financial account, as discussed in paragraph 8.3. Although conceptually equal, they usually differ in practice (see also paragraphs 2.25). 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.

**14.3** The capital account in the external accounts is designed to be consistent with the SNA capital account. There is however one difference. 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 external accounts show only transactions in nonproduced nonfinancial assets. This is because transactions in produced assets are included as imports and exports in the goods account and the services account, which does not distinguish whether those goods or services are destined for capital or current purposes.

**14.4** The value of net lending/net borrowing in the external 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.

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<sup>1</sup> 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 this sense in the Balance of Payments *Manual* prior to the fifth edition.

**14.5** Acquisition and disposal of nonproduced nonfinancial assets are recorded at the time of change of ownership, in line with the general principles in paragraphs 3.142–3.184.

Capital transfers are recorded when all requirements and conditions for receiving them are satisfied and the receiving unit has an unconditional claim, such as when a court provides judgment, or an administrative ruling is made. If such judgment or ruling is subject to further appeal, then the time of recording is when the appeal is resolved. Determining the time that the receiving unit has an unconditional claim 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.

**14.6** Acquisition and disposals of nonproduced nonfinancial assets and capital transfers receivable and payable are recorded separately on a gross basis, rather 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 13.16–13.19.

<b>Table 14.1. Overview of the Capital Account</b>	
	Credits/Revenues    Debits/Expenditures
<b><i>Current account balance</i></b>	
Acquisitions (debits/expenditures)/disposals (credits/revenues) of nonproduced nonfinancial assets	
Natural resources	
Contracts, leases, and licenses	
Marketing assets	
Crypto assets without a corresponding liability designed to act as a medium of exchange	
Capital transfers	
Capital taxes	
Investment grants	
Debt forgiveness	
Other capital transfers	

Nonlife insurance claims
One-off guarantees and debt assumption
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 Annex 14.

## B. ACQUISITIONS AND DISPOSALS OF NONPRODUCED NONFINANCIAL ASSETS

Reference:

- 2025 SNA, Chapter 11, Capital Account, and Chapter 14, Balance Sheet.

**14.7** Nonproduced nonfinancial assets consist of:

- (1) natural resources;
- (2) contracts, leases, and licenses;
- (3) marketing assets (and purchased goodwill); and
- (4) crypto assets without a corresponding liability designed to act as a medium of exchange.

### 1. NATURAL RESOURCES

**14.8** *Natural resources are assets that naturally occur, such as land, mineral and energy resources, water resources, and animal, tree, crop and plant resources, that have an economic value, and over which ownership may be enforced and transferred. Environmental assets over which ownership rights have not, or cannot, be enforced, such as high seas beyond national jurisdiction and most parts of the atmosphere, are excluded.* 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 4.59–4.65.) 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 12.103–12.110) or a contract, lease, or license, if it amounts to an economic asset in its own right (as discussed in paragraph 14.11).

**14.9** A notional unit would also be identified in the case where a natural resource is split between two units as may happen if the owner grants rights or permissions to a nonresident institutional unit to exploit the natural resource, to the extent that both the user and the legal owner are entitled to future economic benefits from the use of the resource (see paragraphs 12.105).

**14.10** 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 4.184–4.188.) 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 equipment and buildings would be shown respectively in the goods account and the services account (see paragraph 11.57), if practical.

## 2. CONTRACTS, LEASES, AND LICENSES

**14.11** Contracts, leases, and licenses cover those contracts, leases, and licenses that are recognized as economic assets. *Contracts, leases, and licenses are nonproduced assets where one party to a contract, lease or license is able legally and practically to realize the price difference between the market price for the use of an asset or the provision of a service, and the price specified in the contract, lease or license. Nonfungible tokens that grant limited ownership rights are also included.* These assets are creations of society and its legal system. 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, if these permissions and entitlements are marketable. 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 only recorded in the national balance sheet.)

**14.12** 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 (see paragraph 11.49(c)), equipment, and other produced assets. Marketable operating lease asset transactions are recorded in the capital account when the lessee sells the right and thus realizes the price difference.

**14.13** The owners of the other licenses and permissions mentioned in paragraph 14.11 acquire the rights to make profits at least equal to the amount that was paid for the licenses and permissions. If the owners realize this profit by on-selling to nonresidents then, this transaction is recorded in the capital account.

**14.14** 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 12.103–12.110).
- 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, or in limited circumstances a service (discussed in paragraphs 11.146 and 13.28). An example of a tax 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 rights to use or reproduce intellectual property products is shown as a service or, sometimes, as a good. In contrast, the sale of franchises or trademarks is included under marketing assets (see paragraph 14.17). (The treatment of these items is elaborated in Table 11.3.)
- A financial lease gives rise to a loan and a change of economic ownership of the leased asset to the lessee (discussed in paragraphs 5.63–5.67). An operating lease for use of a produced asset gives rise to a service (discussed in paragraphs 11.113–11.119).

**14.15** Entitlement to future goods and services on an exclusive basis would be an asset under contracts, leases, and licenses if the party that has the entitlement to purchase goods or services at a fixed price at some time in the future has the ability to sell the entitlement to another unit. Examples include the transfer fees paid by one sporting club to another for the transfer of a player, or a publisher's exclusive right to publish new works by a named author or to issue recordings by a named musician. 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).

**14.16** *Nonfungible tokens (NFTs) are digital records hosted on a blockchain that are associated with a digital or physical asset or product but that are distinct from that asset or product.* NFTs record the rights assigned to the NFT owner and are distinct from the associated asset or product. There are three types of rights that are embedded in NFTs that are conferred on the owners, only one of which is recorded in the capital account. NFTs that grant limited ownership rights to another asset or product from which the owner can derive

economic benefits (e.g., some form of royalties) are recorded under contracts, leases and licenses in the capital account. NFTs that convey no ownership rights and only allow for personal use of another asset or product are recorded under services and discussed in Table 11.3 (footnote 1). There is no need to record NFTs that grant full ownership rights to another asset or product in the external accounts because the transaction in the underlying asset or product should already be recorded. NFTs are described in more detail in paragraphs 16.34–16.38.

### 3. MARKETING ASSETS (AND PURCHASED GOODWILL)

**14.17** *Marketing assets are the capitalized value of expenditures on advertising and promotional activities, to enhance the overall impression a customer or potential customer gains from their experience with the company and its products. They consist of items such as brand names, mastheads, trademarks, logos, and domain names. When sold separately from the unit that owns them, they are recorded as acquisitions and disposals of nonproduced nonfinancial assets. (Marketing assets are included with purchased goodwill in the 2025 SNA asset categories. However, goodwill is typically implicitly included in the purchase price of the equity of a corporation that is taken over and cannot be separately identified and sold to another party.)*

**14.18** 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.

### 4. CRYPTO ASSETS WITHOUT A CORRESPONDING LIABILITY DESIGNED TO ACT AS A MEDIUM OF EXCHANGE

**14.19** Crypto assets are digital representations of value that use cryptography and distributed ledger technology such as blockchains to enable parties to transact directly with each other without the need for a trusted intermediary. *Crypto assets without a corresponding liability designed to act as a medium of exchange are crypto assets for which there is no issuer. They consist of crypto assets without a corresponding liability designed to act as a general medium of exchange and those designed to act as medium of exchange within a platform only.* Unlike similar digital assets issued by, for example, a central bank, crypto assets without a corresponding liability designed to act as a medium of exchange are recorded as nonproduced nonfinancial assets, and not as financial assets, mainly because there is no counterpart liability (see Chapter 16 for a discussion on different crypto assets). Although some of these crypto assets may not yet act as a medium of exchange and may

be held only as a store of value, they derive their value from the expectation that they may be used sometime as a medium of exchange.

**14.20** Crypto assets without a corresponding liability designed to act as a medium of exchange are fungible crypto assets. Fungible crypto assets are divisible and not unique.

**14.21** Cross-border transactions such as purchases of crypto assets without a corresponding liability designed to act as a medium of exchange as an investment are recorded in the capital account as credits/revenues for the selling economy and debits/expenditures for the purchasing economy.

**14.22** Cross-border transactions in goods or services where payment is made using crypto assets without a corresponding liability designed to act as a general medium of exchange would be recorded as an import or export in the goods account or the services account, and a corresponding amount recorded in the capital account as, respectively, a credit/revenue or debit/expenditure.

**14.23** See Box 11.5 for discussion of the treatment of validation of transactions relating to crypto assets.

**14.24** Crypto assets are still relatively new and because of the possibility of changes in the ways that crypto assets may be used and/or regulated, the classification of crypto assets designed to act as a medium of exchange without a counterpart liability has been put on the post-2025 SNA/BPM7 research agenda (see Annex 15).

## C. CAPITAL TRANSFERS

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Reference:

- 2025 SNA, Chapter 11, Capital Account, Section F.

**14.25** *Capital transfers are unrequited transfers, either in cash or in-kind, linked to the acquisition, disposal or transfer of an asset (other than cash or inventories); or where a liability is forgiven or assumed; or where the transfers are intended to address accumulated losses incurred over a multi-year period.* The definition of transfers and the distinction between current and capital transfers are given in paragraphs 13.12–13.15. Governments, households, and nonprofit institutions undertake transfers to convey a benefit to another party.

**14.26** Transfers from enterprises consist of compulsory transfers to governments or other units under court orders, or voluntary transfers to nonprofit institutions and other units. Unlike governments, households, or nonprofit institutions, commercial units do not generally have the motivation to transfer resources to other units for no return, so there are only

limited cases where a commercial unit provides a capital transfer to another commercial unit, such as some cases of debt assumption, activations of one-off guarantees, nonlife insurance claims or compensation payments).

**14.27** 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 8.21–8.23.

## 1. DEBT FORGIVENESS

Reference:

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

**14.28** *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>2</sup> In contrast to debt write-offs, debt forgiveness arises from an agreement between the parties to the debt with the intention to convey a benefit to the debtor, rather than unilateral recognition by the creditor for amounts that they no longer expect to collect.* 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 cancellation of future interest payments that have not yet fallen due and have not yet accrued.

**14.29** Debt forgiveness is distinguished from debt write-off and is treated as a capital transfer transaction. Debt forgiveness is unlikely to arise between commercial units; more commonly there are debt write-offs (as discussed in paragraphs 9.21–9.23). The unilateral writing off of debt or repudiation of debt is not a transaction and is recorded as other changes in volume in the other changes in financial assets and liabilities account rather than as an entry in the capital account or financial account. (Annex 1 on exceptional financing and Annex 2 on debt reorganization provide additional information.)

## 2. CAPITAL TAXES

Reference:

- IMF, *Government Finance Statistics Manual 2014*, Chapter 5, Revenue.

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<sup>2</sup> This includes forgiveness of some or all of the principal amount of a credit-linked note arising from an event affecting the unit 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.



**14.30** *Capital taxes consist of taxes charged 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 or death duties, and gift taxes, including gifts inter vivos made between members of the same family to avoid, or minimize, the payment of inheritance taxes. They do not include taxes on sales of assets as these are not transfers.

Recurrent taxes on income and wealth as well as taxes on financial and capital transactions are classified as current transfers (see paragraphs 13.26–13.29). Details on the classification of taxes can be found in the *Government Finance Statistics Manual*.

### 3. INVESTMENT GRANTS

**14.31** *Investment grants consist of capital transfers made by governments or international organizations to other institutional units to finance all or part of the costs of their acquiring nonfinancial assets. The recipients may be other governments or other units. 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 14.33). 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.*

**14.32** 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 to nonresident units. Investment grants include transfers of military equipment in the form of weapons or equipment that are classified as fixed assets.

## 4. OTHER CAPITAL TRANSFERS

**14.33** Other capital transfers consist of *capital transfers other than investment grants, capital taxes, and debt forgiveness*.

### Nonlife Insurance Claims

**14.34** Nonlife insurance claims are normally classified as current transfers. Exceptionally large claims, such as those following a major catastrophe or disaster at national level, may be recorded as capital transfers rather than as current transfers. It is recommended to treat the full amount of the claim arising from a catastrophic event as a capital transfer by default unless information is available that would make it possible to differentiate damages to nonfinancial assets from damages to consumer durables (see paragraph A8.32).

**14.35** It may be difficult for the parties to identify catastrophic 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 13.40–13.49.

### One-Off Guarantees and Other Debt Assumption

**14.36** 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 debt-assuming party is not a guarantor.

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

The value of any claim the debt-assuming party 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 8.40–8.43, including the circumstance when the guarantor is in a direct investment relationship with the debtor. Different types of guarantees are distinguished in paragraph 5.78.

## Other

**14.37** Major payments in compensation for extensive damages or serious injuries not covered by insurance policies that are typically intended to recover losses over a multi-year period or to replace a nonfinancial or financial asset 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, anti-competitive behavior, 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 13.58–13.59 for payments of compensation included in current transfers.

**14.38** 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 9.37–9.39.

**14.39** 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).

**14.40** 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.

**14.41** Loans with concessional interest rates could be seen as providing a transfer element equal to the difference between the actual interest and the market equivalent interest (see paragraph 3.117). Where governments or international organizations provide loans with concessional interest rates, no adjustment is made to the recording of the loan or of interest, nor is any transfer recorded in the core external sector accounts. However, the transfer element can be shown as a capital transfer at inception in supplementary data.

**14.42** 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 total amount paid and the market price.

**14.43** 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 Annex 4.

**14.44** As discussed in paragraph 13.60 citizenship of some countries or passports may be offered to individuals making nonrefundable economic contributions to that country. If these contributions are specifically earmarked for capital investment projects, they should be recorded as capital transfers. Where these contributions are important, countries can publish a supplementary item within other capital transfers.

# Chapter 15. Globalization

This is a common chapter with Chapter 23 of the 2025 SNA, and for the most part, the text is identical in both the *Manual* and the 2025 SNA.

## A. INTRODUCTION

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**15.1** Globalization refers to the economic integration of economies around the world. Reduced trade barriers and advancements in communication, transportation, and technology have facilitated a rise in the cross-border movements of goods, services, capital, information, and people in recent decades. Those factors have also contributed to increasingly complex corporate structures that span across multiple economies. Such multinational enterprise (MNE) groups can be set up for many reasons, including to reduce labor costs, transportation costs, taxes, and proximity to markets. In addition, other global manufacturing and distribution arrangements, such as factoryless goods production and merchandising, have added to the complexities of interrelations between economies. These globalization activities pose challenges to traditional macroeconomic statistics, which are based on the concepts of residence and economic presence.

**15.2** This thematic chapter is designed to elaborate on issues related to globalization that are touched upon throughout the *Manual*. It focuses on the conceptual, measurement, and analytical challenges that arise from deeper corporate linkages and the fragmentation of production processes across economies. These challenges motivate additional breakdowns and supplementary presentations, which provide alternative views or additional details that complement traditional macroeconomic statistics and are vital for better understanding the connections between economies.

**15.3** To address the statistical challenges related to globalization, it is important to implement harmonized methodological guidelines to foster comprehensive data collection and international comparability. Even if headwinds develop to some of the factors driving globalization, the guidance in this chapter will still yield macroeconomic statistics that provide insights into the changing nature of globalization.

**15.4** This chapter is organized as follows. Section B describes global production arrangements, while Section C defines MNE groups and discusses their role in globalization. Section D presents some of the measurement challenges related to MNE groups and global production. Section E introduces existing macroeconomic indicators, additional breakdowns, and alternative presentations that can help address these

challenges and meet user needs. Finally, Section F describes analytical tools that have been developed to better understand the relationship between globalization and the domestic economy, including trade in value added and global value chains.

## B. GLOBAL PRODUCTION

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**15.5** A distinct aspect of globalization is the fragmentation of production in production chains between resident and nonresident firms—the basis of global value chains (GVCs). GVCs are a fundamental pillar of the modern global economy, enabling companies to take advantage of global specialization, cost efficiencies, comparative advantages and market opportunities. See Chapter 10 for more details about global manufacturing (e.g., processing and factoryless goods production) and distribution arrangements (e.g. re-exports and merchanting).

## C. MULTINATIONAL ENTERPRISE (MNE) GROUPS

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References:

- International Monetary Fund (IMF), *Special Purpose Entities: Guidelines for a Data Template*
- Organization for Economic Cooperation and Development (OECD), *OECD Benchmark Definition of Foreign Direct Investment*
- United Nations Economic Commission for Europe (UNECE), *UNECE Guide to Measuring Global Production*

### 1. DEFINITIONS OF MNES, MNE GROUPS, AND CONCEPT OF CONTROL

**15.6** *An MNE is a legal entity that has at least one nonresident affiliate or branch, and exercises control over its affiliate(s) or branch(es) either directly—by having over 50 percent of the voting power in the unit—or by indirect transmission of control. The MNE is the ultimate controlling parent—the direct investor at the top of the control chain. The MNE group consists of the MNE and the set of units—regardless of their economies of residence—that are under the control of the same ultimate controlling parent.*

**15.7** *Control refers to the ability to determine general corporate policy of a corporation, where general corporate policy is understood in a broad sense to mean the key financial and operating policies relating to the corporation's strategic objectives as a market producer. In practice, control is determined to exist if an investor has more than 50 percent of the voting power in an enterprise. The control may be direct (through ownership of voting power*

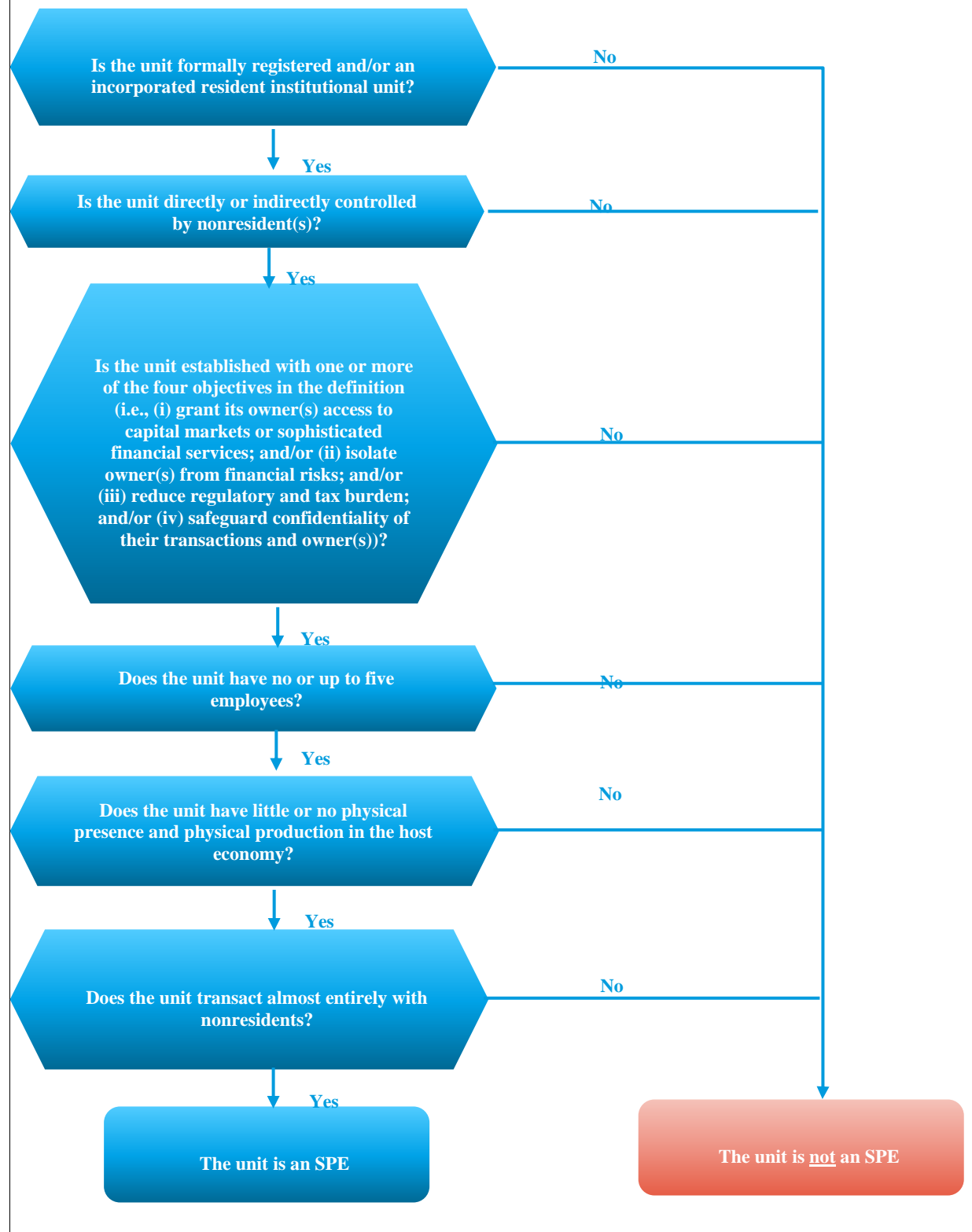
*or other arrangements) or indirect (through ownership of enterprises that in turn have voting power). In the case of control by government, or another public unit, control can also be exercised in other ways than owning more than half of the voting power.* This definition of control is aligned with the Framework of Direct Investment Relationship (FDIR), which is a generalized methodology for identifying and determining the types and extent of direct investment relationships. For further discussion of the FDIR, see Chapter 6 or the fifth edition of the *OECD Benchmark Definition of Foreign Direct Investment*.

**15.8** It is important to distinguish between ownership and voting power when determining control. While ownership shares and voting power generally are aligned, this is not always the case. For instance, voting power may be greater or less than the percentage of shares held when there are “golden shares” or dual classes of shares (for example in the case of the existence of nonvoting shares, or in the case some shares have higher weights that allow one or more parties to exercise voting power disproportionately to their share of ownership).

## **2. UNDERSTANDING THE ROLE OF SPECIAL PURPOSE ENTITIES (SPES) WITHIN MNE GROUPS**

**15.9** Through their activities, MNEs manage production, trade, financial services and intermediation, direct investment, and international transfer of knowledge and technology, with the aim of maximizing their global after-tax profits. MNEs often have significant impact on the real economy through their activities, but they sometimes set up units with limited presence in the form of employment and physical production to benefit from different regulatory and tax regimes. Special purpose entities (SPEs) are specific cases of such units and are defined in paragraph 4.77. The decision tree in Figure 15.1 can also be used to identify SPEs.

Figure 15.1. Decision Tree to Identify Resident SPEs





**15.10** Although SPEs have no or little physical presence, they can have a substantial impact on traditional macroeconomic statistics—for example, inflating direct investment statistics due to pass-through funds or data for services exports if they own intellectual property products. Host jurisdictions are encouraged to report supplementary data for SPEs, particularly when such entities are significant.

**15.11** A typology of SPEs is presented in Table 15.1. It can be used to identify SPEs and to determine their appropriate institutional sector. The typology aims to delineate the different types of SPEs based on their economic functions and relate them to their institutional sector.

**15.12** The typology should be used as a complement to the definition of SPEs as it is not meant to be either exhaustive or prescriptive. The units covered by the typology may be SPEs, but not all units of the types listed are classified as SPEs. For instance, special purpose units may include securitization vehicles, but not all securitization vehicles meet the definition of SPEs. A securitization vehicle would, for example, not be classified as an SPE if it has significant transactions with residents.

Table 15.1. Typology of SPEs				
No	SPE Type	Description	Relevant paragraphs in BPM7	Institutional sector
<b>Category I: Corporate Groups' Captive Financial Units</b> <i>(Those captive units created by financial or nonfinancial nonresident corporations to fulfill specific financial activities, other than insurance, for the sponsor)</i>				
1.1	Conduits	Raising or borrowing funds, often from unrelated enterprises, and remitting those funds to its parent or to another related enterprise. Typically, do not transact on the open markets on the asset side.	4.81 4.150	S1227
1.2	Holding companies	Owning a controlling level of equity in subsidiaries, without actively directing them	4.75–4.76	S1227

		(Passive holding corporations).		
1.3	Holding financial assets for securitization		4.81	S1227
1.4	Intra group lending companies	Loan funding from and to intra group companies. Units taking and granting inter-company loans.	4.81	S1227
1.5	Captive factoring and invoicing companies	Concentrating sales claims and invoicing sales.	4.81	S1227
1.6	Captive financial leasing companies	Engaging in lease-in lease-out agreements or as a financial intermediary in a chain of vehicles in which the end vehicle is involved in the leasing of equipment or fixed assets.	4.81	S1227
1.7	Other captive financial companies	Dealing with financial needs of a group, such as financing particular projects and loan origination.	4.81	S1227
<b>Category II: Specialized Financial Units</b> <i>(These financial units, with a degree of operational autonomy, that have been created for the purpose of isolating the risks of the parent companies to structure financial transactions for or securitize assets of the parents)</i>				
2.1	Captive insurance companies	Providing insurance to group enterprises.	4.151	S1228
2.2	Securitization vehicles/Financial vehicle corporations	Carrying out securitization transactions in order to isolate the payment obligations of the undertaking from those of the originator, or the insurance or reinsurance undertaking (in the case of insurance-linked securitizations).	4.81	S1225

		Repackaging of existing financial assets.		
2.3	Holding financial and nonfinancial assets (including real estate) for related companies	Holding financial and nonfinancial assets of related companies with the goal of capital appreciation, interest/dividend income, and other income.	4.75–4.76	S11 and S1225
2.4	Companies carrying out other financial functions	Performing factoring, invoicing on open markets, financial leasing on open markets, and other financial assets management.	4.145	S1225
<b>Category III: Corporate Groups' Nonfinancial Units</b> <i>(Those SPEs created by a financial or nonfinancial nonresident unit for the purpose of fulfilling specific nonfinancial activities)</i>				
3.1	Ancillary companies	Registered or incorporated companies providing ancillary services that are not resident in the same economy as its parent.		S11
3.2	Operational leasing companies	Holding fixed assets, such as planes, vessels, and machinery, for the purpose of leasing them out.		S11
3.3	Merchanting companies	Purchasing goods from a nonresident and re-selling the goods to another nonresident (merchanting companies have ownership of the goods traded).		S11
3.4	Royalty and licensing companies	Concentrating group receipts concerning royalties and similar flows received from intellectual property rights and trademarks. Such a		S11

		company of an SPE-type receiving royalties or similar flows for a group of enterprises or individuals is regarded as an independent royalty and licensing company.		
3.5	Legal ownership of intangible assets	Holding intangible assets for a related company or group of companies.		S11
<b>Category IV: Wealth Management Units</b> <i>(Those SPEs created by households or groups of individuals to hold or manage wealth or real estate for their owners)</i>				
4.1	Companies holding/managing wealth and real estate for individuals and families	Managing family trust funds, foundations, personal holding companies.	4.81, 4.93, and 4.150	S11, S1226, and S1227
<b>Category V: Government owned financial units</b> <i>(Those SPEs created by governments for fiscal activities)</i>				
5.1	SPEs owned by governments for fiscal purposes	Raising or borrowing funds on behalf of a nonresident general government.	4.90–4.92	S11, S12, or S15
<b>Category VI: Other structures</b> <i>(Those SPEs created to conduct any type of transactions other than those covered in the other categories)</i>				
<p>Note: The types of units listed may be SPEs, but not all units of the types listed are necessarily SPEs. The SPE definition and decision tree should assist compilers in determining which units are SPEs.</p> <p>Source: IMF, <i>Special Purpose Entities: Guidelines for a Data Template</i>.</p>				

### 3. MNES, SPES, AND INTELLECTUAL PROPERTY PRODUCTS (IPPS)

**15.13** MNEs often manage intellectual property products (IPPs), which are defined and described in further detail in Chapter 11. MNEs increasingly establish SPEs not only to channel financial investments, but also to manage IPPs.

**15.14** The intangible nature of IPPs makes the transfer and use of IPPs difficult to observe. Especially for IPP transactions within an MNE group, this nonphysical feature can cause significant measurement difficulties. The main difficulty relates to identifying economic ownership (as opposed to legal ownership), which has repercussions for the treatment of

related flows, especially those related to the use of IPPs. More details on determining this economic ownership can be found in the *UNECE Guide to measuring global production*.

**15.15** Figure 15.2 shows a decision tree which assists in determining the economic ownership of IPPs and IPP-related transactions (including IPP-related import and export flows). The tree represents a sequence of steps, from left to right, guiding the statistics compiler to a decision. The starting point of the tree is the observation of IPP output or IPP ownership at the level of a certain unit. The obtained information is examined in four different steps:

- (a) Control/ownership of the unit: Does the unit participate in a global production arrangement with other members of an MNE group?
- (b) Did the unit produce the IPP?
- (c) What is the main kind of activity of the unit, or is the unit expected to use the IPP in its production process?
- (d) Does the unit receive revenue related to IPPs, or does the unit pay for the use of IPPs (royalties and licenses)?

**15.16** Together these steps should lead to a coherent decision on ownership, the recording of capital formation and the recording of IPP-related service flows (including imports/exports). However, it should be acknowledged that the availability of information needed to go through each of these steps may be insufficient. Particularly inside MNE groups, it may be quite challenging to classify IPP-related transactions properly, identifying separately IPP funding, IPP purchases, and sales and payments for IPP use. This means that each situation identified in the decision tree includes a default solution in case information is insufficient to run properly through each of the decisive steps.

**15.17** The first part of the decision tree describes the situation of units inside MNE groups. In cases where the unit produced the IPP, the observed unit may be a main producer of goods and non-IPP services (1.1.1) or a main IPP producer (1.1.2) serving the IPP needs of the various members of the MNE group. In the case of a main producer of goods and non-IPP services, the (default) decision is to assign economic ownership to the unit in question. It could be that other units inside the MNE group equally benefit from this IPP. However, in such cases, it is recommended that intra-group transactions are only recorded when data sources point at receipts for IPP use by member units.

**15.18** In case of a main IPP producer, economic ownership of the produced IPP is assigned to this unit (1.1.2.2) unless there is evidence the unit does not generate any IPP-related turnover (e.g., sales of copies, licenses to use), or there is evidence of sales of the original to the parent or to other customers (1.1.2.1). No observed IPP-related turnover

implies the unit is indirectly funded by the parent. Without conclusive evidence, the default solution is to assign economic ownership to the producing unit (1.1.2.2).

**15.19** Source statistics may indicate the use or ownership of IPPs, but without the observed unit being identified as the producer of IPPs (1.2). Unless there is evidence of purchases of IPP originals, such units will generally not be considered the economic owners of IPPs. One may expect that payments for IPP use will be observed (1.2.1.1). But even without such payments, it is quite possible that these units use IPPs provided by the MNE parent in their production processes (1.2.1.3).

**15.20** However, one could also argue that since these units are obtaining the economic benefits from IPPs, they could alternatively be identified as the actual economic owners inside MNEs. This would require imputing the transfer of the IPP original from the parent to the unit and capitalization of this IPP on the balance sheet of the unit under observation. This is not an easy task, and not without risks. The nature, size, and timing of these flows are principally unknown. This is why such an approach is not recommended under 1.2.1.3.

**15.21** Case 1.2.2 reflects those units created by MNE groups with the purpose of taking advantage of low-tax jurisdictions. The default solution is assigning economic ownership of the IPP to these units, in correspondence with legal ownership. Reassigning economic ownership, and corresponding revenue flows, from the legal owner to some other unit is not recommended. However, revenue received by these legal owners should preferably be shown as an “of which” item with a heading such as “IPP-related services provided by SPEs”, as the provision of these services by SPEs is likely to have very little impact on employment and physical economic activity in the domestic economy. A separate reporting of these IPP services will provide a clearer view on national accounts and BOP statistics.

**15.22** The second part of the decision tree (2) reflects the situation of global production in which a principal and a manufacturer with which it contracts are not part of a common MNE group. In appraising IPP ownership under such conditions, there are typically two situations to consider. In the first situation (2.1.1), the manufacturer owns the IPP and uses it in its production process, which implies the principal is simply obtaining a full-fledged product including the IPP service. In this case, there is no necessity of recording IPP transfers. The principal has no involvement in the manufacturing process and is expected to concentrate its business on trade-related activities. The IPP recording aspects are relatively straightforward: the manufacturer in question invests on own account in IPP and the asset value should be recorded in its balance sheet.

**15.23** In the second situation, the principal owns the IPP and provides a contractor with its blueprints of the required output (2.1.2). No IPPs, or IPP-related transactions, will need to be identified when observing the contractor’s production activities. The contractor will deliver a product to the principal; however, without reflecting the user costs of the IPP.

**15.24** The decision tree also reflects the (perhaps hypothetical) situation in which the factoryless producer puts into use the IPPs developed by others (2.2.2.2). Such units will be IPP owners when they purchased the IPP originals. Alternatively, they could use the IPPs owned by dedicated IPP producers.

**15.25** Outside the scope of MNE groups, IPP-related transactions may be observed when dedicated producers provide IPP originals or IPP-related services (2.1.2.1) to those units in the production chain engaged in manufacturing (2.2.1).

**15.26** In conclusion, when IPP-related transfers occur outside the domain of MNE groups, such transfers are usually observed from market transactions, and this makes the recording much less complicated. Similarly, the identification of IPP ownership is usually more straightforward when the units involved do not belong to the same MNE group.

**15.27** Yet, the analysis of IPP use in production typically requires a complete picture of the global production chain, which cannot be obtained from national statistics, such as a national input-output table. Alternatively, a worldwide input-output table may show how IPPs are linked, for example via factoryless goods producers, to the global production chain.

**Figure 15.2. Decision tree for Determining Economic Ownership of an IPP Observed in Global Production**

<i>Control/ownership of unit</i>	<i>Production of the IPP</i>	<i>Type of producer</i>	<i>Revenue and expenditure related to the IPP</i>	<i>Decision about economic ownership of the IPP</i>	<i>Related decisions</i>
1. The unit participates in a global production arrangement with other	1.1 The unit produced the IPP	1.1.1. The unit is a main producer of other (non IPP) goods and services and is expected to use the IPP in its production	1.1.1. The unit may, or may not, receive funding from the parent as compensation for IPP development costs but this aspect is not decisive.	Attribute by default economic ownership of the IPP to this unit	The IPP is by convention recorded on the balance sheet of this unit, even when other member units of the MNE may benefit from the IPP.
			1.1.2.1. The unit does not receive revenue from royalties or licenses to use, but either receives compensation for IPP development from the parent or sells the IPP originals to the parent.	Do not attribute economic ownership to the unit. This unit serves as a dedicated IPP producer for the benefit of the MNE as a whole.	Do not record the IPP as fixed capital formation of the unit. Instead record the developed IPP as export to the (foreign) MNE parent. Reported sales of IPP originals may show up in international trade in services statistics.
			1.1.2.2. The unit receives revenue from royalties or licenses to use, or does not receive any compensation for IPP development from the parent, so it can be assumed that it is expected to obtain revenue from royalties and licenses to use in the near future.	Attribute economic ownership to the unit. The unit functions as a dedicated IPP producer with revenue from units outside the MNE from the IPPs produced.	The IPP is recorded as fixed capital formation of the unit.
		1.1.2. The unit is a main IPP producer.			
	1.2 The unit did not produce the IPP	1.2.1. The unit is a main producer of other (non IPP) goods and services and may use the IPP in production	1.2.1.1. The unit pays royalties or licenses to use.	The unit does not own the IPP	Do not record the IPP as fixed capital formation of the unit. IPP service payments to foreign suppliers are recorded as import of IPP services (or royalties).
			1.2.1.2. The unit purchased the IPP original for use in production	Attribute economic ownership of the IPP to the unit	The IPP is fixed capital formation of the unit. If purchased from abroad register an import of the IPP (original)
			1.2.1.3. No IPP related payments are being observed. IPP use may be indirectly observed based on the nature of the production process (with usually high IPP requirements) and above average returns to capital.	The MNE parent is expected to be the economic owner and supplier of the IPPs used in production.	Conceptually, an imported IPP service flow should be recorded. But this is not an easy task (and not without risks) as the nature and size of these flows are principally unknown. Such imputations of imports/exports should preferably be the outcome of a concerted action in which all national statistical institutes (NSI) involved join efforts in filling in the IPP flows between the units of an MNE.
		1.2.2. The unit is not a producer of other (non IPP) goods and services. Its main output is IPP related.	1.2.2. Purchase of the IPP from the parent and revenue from royalties and licenses to use may, or may not, be observed.	The unit is assumed to have purchased the IPP (original) from the parent and to receive (on behalf of the parent) revenue from royalties or licenses to use the IPP. Attribute economic ownership of the IPP to the unit. The unit is considered an IPP holding SPE providing its services to the MNE parent.	It is recommended to classify the fixed capital formation, revenue and expenditure related to these IPP holding SPEs separately to allow analysis excluding "brass plate" units, also because the transactions carried by these units are not necessarily at arm's length.



Control/ownership of unit	Production of the IPP	Type of producer	Revenue and expenditure related to the IPP	Decision about economic ownership of the IPP	Related decisions
2. The unit participates in a global production arrangement but not with affiliated units	2.1. The unit produced the IPP	2.1.1. The unit is a producer of other (non IPP) goods and services and is assumed to use the IPP in production		Attribute economic ownership of the IPP to the unit	The IPP is fixed capital formation of the unit.
		2.1.2. The unit is a main IPP (or factoryless goods) producer.	2.1.2.1. The unit receives revenue from copies, royalties, or licenses to use.	Attribute economic ownership of the IPP to the unit.	The IPP is fixed capital formation of the unit. If royalty payments are received from abroad register these payments as exports of IPP services.
			2.1.2.2. The unit does not receive revenue from copies, royalties, or licenses to use the IPP. One may assume that this unit operates as a factoryless goods producer.	Attribute economic ownership of the IPP to the unit.	The IPP is fixed capital formation of the unit.
	2.2. The unit did not produce the IPP.	2.2.1. The unit is a main producer of other (non IPP) goods and services and is expected to use the IPP in production	2.2.1.1. The unit pays royalties or licenses to use the IPP	The unit does not own the IPP	Don't include the IPP as fixed capital formation of the unit. If payments to abroad register imports of IPP services
			2.2.1.2. The unit purchased the IPP.	Attribute economic ownership of the IPP to the unit.	The IPP is fixed capital formation of the unit. If purchased from abroad register imports of the IPP
		2.2.2. The unit is a main IPP (or factoryless goods) producer.	2.2.2.1. The unit receives revenue from royalties or licenses to use the IPP	Attribute economic ownership of the IPP to the unit	The IPP is fixed capital formation of the unit. If revenue is received from abroad register exports of IPP services
			2.2.2.2. The unit does not receive revenue from IPP related royalties or licenses to use. Instead, payments for IPP use (originals or copies) may be observed. This unit is expected to operate as a factoryless goods producer.	The economic ownership of the IPP should be judged on the basis of the IPP related transactions observed with this unit. It is possible that the unit makes use of IPP services provided by dedicated IPP producers.	The IPP is fixed capital formation of the unit when the purchase of an original is observed. Otherwise, the unit is expected to purchase IPP services in which case royalty or license payments should be observed.

Source: UNECE *Guide to Measuring Global Production* (2015).

## D. MEASUREMENT CHALLENGES

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**15.28** MNE and intra-MNE group flows present measurement challenges for the external accounts, which can lead to misinterpretation or, in some cases, even mismeasurement of the related flows and stocks in the accounts. The concepts of residence and economic presence, which are central to macroeconomic statistics, assume a different relevance for MNE groups, for which activities extend across national boundaries. This has increased the complexity of compiling national statistics, as it is more difficult to break down output and value added by economy. The *Manual* treats foreign affiliates of MNEs as residents in their respective economies of operation. This treatment is designed to allocate production to the economy in which it occurs, which is fundamental for estimating the economy's GDP and other key indicators. Furthermore, the existence of distorted transfer pricing on intra-group flows—when prices do not reflect the “arm's length” exchange values recommended for the external accounts—or the practice of not recording transactions for the intra-group use of IPPs may result in the misallocation of output and value added between the economy of the parent company and those of its affiliates (see also Section C). Moreover, in many cases, estimates reported by MNEs in national statistical surveys may not be best suited to meet the purposes of national accounts and external sector statistics.

**15.29** Although the extent of these issues is not easily quantified, the problems are significant because of the growing size and importance of MNE activities. Economic decisions made by MNEs can have a significant effect on macroeconomic statistics. When misinterpreted or mismeasured, these activities can adversely affect the quality and/or interpretation of key macroeconomic indicators. The impact on GDP might result, for example, from the misallocation of (international) transactions in goods and services relative to income and the depreciation charges associated with movable corporate assets, especially intangible assets. Consequently, without robustly accounting for MNE group activities, the reliability of macroeconomic statistics for policymaking purposes may be challenged.

### 1. ALLOCATION OF ACTIVITIES TO DIFFERENT ECONOMIES

**15.30** With complex global corporate structures and production arrangements dividing activities across many jurisdictions, there arises the issue of the subsequent allocation of these activities to different economies. MNEs are likely to try to maximize their enterprise-wide global after-tax profits rather than their profits in each of the economies in which they operate. Toward this end, they often structure the locations of their operations, the legal ownership of their assets, and the pricing of intra-enterprise transactions in ways that are designed to reduce their global tax liabilities or regulatory burdens. As a result, statistical measures based on MNEs' business records may be difficult to interpret and for certain

types of analysis may even be considered to provide a distorted view of the value of the intra-enterprise transactions and the allocation of activities across economies.

**15.31** MNEs can reduce their global taxes through a number of strategies, including using distorted transfer pricing between the parent and its affiliates or among the affiliates to shift profits to lower tax economies; assigning or transferring ownership of IPPs or other movable assets across economies in a manner that reduces tax burdens; interposing a finance or holding company affiliate in a low-tax economy between themselves and their affiliates; establishing offshore factoring corporations in low-tax economies that bill and collect for the parent's worldwide sales; and inverting the corporate ownership structure, with an overseas affiliate in a low-tax jurisdiction becoming the parent that collects net income for the MNE's worldwide corporate structure. As explained in Chapter 3, transfer prices may be distorted—that is, incompatible with the valuation principles used in the *Manual*—in which case they should preferably be adjusted to actually observed market prices. However, because of all the complexities involved to arrive at a consistent recording of the adjustments, national accounts and external accounts often refrain from trying to approximate true market prices (see paragraphs 3.113–3.116).

**15.32** The use of finance or holding company affiliates, factoring corporations, and corporate inversions are not necessarily inconsistent with the principles used in the system, but they may lead to difficulties in compiling and reconciling the statistics and in interpreting the flows reported by the accounts. Complex financing and ownership structures of MNEs can mask ultimate ownership links and inflate direct investment flows and positions as each flow into and out of each economy is counted even if the funds, or income, are just passing through. Compilers can provide additional breakdowns to show, for example, the effects of any adjustments made to transfer prices (or of the potential effects of not being able to adjust transfer prices to the “arm's length” exchange values) or of other factors that lead to multinational profits that are not reflected in measured income in the domestic economy. The macroeconomic indicators and supplementary information discussed in Section E of this chapter can also help to address misinterpretation of the accounts, including by distinguishing between domestically and foreign-controlled corporations.

## **2. CROSS-BORDER MOBILITY OF CORPORATE ASSETS**

**15.33** Cross-border mobility of movable corporate assets, including intangible assets such as IPPs, can make the true location of the generation of value added and profits ambiguous. Because IPPs are not physically constrained and the use of an IPP by one part of an MNE group does not prevent the simultaneous use by another part, the MNE can potentially register a previously produced IPP in another economy to maximize the MNE group's overall post-tax profits.

**15.34** Determining economic ownership of IPPs potentially has a major effect on the recording of assets and related flows and stocks in macroeconomic statistics. The creation of IPP assets at one location in an MNE group is quite often funded by affiliates elsewhere in the group. These arrangements are known as cost sharing agreements where the costs associated with research at one location are funded by a number of affiliates across the group.

**15.35** Section C of this chapter and Figure 15.2 describe the decision tree that should be used to determine the economic ownership of IPPs. It should be emphasized, however, that the measurement of the IPP-related flows and stocks within an MNE group, such as recording the sale or transfer of IPP assets or the payment of royalties based on reported transfer prices, could significantly bias the flows shown in the accounts relative to the discounted present value of expected future returns, which unfortunately may not always be available to the compiler. Also, if faulty data are used in implementing the decision tree for determining economic ownership, ownership of IPPs could be attributed to the wrong economy, which would lead to distortions in GDP and other macroeconomic indicators. Furthermore, even when the data underlying the determination of economic ownership and the measurement of IPP flows and stocks are correct, in some cases the resulting flows and stocks could be surprising to data users and might be inappropriate for certain types of analysis. For example, if a large MNE that produces software originals transfers the ownership of the originals to a low-tax economy, and the global sales of copies of the software are routed through the low-tax economy, this economy could show high value added in software copies with very little associated labor input and remuneration of employees. Some users of the GDP statistics for that economy might consider the statistics to be distorted, or at least to be difficult to interpret in the context of typical business cycle analysis that assumes a strong relationship between GDP and aggregate labor input. Moreover, the transfer of the originals themselves may pose challenges to the interpretation of exports/imports and capital formation. If practical, the identification within exports/imports and capital formation of transfers of previously produced IPPs contributes to understanding the role of those transactions in GDP and components.

### 3. CONSISTENCY AND COHERENCE OF MNE GROUP DATA

**15.36** Ensuring that all activity of an MNE group is captured, not duplicated, and properly allocated by economic territory is a statistical challenge since the *Manual* does not view the MNE group as a single unit. If not properly recorded, the activities of MNE groups could result in a misallocation of GDP and, as a result, could distort an economy's macroeconomic indicators.

**15.37** Inconsistent recording of some transactions of MNE groups can lead to large discrepancies in the accounts. Various data sources used in the compilation of statistics

may use different statistical units or definitions and may record flows and positions in different ways, making it difficult for the compiler to achieve consistency in the measurement of economic activity. Compilers in some national statistical offices have addressed these issues by focusing attention on large MNEs, endeavoring to coordinate the collection of data from the MNE group, tracking changes in the composition of the group, and conducting coherence analysis to ensure that the data are consistent. The successful pursuit of this strategy requires monitoring and understanding of the business activities of the MNE group, as well as maintaining good communication with representatives of the group. In several countries, these tasks are carried out by specific organizational units, combining the expertise of national accountants, BOP experts, and business accountants. Where confidentiality rules allow for it, compilers are also encouraged to exchange source data and reconcile the activities of MNE groups with their counterparts in other economies (see paragraph 20.51).

## **E. MACROECONOMIC INDICATORS AND SUPPLEMENTARY INFORMATION TO MONITOR THE IMPACT OF GLOBALIZATION**

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### **1. EXISTING MACROECONOMIC INDICATORS**

#### **Key Indicators Other than GDP**

**15.38** Traditionally, analysis of economic activity within an economy focused on GDP as a broadly defined, internationally consistent measure of productive activity. Considering various economic developments, including increased globalization, the integrated framework of the SNA has given increased prominence to other key indicators, such as net domestic product (NDP), gross/net national income (GNI/NNI), gross/net national disposable income (GNDI/NNDI), and household (adjusted) disposable income. These indicators are generally less affected by globalization and less sensitive to the impact of MNE activities than GDP. This is an important factor to consider, especially for economies with significant MNE presence. As such, indicators other than GDP may better reflect the impact of the underlying economic activities of MNEs on an economy's residents.

**15.39** To illustrate these differences, consider a direct investment enterprise that is wholly owned by a foreign parent and is engaged in capital-intensive production. Because the production process is capital-intensive, most of the value added accrues as operating surplus to the foreign parents, perhaps primarily as reinvested earnings on direct investment, whereas only a relatively small part of the value added remains in the domestic economy as remuneration of employees. Similarly, if an MNE engages in distorted transfer pricing to boost the income of an affiliate in a lower tax economy and it is not possible to replace the distorted transfer prices with the "arm's length" exchange values in the

compilation of the accounts, the transfer pricing will have less effect on GNI than on GDP. In both cases, comparing GDP with GNI, GDP includes the full value added, whereas GNI excludes the property income that accrues to foreign investors, whether in the form of dividends or interest that are repatriated to the parent or in the form of reinvested earnings on direct investment. The GNI comes closer to measuring the economic flows that are retained by the economy's residents.

**15.40** Similarly, net measures such as net national income (NNI) will tend to better capture the impact of MNE activities on domestic residents than the gross measure. For example, consider an economy to which an MNE relocates a large amount of IPPs. The IPP generates on-going production and income in the form of royalties or license fees, which directly feed into the measurement of GDP. GNI excludes the property income that accrues to foreign investors, but NNI goes one step further by also excluding the depreciation that is associated with the IPP.

**15.41** When current transfers represent a large share of an economy's income, net national disposable income (NNDI) can provide a better measure of the income available to residents for consumption or saving. Furthermore, when interest is focused primarily on the material well-being of households, indicators such as net household disposable income, either adjusted or not for social transfers in kind, may provide the best summary of economic conditions. The latter indicators are hardly affected by the activities of MNE groups; basically, only the remuneration from being employed by the domestic affiliates of the MNE group feeds into household (adjusted) disposable income.

## 2. SUPPLEMENTARY DATA

### Additional Granularity in the Institutional Sector Accounts and External Accounts

**15.42** The institutional sector accounts of the *SNA* show the full sequence of economic accounts from output and value added to net lending and borrowing, the financial account, the other changes in assets and liabilities accounts, and the resulting balance sheets for institutional sectors. Adding granularity to these accounts and the external accounts based on ultimate control and ownership of corporations can highlight the full impact of MNE activities in the macroeconomic accounts and highlight not only foreign-controlled enterprises but also the domestic enterprises that are part of MNE groups. Because of the data intensity involved, it is recommended that the increased granularity be limited to the nonfinancial corporations' sector and the financial corporations' sector, and that the breakdown of MNE groups is not needed for any subsector.

**15.43** For economies for which SPEs have a significant presence, it is recommended that SPEs be separately identified as "of which" items within the institutional sector accounts and

external accounts. Separate identification of SPEs is important for better understanding the contribution of SPEs from both the national and external accounts perspective. For economies for which SPEs are significant, it is recommended that the SPEs are separately identified as a supplementary “of which” item for foreign-controlled financial and nonfinancial corporations.

**15.44** Table 4.1 provides a template for the breakdown of the nonfinancial and financial corporations’ sector by domestic multinational corporations and foreign-controlled corporations as well as “of which” categories for SPEs.

### **Supplementary Direct Investment Statistics**

**15.45** The increasingly complex financing and ownership structures of MNE groups, driven by many factors such as tax optimization or labor and transport cost reduction, play an important role in direct investment relationships. Direct investment often involves MNEs channeling investments through several economies, resulting in a large portion of direct investment flows in some economies being flows going in and out of the economy on their way to their final destination. This can make it difficult to interpret direct investment statistics and does not show the ultimate sources and destinations of direct investment when the statistics are compiled by immediate partner economy. Supplementary presentations of direct investment statistics, by ultimate investing economy, by ultimate host economy, etc., can help address these challenges. These supplementary statistics are covered in detail in Annex 6 and in the fifth edition of the *OECD Benchmark Definition of Foreign Direct Investment*.

### **Supplementary Presentation of Trade and Investment Income**

Reference:

- United Nations, *Handbook on Integrating Business and Trade Statistics*.

**15.46** To develop indicators on global value chains (GVCs) and to better identify the role of MNEs in current account transactions, a supplementary presentation of trade and investment income by characteristics of the enterprises, including ownership (e.g., domestically controlled or foreign-controlled) and size, is recommended.

**15.47** Economies are encouraged to compile data on goods trade by enterprise characteristics (TEC) as well as services trade by enterprise characteristics (STEC). Many economies have added information on whether the enterprise is foreign or domestically owned to their TEC and STEC statistics. These statistics can answer questions such as: What kind of enterprises are behind the trade flows of goods and services? What is the share of small and medium-sized enterprises in total trade? What is the share of enterprises that trade with a certain partner economy and the amount of trade value they account for?

These statistics can also enable compilers to prepare a supplementary presentation that disaggregates exports and imports of goods and services and external flows of investment income broken down by ownership, size-class of enterprises, trading partner, product, and industry.

**15.48** Table 15.2 provides a template for this supplementary presentation. The main breakdown is by domestic versus foreign ultimate control. The template also calls for the identification of small and medium-sized enterprises (SMEs) that employ fewer than a threshold of a given number of employees. Many economies use the threshold of less than 250 employees. This threshold is encouraged to enhance international comparability, but other thresholds could also be considered. In cases where the underlying data are not collected or available at the enterprise level (for example, imports of goods or services by individuals), the transactions should be reported as “Unknown”. It will be beneficial to further divide SMEs into independent SMEs (i.e., not a part of a group) and those that are part of a group to try to identify the SMEs that might benefit from inputs of affiliated parties.

**15.49** While the template represents a recommended level of disaggregation, some economies may be able to provide further disaggregation along certain dimensions, whereas in other cases economies may not be able to provide the recommended level of disaggregation because of their own confidentiality criteria for disseminating the information or lack of detailed data. Whatever the case, the most economically relevant breakdown possible should be considered when publishing these statistics.

**Table 15.2. Template to Identify the Role of Enterprise Characteristics in the Current Account**

	Total	By trading partner		By product		By industry	
		Each of top 5 partners	Rest of the world	Each of top 5 products	The other products	Each of top 5 industries	The other industries
<b>TEC BOP Statistics</b>							
1.A Export of goods and services							
Export of goods and services, total							
1.A.a Goods							
By enterprise's ownership							
Domestically controlled							
MNE							
Other							
Controlled from abroad							
Unknown							
By enterprise's size							
SME							
Independent							
Part of a group							



Large enterprises Unknown 1.A.b Services By enterprise's ownership Domestically controlled MNE Other Controlled from abroad Unknown By enterprise's size SME Independent Part of a group Large enterprises Unknown 1.B.2 Receipts of investment income By enterprise's ownership Domestically controlled MNE Other Controlled from abroad Unknown By enterprise's size SME Independent Part of a group Large enterprises Unknown				
1.A Import of goods and services Import of goods and services, total 1.A.a Goods By enterprise's ownership Domestically controlled MNE Other Controlled from abroad Unknown By enterprise's size SME Independent Part of a group Large enterprises Unknown 1.A.b Services By enterprise's ownership Domestically controlled MNE Other Controlled from abroad				

Unknown				
By enterprise's size				
SME				
Independent				
Part of a group				
Large enterprises				
Unknown				
1.B.2 Expenditures of investment income				
By enterprise's ownership				
Domestically controlled				
MNE				
Other				
Controlled from abroad				
Unknown				
By enterprise's size				
SME				
Independent				
Part of a group				
Large enterprises				
Unknown				

### Other Supplementary Statistics on Trade in Goods and Services

**15.50** Detailed statistics on imports and exports may also be useful for the analysis of GVCs. In particular, reporting of the following items is encouraged: total value of re-exports and main product and/or partner breakdown; total value of goods acquired or sold under merchanting and the main products and/or major trading partners; a reconciliation table between international merchandise trade statistics and trade in goods statistics; product and partner breakdown of total trade in goods in line with the recording in the external accounts as well as a geographical breakdown of the main services categories (see also Chapters 10 and 11, as well as Annex 11).

### 3. ALTERNATIVE PRESENTATIONS

#### Alternative Presentation of Reclassified Special Purpose Entities

**15.51** Economies for which SPEs are deemed to be especially important are encouraged to consider a voluntary option of extending the external accounts by compiling a supplementary presentation of SPEs reclassified from their economies of legal incorporation to the economies of their parents. Although this alternative presentation is outside the scope of the standard presentation, it would allow users to see the effects of consolidating the flows of SPEs with the other flows of parents, giving users an idea of the effects of pass-through flows within MNE groups on core macroeconomic indicators. Presenting SPE

statistics on a nationality basis would be a complement to the residency-based statistics and not a substitute. Compiling these supplementary statistics should be considered only for economies for which SPEs are deemed important, particularly where resident MNEs set up many foreign SPEs or nonresident MNEs set up many resident SPEs. This supplementary approach of compiling macroeconomic aggregates is considered too ambitious and resource intensive to implement consistently across economies in which SPEs are not deemed important. Arriving at consistent high-quality estimates would also require significant exchange of source data between countries, which may be hampered by confidentiality rules.

#### 4. STATISTICS ON THE ACTIVITIES OF MULTINATIONAL ENTERPRISE (MNE) GROUPS

##### References:

- Eurostat, *Recommendations Manual on the Production of Foreign Affiliates Statistics*.
- Organization for Economic Cooperation and Development (OECD), *OECD Benchmark Definition of Foreign Direct Investment*.
- OECD, *OECD Handbook on Economic Globalisation Indicators*
- United Nations, *Manual on Statistics of International Trade in Services*

##### Introduction

**15.52** To complement statistics on direct investment and other globalization indicators, information on foreign-controlled enterprises is provided through statistics on the Activities of Multinational Enterprises (AMNE statistics) and the closely related Foreign Affiliates Statistics (FATS). AMNE statistics cover a range of variables on direct investment enterprises, as described below. This wider dataset is compiled separately from BOP and integrated IIP statistics (although the data may be collected in the framework of direct investment compilation), as the data relate to the overall holdings and activities of direct investment enterprises rather than just the direct interrelations (positions and transactions) by them with related enterprises. That is, the objective of AMNE statistics is to provide an additional perspective on the impact of direct investment that is complementary to data on international flows and positions. This section is designed to give an overview of the nature and compilation of AMNE statistics for the information of BOP compilers and users who may be considering this extended range of information.

**15.53** AMNE statistics may be produced for both foreign-controlled enterprises in the compiling economy (a subset of inward direct investment; so-called “inward AMNE

statistics”) and foreign affiliates controlled by MNEs in the compiling economy (a subset of outward direct investment; so-called “outward AMNE statistics”). In addition, outward AMNE statistics may also cover the activities of resident direct investors.

**15.54** AMNE statistics can be important for the analysis of the performance of domestically and foreign-controlled enterprises, both in absolute terms and relative to the larger domestic and foreign universes of enterprises. Direct investment enterprises may be involved in activities such as research and development that benefit the domestic economy but may not be recorded as BOP transactions. Also, data on transactions in goods and services (with both residents and nonresidents) can provide an additional perspective to BOP data, as transactions by direct investment enterprises with unrelated units could be significant.

**15.55** Detailed discussion and recommendations for measuring AMNE and for FATS can be found in the *Manual on Statistics of International Trade in Services*,<sup>1</sup> in the *OECD Handbook on Economic Globalisation Indicators*, and in the fifth edition of the *OECD Benchmark Definition of Foreign Direct Investment*. A summary is provided here.

## Coverage

### *Universe or Population*

**15.56** AMNE statistics cover the subset of direct investment enterprises in which the direct investor (or a group of investors in combination) directly or indirectly holds or controls a majority of the voting power (i.e., subsidiaries). This differs from the scope of direct investment enterprises due to the exclusion of associates. AMNE statistics follow the definition of direct investment discussed in this *Manual* (paragraphs 6.8–6.24) in that coverage is defined as those enterprises with majority foreign ownership of the voting power by a single investor or a group of investors acting together. Only those enterprises with foreign control are covered in AMNE statistics.

### *Economic Variables for AMNE Statistics*

**15.57** Basic variables of substantial interest may include sales (turnover) and/or output; labor input; value added; exports and imports of goods and services; and number of enterprises.

**15.58** Other variables that might be collected to supplement these data include assets (both financial and nonfinancial); remuneration of employees; operating surplus; taxes on

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<sup>1</sup> The *Manual on Statistics of International Trade in Services* focuses on foreign affiliates producing services, but notes that most of its recommendations (all other than those related to industry/product groupings) for compiling these statistics are equally applicable to goods and services.

income; gross fixed capital formation; net worth; research and development expenditures; total purchases of goods and services; and intra-group exports and imports.

**15.59** The definitions of these variables are given in the *2025 SNA* and in the documents referenced above. It is also useful to have data for the total population of enterprises, or for the domestically-controlled enterprises on the same basis as AMNE statistics on inward direct investment, so performance can be compared with foreign-controlled enterprises.

### Statistical Units

**15.60** In principle, most AMNE statistics could be collected at the enterprise group or enterprise level, or the level of individual business locations or establishments. Some indicators, such as total assets, are more naturally collected from enterprise groups or enterprises than from establishments, and some indicators, such as financial assets and liabilities and balance sheets, cannot be collected from establishments. Direct investment statistics are usually collected from enterprise groups or enterprises, so collection of AMNE statistics at this same level facilitates linkages between the two types of data. However, because enterprise groups and enterprises are more likely than establishments to have activities in multiple industries, data that are classified on the basis of primary activity can be more difficult to interpret for enterprise groups and enterprises than for establishments. There are thus advantages and disadvantages to supplementing enterprise group of enterprise level data with data on production collected at the establishment level, and no recommendation is made as to the appropriate statistical collection unit. AMNE statistics will often be developed in the context of existing statistical systems, in which the statistical units are already defined, and in these cases, there may be little choice in the units used.

### Time of Recording and Valuation

**15.61** Time of recording and valuation are consistent with the *Manual*. Flow variables, such as output or value added, should cover the whole of the reference period (usually a year), and should be measured on an accrual basis. Stock variables, such as assets and net worth, should be as at the end of the reference period. All transactions and positions variables in principle should be measured at market value.

### Attribution of AMNE Variables

#### *Geographic*

**15.62** For statistics on foreign-controlled enterprises in the compiling economy (inward AMNE statistics), the geographical attribution should be by the economy of the ultimate controlling parent. However, to facilitate links with direct investment data, compilers are encouraged also to provide some data in which attribution is based on the economy of the immediate investor (that is, the first foreign parent). Statistics for foreign enterprises

controlled by direct investors resident in the compiling economy (outward AMNE statistics) should be attributed based on the location of the enterprises whose activities are being described.

### *By Activity and by Product*

**15.63** Ideally, all AMNE variables should be attributed on the basis of the industrial activities of the establishment or enterprise, according to the United Nations *International Standard Industrial Classification of All Economic Activities* (ISIC).

**15.64** In addition, particular variables such as sales or output, exports, and imports may be attributed by the types of products produced and sold. Data on a product basis would identify the specific types of goods and services delivered through foreign-controlled enterprises and could most readily be compared with data on goods and services delivered through trade between residents and nonresidents, and to domestic output. However, some variables, such as value added and labor input, do not readily lend themselves to a product classification.

**15.65** As a longer-term goal, compilers are encouraged to work toward disaggregating, by product, some or all of the variables that lend themselves to this basis of attribution (such as sales (turnover) or output, exports, and imports). Product-based statistics are free of problems of interpretation related to secondary activities and are consistent with the basis of classification used for trade in goods and services in the BOP.

### **Compilation Issues**

**15.66** There are two basic approaches, not necessarily mutually exclusive, to developing AMNE statistics. The first is to conduct surveys that directly request information on the operations of the covered enterprises (appropriate for both inward and outward AMNE statistics). The second identifies the subset of existing domestic enterprise data that is accounted for by foreign-owned firms (for inward AMNE statistics only). Direct investment registers may be used in either case to identify the units to be covered (as well as the economy of attribution, in the case of inward AMNE statistics). The collection of data for inward AMNE statistics can also be combined with the collection of data for supplementary data on foreign-controlled corporations in the external accounts.

**15.67** For both inward and outward AMNE statistics, questions about key AMNE variables might be added to existing surveys of direct investment transactions and positions. However, because direct investment surveys may be conducted more frequently than AMNE statistics are required (for example, quarterly rather than annually) and require a quick turnaround, and also because AMNE statistics are needed for only the controlled portion of the direct investment universe, separate surveys may be a more appropriate way to proceed.

**15.68** For inward AMNE statistics, it should be possible to link the direct investment statistics to the existing domestic economic statistics (for example, as collected for national accounts purposes) through the use of information on ownership structure to identify those resident enterprises that are foreign-controlled, as well as identifying the residence of the owner. AMNE statistics would be obtained as an aggregation of statistical variables across the foreign-controlled statistical population.

**15.69** Additional questions may have to be added to direct investment surveys if information on the ultimate controlling parent is to be obtained.

## F. ANALYTICAL TOOLS

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**15.70** The parts and components that make up a final product, whether a good or a service, are increasingly produced in different economies. Therefore, intermediate goods and associated services may cross national borders several times before they are assembled and sold as a final product. Moreover, international trade in goods and services is often intra-group trade, organized and led by MNEs.

**15.71** Policy demand for more statistical information on GVCs has grown significantly over recent years. Production fragmentation has deepened the divergence between gross flows, as recorded by traditional international trade statistics, and the data on production and final demand as accounted for in the integrated framework of national accounts. This section introduces analytical tools that have been developed to better understand the relationship between globalization and the domestic economy.

### Trade in Value Added Indicators

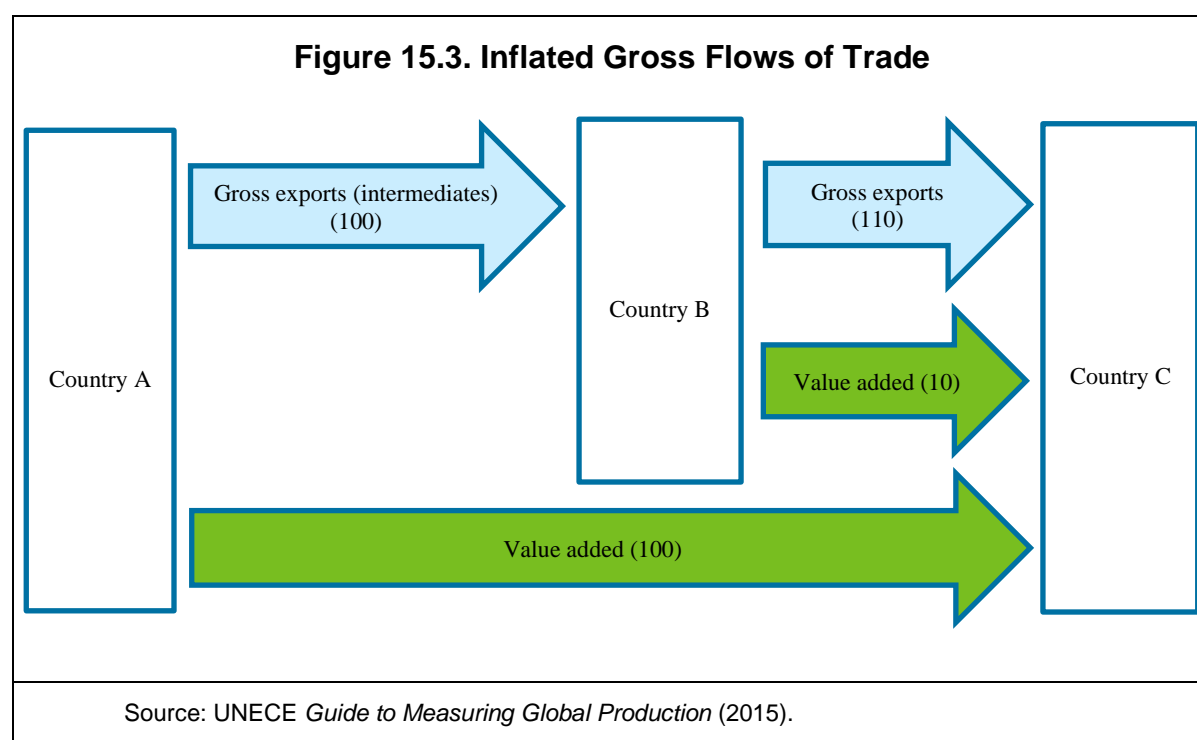
References:

- OECD (2021), *Guide to OECD's Trade in Value Added Indicators: 2021 Edition*.
- United Nations Economic Commission for Europe (UNECE) (2015), *UNECE Guide to Measuring Global Production*

**15.72** International trade flows are generally reported on a bilateral gross basis—that is, an economy will report its exports and imports with each of its trading partners each time a change of ownership occurs. When the production process is fragmented across multiple economies, these bilateral gross trade flows taken by themselves may present a distorted view of the ultimate location of production.

**15.73** Consider the example shown in Figure 15.3. Country A exports goods produced entirely within A to Country B, which further processes them before exporting them to Country C where they are consumed. The value added of A is 100 (the same as the value of

the exports), and B adds value of 10 to the goods, thus exporting 110 to C. Trade statistics show total global exports and imports of 210, but only 110 of value added has been generated in their production. The bilateral gross flows show C importing 110 from B and no trade at all with A, even though A is the main source of value added in the goods that C is importing from B. Note that C's trade deficit with the world is 110, and the gross trade flows suggest that the deficit is entirely due to its trade with B, even though most of the income associated with the imports of the good ultimately flow to A. The bilateral gross trade flows and any deficit or surplus associated with those flows are likely to provide a misleading picture of the location of production and the ultimate benefits or harms resulting from international trade.



**15.74** Several handbooks, guides, and statistics have been published since 2010 to better address the statistical challenges in understanding the nature of global production, such as *OECD Guide to OECD's Trade in Value Added Indicators: 2023 Edition*. The Trade in Value Added (TiVA) approach addresses the double counting implicit in gross flows of international trade. TiVA measures the value that is added by each economy and industry in the production of goods and services that are traded and consumed worldwide.

**15.75** The TiVA information thus incorporates information about the entire global value chain, providing information that policy makers can use to understand the global effects of their economy's foreign trade flows, potentially impacting policies regarding the effects of



trade on growth and competitiveness, global imbalances, macroeconomic shocks, labor, and the environment.

**15.76** The TiVA measurement model involves compiling a multi-country input-output table, which combines national supply and use tables with trade statistics. The worldwide input-output table enables the tracking of exports of one economy that are used as intermediate consumption in an industry of a second economy. The worldwide input-output table also includes columns that record the final demand in each economy and rows that record taxes less subsidies on products, value added at basic prices, and output for each industry in each economy (see Chapter 36, Input-Output Tables, of the *2025 SNA* for more information on multi-country input-output tables).

**15.77** Among the key indicators provided by the TiVA statistics are the domestic content of an economy's exports (that is, the domestic value added of exports as a percentage of total gross exports), a decomposition of an economy's gross exports by source economy in value added terms, and a similar decomposition of an economy's gross imports by source economy in value added terms. It is also possible to decompose the value added content of exports by value added generated by the production of goods and the value added generated by the production of services. Finally, these decompositions often also show that a portion of the value added of imported intermediate goods reflects an economy's own domestic value added (from an earlier stage in the global value chain) that has "returned" to the economy.

## Chapter 16. Digitalization

This is a common chapter with Chapter 22 of the 2025 SNA, and for the most part, the text is identical in both the *Manual* and the 2025 SNA.

### A. INTRODUCTION

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**16.1** Falling costs and rising capabilities to process, transmit, and store digitized data have resulted in the extensive integration of digital technology into goods and services and the activities of production and consumption. This transformation of economic activity and daily life through the pervasive application of digital technology is referred to as digitalization. Digitalization has been enabled by information and communications technology (ICT) goods and services, including the internet, semiconductor chips, computing and electronic communication equipment, software, and wireless digital telecommunication services.

**16.2** A wide variety of digital products and activities have appeared as part of digitalization, and digital assets (defined as assets that exist only in digital form such as crypto assets), data, and software have assumed important roles as stores of wealth or inputs in production. The profound impact of digitalization on production, consumption, transacting, investment, prices, finance, and other aspects of the economy, as well as its impact on international trade in goods and services and other cross-border transactions, calls for enhanced visibility of digital activities, products, and transactions in the macroeconomic accounts. Guidelines are therefore needed on measuring the activities, products, and assets associated with digitalization in the conceptual framework of the external accounts and on enhancing the visibility of digital activity and products in the macroeconomic accounts.

**16.3** Measurement issues associated with digitalization, or that touch on digitalization, are also discussed in other chapters of the *Manual* and in other macroeconomic statistical standards. To increase the visibility of digitalization, Chapter 11 recommends showing computer and information services as a first-level services category in the current account. Chapters 10, 11, and 14 discuss the main types of nonfinancial assets that have enabled or resulted from digitalization, which include ICT equipment, software, data and databases, crypto assets without a corresponding liability, and digital elements of research and development. Chapter 5 discusses the classification of crypto assets with a corresponding liability and electronic money (e-money). Finally, the *Handbook on measuring data in the System of National Accounts* (forthcoming) discusses the measurement of data as an asset,

the *Handbook on measuring digital trade* discusses digital intermediation platforms and other aspects of trade affected by digitalization, and the *OECD Handbook on compiling digital supply and use tables* discusses tools to increase the visibility of digitalization in macroeconomic accounts.

**16.4** To provide a consolidated view of measuring and reporting on key aspects of digitalization, and to cover additional aspects of digitalization, this chapter considers the main conceptual and measurement issues presented by the products, activities and assets, including related cross-border transactions, that have emerged as part of digitalization and recommends tools for increasing the visibility of digitalization in external sector statistics. The rest of this chapter is organized as follows. Section B introduces digital transactions, industries, and products. Section C discusses digital platforms, including nonfinancial digital intermediation platforms along with free online platforms and other free products associated with digitalization. Section D discusses digitalization and the financial system, with subsections on new financial services and means of payment enabled by digitalization, financial digital platforms, and fungible digital assets, including crypto assets. Sections B, C, and D also highlight the issues relevant for the external accounts.

## **B. DIGITAL TRANSACTIONS, INDUSTRIES, AND PRODUCTS**

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### *Digital Transactions*

**16.5** An analysis of digital transactions is a key part of understanding the current state and evolution of digitalization, as digital transactions enable many of the activities and products associated with the digital transformation. Digital transactions include both digitally ordered and digitally delivered transactions and encompasses both goods and services. Digitally ordered transactions are transactions ordered over a computer network by methods specifically designed for receiving or placing orders. Digitally delivered transactions are services that are delivered remotely over computer networks.

**16.6** E-commerce transactions are equivalent to digitally ordered transactions. An e-commerce transaction is the sale or purchase of a good or service conducted over a computer network by methods specifically designed for the purpose of receiving or placing orders. E-commerce transactions can be ordered from a retail or wholesale trader, directly ordered from the producer or supplier of the good or service, or ordered via a digital intermediation platform. E-commerce margin services are supplied by retail and wholesale traders that receive orders digitally.

### *Digital Industries*

**16.7** Digital industries include the producers of the goods and services that enable digitalization. For example, digital transactions are made possible by digital networks and complementary ICT products. Digital industries also include the industries enabled by digital networks. One such industry consists of e-tailers, which are retail and wholesale traders that receive most orders digitally. Other digital industries discussed below are digital intermediation platforms, platforms based on data collection and advertising, and financial service providers that predominantly operate digitally.

### *Digital Products*

**16.8** The remainder of this section defines the digital products that could be included in an analysis of the supply and use of digital products or of international trade in digital products. Some products that have emerged as part of digitalization raise measurement questions. The measurement of some specific digital products is covered in subsections.

**16.9** Digital products either enable digitalization or are enabled by digital technology and infrastructure. The products enabling digitalization include ICT goods (both ICT equipment and components), software, data and databases, and telecommunication and network communication services. The products enabled by digitalization include services delivered over a computer network, such as cloud computing (which is also an enabler of many digital services), digital intermediation and other services of online platforms, audio and video streaming, online conferencing, online learning, and digital financial and payment services.

**16.10** Digital products can be divided into ICT goods and digital services, with digital knowledge-capturing products such as computer programs, data and databases included in digital services unless sold on physical media such as a disk. The ICT goods are the goods included in the ICT products of the alternative structure for products of the information economy in the *Central Product Classification (CPC) version 2.1*. Digital services include the ICT products that are services – ICT services, digitally delivered content and media products such as online video games, and services of validating transactions in digital assets.

**16.11** Digitalization has resulted in, and been accelerated by, the emergence of cloud computing as a new way of accessing ICT resources. It has also resulted in new types of assets. The conceptual and measurement issues raised by cloud computing, data assets, artificial intelligence (AI) systems, and nonfungible tokens as a type of digital asset are discussed in this section. Online platforms are discussed in Section D and digital financial services and fungible digital assets are discussed in Section E.

## 1. CLOUD COMPUTING

**16.12** Cloud computing technology has enabled a shift in the location where most computing occurs from the user's premises to remotely located data centers accessed over a network, sometimes referred to as "the cloud." Furthermore, the growing use of cloud computing services has caused large scale substitution of purchased ICT services for ownership of computing and communication equipment and software assets. Cloud computing services are used in the production or delivery of many of the digital services delivered over the internet, including AI computing services. Cloud computing services are primarily used as an input into the production of other goods and services (i.e., for intermediate consumption).

**16.13** Cloud computing services consist of computing, data storage, software, and related ICT services accessed remotely over a network, supplied on demand and with measured resource usage. Measured resource usage allows pay-per-use charging based on actual resources consumed, although charges are sometimes based on predetermined limits on the IT resources accessed (e.g., data storage). Measured resource usage also helps allocate resources efficiently because cloud computing technology takes advantage of resource pooling. Another characteristic of cloud computing technology is rapid elasticity, which means that users with fluctuating or fast-changing computing needs can scale their consumption up or down as circumstances warrant.

**16.14** The main cloud computing products can be divided into three broad categories: (i) infrastructure-as-a-service (IaaS), which gives the user on-demand access to hardware such as a virtual server; (ii) platform-as-a-service (PaaS), which also includes access to a software platform; and (iii) software-as-a-service (SaaS), which includes access to the application software. Users of IaaS or PaaS provide their own software license, or software original. Function-as-a-service (FaaS) is a simplified type of PaaS that allows application functionalities to be executed in response to events. In addition, business-process-as-a-service (BPaaS) enables organizations to automate business processes using cloud computing software and platforms (i.e., SaaS and PaaS).

**16.15** Cloud computing is part of a broader shift to remote computing that also includes the growth of co-location and hosting services. Remote data centers can offer advantages such as physical infrastructure that supports large-scale computing, high network bandwidth and optimized connectivity, low cost, and security. To benefit from such advantages, IT users may lease space for their equipment in a colocation data center, or they may lease servers and other ICT equipment from a supplier of managed or unmanaged hosting services. IT users often consume a combination of the three types of remote computing services—for example, their co-located or hosted equipment may connect with a supplier of cloud computing services.

**16.16** Cloud computing users with a long-term contract for dedicated access to a server in a cloud computing data center are considered to be economic owners of the server if the operating risk is borne by the user, making the contract a financial lease. Also, rather than paying per-use licensing fees to access a software product supplied by the cloud computing enterprise, cloud computing users may hold long-term license for a software product that they access in the cloud. If the term of the software license is more than a year, the license conceptually represents a software asset of the user, and one-year software licenses that automatically renew are also treated on the same lines, for practical reasons. Software subscriptions from software publishers that come with a long-term license are software assets, not intermediate consumption of software services (which is the case with licenses of less than one year). This follows the treatment of software licenses outlined in paragraph 11.99–11.101, 2025 SNA.

**16.17** Real estate enterprises that specialize in the construction and operation of data center buildings often lease data center buildings to cloud computing enterprises. If the cloud computing enterprise bears the operating risks and receives the economic benefits from using the relevant asset in the production of goods and services, the lease should be treated as a financial lease. The shift from purchasing software and hardware, which is recorded as fixed capital formation, to consuming cloud computing services presents challenges for the analysis of the contribution of ICT capital to economic growth and total factor productivity (TFP) growth. To provide the detailed data on consumption of cloud computing and hosting services needed to understand the changes in how ICT resources are accessed and the general role of ICT in production may require adding product detail on cloud computing and related services to existing classifications.

**16.18** Cloud computing and other remote computing services are often supplied across borders, and important suppliers of these services are multinational enterprises with domestic and foreign computing establishments connected by cross-border networks. The consumption of these services takes place in the location of the production process into which they are an input. For example, if a business in Country A purchases computing services from a cloud computing establishment in Country B, the computing services are to be recorded as an export of Country B and an import of Country A. In the BOP, these services are recorded as part of the standard component computer and information services (refer to paragraphs 11.102 (p)). The resource pooling aspect of cloud computing technology, which means that workloads can shift between servers or even establishments, can make it hard to know where the physical production of the computing services occurs. However, the payment flows on cloud computing should be more feasible to track. Also, ensuring that the estimates of exports and imports of cloud computing services are consistent with the value of net exports implied by the difference between the economy's production and consumption of cloud computing services may improve their accuracy. For

an economy that is just an importer of cloud computing services (and not a producer of these services), this implies that the data on intermediate consumption of these services in the economy (assuming that the services are consumed by businesses) could provide a reliable estimate of imports.

**16.19** Hosting and co-location services are exported when foreign-owned IT assets, such as servers and software, are hosted in a resident data center. Similarly, these services are imported when locally owned ICT assets are hosted in a nonresident data center. The (fixed capital formation in the) ICT assets should be recorded in the economy of their owner.

## 2. DATA AND DATABASES

**16.20** The emergence of data as an important type of intellectual property product is among the ways in which digitalization has transformed the economy. In the digitalized economy, many enterprises owe much of their value to their holdings and uses of data, and many products and production processes depend on data. These enterprises' data assets enable them to match suppliers, products, or information to buyers' needs. In particular, e-tailers and online platforms use data to produce matching services, either of customers with the product that suits their needs, of users with each other, of producers with consumers, of advertisers with viewers, or of funders with borrowers. Moreover, producers of all types, including governments, use data for purposes such as developing and implementing product or program improvements, improving operational efficiency and customer experiences, planning, and marketing.

**16.21** *Data can be defined as information content that is produced by accessing and observing phenomena, and recording and storing information elements from these phenomena in a digital format, which provide an economic benefit when used in productive activities. Data as an asset is data used in production for more than one year. Data that does not provide a direct economic benefit to its owner, including ancillary data generated as a by-product of the producer's operations, is excluded from data assets.*

**16.22** Data is produced when information on observable phenomena such as facts, behaviors, and characteristics is recorded and stored in digital format. In the next step in the data information value chain, databases are created by structuring and organizing the data to enable efficient retrieval and analysis. Databases consist of files of data organized in such a way as to permit resource-effective access and analysis. They do not include the cost to obtain and produce the data or the cost of the database management system (DBMS) software. The cost of producing databases includes planning and implementing the structure and design of the database and preparing the data to facilitate its analysis.

**16.23** In the last step of the data information value chain, the owner of the data derives economic benefits from the data by using them in production, for example by extracting

insights and knowledge via the analysis of the data. (The owner of the data could also derive economic benefits by selling the data, in which case different steps of the data information value chain will be performed by different data owners.) Intellectual property products, including software, research and development, and mineral exploration, may be created by producing and analyzing data. If the data are used only once to develop an intellectual property product and will not be re-used, then the cost of acquiring the data is included in the value of the intellectual property product and not considered as a separate data asset.

**16.24** Despite their conceptual difference, data and databases are difficult to measure separately because they are produced with similar inputs and because transaction prices generally reflect the combined value of the database and the data. For reporting purposes, data and databases are therefore combined into a single detailed intellectual property product called “data and databases”. This detailed product is then combined with “computer software, including AI systems” to form a higher-level class of intellectual property products. (refer to Table 11.3 and paragraph 11.106, for details on the recording of data and databases in the BOP.)

**16.25** Most data assets are produced internally. The value of own-account production of data assets is measured by their cost of production. These costs include the expenses to develop a data production strategy, to collect and record the information elements of interest, and to gain access to information on the observable phenomena.

**16.26** Data assets can also be acquired via purchases. The sale of the data original, which would include rights to sell copies of the data or licenses to use the data and all other ownership rights, transfers the ownership of the data asset to the purchaser. The sale of information derived from data, which must be distinguished from a sale of the data, is also to be recorded as a service. Cross-border transactions in data assets are recorded in the services account (refer to paragraphs 11.106 for further details).

**16.27** Digital platforms usually collect data on their users. If the subjects of the data collection receive payments for access to the collection of data on their observable phenomena, those payments are part of the cost of producing the data asset. However, payments for authorization to collect data on users’ observable phenomena are classified as earned income rather than as a service and hence included as rent (refer to paragraph 12.104 for additional details). Agreeing to collection of one’s data (such as when visiting a free online platform after accepting the license agreement) does not fall within the definition of production and is therefore not a service. (Platform users who receive payments for undertaking specific actions to assist the collection and recording of data on their observable phenomena do supply a service, but such cases are likely to be too rare in practice to be worth distinguishing.)



**16.28** Payments for access to data collection on an individual's observable phenomena are classified as rent, because being the subject of the data collection is not to be considered equivalent to supplying a service.

### 3. ARTIFICIAL INTELLIGENCE

**16.29** *Artificial intelligence refers to capabilities of a computer program, or system controlled by a computer program, of recognition, reasoning, communication, and prediction emulating human recognition, reasoning, and communication.* Machine learning, in which data enables an artificial intelligence (AI) software program to learn to predict or classify from experience, is often used to develop or improve AI programs, and AI systems rely on a combination of software and data to generate their output. Furthermore, deep learning (a type of machine learning) enables some AI programs to improve from experience while being used in production, whereas generative AI creates new content. Although they perform tasks that normally require human intelligence, AI programs often use data beyond a scale that humans could analyze.

**16.30** Many of the innovative products and product capabilities associated with digitalization are made possible by AI technologies. Among these are text mining, computer vision/image recognition, speech recognition, natural language processing, personalized recommendations, and generating content such as summaries of documents, images and software codes using generative AI. Applications of AI include translation, predictive modelling, risk assessment by lenders and insurers, data analytics, writing summaries of the content of large textual data sets, smart robots, autonomous drones and vehicles, face recognition, fraud detection, and cybersecurity. AI has greatly expanded the types of jobs or job elements potentially subject to automation.

**16.31** To aid in the analysis of the use of AI and its transformative impact on labor markets and production, AI systems should be distinguished as a special type of software within a class of intellectual property products identified as "computer software, including AI systems", with the separate reporting of AI encouraged as an "of which" item. AI is also specifically mentioned in the name of this product group. AI is classified as a special type of software even though AI systems frequently include data and hardware elements, because the system is controlled by software even when these elements are present. However, the equipment that contains an embedded AI system (or other embedded software) is still classified as equipment.

**16.32** The general compilation guidelines for software, data, and databases in Chapter 11 also apply to AI software, but AI uses data and machine learning in ways that present some special issues. Data plays a critical role in training AI software, and data is often acquired and organized in a database for the specific purpose of training an AI software program. In

addition, AI programs often use data to generate their output. The value of the data used to train an AI software product or to help AI software to generate its output should be recorded separately from the value of AI software, as the data could have multiple uses. However, data assembled in a database solely as a step in the production of an AI computer program and that cannot be re-used may be included in the costs of producing AI programs, if the sum of costs method is used to value the relevant assets.

**16.33** The performance of an AI software program with learning capabilities may improve as the program is used. Fixed capital formation is not recorded in connection with learning from experience by AI software for pragmatic reasons, as the associated cost is likely to be small. However, the depreciation rate of the AI software asset may be adjusted. Learning from experience can costlessly extend the service life of an AI program, making it appropriate to assume a long life for the asset. (Learning from experience by AI software is not the only source of improvements in the performance of software that is already being used: many software products receive automatic updates delivered over the internet.)

#### 4. NONFUNGIBLE TOKENS (NFTs)

**16.34** *Nonfungible tokens (NFTs) are digital records hosted on a blockchain that are associated with a digital or physical asset or product but that are distinct from that asset or product.* NFTs certify rights to use and benefit from the asset and may also serve to certify the asset's authenticity. They are nonfungible because the associated asset is unique and not interchangeable with other assets in the same class the way that the units of a fungible crypto assets are. Payments for NFTs usually must be made in the fungible crypto asset native to the blockchain on which the NFT is hosted (see paragraph 16.81 for the description of fungible crypto assets).

**16.35** NFTs are classified into three classes: (i) those that convey no ownership rights and only allow for personal use of a specified asset or product; (ii) those that convey limited ownership rights, beyond personal use for a specified asset or product; and (iii) those that convey full ownership rights for a specified asset or product. The main classification of NFTs is based on the type of rights conveyed rather than on the characteristics of the associated asset or good. The purchase of an NFT could, based on these rights, be classified as consumption, as an acquisition of a nonproduced asset, or as neither (assuming that the purchase of the associated asset has already been recorded). However, NFTs vary widely both in the ownership rights they convey and in the type of digital and physical asset or good to which they are linked.

**16.36** NFTs that convey no ownership rights and only allow for personal use of a specified asset or commodity (e.g., the right to display a video clip of a scoring play in a sporting event or of a piece of digital art for noncommercial purposes) are in the first category.

Cross-border transactions in this type of NFTs should be recorded under the relevant service category (computer services, audiovisual and related services, or information services) depending on the content of the related asset (refer to Table 11.3 for additional details).

**16.37** The second type of NFT conveys limited ownership rights to a specified asset or commodity that go beyond personal use to include use for commercial purposes. Cross-border transactions in this type of NFTs are included in the asset class “contracts, leases and licenses” under nonproduced nonfinancial assets and recorded in the capital account, if they confer economic benefits that the holder can realize in practice. The ownership rights conveyed to the NFT holder may affect the value of the encumbered asset. Further information on contracts, leases, and licenses is provided in Chapter 14.

**16.38** The third type of NFT conveys full ownership rights. NFTs that convey full ownership are a method of recording and verifying ownership of an underlying asset. The underlying asset should already be recorded in the integrated framework of national accounts. An NFT that conveys full ownership is a digital recording of ownership similar to a property title, not a separate asset. Purchasing an NFT in this category is therefore a way of purchasing the underlying asset. In the case of cross-border transactions in this type of NFT, if the underlying asset is digital or physical, it is treated based on the existing principles for recording such assets (refer to Table 11.3 for additional details).

## C. DIGITAL PLATFORMS

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**16.39** Platforms help users to connect with and interact with other users. Platforms are therefore subject to network effects. (Network effects occur when the value of a platform or product to each user increases as the number of users of the platform or product rises.) The opportunities for beneficial interactions with other platform users increase with the number of users in general or the number of users on the other side of the platform, so adding users makes the platform’s services more valuable. For example, increasing the number of sellers on a platform makes it more attractive to buyers and increasing the number of buyers makes it more attractive to sellers; similarly, increasing the audience size raises the prices that advertisers are willing to pay.

**16.40** Digital platforms—also known as online platforms—supply a digital service that facilitates interactions between two or more distinct but interdependent sets of users, who interact through the service via the internet. Digital (or online) platforms differ from suppliers of e-commerce margin services (or e-tailers) because they do not take possession of the goods sold on the platform. They also differ from producers that sell their own products directly to the ultimate customer via digital ordering and/or digital delivery, because they

intermediate, rather than produce, the goods and services sold on the platform. However, online platforms and e-tailers both use data to produce matching services, either of customers with the product that suits their needs, of producers with consumers, of advertisers with viewers, or of funders with borrowers. To take advantage of the synergies in technology, an enterprise might combine selling its own merchandise via digital ordering (i.e., e-tailing) and operating a digital platform that facilitate selling by others.

**16.41** Digital intermediation services facilitate transactions between multiple buyers and multiple sellers in exchange for a fee, without the unit providing the intermediation services taking economic ownership of the goods or rendering the service being intermediated. These services match producers and consumers with each other and facilitate their transactions.

**16.42** Some digital platforms are free, while other fee-based platforms facilitate financial transactions or interactions that do not involve a transaction. There are therefore four types of digital platforms:

- a. *Nonfinancial digital intermediation platforms* facilitate transactions between multiple buyers and multiple sellers for the ordering and delivery of goods, nonproduced nonfinancial assets and services for a fee or commission without taking ownership of the goods or nonproduced nonfinancial assets or rendering the services, that are being sold (intermediated).
- b. *Free online platforms* facilitate noncommercial interactions between users or provide entertainment and information services and are usually funded by advertising and the collection of data on their users.
- c. *Financial digital platforms* intermediate funding or payment transactions for a fee. Financial digital platforms are discussed in Section D.
- d. *Other fee-based digital platforms* facilitate interactions between users other than transactions in goods, nonproduced nonfinancial assets and services or financial transactions. Online dating and matrimonial platforms are examples.

## 1. NONFINANCIAL DIGITAL INTERMEDIATION PLATFORMS

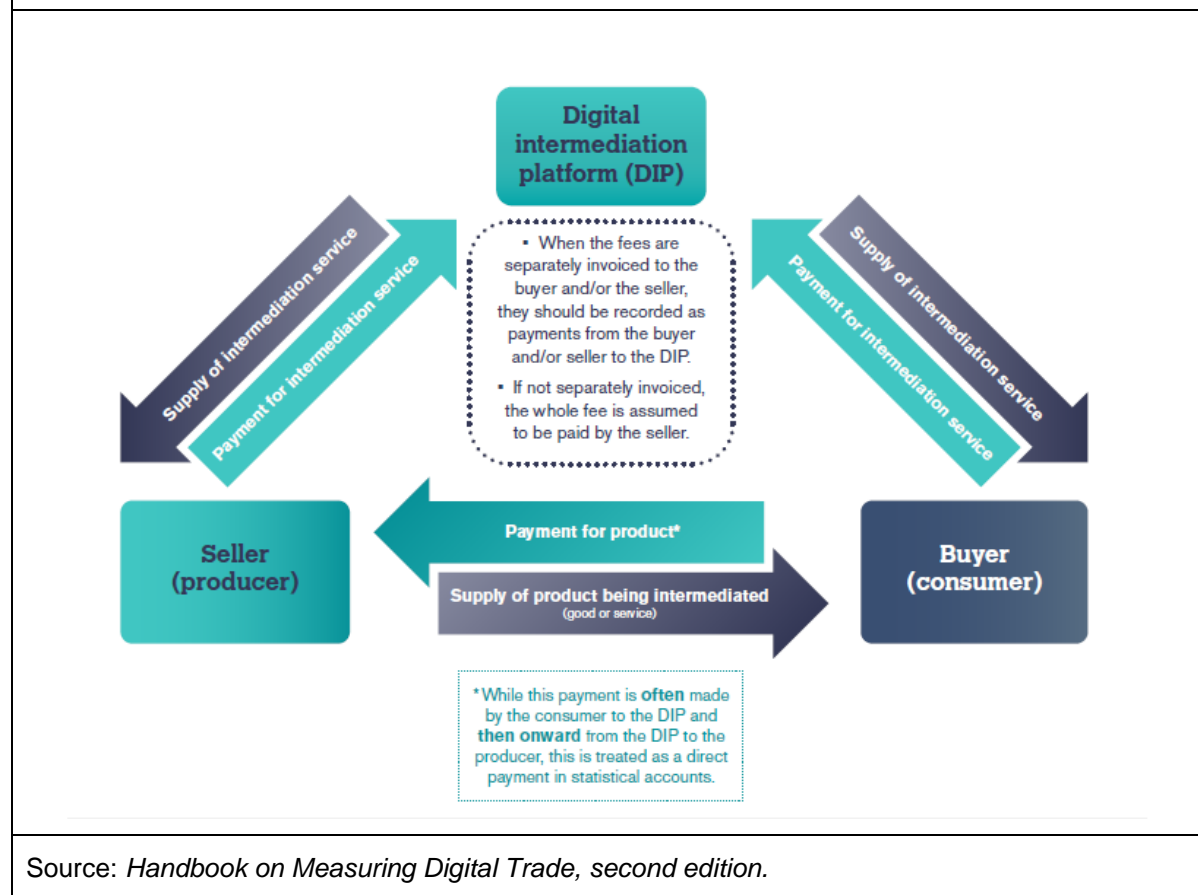
**16.43** In addition to helping buyers and sellers of goods, nonproduced nonfinancial assets and services to find each other, nonfinancial digital intermediation platforms facilitate ordering, payment for, and delivery of, goods, nonproduced nonfinancial assets and services supplied by institutional units on the seller side of the platform to institutional units on the buyer side of the platform. Digital intermediation platforms charge fees for these digital intermediation services. To increase parties' willingness to transact, they may also

provide quality assurance through steps such as vetting the parties that have access to the platform.

**16.44** The output of a digital intermediation platform consists of digital intermediation services, which may be charged via an explicit or an implicit fee. It does not include the goods, nonproduced nonfinancial assets, and services that the digital intermediation platform helps others to sell. The possible consumption of the platform's services by the users on the two sides of the platform is shown on the sides of the triangle in Figure 16.1. The seller/producer and the buyer/consumer both consume intermediation services in the case where they are separately invoiced for the services supplied by the platform. In the case where all fees for the platform's services are invoiced to the seller/producer, only the seller/producer is recorded as consuming the intermediation services, and similarly, only the buyer is recorded as consuming the intermediation services in the case where all fees for the platform's services are invoiced to the buyer. However, in all cases, the buyer using the digital intermediation platform acquires the goods, nonproduced nonfinancial assets, or services supplied by the seller/producer using the digital intermediation platform, as shown at the base of the triangle.

**16.45** Nonfinancial digital intermediation platforms often accept buyers' payments for the goods, nonproduced nonfinancial assets, and services produced or sold by platform users and pass through the amount to the producer/seller after deducting their intermediation service fee. To capture the economic substance of the transactions in which the platform passes on the payment for the good, nonproduced nonfinancial asset, or service after deducting its fee or commission, these payment flows must be rerouted to include a sale of good, nonproduced nonfinancial asset, or service by the producer/seller using the platform to the buyer using the platform and a purchase by the producer/seller of the intermediation services supplied by the platform. The approach to recording the transactions of a digital intermediation platform in which the producer of the intermediated good, nonproduced nonfinancial asset, or service consumes the platform's intermediation services is known as the producer approach. The transactions recorded after any necessary rerouting to implement the producer approach are those shown on the left side and at the base of Figure 16.1.

Figure 16.1. The Possible Types of Transactions of a Digital Intermediation Platform



**16.46** Handling the case when the platform's fee is implicitly included in the price of the intermediated product by recording transactions in which the buyer purchases the product directly from its producer/seller and the producer/seller purchases intermediation services from the platform has some important advantages. This approach allows the supplying of the goods, nonproduced nonfinancial assets, and services sold on digital intermediation platforms to be recorded in the appropriate industry and the consumption of those goods, nonproduced nonfinancial assets, and services to be recorded in the appropriate class of products.

**16.47** The buyer is recorded as purchasing intermediation services from the digital intermediation platform in cases when the platform separately invoices the buyer for its services. However, in these cases the buyer's payment for the good or services must still be rerouted to record a purchase of the good, nonproduced nonfinancial asset, or service from its producer/seller, and, if a fee is deducted from the amount passed through to the producer/seller, a purchase of intermediation services by the producer/seller. In addition,

some digital intermediation platforms seek to attract buyers to the platform by using a portion of the fees received from sellers to pay rebates to buyers. The rebates represent a reduction in the price of the goods, nonproduced nonfinancial assets, and services supplied by the seller and are thus not part of the fee (or price) that the platform retains for its intermediation services. The price received by the seller must therefore be measured by the net price after the rebate, and the fee recorded as received by the platform for its services must exclude the amount that funds the rebates. The rebate payment must therefore be re-routed to show that it is paid by the platform to the seller and then paid by the seller to the buyer, with each rebate representing a reduction in the price received by its payer.

**16.48** Digital intermediation services are frequently supplied across international borders by nonresident platforms. Goods, nonproduced nonfinancial assets, and services supplied by resident producers to resident buyers via transactions intermediated by a nonresident platform should be recorded as produced and consumed in the compiling economy. Further, the fee or commission received by the digital intermediation platform should be recorded as an import of digital intermediation services of the compiling economy. Therefore, if the nonresident platform deducts its fee from the buyer's payment for the good, nonproduced nonfinancial asset, or service, the buyer's payment must be rerouted so that the producer/seller is recorded as selling the good or service to the buyer and importing the digital intermediation service (see paragraph 11.112, for details on the specific recording in the BOP). Similarly, in the case of a resident DIP collecting a cross-border payment on behalf of a nonresident producer/seller providing a good, nonproduced nonfinancial asset, or service to a nonresident buyer and deducting its fee from that payment, the buyer's payment is rerouted to go to the producer/seller and an export of the services of the platform to the economy of the seller/producer is recorded.

**16.49** Digital intermediation platforms can also facilitate exports by resident suppliers of goods or services, or imports from nonresident suppliers of goods or services. Digital intermediation services used by an exporter should be included in the value of the exported good or service. For example, if a digital intermediation platform located in Country A facilitates the supply of a service by a resident of Country B to a resident of Country C, the price paid by the buyer in Country C is the value of service exported by Country B and imported by Country C. The fee or commission charged by the platform is then the value of digital intermediation services exported from Country A and imported by Country B. Domestically produced digital intermediation services used by the producer of an imported good or service should conceptually be treated as an export of services and the value of the imported good or service should be measured by the price paid by its buyer. However, this treatment may require rerouting the fee or commission paid to the digital intermediation platform to pass through the nonresident producer. If the source data to compile these

rerouted flows are unavailable, assumptions (or international cooperation) may be needed to impute the rerouted flows.

**16.50** Services sold for a fee or commission are usually straightforward to measure, but measuring the intermediation services of digital intermediation platforms and the goods, nonproduced nonfinancial assets and services transactions that they intermediate can present compilation challenges. Rerouting the payments collected and fees retained by a digital intermediation platform may require data that are unavailable, making assumptions necessary.

**16.51** Furthermore, by allowing producers to interact with previously unreachable consumers, including those in other geographical locations, digital intermediation platforms have provided selling opportunities to producers previously excluded from the market. Selling opportunities created by digital intermediation platforms have led to growing activity by informal household enterprises, which are likely to be missing from business registers and other standard sources of statistical information. They have also contributed to the rapid growth of small external transactions in goods and services that may be below the minimum thresholds for customs duties and documentation requirements. Another common compilation challenge from digital intermediation platforms providing cross-border intermediation services is that source data on digital intermediation platforms with no local presence is not easily available.

## **2. FREE ONLINE PLATFORMS AND FREE DIGITAL PRODUCTS**

**16.52** Digitalization has been marked by a broad-based expansion in the availability of free products, in many cases provided by online platforms. The integrated framework of the SNA values the free outputs of nonmarket producers such as government units and nonprofit institutions by the costs of production. However, this does not apply to most of these free digital products because they are supplied by a commercial enterprise. The outputs of commercial enterprises are valued by their price, which is zero in the case of a free product. The emergence of free online platforms and products as part of digitalization has therefore raised questions about whether the output of the digital economy is fully captured in GDP.

**16.53** Free products supplied by market producers are included in GDP as part of the price of other products they help sell or with which they are bundled either directly or indirectly. Taken together, the items in the bundle generate at least enough revenue to cover the operating costs of the supplier of the free product, so the overall output of the supplier of the free digital product is not undermeasured. Free products are supplied by both platform-type of enterprises and by nonplatform enterprises.



## Free Products Supplied by Nonplatform Enterprises

**16.54** In the case of nonplatform enterprises, the free output and the priced output are marketed to the same set of customers, and the function of the free output is to promote sales of the priced output to those customers. Suppliers of digital products frequently adopt a “freemium” pricing strategy, in which a free basic version of the product promotes sales of upgrades or a premium version of the product. In these cases, the price of the promoted output includes a mark-up that covers the cost of supplying the free output that has facilitated its sale.

**16.55** Rather than being free, the promotional output may have a low price that is subsidized by the fully priced product. For example, a low-priced basic version of a software product may require the purchase of an upgrade or a complementary software product to unlock desirable features or capabilities.

**16.56** Although a zero or artificially low price of an output that is cross-subsidized by the price of another output of that same producer does not cause undermeasurement of the producer’s total output, it does affect the measurement of the composition of the producer’s output. Also, the relative values assigned to the various parts of the bundle could affect the measurement of exports, imports, or trade patterns if a multinational enterprise sources parts of the bundle from different countries.

## Free Online Platforms

**16.57** Most free online platforms are organized as commercial enterprises. Two-sided (or multi-sided) commercial platforms often charge a price for their services to the users on one side of the platform and supply free services to the users on the other side of the platform to attract and retain those users. The platform users attracted by free services increase the value of the platform’s services to the users on the priced side of the platform. The users who fund the platform by purchasing priced services recoup this expense as part of the transactions with the users on the free side of the platform enabled by the platform’s services.

**16.58** Free online platforms offer services such as social media, search, and access to content providing entertainment and information. Commercial free online platforms are generally funded by advertising and the collection of data on their users, while offline free radio and television broadcasters are funded just by advertising. The data is used as input in the platforms’ production of advertising services. However, the data, or information derived from the data, may also be sold or used for own-account production of software and research and development.

**16.59** Platforms funded by advertising services frequently assemble the audience that the advertisers want to reach by supplying free services. They then include the cost of supplying

the free services needed to assemble the audience in the price charged to advertisers. The advertisers, in turn, include the cost of the platform's advertising services in the price of the product sold with the help of the advertising. Both the platform and the firms that advertise on the platform receive at least enough income from the prices at which their output is sold to cover their operating costs. The standard method of measuring the value of a market producer's output by the producer's sales is therefore applicable to both the platform and the funder side users of the platform. Furthermore, households' expenditures on the products advertised on the platform include the cost of the platform's services embedded in the price of the advertised products.

**16.60** Digital platforms collect and store data on users to produce data assets as a type of own-account fixed capital formation, and they may also license others to use the data or even sell the data. However, the platforms may also compile short-lived data on recent browsing behavior that is used as an input for targeted advertising. The value of this short-lived data is part of the price of the advertisement targeting services. More generally, short-lived user data collected by digital platforms can be assumed to be used immediately for the production of services, with its value embedded in the price of the products it helps produce.

**16.61** A few free online platforms (such as public wikis created and maintained by communities of volunteers) are owned by a nonprofit institution serving households and operate as nonmarket producers, meaning that their output is not sold for an economically significant price.

### **Content Created by Platform Users**

**16.62** Many users of free platforms create content such as videos, images, text, and audio, both as a leisure activity and for commercial purposes such as receiving advertising revenue. Creating content for leisure purposes is outside the production boundary applied in the integrated framework of the SNA. If the content creator does not receive remuneration, the content is assumed to be created for leisure purposes. Households that receive monetary remuneration from an advertiser or platform for use of their uploaded content may be considered unincorporated household enterprises supplying services to the advertiser or platform. In the case of a platform that takes its fees for services out of the payments from advertisers that are passed through to the content creators, the content creators should be treated as the purchasers of the platform's services, which are used as intermediate consumption for the production of advertising services provided to the advertisers. If the advertiser is a nonresident, the service should be included in exports of services. See paragraph 11.110 for details on the services classification of content creators receiving remuneration from the advertisers.

**16.63** Depending on the context, user-generated content can refer either to content created by the users of a brand's products (customers and brand advocates), or to content created by the users of an online platform. The economic benefits that free platforms receive from platform user-generated content include attracting users to the platform, selling advertising, and adding to the platform's stock of data assets. These economic benefits are a positive externality of the sort that frequently arises from producers' interactions with their customers and are not a basis for inferring that the creator of the unpaid user-generated content has produced a service used by the platform.

**16.64** In addition to posting content on free platforms that receive advertising revenue, content creators may publish on digital platforms that collect subscription fees on their behalf in return for a share of the fees. Although most of this content is likely to have a short economic life, content created for commercial purposes that yields economic benefits for the content creator over more than a year is an intellectual property product of the creator classified as long-lived entertainment, literary and artistic originals.

### **Free Software**

**16.65** Software products are often free to download, although the services of the platform hosting the software code may not be free. Copies of free software are frequently supplied across borders. In addition, free code shared by software developers on code hosting platforms that facilitate collaboration plays an important role in software development.

**16.66** App stores are a type of digital intermediation platform on which some of the software items available for households to download to their phone or other device are often free. Free and subsidized apps used by households may be funded by advertising and collection of data, by sales of premium versions or other items that they encourage, or by other services whose use they facilitate. Like the services of an online platform funded by advertising, the services of apps funded by advertising are purchased indirectly as part of the price of the advertised product.

**16.67** Open-source software refers to free software whose source code is publicly available under a license to copy, use, inspect, modify, and share.

**16.68** A complex open-source software product may contain components developed in multiple economies, as the development of complex software products is often spread across multiple locations. Depending on the circumstances, it may be appropriate to allocate the investment to develop the open-source software product among the economies in which the development work takes place, or it may be appropriate to attribute the entire capital formation to the economy of residence of the owner of the software asset. In the case of software produced by a multinational enterprise, the headquarters or one of the foreign

affiliates may acquire full ownership of the software original by funding the software's development.

**16.69** Even though open-source software does not generate licensing fee income for its developer, it can qualify as an asset of its developer. The producer of an asset is the economic owner if the producer bears the risks of production in order to claim the economic benefits associated with the use of the asset. Open-source software developed by corporations is usually funded through sales of complementary services, such as training and support, or by other products it helps sell. Open-source and other free software may also help increase the number of users on a platform or enhance the developer's reputation and profile. Open-source software supplied across borders may be funded by cross-border sales of complementary services or other products.

**16.70** Open-source software is sometimes developed by individuals working independently. Unpaid production of open-source software originals by volunteers is outside the production boundary applied in the integrated framework of the SNA. However, independent developers of open-source software for commercial purposes are unincorporated household enterprises investing in the own-account production of software.

**16.71** The value of open-source software copies supplied by enterprises may be embedded in the price of complementary outputs that the open-source software helps sell or that are bundled with the open-source software.

### **Increasing the Visibility of Free Online Platforms and Products**

**16.72** The value of the free services that digital intermediation platform funded by advertising or data supply to households is relevant for analytical purposes and for understanding the broader impact on household final consumption of the emergence of these free platforms. Alternative measures of household final consumption expenditures and the output of free online platforms that include the households' direct consumption of the (free) services provided by platforms may be presented in an extended account on free online platforms, as discussed in Section F below.

**16.73** The effect of free platforms and free digital products on volume growth of household consumption is also conceptually relevant for understanding the impact of digitalization on prices and volumes. Free digital products and the measurement of prices and volumes are discussed in Section E.

## D. DIGITALIZATION AND THE FINANCIAL SYSTEM

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### 1. NEW FINANCIAL SERVICES AND MEANS OF PAYMENT ENABLED BY DIGITALIZATION

**16.74** Digitalization has resulted in the appearance of new financial service products and of new digital assets designed to be used as a means of payment or act as a store of value. Means of payment refers to the instrument used to make the payment, such as a check, debit or credit card or one of a wide variety of new electronically transferable digital financial instruments. The new digital financial service products fall within existing categories of products, and the new digital assets fall within existing asset categories. However, they should be reported as “of which” items (or as part of the product detail in a thematic account on the digital economy and the associated digital supply and use tables) when they are important and can be separately identified. This *Manual* recommends introducing “of which” categories for (i) fintech companies within the subsector classification; and (ii) instruments or services classifications where necessary to separate out fintech-related instruments and services. (See paragraph 4.124 for the definition of fintech.)

**16.75** It will usually be appropriate to provide a breakout of “financial service providers predominantly operating digitally”, which will contain the providers of financial services that primarily transact with consumers via digital channels. “Financial service providers predominantly operating digitally” include financial digital platforms, digital providers of insurance and reinsurance services (InsurTech), digital banking platforms operating solely online (neobanks) or predominantly online, e-money issuers, and online only foreign exchange bureaus and money transfer operators. Some important digital payment mechanisms are e-money (which includes mobile money), digital assets that are used as a means of payment including fungible crypto assets, and central bank digital currencies (CBDCs).

### 2. FINANCIAL DIGITAL PLATFORMS

**16.76** Financial digital platforms provide matching services and facilitate financial transactions between suppliers of funds and users of funds. They do not take ownership of the financial assets arising from claims on the users of funds or incur liabilities to the suppliers of funds. They receive fees or commissions for their services and are classified as financial auxiliaries. They differ from conventional financial intermediaries, which incur liabilities and acquire financial assets on their own account, and which charge for their financial intermediation services implicitly through interest rate margins.

**16.77** There are four types of financial digital platforms that which facilitate access to funding in exchange for a fee or commission: (i) peer-to-peer and other online lending

platforms, (ii) equity-based crowdfunding platforms, (iii) philanthropic (or donation-based) crowdfunding platforms, and (iv) reward-based crowdfunding, in which the donors to a project expect to receive a nonfinancial reward such as a good or service. Peer-to-peer lending platforms facilitate loans between households or from households to small enterprises. Other lending platforms match households and small enterprises seeking funding to institutional investors seeking lending opportunities. Equity-based crowdfunding platforms facilitate financing transactions in which the funders receive equity stakes in the enterprises or projects they fund. The donation and gift transactions mediated by philanthropic crowdfunding platforms are current transfers or, potentially, capital transfers, and an element of the services these platforms perform is vetting of causes that are seeking assistance. The funds advanced to project owners on reward-based platforms do not qualify as loans, as the project owner's obligation to supply the reward is contingent on the successful completion of the project. Rather, they should be treated as other accounts receivable/payable, which are extinguished when the project is completed with the receipt of the reward. If a project fails, the account receivable/payable is written off as an other change in volume.

**16.78** A type of financial digital platform whose main purpose is not to facilitate access to funding consists of crypto asset exchanges and trading/lending platforms. Crypto asset exchanges and trading/lending platforms allow users to buy, sell, and lend crypto assets for a fee or commission. They embed their fees into their buying and selling prices. Fees received from staking of crypto assets are treated as payments for the provision of nonfinancial services (recorded as computer services in the current account—see paragraph 11.102(r)). Some crypto exchanges may provide custodian services and hold crypto assets of customers for a fee. Crypto assets with a corresponding liability (e.g., asset-backed stablecoins, debt, and equity security crypto assets) are classified as financial assets (see paragraphs 16.81–16.83). See paragraph 4.147 for specific guidance on the classification of crypto exchanges and trading/lending platforms.

### 3. DIGITAL REPRESENTATIONS OF VALUE

**16.79** Digital assets designed to act as a medium of exchange or as a financial instrument are digital representations of value recorded on a cryptographically secured distributed ledger or using a similar technology or issued by a central bank as a CBDC. Medium of exchange is defined as a means for acquiring goods, services, nonfinancial assets, or financial assets, without resorting to barter. Digital assets differ from e-money. E-money is monetary value stored electronically on a physical device such as card or phone or stored remotely, and represents a liability of the e-money issuer denominated in a fiat currency. E-money must represent general purchasing power (i.e., it can be used for making payments to a variety of other items).

**16.80** Crypto assets are digital representations of value that use cryptography and distributed ledger technology (DLT) such as blockchains to enable parties to transact directly with each other without the need for a trusted intermediary. DLTs allow transactions to be recorded, synchronized, and shared simultaneously on multiple nodes in a decentralized network. Blockchains create cryptographic records of transactions and ownership that are impossible to alter without detection.

**16.81** Crypto assets are classified as either fungible or nonfungible. Fungible crypto assets are divisible and not unique (e.g., one bitcoin is equal to any other bitcoin and can be divided into equal pieces of similar value). Conversely, nonfungible crypto assets, commonly known as nonfungible tokens (NFTs), are unique and nondivisible (see paragraphs 16.34–16.38). Fungible crypto assets are classified into three broad categories: (i) those designed to act as a general medium of exchange (which are further divided in those with, and those without, a corresponding liability); (ii) those designed to act as a medium of exchange within a platform or network—also known as payment tokens (again divided into those with, and those without, a corresponding liability); and (iii) security crypto assets. Security crypto assets represent a debt or equity claim on the issuer. They are similar to traditional securities but are exchanged peer-to-peer using cryptography. They are also referred to as security, asset, or investment tokens. They always have a corresponding liability and should be recorded as debt securities, equity securities, or financial derivatives depending on the nature of the claim on the issuer. Utility tokens that provide the holders future access to goods and services should be classified as debt securities.

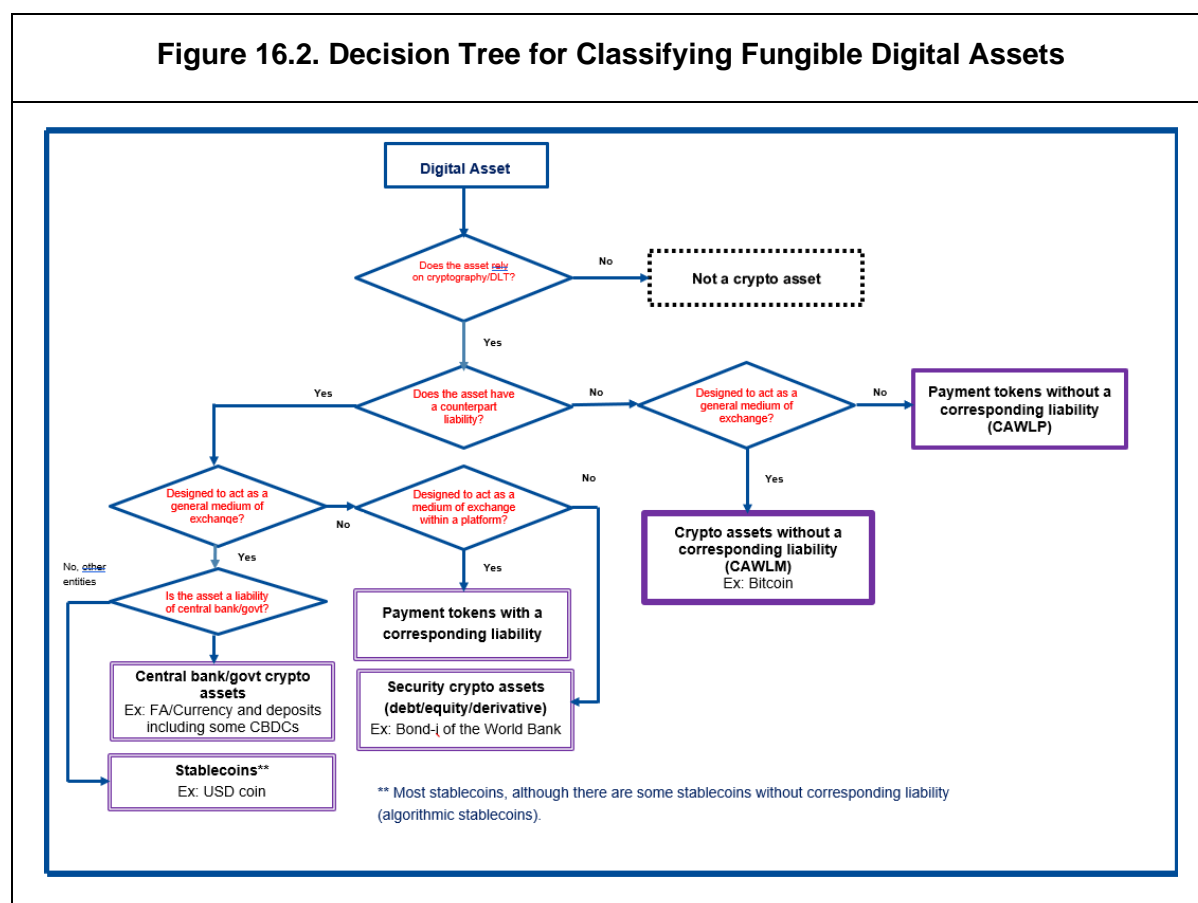
**16.82** A decision tree to aid in identifying fungible crypto assets according to the above typology and other digital assets that have a corresponding liability is presented in Figure 16.2. Digital assets with a corresponding liability include CBDCs, security crypto assets, payment tokens with a corresponding liability, and most stablecoins. These payment tokens are negotiable instruments serving as evidence of debt and should be recorded as a separate subcategory under debt securities. Stablecoins aim to maintain a stable value relative to a specified asset such as a fiat currency or gold, or a specified basket of assets, usually by being backed (or, at least, advertised as backed) by the assets of the issuer. The stability mechanism might also be an algorithm that causes the supply of the asset to respond automatically to changes in demand for the asset.

**16.83** All types of fungible crypto assets are within the asset boundary as defined in the integrated framework of the SNA. Crypto assets with a corresponding liability are classified as financial assets. In particular, crypto assets with a corresponding liability designed to act as a general medium of exchange are separately identified under “currency and deposits.” On the other hand, crypto assets without a corresponding liability are classified as nonproduced nonfinancial assets within a separate category. If a crypto asset without a corresponding liability is ever able to gain widespread acceptance as a general medium of

exchange, the guidance on its classification may be re-considered (see Annex 15). Chapters 5 and 14 provide additional details.

**16.84** Validating crypto asset transactions is to be treated as production of services. The process of validating transactions in crypto assets is known as mining in the case of crypto assets without a corresponding liability that rely on proof of work for ensuring the security of transactions. This process includes the release of new units of the crypto asset as an implicit fee paid to the miner validating the transaction. The miner validating the transaction also receives an explicit fee in crypto assets paid by the party initiating the transaction, which is normally the sender/seller. The validation services that are rewarded with newly released units of the crypto asset are assumed to be collectively consumed by the existing holders of units of that crypto asset, while those rewarded by the explicit fee are consumed by the transactor paying the fee (normally the sender/seller). See Chapter 7, *2025 SNA* / Chapter 11 of this *Manual* for details on the recording of output of mining and cross-border validation services.

**Figure 16.2. Decision Tree for Classifying Fungible Digital Assets**





# Chapter 17. Islamic Finance

This is a common chapter with Chapter 26 of the 2025 SNA, and for the most part, the text is identical in both the *Manual* and the 2025 SNA.

## A. GENERAL OVERVIEW

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### 1. BACKGROUND

**17.1** Islamic finance is distinguishable from traditional finance in several ways, in relation to both financing and insurance activities. Islamic financial institutions, as well as financial institutions with Islamic windows that offer both conventional finance and Islamic finance, are bound by Shari’ah principles. The principles and rules of Shari’ah (or Islamic law) include prohibitions on *Riba* (usually translated as interest), *Gharar* or uncertainty (sometimes translated as “excessive uncertainty”), *Maysir* (gambling) as well as short sales or financing activities that are considered harmful to society. Islamic insurance follows these same principles and is further based on the notion of mutual assistance.

**17.2** As a result, in economies in which Islamic finance is prevalent, financial corporations have developed specific forms of financing arrangements that are consistent with these principles. In addition, Islamic financial standard setting bodies, including the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB), have developed standards on accounting, auditing, and related regulatory standards and frameworks, to promote greater harmonization of Islamic finance reporting practices across countries.

**17.3** The historical development of the external sector statistics, and other macroeconomic statistics have largely reflected the predominance of conventional financial structures and terminology. Given the rapid growth of Islamic finance in recent years, as suggested by studies and the Islamic Finance Development Indicator (IFDI), it is significant enough to affect the quality of different areas of macroeconomic statistics in several countries. This situation can affect the international comparability of these statistics. To address these issues, this chapter provides guidance on the statistical treatment of Islamic finance focusing on the external sector statistics.

### 2. OUTLINE OF THE CHAPTER

**17.4** This chapter presents guidance to properly account for Islamic finance and insurance arrangements in the external accounts. In doing so, it elucidates, by instrument, the special

types of financing arrangements (sales-based contracts, lease-based contracts, equity-based contracts, or profit/loss sharing) that characterize Islamic finance. It reviews distinct operations of Islamic finance and insurance and addresses issues such as the nature of income on certain Islamic financial instruments (to be included in deposits, loans, debt securities, etc.), the sector classification of Islamic financial institutions, the measurement of output, including the measurement of implicit financial services on loans and deposits, the treatment of Islamic insurance-like business as well as the instrument classification of select Islamic financial arrangements. This chapter also briefly clarifies the concept of economic ownership in the case of Islamic Finance. The structure of the chapter is as follows: Section B reviews Islamic financial institutions and their sectoring; Sections C and D provide guidance on the measurement of output and income, respectively; Section E presents Islamic financial arrangements, and how these are reflected in macroeconomic financial instruments; and Section F covers issues related to economic ownership.

## B. ISLAMIC FINANCIAL INSTITUTIONS AND SECTORING

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### 1. SOME BASIC FEATURES OF ISLAMIC FINANCE

**17.5** Important differences exist between conventional and Islamic finance. Islamic finance must follow certain “Shari’ah” standards, hence it is often called “Shari’ah-compliant”. The general principles of Islamic finance are: the prohibition of collection and payment of interest or other predetermined returns on investments; the encouragement of investment in real economic activities or trading in goods and services for profit; sharing rewards and risks between parties involved; the avoidance of profiting from trading in financial assets or “using money to make money”; the discouragement of excessive uncertainty, which may prohibit the use of many types of financial derivatives; and the prohibition of financing certain activities that are forbidden by Islam, such as alcohol or drugs. In addition to commercially driven activity, Islamic principles also emphasize the importance of charitable giving, whether through the mandatory charity due (or *Zakah*) or voluntary charity (*Sadaqah*). Both forms of giving can (but do not have to) be implemented through a type of endowment trust known as a *Waqf*.

**17.6** To adhere to these principles and to simultaneously accommodate the financing of economic activity, Islamic financial corporations have developed various financing arrangements that are mapped to more generic financial instruments. These financing arrangements are often based on trading models or profit and loss sharing models involving underlying nonfinancial assets. The recording of such nonfinancial assets may be reflected on the balance sheet of the Islamic financial institution or a unit which it owns when the (legal) ownership is acquired but not the economic ownership as applied in the external accounts. Economic ownership of nonfinancial assets, including changes in economic ownership, are

discussed in Section F; they are closely related to the characteristics of the financing instruments discussed in Section E.

**17.7** In addition, Shari’ah-compliant activities should be segregated from noncompliant activities and funds (i.e., not following Shari’ah principles). This gives rise to some specific treatments. Firstly, the financial statements of Islamic windows of conventional financial institutions should be separated from their regular financial activities. Further, off-balance sheet restricted investment accounts of these banks and other deposit-taking corporations which comply with Islamic finance accounting standards are to be classified as separate institutional units.

**17.8** Secondly, there is a distinctive arrangement in which a charitable institution contracts with a fund manager the establishment of a dedicated open-ended asset *Waqf Fund*, managed according to Shari’ah principles, to which the public can make donations by “purchasing” units of the fund. The charitable institution is the beneficiary of the fund – that is, it is the economic owner of all the units of the fund. Under the agreement, the fund will reinvest or distribute specified amounts of the profits to the beneficiary, and it will charge fund management fees. The donor’s investment in the fund constitutes an irrevocable donation to the beneficiary and the function of the fund is to provide financial management of the beneficiary’s portfolio of assets. These types of funds are also required to keep a complete set of accounts and constitute institutional units.

**17.9** Thirdly, there are various schemes in different countries for supporting or enabling pilgrims to save for, or to undertake, the Islamic pilgrimage (or *Hajj*). The term *Hajj Fund* is used to describe the case of a market enterprise that undertakes, as a significant part of its activities, the management of long-term savings open to individuals intending to undertake the Hajj pilgrimage in compliance with Shari’ah principles. Such funds are considered as institutional units, if they are legally established entities with an autonomous management and if they keep a complete set of accounts; as such, they are classified separately within the financial corporations sector. For Hajj savings to meet the conditions of deposits, it is likely that the fund would be a regulated deposit-taking corporation (such as a bank or similar unit) with the principal value of the deposit typically protected to some degree. This may not be the most common scenario in many countries, where they are usually treated as non-money market investment funds. Although a *Hajj Fund* might undertake certain secondary nonfinancial activities, such as the provision of travel, accommodation and related services to pilgrims planning for the Hajj, these activities are expected to be far less significant than its financial activities. Such nonfinancial activities would normally involve an institutional unit separate from the fund.

## 2. ISLAMIC BANKING AND OTHER FINANCIAL ACTIVITY, INCLUDING SECTORING

**17.10** The following guidance focusses on the subsector classification of Shari’ah-compliant financial institutions within the financial corporations sector. These subsectors typically also include conventional financial institutions as described in Chapter 4. The central bank and pension funds are not explicitly discussed below, as these are not specific to Islamic finance with the possible exception of some of their investments (discussed in Section E). If a pension fund only invests in assets that comply with Islamic principles, it could be considered Shari’ah-compliant and as such remains classified within the pension funds’ sub-sector.

### Deposit-Taking Corporations Except the Central Bank

#### *Organizational Considerations*

**17.11** The subsector of deposit-taking corporations except the central bank is dominated by banks and can include both Islamic banks and other deposit-taking corporations, as well as conventional banks and other deposit-taking corporations with *Islamic windows*. *Islamic banks and other deposit-taking corporations* manage funds received to produce returns through investments or financing of transactions for customers. Such operations are sometimes described as *Mudarabah* transactions, the customer is a capital provider, and the financial institution is the entrepreneur (*Mudarib*) that invests the capital. The main inflows include *unrestricted funds* (discussed in Section E) that are comingled with other bank funds, in the same way as deposits in conventional banks. However, the *unrestricted funds* are invested in Islamic financial instruments.

**17.12** On the other hand, *restricted funds* are managed separately by the bank and segregated from other funds received and typically treated off-balance sheet; as such, they are also excluded from this subsector. The contracts under which these accounts are created do not give the bank authority over decisions regarding the use and distribution of the funds it receives from account holders. Rather, the bank can only make decisions on the administration and management of the accounts. The only link between the bank’s accounts and the off-balance sheet restricted investment accounts is the share of investment income from these investment accounts (as *Mudarib*), which is recorded as a single item in the bank’s income statement. *Restricted funds*, while part of the Islamic banks’ business, are almost always treated as a separate institutional unit and classified as investment funds.

**17.13** *Islamic windows of conventional banks and other deposit-taking corporations* that accept deposits are also confined to invest the deposits in Islamic financial instruments only. The funds provided under such contracts have the characteristics of deposits, and they provide financing to borrowers using various Islamic financial instruments. Conventional banks are required to maintain a full set of accounts, including a balance sheet, for their *Islamic windows*. They are

also obliged to have a Shari'ah Supervisory board and may have an independent management separate from that of the conventional banks that run them. The reason for this is that the management of the windows requires the existence of a Shari'ah Council as part of its mission to ensure that the funds are not mixed with the funds of the conventional banks. Accordingly, these *Islamic windows* are considered as institutional units independent of the conventional banks, albeit still classified as part of the deposit-taking corporations' subsector.

### *Basics Relating to Sources and Uses of Funds*

**17.14** Unlike conventional banking, there is no common interest rate (nor interest rate ladder) applicable to Islamic deposits that determines the depositors' returns. Islamic banks and Islamic windows of conventional banks offer Islamic deposit accounts that are quite similar to conventional accounts, but the banks are also heavily funded by accounts in which the returns/losses are shared between the bank and the depositor/investor. Under a profit-sharing model (i.e., participation account), an Islamic bank can withhold part of the depositors' net profits as a profit equalization reserve. Under the rules of accrual accounting in the external accounts, these profits should be treated as distributed and subsequently reinvested into the reserve. The depositors in these arrangements therefore acquire a component of the bank's equity or a different type of bank liability.

**17.15** Diverse financial instruments, as discussed in Section E, can be thought of as sources and uses of the funds provided. Sources of funds are used to generate revenues in different ways—financing of sales, leasing, fees, equity participation, or investment. Some instruments do not have conventional bank equivalents. The returns to Islamic banks and *Islamic windows* of conventional banks on their financing and investments are not guaranteed, but rather depend on the success or failure of their ventures. Returns (and sometimes losses) are divided between the bank and the depositors based on the specific types of Islamic financial instruments used.

### **Investment Funds**

**17.16** Islamic investment funds are collective investment schemes that issue shares or units to the public. They are split into two subsectors within the financial corporations' sector: Money market funds (MMFs) primarily invest in Islamic bank deposits, while non-money market investment funds (non-MMF investment funds), invest in a wider range of Islamic securities.

**17.17** As noted above, the off-balance sheet *restricted investment accounts* which comply with Islamic finance accounting standards are classified as non-MMF investment funds. This is because the cash of the account holders are placed in an investment fund which is managed independently from the Islamic bank, through which these funds are channelled. In addition, a complete set of accounts for the investment fund, including the financial position which shows the equity of the account holders, is maintained. These restricted Islamic accounts should be treated as investment funds because the clients' money is held in segregated investment funds

with any losses borne by the providers of the funds, except if these are due to breach of trust or misconduct by the units managing the funds. Furthermore, like conventional investment funds, these accounts distribute the profits from investments to investors in proportion to the value of their investments.

**17.18** Collectively organized *Hajj Funds* are also allocated to the non-MMF investment funds' subsector, provided the general conditions for this classification are met. These conditions include that they are legally established entities with autonomous management, and that they maintain a complete set of accounts. These funds, in concert with their long-term saving character, are not restricted to investments in financial instruments and savers bear the risks and rewards of the investments' performance.

### **Other Financial Intermediaries, Except Insurance Corporations and Pension Funds**

**17.19** Islamic investment banks (that do not accept deposits) and other types of Islamic investment companies are classified as other financial intermediaries. These units typically provide Sharia'ah-compliant (advisory) investment banking services, such as structured finance on large projects or financial leasing (such as *Istisna'a* or *Ijarah*), investment placement activities, raising funds in equity and debt markets (often from joint *Mudaraba*), as well as trade finance (often *Murabaha*). Units involved in instalment sales (such as *Bai Muajjal*) may also be classified in this subsector.

### **Financial Auxiliaries**

**17.20** *Takaful (insurance) operators* often constitute the main Sharia'ah-compliant business to be classified as financial auxiliaries. These units manage and administer *Takaful (insurance) funds* on behalf of the participants by charging fees to cover their costs (see paragraphs 17.25, 17.26, and 17.45). They do not take economic ownership of the assets and liabilities of these funds. Financial auxiliaries may also relate to managers of investment funds, but not the assets they manage.

### **Captive Financial Institutions and Money Lenders**

**17.21** A *Waqf Fund* is a religious/charitable endowment, with the donated assets held by a charitable trust. A *Waqf* is a charitable institution that contracts with a fund manager to establish a dedicated *Waqf Fund*, which is open to the public to make donations by purchasing units of the fund. This reflects the fact that the beneficiary (i.e., the charitable institution) is the sole client and that these vehicles are like endowment funds. The financial asset of the beneficiary is classified as other equity. Purchases of units in the fund by donors should be recorded as miscellaneous current transfers by donors to the beneficiary. These funds are classified as captive financial institutions.

**17.22** This subsector can also include any Sharia'ah-compliant money lenders.

### 3. INSURANCE CORPORATIONS

**17.23** There are some parallels between conventional and Islamic insurance (*Takaful*) and re-insurance (*Re-takaful*). At the same time, there are notable differences in the business arrangements. *Takaful* and *Retakaful* funds are included in the insurance corporations' subsector, alongside conventional insurance companies. *Takaful* and *Retakaful* funds share characteristics with conventional insurance and reinsurance, as they also collect contributions (which can be considered as the equivalent of actual premiums in conventional insurance) from participants and have reserves which belong to the policy holders. *Islamic windows* of conventional insurance corporations are also classified in this subsector, as separate institutional units, given that segregated financial statements have to be maintained for this activity. In the case of *Light Takaful*, where the arrangements are less complex and do not have to be based on *Tabarru* principles, there is no segregation of operators from funds as in the case of conventional insurance. As noted above, *Takaful operators* with segregated financial statements are included among financial auxiliaries.

#### Some Basic Features of Islamic Insurance

**17.24** In accordance with Islamic finance principles, *Takaful* business arrangements avoid uncertainty (sometimes translated as “excessive uncertainty”), gambling and predetermined interest-based investments. The term *Takaful* means “mutual guarantee”. Islamic insurance can therefore be defined as the process in which a group of people—that is, the participants—who face certain risk(s) agree that each of them contributes a specific amount (based on cooperation) to a nonprofit fund that is to be used for compensating anyone of them and/or their beneficiaries for the potential loss encountered if the risk in question materializes. In a such an arrangement, the contract is based on mutual assistance (*Ta'awun*) and reciprocal donation (*Tabarru'*), rather than the conventional commercial relationship between an insurance company and a policyholder. In conventional insurance the insurer contracts to provide protection (incurs an obligation) against certain losses by leveraging the accumulated premiums paid by the policyholder (insured), including the returns on investment. In contrast, the “participants” in a *Takaful* scheme are considered simultaneously as the insurer and the insured, since the contributions into the *Takaful fund* belongs to the participants and the operator just manages on their behalf.

**17.25** Islamic insurance is distinguished by two types of contractual relationships. The first is the underlying contract used among the group of participants to govern their relationship on the basis of cooperation and solidarity. Members of the group agree to renounce a certain amount of their contribution paid to a *Takaful fund* as a donation in order to provide mutual indemnity to any fellow participant who suffers a loss covered under the policy. In other words, the group of

participants agree to guarantee each other and make contributions to the fund instead of paying premiums to cover themselves individually. The fund is the account established by the company (*Takaful operator*) as the insurer to receive (own) the contributions and oversee the reserves and the returns on investment.

**17.26** The second is the contractual relationship between the group of participants and the *Takaful operator* appointed by the participants to manage and invest the funds for them. The company is not a typical insurer that takes on a liability. In fact, the operator/manager is usually not part of the insurance sector, but rather part of financial auxiliaries. Generally, the operator manages the relationship and maintains separate accounts with respect to the claims (rights) and obligations of the policyholders. Both the operators and the funds maintain clearly separated accounting records, to conform to Islamic finance accounting standards. However, there is one exception to this rule in the case of *Light Takaful*, which presents consolidated financial statements and looks more like conventional insurance arrangements.

**17.27** The *Takaful* arrangements can encompass several types of structures that govern the relationship, such as profit sharing, payment of fees, return, or a combination of these elements. For the various *Takaful* structures, it is important to emphasize that contributions, returns on investment and the resulting surplus belong to the participants collectively—that is, the returns on investment of contributions belong to the policyholders as a group, after deduction of the administrator's share. Therefore, any surplus can be distributed among participants or given to charity. If claims paid from the fund exceed the amount of premiums, the participants will have to increase their contributions. The policyholders thus typically make the contributions, receive protection (indemnities) against the materialization of risk that has been insured, and can also receive a share of surplus.

## Takaful Types

**17.28** *Takaful* business types cover general plans and family plans. *General Takaful* provides protection against material loss or any form of damage on a short-term basis (akin to nonlife insurance). *Family Takaful* offers a combination of protection and long-term savings, usually covering a period of more than one year. In general, *Family Takaful* is deemed to be a composite plan offering both life and nonlife insurance schemes unless specific regulation requires that these schemes be registered separately.

**17.29** *Retakaful* is an extension that supports *Takaful* business activities as a form of reinsurance based on Islamic finance principles. It aims to mitigate the risks of business loss of *Takaful* business and to increase the capacity of direct insurance, in particular for high value properties. Considering the relatively small and still developing *Retakaful* domestic market in many Islamic economies, this could lead to significant cross-border transactions in such activities. In many economies, the domestic *Takaful* and *Retakaful* industry is likely to provide



services to nonresidents. Conversely, resident units can also purchase these same services from nonresident providers. This implies the need to account for such transactions in the external accounts.

## Takaful Models

**17.30** The underwriting surplus in *Takaful* arrangements is the amount calculated as the excess of total premiums/contributions of the policyholders/participants during the financial period over the total indemnities in respect of claims incurred during the period, net of *Retakaful*, and after deducting changes in insurance technical reserves. The surplus should be disposed of in a way that serves the common interest of the participants such as accumulation of reserves, reduction of the contributions, charitable donations and/or distribution among the participants. This also depends on the adopted business model that defines whether the surplus should be transferred only to participants, shared with operators or retained in the fund.

**17.31** Various *Takaful* models have been designed according to the underlying contracts signed between the participants and the operator, which first and foremost defines how the latter is compensated for the management of the takaful fund. Four main business models are distinguished:

- *Mudaraba-based Takaful*: the operator (acting as an entrepreneur, or *Mudarib*) is ensured a share of profits generated from the investments of takaful funds;
- *Wakalah-based Takaful*: the operator (acting as an agent, or *Wakil*) is paid an agency fee as a percentage of participants contributions, as determined in the contract;
- *Wakalah-Mudaraba-based Takaful* or hybrid model: the operator signs two contracts and is ensured both a fee as a percentage of contributions and a share of profits; and
- *Waqf Takaful*: covers elements of the charitable endowment (*Waqf*) in a hybrid model; and, in contrast to the previous models, the surplus is not transferred to the participants but is retained in the *Takaful fund* by the operator.

**17.32** In general, the business models adopted for *Family Takaful* differ from those offering only *General Takaful* in terms of disaggregation of the fund into the Participants' Risk Fund (PRF) and Participants' Investment Fund (PIF). In family arrangements, participants contribute to the common pool of funds of which a portion is invested as PIF for the purpose of investment and/or savings; and the other part of contribution is allocated to the PRF to meet claims by participants on the basis of mutual assistance or protection intended, settle *Retakaful* charges, or allocated to reserves.

## C. OUTPUT OF ISLAMIC FINANCIAL INSTITUTIONS

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### Introduction

**17.33** The methods to calculate the output of Islamic financial institutions depend on how they are allocated to institutional sectors given their financial activities. Measurement may be done on the basis of the explicit fees, the sum of costs, the method applied for implicit financial services on loans and deposits, or a combination of approaches. This section first discusses Islamic financial institutions excluding Islamic insurance, and then turns to Islamic insurance.

### 1. MEASURING OUTPUT OF ISLAMIC FINANCIAL INSTITUTIONS (EXCLUDING ISLAMIC INSURANCE)

**17.34** There are different methods used to measure output across the suite of Islamic financial institutions. Some of these employ the methodology for implicit financial services on loans and deposits, in part or in whole, to account for the implicit services provided. This approach, as it applies to Islamic finance, is first discussed below, before turning to the measurement of output for different types of Islamic financial institutions.

#### Methodology for Implicit Financial Services on Loans and Deposits in Islamic Finance

**17.35** The implicit financial services on loans and deposits methodology for Islamic deposit-taking corporations parallels that of conventional financial corporations (see paragraphs 11.82–11.94). This reflects the fact that, for some types of financial corporations, explicit service charges alone may not account for the full value of their services. Part of the compensation for the provision of services may be implicitly included in the difference between the returns on the funds provided to those that require funding and the returns on the funds provided by those with surplus funds. In the process of intermediating funds between parties with surplus funds and those that require funding, the relevant financial institutions provide services to both parties. The methodology for implicit financial services on loans and deposits provides a way to measure the services that are not explicitly charged for.

#### *Reference Rates and Instrument Scope*

**17.36** The general approach is that it is also possible to determine a reference rate in the case of Islamic implicit financial services on loans and deposits, which reflects a service-free rate and can be used to derive the service element on loans and deposits with varying characteristics. More specifically, in line with conventional banking, the implicit financial intermediation services provided by Islamic deposit-taking corporations can be measured as the difference between the return rate paid to banks by borrowers and the reference rate plus the difference between the reference rate and the return rate paid to depositors. The term “return” is used here to describe

the broader interest-alternative returns on (nonequity) Islamic financial instruments (discussed in Section D).

**17.37** This approach could be augmented by using different reference rates for conventional and Islamic Shari’ah-compliant finance, in recognition of the different risk profiles. Whatever the case, different reference rates should be applied for at least two groups of currencies (national and foreign currency) in cross-border transactions of Islamic deposits and loans—that is exports and imports of such implicit services. The rate should be taken from the financial markets of the home market of the currency.

**17.38** With respect to the issue of one or more reference rates, the objective testing results (conducted in 2023) with a select group of Islamic countries generally indicated that the estimates of nominal implicit financial services on loans and deposits and their annual growth rates did not differ significantly from conventional finance. Thus, while the principles of Islamic finance prohibit the payment of interest, the nature of financial intermediation services of conventional and Islamic deposit-taking and lending seems to be broadly similar. Accordingly, it is recommended that only one reference rate be used to calculate implicit financial services on loans and deposits denominated in the same currency, unless there is evidence that a different reference rate should be used to calculate implicit financial services on Islamic deposits and loans (see paragraphs 11.82–11.94).

**17.39** These Islamic implicit services should preferably be applied to total loans and total deposits (where relevant), rather than applying a more complex instrument-by-instrument approach. The latter was considered given that some Islamic instruments pay no investment income (see Section E below for a description of Islamic financial instruments).

### **Measures of Output for Different Types of Islamic Financial Institutions**

**17.40** The various methods to measure output for Islamic financial institutions are summarized below. In the case of implicit financial services on loans and deposits, the terminology reflects that of investment income (discussed in Section D).

#### *Central Bank*

**17.41** For the central bank, monetary policy services, supervisory services, and other services (e.g., the management of financial stability, and managing the payments system) are considered as collective services. Central banks do not undertake implicit financial services on loans and deposits in the traditional sense. Central banks are atypical financial intermediaries which take on liabilities and engage in lending, but mainly for the purpose of monetary policy and other public functions. As a result, all of their services are considered nonmarket output, to be calculated at the sum of costs (see paragraphs 7.166–7.170, 2025 SNA).

*Deposit-Taking Corporations Except the Central Bank*

**17.42** Deposit-taking corporations (except the central bank) include Islamic banks and *Islamic windows* in conventional banks. In these cases, financial intermediation services are estimated as a combination of explicit fees and commissions (direct services) and implicit financial services on loans and deposits. For the latter, the services on loans and deposits are calculated as follows:

$$\text{Implicit financial services on loans and deposits} = (r_L - rr) \times Y_L + (rr - r_D) \times Y_D$$

where,

$r_L$  = the lending return rate

$r_D$  = the deposit return rate

$rr$  = reference rate

$Y_L$  = average stock of loans

$Y_D$  = average stock of deposits

*Investment Funds*

**17.43** In the case of both Sharīʿah-compliant money market funds and non-MMF investment funds, output can be calculated in the same way as for conventional investment funds.

Therefore, output is estimated as the sum of various fees that these funds charge investors on transactions and positions. This includes purchase and redemption fees, exchange fees, account fees, and operating fees. However, for *Hajj Funds* and off-balance sheet restricted investment accounts, output is measured using the sum of costs, except in the case of implicit financial services may need to be calculated for any loans on the financial statements such as *Murabaha* or *Ijarah* (see Section E for a discussion of Islamic financial instruments).

*Other Financial Intermediaries, Except Insurance Corporations and Pension Funds and Sharīʿah-Compliant Money Lenders*

**17.44** Islamic investment banks and other types of investment companies are included in the other financial intermediaries' subsector. For these types of institutions, output includes both explicit and implicit fees. In addition, for any Sharīʿah-compliant money lending services included in the subsector of captive financial institutions and money lenders, measures of output combine explicit charges and implicitly measured financial services. The latter service element can be calculated as follows:

$$\text{Implicit financial services on loans (and deposits)} = (r_L - rr) \times Y_L$$

where

$r_L$  = the lending return rate

$rr$  = reference rate

$Y_L$  = average stock of loans

### *Financial Auxiliaries*

**17.45** For financial auxiliaries engaged in the management of Sharī'ah compliant investments and funds brokerage, such as *Takaful funds* and other types of investment funds, output is measured as the explicit fees charged to clients, such as the fees payable by the *Waqf Fund* to the fund manager. In the case of *Takaful operators* included in this subsector, the explicit fees approach is also used. Output is equivalent to the *Wakalah* fees they charge to administer the funds and/or the share of profits earned from the investment of those funds, depending on the structure.

### *Captive Financial Institutions and Money Lenders*

**17.46** For other Sharia'ah compliant institutional units included in the subsector of captive financial institutions and money lenders, output is measured using either explicit fees or sum of costs. In the case of *Waqf Funds* in this subsector, output is typically calculated as the sum of costs. Although the associated fees are costs that are contractually payable by the fund rather than by the beneficiary, they are shown as payable by the beneficiary to the fund because they are payable out of profits (with *Waqf Fund* profits as property income to the beneficiary). For money lenders the implicit financial services on loans are calculated as noted above (see paragraph 17.44).

## **2. ISLAMIC INSURANCE OUTPUT**

**17.47** The services provided by Islamic insurance diverge from those provided by conventional insurance, reflecting the fact that Islamic insurance processes are arranged differently than those of conventional insurance. The Islamic service component would be identified under the *Takaful* contract and different options may be considered depending on the business model adopted. In addition, the output of operators and funds reflect that they are separately classified as institutional units, except in the case of *Light Takaful*.

**17.48** *Takaful operators* manage, administer, and invest the funds on behalf of the participants by charging fees to cover their costs. In this case, output is measured as the *Wakalah* fees they charge to administer *Takaful funds* and/or the share of profits earned from investing these funds, as noted above under financial auxiliaries.

**17.49** For *Takaful/Retakaful funds*, including both family and general plans, output is measured as the sum of costs. This is the *Wakalah* fees they pay to *takaful operators* and/or the share of profits payable to *takaful operators* plus any other intermediate consumption. Given the similar

economic features between *Takaful funds* and *Takaful windows*, the output of windows is also measured as the sum of costs. Given that *Light Takaful* (no distinction between operators and funds) is more similar to conventional insurance arrangements, the methods described in paragraphs 7.205–7.221, 2025 SNA, should be used to measure output.

## D. THE NATURE OF RETURNS ON ISLAMIC INSTRUMENTS IN THE ALLOCATION OF EARNED INCOME ACCOUNT

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### 1. BACKGROUND

**17.50** In the context of Islamic finance, the prohibition of “riba” (normally translated as interest) means that a provider of finance cannot impose a fixed or unconditional charge that is independent of the borrower’s use of the funds. Sometimes, a provider of funds may expect a reward from the borrower on a discretionary basis. For these reasons, terminology such as *profits*, *gifts*, or *returns* is typically used instead of interest in Islamic accounting. However, to better align to the terminology applied in the *Manual*, a more general term including such types of returns is required. A generic term like “similar returns” appended to interest is the option chosen. Interest and similar returns can apply to Islamic finance as well as other situations of nonconventional finance.

### 2. RETURNS ON ISLAMIC INSTRUMENTS

#### Interest and Similar Returns

**17.51** The broader term “interest and similar returns” accommodates related returns associated with Islamic finance. The concept of “similar returns” complies with Shari’ah principles and is used to describe the broader interest-alternative returns on certain Islamic debt instruments. Retaining the term “interest” in the proposed terminology ensures continuity with the current terminology in the *Manual* to describe the investment income on conventional deposits, loans, debt securities and also, albeit less often, other accounts receivable/payable (see paragraph 12.61). This approach enables the integration of Islamic financial instruments and their associated income within the existing macroeconomic statistical frameworks and eliminates the need for developing alternative classification frameworks for Islamic finance. The Islamic financial arrangements that generate investment income are discussed in Section E below. Some of these constitute equity-like instruments and generate equity-like return (e.g., dividends), but also do not require introduction of new terminology.

**17.52** There are two key benefits to this approach. First, it preserves the universality of international statistical standards; and second, it accommodates economies with significant Islamic financial activities by incorporating the investment income for Islamic financial

instruments in the standard breakdowns of investment income. Table 17.1 below displays additional and supplementary details related to returns on Islamic instruments and their classification in this *Manual* (for a more complete overview, see Appendix 17.1).

<b>Table 17.1. Property Income, Including Details on Islamic Finance in External Accounts</b>	
Earned income account	
Investment income	
Direct investment	
Income on equity	
Dividends and withdrawals from income of quasi-corporations	
Reinvested earnings	
Interest and similar returns	
Portfolio investment	
Income on equity and investment fund shares/units	
Dividends on equity excluding investment fund shares/units	
Investment income attributable to investment fund shareholders	
Interest and similar returns	
Other investment	
Income on equity and investment fund shares/units	
Interest and similar returns	
Investment income attributable to policyholders in insurance, pension, and standardized guarantee schemes	
Reserve assets	
Income on equity and investment fund shares/units	
Interest and similar returns	

## E. THE CLASSIFICATION OF ISLAMIC FINANCIAL INSTRUMENTS IN THE ACCUMULATION ACCOUNTS AND BALANCE SHEET

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### 1. BACKGROUND

**17.53** There are numerous types of Islamic financial arrangements that can be broadly mapped to the financial instruments applied in the external accounts. As noted above, lacking a concept of interest earnings, Islamic financial corporations often generate income through arrangements such as the financing of sales or the leasing of underlying goods, sometimes including equity financing. These items can generate returns under *Interest and similar returns*, as discussed in Section D. Notably, some of these arrangements may apply to more than one of the financial instruments in the external accounts, depending on variations in the defining characteristics of each contract.

**17.54** Several factors need to be considered in the instrument classifications, including:

- The type of institutional unit represented by the recipient of the finance: an equity classification for an instrument will only be possible for a unit that is classified as a corporation;
- Whether or not the financial instrument is designed to provide a profit that has a comparatively high reliability as compared to its magnitude;
- Whether or not the financial instrument is recorded on the balance sheet of the Islamic financial institution;
- Whether or not the investment account holder has a claim on ventures or funds offered by the issuing institution;
- Whether or not the investment account holder has a claim on the residual value of the issuing institution;
- Whether or not the lender is the supplier of the goods or services being financed, which may determine the classification as either a trade credit or a loan;
- Whether or not the financial instrument provides negotiable securities, for example in the form of participation term certificates; and
- Whether or not equity holdings, in the case of foreign investment, exceed the 10 percent required threshold for a direct investment relationship to exist.

**17.55** The discussion below focusses on the classification of individual Islamic financial instruments in the external sector statistics. In this respect, it should be noted that the list of Islamic financial instruments discussed below and also listed in the annex to this chapter is not



exhaustive. However, the compiling agencies can use the argumentation in the following subsections to classify Islamic financial instruments which are not included in the discussion.

## 2. ISLAMIC FINANCIAL INSTRUMENTS CLASSIFIED AS CURRENCY AND DEPOSITS

**17.56** *Qard, Wadiah, and Amanah* deposits can be withdrawn on demand, at par, without penalty or restriction, and are generally usable for making payments by check, draft, giro order, or other direct payment facilities. These types of deposits are not linked to any profit-making ventures and are not part of the profit and loss sharing schemes. As a result, Islamic financial institutions have flexibility in the use of the funds, but they are required to guarantee the nominal value of the deposits. As a result, these deposits usually offer no returns or, in some cases, very small returns on the basis of gifting (*Hibah*). These instruments may be classified as transferable deposits or other deposits.

**17.57** *Qard-Hasan* are another form of return-free deposits, voluntarily placed by depositors to participate in the provision of funds for needy individuals or for social purposes. These may also be provided for specific purposes, as determined by the depositor. In all cases, it is interest-free and is meant to help stabilize cash flows or cater to funding needs that cannot be met using commercial arrangements. These instruments are to be classified as other deposits.

**17.58** *Restricted Mudaraba* funds are funds where the investor restricts the manner as to where, how, or for what purpose the funds are invested. No mixing of funds is allowed from other sources to ensure proper management and accountability of the funds. The Islamic financial institution manages the funds either as *Mudarib* (in which the investor is engaged in risk-sharing), or as *Wakil* (i.e., provision of intermediation services for a fixed fee with no participation in the investment results). *Restricted Mudaraba* held on-balance sheet should be classified as other deposits.

**17.59** *Unrestricted Mudaraba* funds are funds where the investor fully authorizes an Islamic financial institution to invest the funds without restrictions as to where, how, or for what purpose the funds should be invested, as long as it is deemed appropriate. The mixing of funds from other sources (including shareholders' funds) is permitted and separate disclosure in the financial statement is therefore required. *Unrestricted Mudaraba* can be divided into three distinct types, two of which are discussed below, while a third type is discussed below under equity and investment fund shares/units.

- *Mudaraba not fixed deposits* are accepted without a specified time frame (not fixed), hence the investors are free to withdraw their money at any time. This type of unrestricted accounts can be considered analogous to saving deposits at a conventional financial corporation and should be classified under other deposits.

- *Mudaraba fixed deposits* are accepted for a fixed period that provides an opportunity for Islamic financial institutions to invest in more profitable long-term projects. This type of unrestricted account can be considered as analogous to a time deposit at a conventional financial corporation and will usually generate higher returns than nonfixed period deposits. These are also classified as other deposits.

**17.60** In the case of *Wakalah deposits*, the bank acts as an agent for the investment of depositor's funds in exchange for a fee, usually in the 1.5 to 2 percent range. Depositors are offered an indicative or nominal return. If the actual return is lower, the depositor only receives this latter return; if the actual return is higher, the bank only pays the indicative return and keeps any excess as an "incentive fee". Because of the possibility of the bank earning this incentive, it will often not charge a fee. These instruments can be classified as either transferable deposits or as other deposits.

**17.61** *Profit and loss sharing certificates* are investors' deposits that resemble shares but do not provide a claim on the residual value of the Islamic financial institution and participation in its governance. The certificates should be classified as other deposits if nonnegotiable.

### 3. ISLAMIC FINANCIAL INSTRUMENTS CLASSIFIED AS DEBT SECURITIES

**17.62** *Mudaraba, fixed with mudaraba certificates* are arrangements accepted for a fixed term, by way of negotiable instruments (called investment deposit certificates or *Mudaraba certificates*). This type of unrestricted investment has characteristics similar to those of conventional market securities and is typically classified as a debt security, if not part of the own funds of the financial institution. A separate disclosure of off-balance sheet positions is required to be kept by the Islamic financial institution.

**17.63** *Sukuk* are investment certificates issued by Islamic financial institutions to obtain funding. *Sukuk* (plural of *Sakk*) are certificates (commonly known as Islamic bonds), with each representing a proportional undivided ownership right in tangible nonfinancial assets, financial assets, right to use others' assets (*Usufruct*), services, a pool of predominantly tangible nonfinancial assets, or a business venture (such as *Mudaraba* or *Musharaka*). These assets, which must be clearly identifiable, may be in a specific project or investment activity in accordance with Shari'ah rules and principles. *Sukuk* might often be thought of as providing a securitization wrapper around an underlying contractual arrangement. If they involve an intermediate legal structure such as a special purpose entity (SPE), then consideration of whether the SPE should be recognized as an institutional unit may be required, depending on the legal and other specific circumstances. The following three types of *sukuk* contracts are the most prominent: (i) *Sukuk Ijarah*; (ii) *Sukuk Musharaka*; and (iii) *Sukuk Murabaha*, which are all negotiable instruments, although the last type of arrangement only becomes negotiable when

certain conditions are met. Different types of *Sukuk* will have fixed income properties, equity-like properties, or more complex types of arrangements for the returns, as follows:

- *Fixed Income Sukuk* are instruments which are normally either sale or lease based. Sale based contracts represent a debt, and therefore may not be bought/sold in the secondary market at other than par value. Lease based contracts such as *Ijarah* do not have secondary market restrictions as the revenue streams are based on an underlying tangible nonfinancial asset. *Ijarah Sukuk* also typically have a redemption payment, representing the return of beneficiary's share in the underlying tangible nonfinancial asset back to the issuer. Examples include: *Murabaha* (sale at mark-up); *Salam* (forward commodity sale); *Istisna'a* (manufacturing sale); and *Ijarah* (lease based).
- *Variable profile Sukuk* or *Wakalah Sukuk* represent an agency arrangement in which the *Sukuk* holder delegates responsibility to the issuer to carry out Shari'ah compliant revenue generating activity. The precise nature of this activity can vary, and it can encapsulate other transaction types within it (e.g., *Ijarah*, *Murabaha*, etc.). The aggregate return on the activity may be either fixed or variable, depending on the agreement between the counterparties.
- *Hybrid Sukuk* may vary in form at different points in their life cycle. For example, *Istisna'a* plus *Ijarah Sukuk* may be used by an issuer to raise funds to first construct an asset before leasing it out.

**17.64** *Profit and loss sharing certificates* are investors' funds that resemble shares but do not provide a claim on the residual value of the Islamic financial institution and participation in its governance. The certificates should be classified as debt securities if they are negotiable.

**17.65** *Participation term certificates* are long-term investment instruments that entitle the holder to a share of an Islamic financial institution's profit. These certificates should be classified as debt securities if the certificates concern debt liabilities of the institution.

#### 4. ISLAMIC FINANCIAL INSTRUMENTS CLASSIFIED AS LOANS

**17.66** *Qard-Hasan financing* is a return-free financing that is made to needy individuals or for some social purpose. This financing is usually extended on a goodwill basis, and the debtor is required to repay only the principal amount of the financing. The debtor may, however, at his or her discretion, pay an extra amount beyond the principal of the financing (without promising it) as a token of appreciation to the creditor.

**17.67** In a *Murabaha financing* contract, an Islamic financial institution purchases goods upon the request of a client, who usually makes deferred payments to the financial institution that cover costs and an agreed upon return. These contracts resemble collateralized loans within conventional finance, in which the underlying goods, such as properties or automobiles, are

registered under the customer's name and are used as collateral. The disclosure of the cost of the underlying goods is required. The financial institution handles the payments to the supplier including direct expenses incurred (delivery, insurance, storage, fees for letter of credit, etc.). Operating expenses of the financial institution are not included. This arrangement can be defined as a sale of goods at cost plus profit margin.

**17.68** *Tawarruq financing (commodity Murabaha)* is a financial instrument in which a buyer purchases a commodity from an Islamic financial institution on a deferred payment basis, and the buyer sells the same commodity to a third party on a spot payment basis. This is an extension of *Murabaha* whereby the financial institution arranges for the sale of the item. The buyer basically borrows the cash needed to make the initial purchase. Later, when cash is secured from the second transaction, the buyer pays the original seller the instalment or lump sum payment he owes (which is cost plus markup).

**17.69** *Mudaraba financing* constitutes a partnership between an Islamic financial institution and a client in which the institution provides capital (*Rab al-Mal*) and the client provides skilful labor. This financing is a type of partnership whereby skill and money are brought together to conduct business. Profits generated from the business are shared according to the agreement, while losses are borne fully by the capital provider, except when losses are due to misconduct, negligence, or violation of the agreed conditions by the client. Although this arrangement has features of equity, it has a fixed-term nature and therefore represents a fixed-term claim on the client rather than a claim on any residual value.

**17.70** *Musharaka* represents a partnership between an Islamic financial institution and an enterprise in which both parties contribute to the capital (*Rab al-Mal*) of the partnership. The financial institution and client agree to share any profits generated from the venture according to the pre-agreed ratio, with any losses shared according to the ratio of contribution. This type of financing can be structured as a loan where the financial institution provides financing in the form of working capital to a unit but does not have a claim on the residual value of the debtor enterprise.

**17.71** *Mushtarakah* is a combination of both *Musharaka* and *Mudaraba*. It can be treated as loans if there is no residual claim on the value of the debtor unit.

**17.72** *Bai Muajjal* is a type of financing provided by an Islamic financial institution to its client by supplying desired commodities or services with deferred payments. This contract is classified as loans if the supplied commodities or services are from third parties.

**17.73** *Bai Salam* is a short-term financing agreement in which an Islamic financial institution makes full prepayments (spot payment) for future (deferred) delivery of a specified quantity of goods on a specified date. The financial institution and a supplier may engage in such a contract, in which the supplier agrees to sell goods prior to the goods being delivered.

Generally, the agreed spot price is less than the future price of the goods, which ensures a return to the financial institution. This arrangement should only be classified as loans if the goods or services produced are not for the financial institution's own use.

**17.74** *Istisna'a financing* is a partnership between an Islamic financial institution and an enterprise, usually a manufacturer or a construction company, whereby the financial institution places an order and provides financing to the enterprise to manufacture/construct and supply certain goods or buildings. Upon or before the delivery of the order, the financial institution usually enters into a contract with another party (the ultimate purchaser) at a price higher than the original contract of the *Istisna'a*, thus generating profits. These arrangements are classified as loans, if the produced goods or constructed buildings are for the use of the ultimate purchaser. *Ju'alah* is essentially an *Istisna'a* contract applicable to provision of services. They should also be classified as loans if the services are not for the financial institution.

**17.75** *Bai bil wafa* or *Bai bil-istighlal* are sales (ba'i) in which the seller has the right, as stipulated in the contract, to repurchase the underlying property (real estate) from the buyer by refunding the purchase price. The right of redemption is given to the original seller upon an understanding that the buyer will give (i.e., resell) the property back to the seller and receive the original price. The buyer agrees to honour that understanding and hence the name *Wafa* which means to honour.

**17.76** An *Ijarah* is a contract in which an Islamic financial institution purchases capital equipment or property and leases it to an enterprise. The financial institution may either rent out the equipment (simple *Ijarah*) or receive a share of the profits earned through its use. There are two types of more sophisticated *Ijarah*.

- *Ijarah Muntahia Bittamleek (Ijarah MBT)* is a hybrid instrument and can be arranged as a pure operating lease or as a lease-to-own arrangement.
- In the case of the pure operating lease version of *Ijarah MBT*, the title for the underlying asset is not transferred to the client (lessee), and ownership risks of the assets are borne by the Islamic financial institution (usually through a separate unit that it owns). *Operating ijarah* should be treated in the same way as a conventional operating lease (rental agreement for some nonsignificant portion of the asset's economic life) and does not give rise to a financial instrument. It is discussed only to distinguish it from *Ijarah MBT* and *Ijarah Wa-Iktina* below.
- In the case of the *Ijarah MBT* lease to own arrangement (or *financing Ijarah*), the title for the underlying asset may be transferred to the lessee over the term of the lease or at the end of the lease arrangement. This makes it resemble a conventional financial lease in some ways, however the risks and rewards incidental to ownership remain with the lessor throughout the lease term until the asset is transferred to the lessee. To this end,

there can be both a lease contract and a transfer of ownership contract involved. This arrangement generally constitutes a long-term lease, and the lessee could be considered the economic owner (but not the legal owner) in the external accounts. This form of *Ijarah* should be classified as loans over the period of the lease.

- *Ijarah Wa-iktina* is the financing of an acquisition of an underlying asset under a lease-to-purchase arrangement, and it involves two stages. The first stage is the lease of underlying asset over the lease period, which covers the majority of the asset's economic life, and for which the lessee is effectively considered the economic owner (but not the legal owner) in the external accounts. The second stage is the transfer of ownership of the residual value of the asset at the end of the lease period. This arrangement, which is similar to a conventional financial lease, should be classified as loans over the period of the lease.

## 5. ISLAMIC FINANCIAL INSTRUMENTS CLASSIFIED AS EQUITY AND INVESTMENT FUND SHARES/UNITS

**17.77** As noted above, a *Mudaraba contract* is a partnership of the Islamic financial institution and the client. *Restricted Mudaraba* that are held off-balance sheet should be classified as shares (i.e., part of equity). A separate disclosure of off-balance sheet positions is required to be kept by the Islamic financial institution. *Mudaraba fixed with Mudaraba certificates* constitutes *unrestricted Mudaraba* arranged through negotiable instruments with characteristics similar to those of conventional securities and are also classified as shares if considered part of own funds.

**17.78** *Participation term certificates* are long-term investment instruments that entitle the holder to a share of a corporation's profit. These certificates are treated as shares if considered part of own funds.

**17.79** As noted above, *Sukuk instruments* constitute investment certificates issued by Islamic financial institutions to obtain funding. These should only be classified as shares, if the owner of the security has a claim on the residual value of the issuing unit. *Equity-like sukuk* are instruments normally based on some sort of partnership arrangement, with the risk/reward sharing ratio agreed ex ante. In these contracts, it is impermissible for one party to provide a guaranteed fixed payment (either in terms of periodic return or maturity payment) to the other. *Mudaraba sukuk* can resemble *Wakalah* in terms of cashflows, but the contractual relationship between parties will differ. Examples of these arrangements include *Musharaka* (pure partnership) and *Mudaraba* (silent partnership or 'Commenda').

**17.80** *Musharaka* constitutes a partnership between an Islamic financial institution and an enterprise in which both parties contribute to the capital (*Rab al-mal*) of partnership. In this type

of arrangement, the financial institution and client agree to share any profits generated from the venture according to the pre-agreed ratio; a loss is shared according to the ratio of contribution. This type of financing is classified as shares when the financial institution acquires a claim on the residual value of the enterprise.

**17.81** *Mushtarakah* is a combination of both *Musharaka* and *Mudaraba*. It can be treated as shares if there is a residual claim on the value of the debtor unit.

## 6. ISLAMIC FINANCIAL ARRANGEMENTS IDENTIFIED AS FINANCIAL INSTRUMENTS RELATED TO INSURANCE, PENSION AND STANDARDIZED GUARANTEE SCHEMES

**17.82** The Islamic financial arrangements discussed below are treated as insurance type of arrangements, with the related assets of the participants and the related liabilities of the provider being recorded as insurance technical reserves.

**17.83** The *Mudaraba Takaful model* is based on the Islamic financial instrument known as *Mudaraba* that relies on the principle of profit sharing. In this model, the *Takaful operator* is the entrepreneur (*Mudarib*) providing management skills or labor. The operator is appointed by the participants, who act as investors or fund contributors (*Rab al-mal*). Any surplus or profit resulting from takaful fund investments are shared between the *Takaful operator* and *Takaful fund* according to a pre-agreed ratio, while the possible losses are borne only by the *Takaful fund* unless there is element of negligence from the *Takaful operator*.

**17.84** The *Wakalah Takaful model* is based on the Islamic financial instrument known as *Wakalah*—a contract between the Takaful participants and the *Takaful operator* that acts as an agent (*Wakil*). Any surplus realized from the investment of the participants' funds will go to the participants only, as the *Takaful operator* is entitled to an agency fee for the services rendered on mutual agreement and the predetermined terms in the contract. The profit and the losses derived from the operations of *Takaful fund* and the investments belong to *Takaful fund* only.

**17.85** *Hybrid Takaful* is an Islamic insurance contract that is structured to combine more than one financial instrument.

- The *Wakalah-Mudaraba* model combines the features of two models. According to this hybrid model, the participants and the *Takaful operator* sign two contracts: as per the *Wakalah* contract, the operator is entitled to a fee from the contributions paid by the participants; and as per the *Mudaraba* contract the operator is entitled to the predetermined share of profit gained from the investments of the *Takaful fund*.
- Another hybrid model is *Waqf-Wakalah-Mudaraba* that integrates elements of the charitable endowment *Waqf* in the above arrangement, where no party gets the



underwriting surplus so that the original contributions remain in the common pool for the purpose of reinvestment and to enhance sustainability.

## 7. ISLAMIC FINANCIAL INSTRUMENTS CLASSIFIED AS FINANCIAL DERIVATIVES AND EMPLOYEE STOCK OPTIONS

**17.86** Financial derivatives have a prominent role in conventional finance, but less so in Islamic finance. The prohibition of gambling and excessive uncertainty/risk as well as short sales or financing activities considered harmful to society, significantly limit the use of derivative contracts in this environment. Moreover, although certain types of forward sales are permitted, these do not necessarily qualify as derivative contracts.

**17.87** That said, derivative contracts whose sole purpose is hedging (that is, to minimize any risk exposures) do not seem to be incompatible with Shari'ah principles. Therefore, Islamic financial institutions may enter into derivative contracts purely for hedging purposes (regardless of what the counterparty's objective might be), and this is indeed the case in some countries. More generally, it can be noted that the use of financial derivative types remains a somewhat open-ended issue in Islamic finance in terms of a treatment that can be applied across economies. As a result, their use varies across jurisdictions, depending upon the domestic Shari'ah regulators and legislation.

## 8. ISLAMIC FINANCIAL INSTRUMENTS CLASSIFIED AS OTHER ACCOUNTS RECEIVABLE/PAYABLE AND TRADE CREDIT AND ADVANCES

**17.88** Other accounts receivable/payable in the external accounts include miscellaneous other items receivable or payable such as liabilities for taxes, emissions permits, cash collateral received by nondeposit-taking corporations (except those for reverse transactions), purchase and sale of securities, securities lending fees, gold loan fees, wages and salaries, dividends, and social contributions that have accrued but not yet paid. It also includes prepayments of those items. Trade credit and advances consist of (a) credit extended in the form of deferred payment directly by the suppliers of goods and services to their customers and (b.1) advances for work that is in progress (or is yet to be undertaken) and (b.2) prepayment by the buyers for goods and services not yet provided (see paragraphs 5.80-82, for additional details). Only trade credit and advances have equivalent Islamic financial instruments, as follows:

- *Istijrar* financing, which refers to an agreement where the buyer purchases commodities, under a single agreement, from a supplier from time to time in different quantities.
- *Istisna'a* financing (see paragraph 17.74), which relates to goods or buildings for the Islamic financial institution's own use. A *Ju'alah* contract is essentially an *Istisna'a* that applies to services as opposed to a manufactured good.



- *Bai Muajjal* financing (see paragraph 17.72), which is classified as trade credit if it is a direct extension of credit by the supplier.
- If the associated goods or services in *Bai Salam* financing (see paragraph 17.73) are for use by the Islamic financial institution (lender), the arrangement would be considered trade credit.

## 9. ISLAMIC FINANCIAL INSTRUMENTS AND RELATED INVESTMENT INCOME UNDER THE FUNCTIONAL CLASSIFICATION OF *BPM7*

**17.89** This section follows the classification of Islamic instruments discussed above but extends it to account for the functional classification used in the external accounts statistics. The classification of equity and debt security like instruments to functional categories follows the principles from Chapter 6.

**17.90** *Qard*, *Wadiah*, and *Amanah deposits* are included in the broad category other investment under currency and deposits, specifically, transferable deposits or other deposits. Related income would be reflected under investment income, again under other investment as interest and similar returns. A similar treatment is to be applied for *Quard-Hassan deposits*, under other deposits, although in this case investment income is not relevant.

**17.91** Restricted *Mudaraba funds* are included in the broad category other investment under currency and deposits, specifically, other deposits, or as portfolio investment equity, depending on whether the funds are held on-balance sheet or off-balance sheet. *Unrestricted Mudaraba funds* are classified under other deposits for both fixed term and nonfixed term arrangements. However, fixed arrangements with *Mudaraba certificates*, should be classified as either debt securities or equity under portfolio investment, while the corresponding investment income is to be recorded as interest and similar returns or as dividends. *Participation term certificates* follow the exact same treatment as fixed *mudaraba with certificates*. *Profit and loss sharing certificates* are included as other deposits under other investment if not negotiable or debt securities under portfolio investment if negotiable, with income as interest and similar returns recorded under other investment or portfolio investment.

**17.92** *Sukuk* can take the form of a debt security or an equity security under portfolio investment with investment income recorded as interest and similar returns or dividends. *Fixed-income sukuk* constitutes a debt security under portfolio investment. *Equity-like sukuk* is to be recorded, as the name suggests, under portfolio investment equity securities. *Variable profile sukuk* can be treated as debt or equity securities under portfolio investment, depending on the precise nature of the arrangement. Correspondingly, income on the above instruments can be under portfolio investment as interest and similar returns (from debt securities) or dividends (from equity securities).

**17.93** *Quard-hasan financing* is to be classified under other investment as a loan. *Murahaba financing* also constitutes a loan. *Mudaraba financing*, *Tawarruq (commodity Murabaha)* as well as *Bai bil wafa* and *Bai bil istighlal* are all treated as loans in other investment. *Bai Muajjal*, *Bai Salam*, *Ju'ala*, and *Istisna'a financing* is to be classified as either loans or trade credits and advances, the latter only when the commodities are used by an Islamic financial institution. In cases where an optional or required return is paid on these instruments, the investment income is classified as other investment as interest and similar returns.

**17.94** *Ijarah Wa-iktina* (akin to a financial lease) or *Ijarah MBT (financing Ijarah)* is classified as loans under other investment and the investment income is recorded under other investment interest and similar returns. It should be noted that in the case of operating *Ijarah (operating lease)* *simple Ijarah* or *Ijarah Muntahia MBT* do not give rise to entries in the financial account. Rather, these are treated as Operating leasing services in the services account.

**17.95** *Musharaka* and *Mushtarakah* are classified as either loans or equity, with the corresponding income flows to be recorded as interest and similar returns or dividends.

## F. ECONOMIC OWNERSHIP OF NONFINANCIAL ASSETS UNDER ISLAMIC FINANCIAL ARRANGEMENTS

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### 1. SPECIAL CONSIDERATIONS IN ISLAMIC FINANCE AND THE REGULATORY FRAMEWORK

**17.96** The external accounts make a clear distinction between legal ownership and economic ownership. The legal owner of assets or products is the institutional unit entitled by law to claim the economic benefits associated with those items. The legal owner may transfer (through a contract) the risks and rewards related to the use of the relevant assets to another economic agent. This other agent then becomes the economic owner and is the institutional unit entitled to claim the economic benefits, or rewards, associated with the use of the assets in production by virtue of accepting the economic risks over the relevant period. Usually, the legal owner coincides with the economic owner, but when this is not the case, the relevant assets are allocated to the sector of the economic owner. This distinction is also relevant for the recording of Islamic finance in national accounts and external accounts, though Islamic accounting standards may suggest otherwise.

**17.97** Islamic finance accounting standards recommend recording the ownership of the underlying nonfinancial assets in the balance sheets of the Islamic financial institutions (or institutional units who may be lessors). This is the case, even though they may not actually use the assets in their productive activities, or they may hold them only briefly. In other words, the focus in the accounting standards is on legal ownership. Consequently, one interpretation of the

financial statements of Islamic financial institutions suggests that they are comparatively more involved in (and more exposed to) nonfinancial activities than what is actually the case. Of course, this interpretation also ignores the issue of economic ownership.

**17.98** Another interpretation, arguably more consistent with shared relationships in principles of Islamic finance as well as the related guidance for conventional finance, is that the economic ownership rests with the users of the assets. Therefore, the user of the nonfinancial asset can be determined to be the economic owner in most cases. Thus, there is a need to account (in a macroeconomic statistical sense) for the role of Islamic financial institutions and instruments under these arrangements as well as the nature of their economic activities under certain arrangements. This provides a means to determine the economic ownership, or changes in economic ownership, of the relevant assets.

**17.99** With respect to the treatment of economic ownership in financing arrangements, it is useful to consider the following two complicating points. First, Islamic financial institutions (in particular banks) undertake various economic activities and may set up separate units to facilitate these activities, either consolidated in their financial statements or unconsolidated (as separate wholly owned institutional units). Therefore, in some of these arrangements, it is possible that Islamic financial institutions have established separate institutional units (which could be nonfinancial units), often in partnership with other institutional units, which will then be the legal and economic owner of the underlying assets. One example is real estate investment whereby Islamic financial institutions can co-invest in a venture with other units (say, a construction firm) to develop properties which the financial institution's subsidiary temporarily owns (at least until they are sold to the final user). If so, this does not change the arrangement materially. Second, regardless of whether a separate institutional unit is set up, Islamic financial institutions can sometimes act as facilitators by transferring the economic ownership of the items from the seller to the client (the participant which intends to make use of these assets) which would take on financial risk in the process. This possibility does change the arrangement and does allocate economic ownership at the outset. In both cases, not recording the economic ownership of the underlying assets in the balance sheets of Islamic financial institutions (or their wholly owned subsidiaries) helps to better articulate their role as providers of financial services that facilitate the transfer of nonfinancial assets or products. Besides, the often-brief ownership of such items by Islamic financial institutions could be considered as a form of constructive possession (*Qabd Hukmi*) or physical possession (*Qabd Fe'eli*) and should not be considered as economic ownership.

## 2. ECONOMIC OWNERSHIP UNDER DIFFERENT TYPES OF ISLAMIC FINANCIAL ARRANGEMENTS

### Background

**17.100** This section focuses on the ownership of nonfinancial assets related to sales, leasing, pure lending and equity financing and its treatment in Islamic finance accounting frameworks. It also touches on other similar Islamic financing arrangements which are typically based on trading models or profit and loss sharing models involving underlying nonfinancial assets or products. This section invariably relies heavily on the above discussion of financial instruments in Section E.

**17.101** The ultimate purchasers of the underlying nonfinancial assets are considered as the economic owner of the assets obtained through Islamic financial institutions' arrangements. The economic owners claim the economic benefits and assume the risks associated with their use. The time of the acquisition of the underlying items is assumed to be the time at which the economic ownership changes hands. When a change of ownership is not obvious, the time at which the assets enter into the books of the transaction partners may be a good indication and, failing that, the moment when physical possession and control is acquired.

### Economic Ownership Structures

**17.102** A convenient way to group transactions and positions in Islamic financing instruments is an aggregation by term as well as by characteristics and purpose. From that perspective, economic ownership for the different arrangements can be better assessed. The discussion below is not deemed to be exhaustive but provides a general assessment on the issue of economic ownership.

#### *Shorter-Term Financing*

**17.103** Where the Islamic financial institution acquires goods or services for its own use, then it is the economic and legal owner of these products. However, it is more relevant to focus on shorter-term financing related to sales of goods and services where a purchaser/user other than the Islamic financial institution is the owner, or at least the economic owner, early in the arrangement. In these cases, the Islamic financial institution has only a financial claim on the borrower, especially where the products are of relatively low value. Different treatment may apply, depending on the characteristics of the financial arrangement.

**17.104** Sometimes, the Islamic financial institution takes legal ownership of products for a very short period (e.g., *Murabaha*), before selling it. However, the intent of most of these financial arrangements usually is the facilitation of a purchase by the client and ultimate user. When the products are sold, the final user is the legal and economic owner, while the financial institution will have a claim on the client for the amount financed.

**17.105** In other arrangements, the Islamic financial institution holds the products for a period of time. Take the example of a spot purchase of goods for a future sale, sometimes at a higher price (e.g., *Bai Salam*). While the financial institution may become the legal and economic owner for that period only, for economic accounting purposes, the purchasers/users are considered the economic owners (in the case of a loan) of the products since they ultimately claim the economic benefits and assume the risks associated with their use (see paragraph 17.73). When the goods are subsequently acquired by the users, then they will become the legal and economic owners. Another example is a *Bai bil Wafa/Bai bil-Istigal* contract where the financial institution purchases a nonfinancial asset and pledges to sell it back to the client at a fixed future date, which makes the purchasing financial institution the legal and economic owner for a (typically short) period of time.

**17.106** A last arrangement to consider is an operating lease (simple *Ijarah*) which is a rental agreement for a period that does not cover a significant portion of the nonfinancial asset's economic life (see paragraph 17.76). The lessee must return the item at the end of the lease term and does not have an option to purchase. The lessor, in this case the Islamic financial institution, is both the legal and economic owner of the asset (usually through a separate unit that it owns), as it assumes the risks and rewards related to the ownership of the asset.

### *Longer-Term Financing*

**17.107** Substantive issues with respect to economic ownership of a financed nonfinancial asset arise in the case of the acquisition of relatively high value goods, construction, or project finance over an extended period of time. That financing can be in the form of loans, such as with *Istisna'a*. One can distinguish a period of time where the Islamic financial institution makes progress payments to the contractor. In this period, the financial institution may be considered the legal and economic owner of the asset. However, for economic accounting purposes, the customers who request the construction or manufacturing of the said nonfinancial asset are considered the economic owners of the products since they ultimately claim the economic benefits and assume the risks associated with their use. Nevertheless, the financial institution holds a claim on the asset until the debt is extinguished.

**17.108** Other types of longer-term financing arrangement are *Mudaraba financing* and *Musharaka partnerships*. In both instances the Islamic financial institution only provides funding, though it may share in the profits (*Musharaka*). The underlying nonfinancial assets are economically owned by the party that uses those assets in production, even though the financial institution can remain the legal owner for the duration of the financing agreement.

**17.109** Financial leases (*Ijara Wa-iktina*) constitute another form of longer-term financing where economic ownership is clear. The lease term typically covers a substantive portion of the economic life of the assets, and the lessee has the option of purchasing the asset at the end of the lease period. The arrangement is treated as a loan. The lessee is, for economic accounting

purposes, considered the economic owner. The financial lease also provides a return for the lessor (i.e., the Islamic financial institution) to compensate it for providing the financial means to acquire the asset. The lessor is also entitled to the residual value of the leased asset at the end of the lease term, either as payment for the purchase of the depreciated asset by the lessee, or by getting economic ownership of the depreciated asset.

### 3. ECONOMIC OWNERSHIP OF NONFINANCIAL ASSETS IN THE CASE OF A CLIENT'S DEFAULT

**17.110** For items acquired for use by a financing contract, defaulting on the corresponding payments is an issue that may arise in Islamic finance. Given Shari'ah principles' social benefit aspects incorporated in Islamic finance, it stands to reason that, in several cases, economic ownership is unaffected when the economic owners of nonfinancial assets default on their payments in financing arrangements such as *Murabaha* and *Istisn'a*. It can be argued that the default only relates to the financial payment, not to the full arrangement itself. Any contract with profit sharing or participation cannot be considered in full default, so the user would remain the economic owner. Therefore, it can be assumed that defaulting clients will remain the economic owners, but there are likely some nonmutually exclusive and complicating considerations.

**17.111** It is possible, however, that default actually leads to a change in economic ownership. If, for example, the Islamic financial institution determines that the borrower did not enter into a contract in good faith, then the institution (subject to the clauses of the contract) could repossess the assets and temporarily become the economic owner as well as the legal owner, while the borrower could face a penalty. Also, in the case of a shortage of a particular asset (e.g., dwellings), or in the case of neglect of the maintenance of the asset, the financial institution may be able to find a more worthy or needy client. A further consideration might relate to the nature of the default. For example, it could be the case that circumstances indicate that the nonperforming loan is a write-off, and the borrower is not expected to ever be able to repay. In this case, a change of economic ownership may be warranted. In other words, it all depends on the details of the situation, in addition to the type of financing and the actual use of the asset (e.g., a community building versus a business asset).

**17.112** Lastly, and more specifically, for financial leases or *Ijara Wa-Iktina* the situation might be clearer. It is likely that in some or many of these instances the lessor will seek to find another lessee.

## APPENDIX 17.1. CLASSIFICATION OF ISLAMIC FINANCIAL INSTRUMENTS AND INCOME

Instrument	External Accounts
Qard, Wadiah, and Amanah	FA/IIP: Other investment: Currency and deposits: Transferable deposits or other deposits
	Income: Earned income: Investment income: Other investment: Interest and similar returns
Qard-hasan	FA/IIP: Other investment: Currency and deposits: Other deposits
	Income: N/A
Restricted Mudaraba funds	FA/IIP: Other investment: Currency and deposits: Other deposits or Portfolio investment: Equity
	Income: Earned income: Investment income: Other investment: Interest and similar returns or Portfolio investment: Dividends
Mudaraba – fixed	FA/IIP: Other investment: Currency and deposits: Other deposits
Mudaraba – not fixed	Income: Earned income: Investment income: Other investment: Interest and similar returns
Mudaraba – fixed with mudaraba certificates	FA/IIP: Portfolio investment: Debt or Equity security
	Income: Earned income: Investment income: Portfolio investment: Debt or equity securities: Interest and similar returns or dividends
Participation term certificates	FA/IIP: Portfolio investment: Debt or Equity security
	Income: Earned income: Investment income: Portfolio investment: Debt or equity securities: Interest and similar returns or dividends
Sukuk (generally)	Income: Earned income: Investment income: Portfolio investment: Debt or equity securities: Interest and similar returns or dividends
Sukuk (Variable profile)	
Sukuk (Equity-like)	FA/IIP: Portfolio investment: Equity security
	Income: Earned income: Investment income: Portfolio investment: Equity securities: Dividends
Sukuk (fixed-income)	FA/IIP: Portfolio investment: Debt security

Instrument	External Accounts
Wakalah deposits	Income: Earned income: Investment income: Portfolio investment: Interest and similar returns FA/IIP: Other investment: Currency and deposits: Transferable deposits or other deposits
Murabaha financing Qard-hasan	Income: Earned income: Investment income: Other investment: Interest and similar returns FA/IIP: Other investment: Loans
Istisna'a financing Bai Salam Bai Muajjal	Income: Earned income: Investment income: Other investment: Interest and similar returns FA/IIP: Other investment: Loans or Other investment: Trade credit and advances
Ijarah	Income: Earned income: Investment income: Other investment: Interest and similar returns Operating Ijarah CA: Trade in Services: Other business services Financing Ijarah FA/IIP: Other investment: Loans
Musharaka	Income: Earned income: Investment income: Other investment: Interest and similar returns FA/IIP: Other investment: Loans or Portfolio investment – Equity security
Mudaraba Financing Tawarruq	Income: Earned income: Investment income: Other investment: Interest and similar returns or Income: Earned income: Investment income: Portfolio investment: Equity securities: Dividends FA/IIP: Other investment: Loans
Bai bil Wafa	Income: Earned income: Investment income: Other investment: Interest and similar returns
Bai bil-Istighlal Ju'alah	Income: Earned income: Investment income: Other investment: Interest and similar returns FA/IIP: Other investment: Loans or Other investment: Trade credit and advances
Mushtarakah	Income: Earned income: Investment income: Other investment: Interest and similar returns FA/IIP: Other investment: Loans or Portfolio investment – Equity security



Instrument	External Accounts
Istijrar	<p>Income: Earned income: Investment income: Other investment: Interest and similar returns or Income: Earned income: Investment income: Portfolio investment: Equity securities: Dividends</p> <p>FA/IIP: Other investment: Trade credit and advances</p> <p>Income: Earned income: Investment income: Other investment: Interest and similar returns</p>
FA/IIP: Financial accounts and international investment position	

# Chapter 18. Informal Economy

This is a common chapter with Chapter 39 of the 2025 SNA, and for the most part, the text is identical in both the *Manual* and the 2025 SNA.

## A. INTRODUCTION

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**18.1** The informal economy provides employment and income to many people who might otherwise be unemployed. Informal workers and enterprises tend to be vulnerable to negative economic shocks, which has consequences for inequality and poverty. Measuring the informal economy is important for designing, implementing, monitoring and analyzing macroeconomic and social policies. The measurement framework for the informal economy aims to ensure consistent measures of informal production and informal labor inputs. Data compiled according to this framework are designed to inform policy decisions that may decrease the vulnerability of informal workers and enterprises, especially in developing economies.

**18.2** The informal economy refers to the productive activities carried out by persons or economic units that are not covered by formal arrangements established by regulations and laws, such as registration, regulation, payment of taxes, and coverage of workers by social security and other labor laws and regulations. The informal economy includes all informal productive activities carried out within the general production boundary. Compiling statistics on the informal economy makes it possible to assess how far the economic benefits of development reach to people who are not counted by the statistics that are based on official registration or compliance with tax laws. Despite the difficulty of doing so, attempts must be made to identify and measure the informal economy. Each country should aim to develop its system of statistics on the informal economy and informal cross-border flows in order to provide an adequate information base for a wide range of descriptive and analytical purposes, including for (a) describing and enhancing understanding of the informal economy, and (b) supporting the development of policies addressing the informal economy, while taking account of specific national needs and circumstances.

**18.3** The International Labour Organization (ILO) in its 21<sup>st</sup> *ICLS Resolution Concerning Statistics on the Informal Economy* established the standards for statistics on the informal economy. While there is commonality between the concepts and definitions in the ILO standards and those in the external accounts, the meaning of these concepts and definitions is sometimes different from those used in the external accounts. For example, external accounts include trade in illegal or illicit goods and services, whereas the ILO standards exclude them from the informal cross-border flows. This chapter summarizes the ILO

standards, giving emphasis to the concepts, definitions and classifications used in the ILO standards and explaining their relationship with the external accounts.

**18.4** It is a common misconception that cross-border trade is underestimated because it does not include the trade of informal businesses and informal labor inputs. Conceptually, the external accounts include all trading activities irrespective of whether these activities are formal or informal. The compilation of exhaustive measures in the presence of informality is certainly challenging, but compilers should always endeavour to make efforts to use data sources and estimation methods that cover nonobserved activities. The framework for the informal economy described in this chapter does not focus on developing exhaustive measurements of production, but rather on providing a complete presentation of the informal economy.

**18.5** The nonobserved economy, including nonobserved cross-border trade in goods and services, is conceptually distinct and different from the informal economy. The nonobserved economy includes activities that, for various reasons, are not captured in regular statistical enquiries. It is a pragmatic term that is used in the context of achieving exhaustive statistics and includes misreporting by formal units such as large corporations. Efforts to cover the nonobserved economy ensure that all productive activities are covered in statistical estimates even if not covered by statistical enquiries. Because informal activities tend to be difficult to measure and are sometimes omitted from statistical surveys or administrative data sources, there tend to be certain overlaps between the informal economy and the nonobserved economy. Nevertheless, the concepts serve different purposes, and each includes elements that are not included in the other. The primary focus of this chapter is on the informal economy, but Section G discusses the nonobserved economy in its relation to the informal economy.

## 1. THE POLICY INTEREST IN MEASURING INFORMAL ACTIVITIES

**18.6** Interest in the informal economy continues to attract considerable attention. Informal productive activities are often associated with lower and uncertain income for workers since informal workers and enterprises are less protected against negative economic shocks. This may have broader consequences for inequality and poverty since informality is correlated with vulnerability through the denial of rights at work, the absence of sufficient opportunities for quality employment, and the lack of effective social protection. The quantification of the informal economy and data on its characteristics are needed to enhance the international comparability of statistics on the informal economy, the measurement of decent work and the (material) well-being of households and society in general, and in identifying the main drivers of informality. Analyzing macroeconomic and social policies on the informal economy facilitates the transition from the informal economy to formal productive activities and to the achievement of gender equality, sustainable development and social justice.

**18.7** It should be noted that the relevance of statistics on the informal economy in a given country will depend on the nature of its society, labor markets and regulations as well as user needs, and that their implementation will therefore, to a certain extent, be determined by national circumstances.

## 2. STRUCTURE OF THE CHAPTER

**18.8** Sections B and C present a summary of the framework of the *21<sup>st</sup> ICLS Resolution Concerning Statistics on the Informal Economy*. Section B looks at statistics on economic units and production in the informal economy, clarifies the use of existing terminology, and provides the definitions of the informal economy and the classifications used to identify and analyze informal productive activities. Section C focuses on informal work arrangements. Sections B and C also discuss the relationships between informal economy statistics and the integrated frameworks of the SNA and external accounts. Informal aspects of cross-border flows are of special importance to the BOP and are discussed in Section D. Section E discusses the interaction between digitalization and informality. Section F summarizes the data sources and the presentation of indicators for the informal economy. The relationship between nonobserved trade and the informal sector is presented in Section G. The interest in the informal economy has led to the production of several handbooks and studies of current practices. Reporting these in depth is beyond the scope of this chapter, but Section H gives a brief description of the main available guidelines and indicates where they may be consulted.

## B. FRAMEWORK FOR THE INFORMAL ECONOMY

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**18.9** The standards adopted by the *21<sup>st</sup> ICLS Resolution Concerning Statistics on the Informal Economy* are designed to guide countries in measuring informal productive activities of workers and economic units. The standards provide a conceptual framework for statistics on the informal economy, definitions of distinct subsets of economic units depending on their status of (in)formality and the intended destination of their production, a set of definitions of distinct subsets of informal work, a set of indicators to provide information on the characteristics, circumstances and needs of workers and economic units, and operational concepts, definitions and guidelines for the compilation of statistics on the informal economy. In designing the framework for statistics on the informal economy, care was taken to maintain coherence with other international statistical standards, particularly regarding the SNA and external accounts. More detail on the relationship between the terminology used in the *21<sup>st</sup> ICLS Resolution* and the terminology used in the integrated frameworks of the SNA and external accounts is given in *2025 SNA*, Chapter 39, Section B1, Clarifying the use of familiar terminology.

## 1. INFORMAL PRODUCTIVE ACTIVITIES

**18.10** *Informal productive activities are defined as all productive activities carried out by persons or economic units that are—in law or in practice—not covered by formal arrangements as established by regulations and laws, such as:*

- a. regulations that stipulate the rights and responsibilities and obligations of the economic units and the workers;
- b. commercial laws that regulate the productive activities carried out by economic units and their engagement in commercial contracts, including to safeguard their intellectual and physical property;
- c. procedures to report economic activities such as fiscal obligations in order, for example, to pay taxes or to cover employees by social security;
- d. labor laws and regulations such as those relating to freedom of association, rights to collective bargaining, paid annual leave, paid sick leave, the minimum wage, hours of work, social security coverage and social dialogue; and
- e. procedures that regulate access to the institutional infrastructure such as markets, governmental support mechanisms and financial institutions including banks.

**18.11** Coverage by formal arrangements in law and in practice does not merely imply having legal coverage by the formal arrangements but means that the arrangements should be effectively accessed in practice by the worker and the economic unit by fulfilling procedures that entail duties and obligations for all parties involved.

**18.12** Informal productive activities can be viewed as an underlying concept that contributes to recognizing two highly linked but also slightly different perspectives of informality, i.e., the perspective of workers and the perspective of economic units. This concept forms the conceptual foundation from which the different statistical components are derived and points toward which statistical components should be statistically quantified and described.

**18.13** Informal productive activities of persons include informal tasks and duties carried out by persons in informal employment; in formal employment, carrying out partly informal activities tasks and duties; or in unpaid trainee work, volunteer work, own-use production work and other work activities (see Section C of this chapter). Informal productive activities of economic units include informal production carried out by economic units in the informal sector or by households producing for own final use, including direct volunteer work, and production by nonformal nonprofit organizations. Informal productive activities may be undertaken in most kinds of economic activity, including the agriculture, forestry and fishing industry, and include household own-use production work within the general production

boundary. Housing services of owner occupiers are by convention excluded from the informal economy because no informal labor inputs are used for this production activity.

## 2. THE INFORMAL ECONOMY

**18.14** *The informal economy comprises all informal productive activities of persons or economic units, whether or not they are carried out for pay or profit. The scope of informal productive activities includes activities within the general production boundary; this includes informal household own-use production of goods and services, informal sector production, and the labor inputs that are used to undertake these types of production, as well as informal labor inputs in the formal sector.* The concept of the informal economy enables the comprehensive measurement of the informal productive activities carried out by economic units and of informal productive activities by workers in relation to employment and undertaken through forms of work other than employment.

**18.15** For statistical purposes, the concept of the *informal market economy is defined as all production for pay or profit in the informal sector and all productive activities of workers in employment that are—in law or in practice—not covered by formal arrangements.*

**18.16** Illegal and illicit activities where the production of goods and services are forbidden by law are excluded from the informal economy. However, the production of goods and services, that are usually legal, but become illegal when carried out by unauthorized producers, should be included in the informal economy.

**18.17** The exclusion of illegal and illicit activities where the goods and services are forbidden by law relates only to the scope of what is measured in the informal economy. In the integrated frameworks of the SNA and external accounts, illegal productive activities that fit the characteristics of transactions are treated the same way as legal actions and are therefore included within the production boundary applied in the integrated framework of the SNA. For example, if the sale of narcotics is forbidden by law, those activities should be excluded from the informal economy statistics, although they are included in the integrated framework of the SNA. Similarly, imports and exports of illegal goods and services are included in the external accounts but should be excluded from statistics on informal trade. Transactions in stolen goods are also included in the integrated frameworks of the SNA and external accounts but excluded from statistics on the informal economy and from informal trade. However, some activities that are usually legal may be carried out illegally because they are conducted by an unregistered producer (for example, the sale of transport services by an unregistered producer). These activities that are usually legal but may be carried out illegally are not to be regarded as illegal activities according to the 21<sup>st</sup> ICLS Resolution and are included in the informal economy statistics as well as the integrated frameworks of the SNA and external accounts.

### 3. FORMAL SECTOR, INFORMAL SECTOR AND HOUSEHOLD OWN-USE PRODUCTION AND COMMUNITY SECTOR

**18.18** The criteria used to identify the sectors in the statistics on the informal economy are based on the intended destination of the production and the status of (in)formality of the economic unit. The intended destination reflects whether, or not, the production is mainly intended for the market with the purpose of generating a profit and income. The criterion of production that is “mainly intended for the market” is similar to the definition of market producers as “establishments, all or most of whose output is market output” (see paragraph 7.145, 2025 SNA). The formal status of the economic unit reflects whether the unit is formally recognized by government authorities as a distinct producer and is thus covered by formal arrangements.

**18.19** The framework for informal economy statistics assigns all economic units to one of three sectors: the formal sector, the informal sector or the household own-use production and community sector, depending on the intended destination of the production and the status of (in)formality of the economic unit.

**18.20** The *formal sector* comprises economic units that are formally recognized as distinct producers of goods and services for the consumption of others and whose production is mainly intended for the market with the purpose of generating an income or profit or for a nonprofit purpose (i.e., nonprofit institutions), or nonmarket production for use by other economic units, including the society as a whole. With respect to the institutional sectors (see Chapter 4, Section A.5), financial and nonfinancial corporations and general government are always formally recognized and therefore are part of the formal sector. In addition, formally recognized NPISHs are part of the formal sector. Households are assigned to the formal sector if they undertake production through a household unincorporated market enterprise that is registered in a government established system of registration or employs one or more persons to work as an employee with a formal job. Household unincorporated market enterprises that behave in much the same way as legally constituted corporations and keep a complete set of accounts, e.g., for tax purposes, are treated as quasi-corporations and included in either the financial or nonfinancial corporations sectors in the external accounts, and as part of the formal sector in the ILO statistics.

**18.21** The *informal sector* comprises economic units whose production is mainly intended for the market with the purpose of generating income and profit but that are not formally recognized as producers of goods and services distinct from the own-use production of the owner-operators' household. These (economic) units are all classified in the external accounts as part of the households' sector and may include informal partnerships. These economic units undertake production mainly intended for the market through a household

unincorporated market enterprise that does not keep a set of accounts for tax purposes, is not registered in a governmentally established system of registration and does not employ one or more persons to work as an employee with a formal job.

**18.22** The *household own-use production and community sector* comprises either households whose production (excluding owner-occupied housing services) is mainly for the household's own final use or for the use of other households, without the purpose of generating income and profit for the producing household or households; or nonformal nonprofit organizations serving households (i.e., informal and temporary NPISHs). These units are characterized by not being formally recognized as distinct producers of goods or services and undertaking production that is mainly intended for the own final use of households or for the use of other households without the purpose of generating an income or profit. The production boundary for the household own-use production and community sector extends the production boundary applied in the integrated framework of the SNA in that the sector includes (and the integrated framework of the SNA does not include) most services produced for own use by households (see paragraphs 7.28–7.34, 2025 SNA).

**18.23** Table 18.1 illustrates the classification of economic units in the formal sector, the informal sector and the household own-use production and community sector, adding detail on the different forms of informal paid and unpaid work that may be used as input to their formal or informal production.

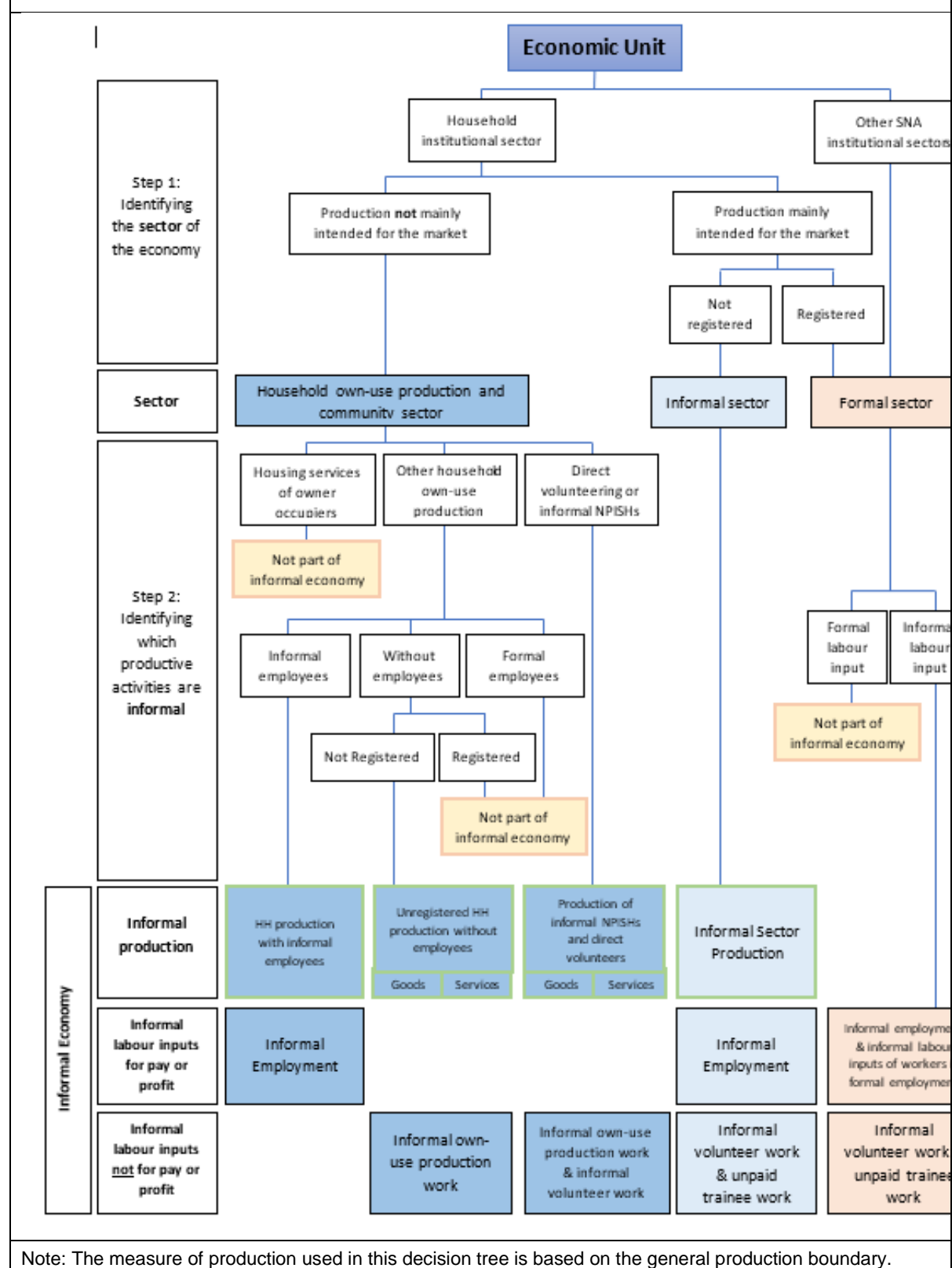
Table 18.1. Informal Productive Activities in the Informal Economy					
Sector		Formal sector	Informal sector*	Household own-use production and community sector	
Informal productive activities		Production in the formal sector is never informal  All informal labor inputs of workers engaged by: formal household unincorporated market enterprises, formal NPISHs, corporations, and general government	All production by informal household unincorporated market enterprises  All labor inputs used to undertake this production	Production by household engaging informal employees  All labor inputs used to undertake this production	Informal household own-use production including nonformal nonprofit organizations and direct volunteers  All labor inputs used to undertake this production
Type of informal labor inputs	For pay or profit	Informal employment*	Informal employment*	Informal employment*	
		Partly informal labor inputs of persons in formal employment*		Partly informal labor inputs of persons in formal employment*	
	Not for pay or profit	Informal unpaid trainee work	Informal unpaid trainee work		Informal volunteer work
		Informal volunteer work	Informal volunteer work		Own-use production work



Relation to SNA production boundary:	Goods and Services		Goods	Services
	Production boundary applied in the integrated framework of the SNA**			
	General production boundary			
* Components of the informal market economy				
** The production boundary applied in the integrated framework of the SNA also includes illegal activities that are out of scope in the informal economy framework.				

**18.24** The 21<sup>st</sup> ICLS Resolution concerning statistics on the informal economy includes a set of operational definitions used to clearly identify the economic units belonging to each of the three sectors. Figure 18.1 illustrates how the framework identifies informal productive activities of economic units. The links between the three sectors (i.e., the formal sector, the informal sector, and the household own-use production and community sector) and the institutional sectors distinguished in the integrated framework of the SNA are shown in Table 39.2 of the 2025 SNA.

**Figure 18.1. Decision Tree to Identify Informal Productive Activities of Economic Units**



## C. INFORMAL WORK

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**18.25** This section defines and classifies informal work in the *21<sup>st</sup> ICLS Resolution Concerning Statistics on the Informal Economy*, points to the alignment of these concepts with international standards such as the *International Classification of Status in Employment (ICSE-18)*, presents the informal productive activities of persons in relation to the sectors in the *21st ICLS Resolution*, and defines and presents informal and formal employment in relation to those same sectors.

**18.26** The *21<sup>st</sup> ICLS Resolution* related to measuring informal productive activities of persons provides a set of definitions for distinct subsets of informal work. In the informal economy, the concept of “productive activities of persons” is aligned with the definition of “work” in the international ICLS standards of work, employment, and labor underutilization. It includes activities within the production boundary applied in the integrated framework of the SNA as well as activities outside the production boundary of the integrated framework but inside the general production boundary. Work can be subdivided into five distinct forms:

- a. own-use production work;
- b. employment work;
- c. unpaid trainee work;
- d. volunteer work;
- e. other work activities.

**18.27** Informal work consists of productive activities performed by persons, as defined by the latest ICLS standards on work and employment, that are—in law or in practice—not covered by formal arrangements such as regulations and provisions that promote or facilitate the work and protect and regulate the actions and functions of the worker. It comprises:

- a. productive activities carried out by persons in employment that are, in law or in practice, not covered by formal arrangements such as regulations and laws that stipulate the rights and responsibilities, obligations and protection of the economic units and the workers; and
- b. productive activities carried out in relation to:
  - i. own-use production work;
  - ii. volunteer work;

- iii. unpaid trainee work; and
- iv. other work activities.

**18.28** Persons carrying out informal productive activities in the informal economy may carry out this work for economic units categorized in the formal sector, informal sector or household own-use production and community sector (see Table 18.2).

<b>Table 18.2. Informal Productive Activities by Persons in the Informal Economy</b>				
Persons		Informal work		
Main intention of the productive activities	For pay or profit		Not mainly intended to generate pay or profit	
	Informal productive activities in relation to employment		Informal productive activities in relation to forms of work other than employment	
Informal productive activities by persons	Formal employment with partly informal activities *	Informal employment *	Informal unpaid trainee work Informal organization-based volunteer work Informal other work activities	Informal own-use production work Direct volunteer work
Sector of the economic unit for which the work is provided	Formal sector	Formal sector	Formal sector	
		Informal sector *	Informal sector *	
	Household own-use production and community sector	Household own-use production and community sector	Household own-use production and community sector	Household own-use production and community sector
* Components of the informal market economy.				

## 1. INFORMAL AND FORMAL EMPLOYMENT

**18.29** Statistics on informal employment aim at:

- a. establishing whether the productive activities defined as employment are, in law and in practice, covered by formal arrangements and the formal status of the economic unit for which this work is carried out; and
- b. describing the structure and extent of informal employment, identifying groups of persons in employment most represented and at risk of informality, and providing information on exposure to economic and personal risks, decent work deficits and working conditions.

**18.30** *Informal employment* is defined as any activity of persons to produce goods or provide services for pay or profit that is—in law or in practice—not covered by formal arrangements such as commercial laws, procedures to report economic activities, income

taxation, labor legislation and social security laws and regulations providing protection against economic and personal risks associated with carrying out the activities. Informal employment comprises activities carried out in relation to informal jobs held by:

- a. independent workers who operate and own or co-own an informal household unincorporated market enterprise;
- b. dependent contractors who do not have a formal status in relation to the legal administrative framework or whose activities are not effectively covered by formal arrangements;
- c. employees, if their employment relationship is not, in practice, formally recognized by the employer in relation to the legal administrative framework of the country or not associated with effective access to formal arrangements; and
- d. contributing family workers whose work relationships are not formally recognized in relation to the legal administrative framework of the country or not associated with effective access to formal arrangements.

**18.31** All tasks and duties carried out in relation to an informal job are considered to be informal productive activities. Informal productive activities performed by persons may also be carried out in relation to formal jobs if a subset of the tasks and duties carried out are not effectively covered by formal arrangements.

**18.32** *Formal employment* is defined as any activity of persons to produce goods or provide services for pay or profit in relation to a formal job, where the activities are effectively covered by formal arrangements. Formal employment comprises productive activities carried out in relation to formal jobs held by:

- a. independent workers in employment who operate and own or co-own a formal economic unit;
  - b. dependent contractors who have a formal status in relation to the legal administrative framework of the economy and whose activities are associated with effective access to formal arrangements;
  - c. employees, if their employment relationship is, in practice, formally recognized by the employer in relation to the legal administrative framework of the economy and associated with effective access to formal arrangements; and
- contributing family workers carrying out work for a formal economic unit and whose work relationships are formally recognized in relation to the legal administrative framework of the economy and associated with effective access to formal arrangements. Registration of the job held by the contributing family worker and

contribution to a job-related statutory social insurance scheme implies that the worker is employed formally in that job.

**18.33** Additional information on informal employment can be found in *2025 SNA*, Chapter 39, Informal Economy.

**18.34** Depending on the national context and need, countries may identify persons with formal jobs carrying out partly informal productive activities and report the number of such persons, the hours spent on informal activities, or the earnings received from paid informal activities in relation to formal jobs.

## D. INFORMAL CROSS-BORDER FLOWS

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**18.35** The conceptual framework, definitions and classifications that underlie the statistics on the informal economy and their relation to the integrated frameworks of the SNA and external accounts were presented in Sections B and C. In practice, compilers will be confronted with many practical issues in collecting data and deriving estimates for informal activities. This section focuses on the definition and key aspects of informal cross-border trade and other flows.

**18.36** Informal cross-border flows pose challenges to data collection and estimation because they represent transactions undertaken by small units and households that may not be covered by the regular data collection programs used for the compilation of national accounts and external accounts.

**18.37** The framework for the informal economy presented in this chapter relates to the production of goods and services in the domestic economy. It is possible to extend the framework to account for external transactions related to activities of informal workers and informal economic units. These transactions would be recorded primarily in the current account and include the following:

- a. Trade in goods conducted by informal workers and informal economic units (exports and imports);
- b. Trade in services by informal economic units (exports and imports);
- c. Informal employment of nonresident workers;
- d. Remittances related to the informal economy.

**18.38** Trade in goods conducted informally includes small scale but frequent movement of goods between neighboring countries by informal units or workers, shuttle trade (see paragraph 10.14), fish catch traded between vessels at sea where the vessel of the

compiling economy is operated by informal units and smuggling of otherwise legal goods by informal units or workers.

**18.39** If an informal worker carries goods over the border for a formal enterprise, then the change of ownership is between a formal unit and a nonresident (formal) unit. In this case, only the work done by the carrier of the goods would be part of the informal economy (either a service by an unincorporated market enterprise or work by an informal employee). The payment from the formal unit to the carrier of the goods could be either an international or a domestic transaction depending on the residency of the parties.

**18.40** The carriage of goods by informal workers and informal economic units across country frontiers is an important component of the informal economy, particularly in developing countries. Compilers of trade in goods are encouraged to collect data on the value of goods traded by informal units and workers and to gather information on the persons conducting informal trade when these activities are significant. One approach that has been used is to conduct routine surveys at border stations where imports and exports of goods that are carried over the border by informal units or informal workers can be recorded or observed.

**18.41** Trade in services by informal units includes services such as:

- a. Room rental, ride services or informal restaurant and bar services that are provided by informal units to travellers who are temporarily present in the reporting economy;
- b. Exports and imports of services such as hairdressing, housekeeping and caring for persons, or construction provided by self-employed persons that move across borders but are not registered in a governmentally established system of registration in either their economy of residence or the economy of activity; and
- c. Cross-border services that are delivered online, such as tutoring, and other income generating online services where the service provider is working informally and has not registered in a governmentally established system of registration.

**18.42** Undeclared and underdeclared trade in goods or services by formal units is not part of the informal economy but may be accounted for as nonobserved international trade—see Section G of this chapter.

**18.43** Some trade that is part of the informal economy in one economy may not be considered informal in the counterpart economy. This would occur, for instance, if a fishing vessel operated by an informal unit traded with a fishing vessel operated by a formal unit from another economy. Another example would be for accommodation services provided by informal units to nonresidents; this would be considered part of the informal economy in the

economy of the service provider, but for the economy of the traveller this would not generally be recorded in the statistics on the informal economy.

**18.44** Some nonresidents such as seasonal workers and nonresident students may engage in informal employment because they do not have the appropriate employment permits to engage in formal employment. Volunteer work by nonresidents may also be considered informal (see 2025 SNA, paragraph 39.49).

**18.45** The 21<sup>st</sup> ICLS Resolution does not discuss remittances. However, as migrant workers and nonnational residents are often at risk of informality, it may be informative to provide information on remuneration of employees and personal transfers that relate to informal workers and informal economic units.

**18.46** Remittance outflows related to the informal economy include personal transfers of income earned from informal employment by residents and personal transfers from income earned by resident persons belonging to an informal economic unit, as well as remuneration of employees less transport and travel of border, seasonal and other short-term nonresident workers such as unregistered nonresident domestic workers employed by households. The counterpart country would record these data as remittance inflows, but the information may not inform the same policy needs as other data on the informal economy.

**18.47** As explained in paragraphs 18.16 and 18.17, trade in goods and services that are forbidden by law are excluded from the statistics on the informal economy. However, the BOP statistics include all trade in illegal goods and services, so care should be taken in reconciling the balance of payment statistics with external transactions from statistics on the informal economy to account for the difference in treatment.

## E. DIGITALIZATION

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**18.48** Digitalization penetrates many aspects of economic activity which leads to concerns about the possible mismeasurement of economic activity. New types of economic activities often make use of digital technologies and create new types of jobs, including jobs that are considered informal. Many of these jobs facilitated by digitalization are in the role of dependent contractors as described in Section C of this chapter.

**18.49** Most of the new forms of dependent contractors facilitated by digitalization are dependent on large formal enterprises that provide a digital intermediation service. Examples include households that provide transport or accommodation services. The formal or informal status of dependent contractors would vary based on the legal administrative framework of an economy, which regulates the ties between dependent contractors and formal economic units. For example, if dependent contractors are registered, participate in



social insurance schemes or are regulated by the government in ways that facilitate their work or protect them as workers, they are classified as formal workers. If the government does not require the formal economic units to register or provide formal regulations or protections to the dependent contractors with whom they work, then the dependent contractors will be informal workers.

**18.50** Digitalization facilitates household participation in production activities that can be informal, such as through digital marketplaces. Digitalization also provides opportunities for households to deliver interactive services such as online learning and entertainment channels where income is earned by the household through advertising or from viewer subscriptions. Households that receive monetary remuneration for uploaded content can be considered unincorporated household enterprises. If the household is not recognized by government authorities as a distinct market producer and thus is not covered by formal arrangements, then it is regarded as an informal enterprise. For multinational enterprise groups that operate digital platforms in a number of countries, the formal/informal status of the dependent contractors may vary from country to country depending on the legal arrangements in each country.

**18.51** Additional general information on the role of digitalization and how it should be accounted for is provided in Chapter 16 on Digitalisation.

## F. DATA SOURCES AND PRESENTATION OF INDICATORS

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**18.52** The standards for statistics on the informal economy described in Sections B and C provide the conceptual basis for statistics to be compiled in a harmonized and comparable manner from different data sources. The sources and data collection methods will depend on statistical capacity, national priorities, measurement objectives and the relevant reference unit.

**18.53** Compilers can use a range of statistical approaches including a combination of direct and indirect sources to estimate the size of the activities of the informal economy. These methods would be determined by the features of the informal economy in the compiling country as well as availability of source data and statistical capacity. The exchange of experiences and knowledge between national accounts and BOP compilers, and, also, between regulatory and policy agencies and statistics-producing agencies can be used to develop, for example, statistical models to estimate informal activities. National compilers are also encouraged to use innovative data sources, such as those provided by financial intelligence units and law enforcement agencies to develop estimates. In general, coverage of the informal economy, in both the national accounts and external accounts, requires additional source data, including through surveys.

**18.54** Details of sources and survey methods for collecting data on the informal activities in the economy are presented in 2025 SNA, Chapter 39 on Informal economy which is a joint or companion chapter to this current chapter. The methods described in the SNA chapter can be applied to gather data on the informal economic units and persons who trade informally, particularly for trade in services.

**18.55** If trade in goods and services is compiled separately from the national accounts, or if more than one agency is involved, compilers can cooperate to provide coherent statistics on the informal economy and to avoid duplication of work.

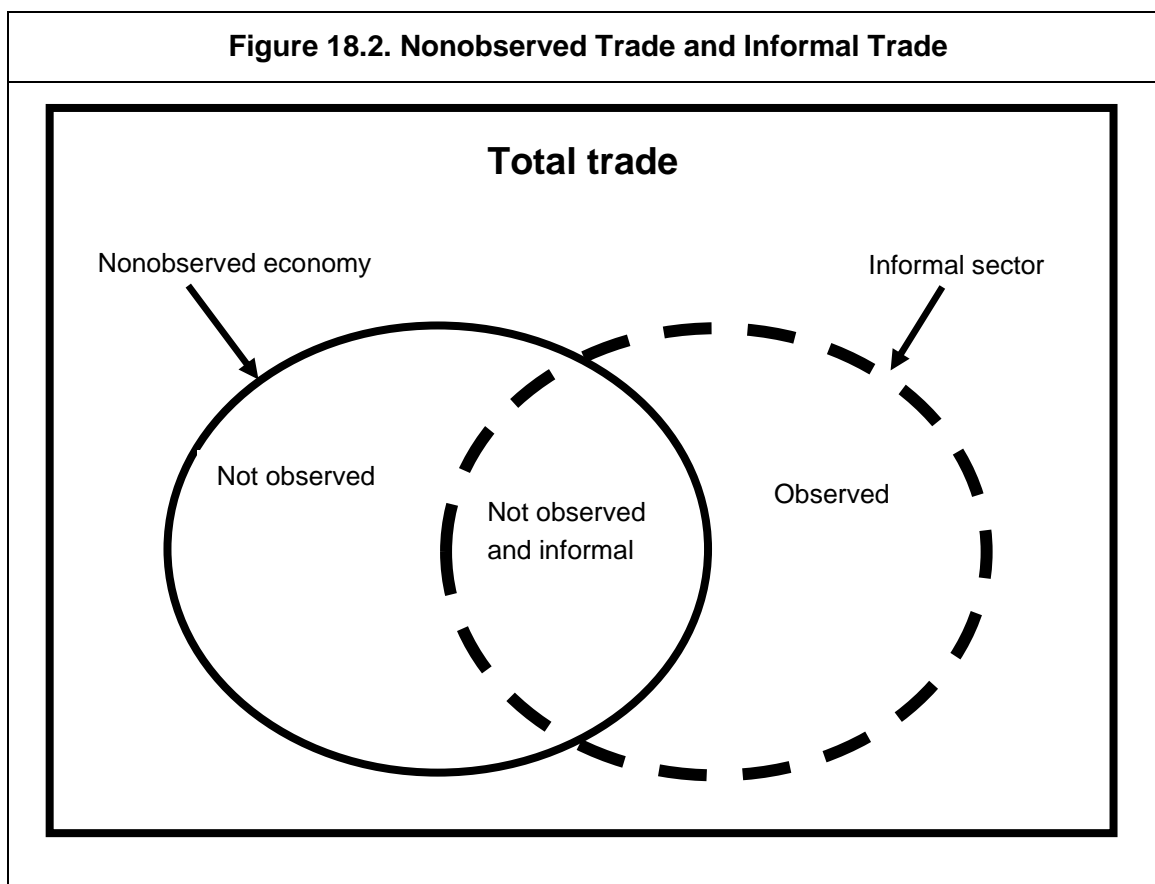
**18.56** Compilers may wish to identify trade that is estimated using these approaches as an “of which” sub-item of trade in goods and trade in services. Compilers may also choose to present data in a standalone publication with information, for example, on the extent of informal trade, the products being traded, the gender and nationalities of the persons involved in trading, and the modes of transport being used.

## G. NONOBSERVED TRADE

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**18.57** The part of the economic activity difficult to measure has become known as the “nonobserved economy”, and several publications have been dedicated to measuring it, notably *Measuring the Non-Observed Economy – a Handbook*. As the techniques in the handbook make clear, a specific measure of the nonobserved economy is not important in itself. Attention focuses on ensuring that the measurement of total output and value added is complete or “exhaustive”. The term nonobserved economy is used in the context of achieving exhaustiveness of the integrated framework of national accounts, focusing on GDP in the context of the production of goods and services. In the same way, nonobserved trade is used to describe cross border trade that is difficult to measure in the context of exhaustiveness.

**18.58** There is a large overlap between nonobserved trade and informal trade. However, while nonobserved trade and informal trade overlap, neither is a complete subset of the other. This can be seen in Figure 18.2. The solid circle represents nonobserved trade and the dotted circle informal trade. Thus, the overlap consists of trade that is not observed and undertaken informally. In addition, there is some trade that is not observed but is not undertaken informally and some that is undertaken informally but is observed. The relative size of the three segments in Figure 18.2 will vary from country to country.



**18.59** Efforts to cover nonobserved trade ensure that all enterprises are covered in statistical estimates even if not covered by statistical enquiries. Some of the supplementary estimates may well relate to those activities of household unincorporated enterprises considered to be informal, but some will relate to large enterprises, not regarded as informal. In addition, nonobserved trade aims to cover misreporting in large enterprises, whether this is inadvertent or deliberate.

**18.60** Within the informal sector, some information may be captured statistically. Consider a household that lets rooms to visitors for one or several nights. The activity cannot be treated as a quasi-corporation because it is impossible to make a clear separation of costs from regular household costs and to partition that fraction of the house treated as an asset associated with the letting of rooms from its main function as a family home. However, the value of the letting activity may be captured in a survey directed at tourism activities, for example.

**18.61** Other examples might be considered. Individual cross-border traders or taxi drivers may be both not observed and informal. A small food producer may be formal but may trade at below threshold values and therefore not observed. Teaching assistants may be informal but observed. The situation is complicated by the fact that street traders, taxi drivers, small

food producers and teaching assistants may be formal in some countries and informal in others, just as they may be observed in some and not in others.

**18.62** It should be noted that all economies have both nonobserved parts of their economies and informal enterprises, though the scale of each and the policy interest in identifying them may vary. More detailed information about the scope and measurement of the nonobserved economy is available in publications such as the one mentioned in paragraph 18.77.

## H. GUIDELINES AND HANDBOOKS ON THE INFORMAL ECONOMY AND THE NONOBSERVED ECONOMY

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**18.63** Significant advances in methodology have taken place in fields related to the informal economy. Also, countries have gained extensive experience in collecting and working with data on the informal sector. These developments are highlighted in various guidelines and handbooks on statistics on the informal economy as well as handbooks on the measurement of the nonobserved economy in the integrated framework of the SNA.

- As discussed in this chapter, the 21<sup>st</sup> ICLS Resolution Concerning Statistics on the Informal Economy provides the standards for statistics on informality.
- The ILO also prepared a manual in 2013 for preparing estimates of the informal sector and informal employment, *Measuring Informality: A Statistical Manual on the Informal Sector and Informal Employment*. Although this manual pre-dates the latest standard presented in the 21<sup>st</sup> ICLS Resolution, it nevertheless provides useful guidance on practical aspects of collecting and compiling informality statistics.
- A wider set of indicators to further support the national production of informality statistics can also be found on the ILO Statistics website.
- Chapter 6 of the Eurostat manual, *Essential SNA: Building the Basics* provides a practical overview of how to address exhaustiveness, the nonobserved economy, and statistics on informality. Eurostat has also developed a “Tabular Approach to Exhaustiveness” which is used to help ensure comparability.
- Research on statistical methods for improving the exhaustiveness of measures of economic production led to the preparation of the handbook *Measuring the Non-Observed Economy – a Handbook*.
- The UNECE published *Non-Observed Economy in National Accounts: Survey of Country Practices*, which summarizes practices as of that date in measuring nonobserved economic activities to ensure the exhaustiveness of their national accounts.

- Eurostat published the *Handbook on the Compilation of Statistics on Illegal Economic Activities in National Accounts and Balance of Payments*, which provides guidance on the concepts and definitions of illegal activities, recommended methodological frameworks for compiling data, and data sources and statistical techniques for recording illegal economic activities.
- Considerable advances have been made in collecting information on informal cross-border trade, see, for example, the United Nations. Economic Commission for Africa report *Informal Cross-Border Trade in the Economic Community of West African States (ECOWAS) region* (2023) and the AFRITAC publication *Guidelines for the Production of Informal Cross-Border Trade (ICBT) Statistics*, both of which provide practical guidance and the conduct of ICBT surveys and the data that may be collected.

# Chapter 19. Selected Issues in Integrated Balance of Payments and International Investment Position Analysis

## A. INTRODUCTION

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**19.1** This chapter provides an introduction to the use of integrated BOP and IIP data in economic analysis. Preceding chapters of this *Manual* present the concepts underlying the components used in the external accounts. The importance of this accounting and statistical reporting framework describing an economy's external flows and positions derives primarily from their impact on the domestic economy. Although the external accounts are sometimes called the "external sector" or "rest of the world sector," they do not constitute a sector, in the sense of a group of institutional units with similar motivations. Rather, the external accounts show the relationship between domestic sectors and the rest of the world. This chapter discusses some of these major links.

**19.2** This discussion directs particular emphasis to the factors influencing external flows and positions and the extent to which such factors are sustainable. Finally, some of the implications of BOP adjustments for economic policy are considered. In this chapter, it is assumed, by and large, that external and domestic transactions are not constrained by formal or informal administrative controls and that market participants are free to respond to price signals and macroeconomic policies. It is also assumed that the economy does not affect global interest rates.

**19.3** Owing to the introductory nature of this chapter, the discussion of BOP financing and adjustment in Sections E and F is not exhaustive and focuses on an illustrative case that demonstrates fundamental mechanisms and macroeconomic interactions. More complex cases with volatile and highly mobile financial and balance sheet effects bring additional concerns and limitations. These issues are briefly discussed in Section H, but more complete analysis goes beyond the scope of the *Manual*, and the reader is encouraged to refer to additional literature, for which some references are provided in Section I. The chapter does not discuss the special issues associated with a currency union.

## B. GENERAL FRAMEWORK

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**19.4** The relationships among the economic accounts in the *SNA* are described in Chapter 2. The major accounts can be expressed as accounting identities. Because these

are identities, no causation should be inferred. The *SNA* goods and services account shows the balance between supply and use:

$$\begin{aligned}\text{Supply} &= \text{Output} + M \quad (1) \\ &= \text{Use} = C + G + I + X + IC,\end{aligned}$$

where

$M$  = imports of goods and services

$C$  = household consumption

$G$  = government consumption

$I$  = gross capital formation<sup>1</sup>

$X$  = exports of goods and services

$IC$  = intermediate consumption

Because GDP is equal to gross output less intermediate consumption, identity (1) can be rearranged as:

$$GDP = C + G + I + X - M, \quad (2)$$

that is, the expenditure approach to GDP, where

$GDP$  = gross domestic product.

The definition of gross national disposable income (GNDI) is GDP plus net earned and transfer income from abroad, so

$$GNDI = C + G + I + X - M + BEI + BTI, \quad (3)$$

where

$BEI$  = balance on earned income

$BTI$  = balance on transfer income (net current transfers)

The current account balance is:

$$CAB = X - M + BEI + BTI \quad (4)$$

where

$CAB$  = current account balance

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<sup>1</sup> Often called investment in economic analysis. The *SNA* uses the term “capital formation” to mean investment in produced nonfinancial assets so as to make a clear distinction from investment in other assets, in particular financial assets. Investment is used subsequently in this section to mean capital formation in the *SNA* sense. Capital formation includes fixed capital, inventories, and valuables.

From equations (3) and (4), the current account balance can also be seen equivalently as the gap between disposable income and expenditure:

$$CAB = GNDI - C - G - I. \quad (5)$$

Or equivalently:

$$GNDI = C + G + I + CAB. \quad (6)$$

As defined in the SNA use of income account:

$$S = GNDI - C - G, \quad (7)$$

where

$S$  = gross saving.

Substituting identity (3) in (7),

$$S = I + CAB, \quad (8)$$

which can be rearranged as:

$$S - I = CAB. \quad (9)$$

That is, the current account balance is the gap between saving and investment.<sup>2</sup>

**19.5** Thus, the current account balance mirrors the saving and investment behavior of the economy. In analyzing changes in the current account balance of an economy, it is therefore important to understand the manner in which these changes reflect movements in saving and investment. For example, an increase in investment will have the same impact on the current account in accounting terms as a similar decline in saving. However, the longer-run implications for the external position of the economy may be quite different. More generally, identity (9) shows that any increase in an economy's current account balance (e.g., a larger surplus or smaller deficit) is necessarily equivalent to an increase in saving relative to investment. This relationship highlights the importance of ascertaining the extent to which any policy measures designed to alter the current account balance directly (e.g., changes in tariffs, quotas, and exchange rates) will affect saving and investment behavior.

**19.6** This link between domestic transactions and transactions with the rest of the world is shown in identity (5). The implication of this relationship for BOP analysis is that increasing

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<sup>2</sup> These relationships have been shown for the gross values of production, income, capital formation, and saving, before accounting for depreciation of fixed capital and depletion of natural resources. The relationships also hold if production, income, capital formation, and saving are expressed net of depreciation of fixed capital and depletion of natural resources.



an economy's current account balance requires a reduction in expenditure relative to disposable income. Alternatively, it may be possible to achieve an increase in the current account balance by means of an increase in national income (*GNDY*) that is not matched by a commensurate rise in consumption or domestic investment. Implementation of structural measures that increase the efficiency of the economy would be one way to achieve this objective.

**19.7** This last point highlights an important aspect of the identities shown previously; these are identities that define relationships among variables rather than describe the behavior of economic agents. By themselves, the identities cannot provide a full analysis of the factors determining developments in the current account. For example, total expenditure on goods and services by domestic residents ( $C + G + I$ ) is likely to be influenced in part by their income (*GNDI*). Thus, it would be inappropriate to use identity (5) to analyze the impact of a change in *GNDI* on the current account balance without taking full account of the induced response in consumption and investment of such a change. This example illustrates the necessity for understanding the spending propensities of residents of the economy when analyzing the BOP.

**19.8** The interrelationship of the current account balance with saving and investment can be seen in greater detail by distinguishing between the private and government sectors.

Private saving and investment

( $S_p$  and  $I_p$ ) and government saving and investment ( $S_g$  and  $I_g$ )<sup>3</sup> are identified as:

$$S - I = S_p + S_g - I_p - I_g. \quad (10)$$

Use of the saving-investment gap identity for the current account in identity (9) then gives:

$$CAB = (S_p - I_p) + (S_g - I_g). \quad (11)$$

This identity shows that, if a negative saving-investment gap in the government sector is not offset by a positive gap on the part of the private sector, the current account will be in deficit, and vice versa. More specifically, the identity shows that the budgetary balance of the government ( $S_g - I_g$ ) may be an important factor influencing the current account balance. In particular, a sustained current account deficit may reflect persistent government spending in excess of revenues, and such excess spending might suggest that fiscal tightening is the appropriate policy action.

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<sup>3</sup> The scope of the "government sector" could be defined as general government or the public sector (definitions of both are given in Chapter 4), according to analytical needs; the private sector would be defined in a complementary way.

**19.9** To reiterate an important point, however, identity (11) cannot be used by itself to analyze developments in the BOP in terms of investment and saving on the part of the private and government sectors because there are links between the variables on the right-hand side of identity (11). For example, an increase in taxes could be considered the appropriate policy measure both to raise government saving (or reduce dissaving) and to contribute to an improvement in an economy's current account balance. In analyzing the impact of higher taxes, it is necessary to take account of the behavioral response of private saving and private investment. Private investment could be positively or negatively affected by higher taxes. The effect would depend, in part, on whether the taxes were levied on consumption, an action that would release domestic resources and thereby tend to "crowd in" domestic investment, or on returns to investment. In addition, private saving would tend to fall because of the decline in disposable income caused by taxes on consumption. Similarly, an increase in interest rates could tend to reduce private consumption and investment, but also tend to put upward pressure on the exchange rate with consequent effects on exports, imports, and differing effects on debt service for domestic currency and foreign currency liabilities.

**19.10** Thus, identity (11) provides only a starting point for an analysis of the interaction between saving and investment decisions and the BOP; the identity must be supplemented by specific information about the factors that determine the behavior of both the private sector and the government before the effect of policy measures on an economy's current account can be ascertained.

**19.11** As noted in Box 2.1, the basic principle of double-entry bookkeeping used in constructing the BOP implies that the sum of all external transactions—current, capital, and financial—is in principle equal to zero.<sup>4</sup> Accordingly, the financial account shows how the sum of the current account and capital account balances is financed. For example, imports of goods may be financed by nonresident suppliers so that an increase in imports can be matched by a financial inflow. At the expiration of the financing period, the payment to the nonresident supplier will involve either a drawdown of foreign assets (e.g., foreign deposits held by domestic banks) or the replacement of the liability to the nonresident supplier by another liability to nonresidents. There are also close connections between many financial account transactions. For example, the proceeds from the sale of bonds in foreign financial markets (a financial inflow) may be invested temporarily in short-term assets abroad (a financial outflow).

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<sup>4</sup> In practice, they may not balance owing to statistical discrepancies.

**19.12** This balance between financial and other entries can be expressed as:

$$NLB = CAB + KAB = FAB, \quad (12)$$

where

*NLB* = net lending/net borrowing

*KAB* = capital account balance

*FAB* = financial account balance

**19.13** In other words, this identity shows that net lending/net borrowing (from the sum of the current account balance and capital account balance) is conceptually equal to net lending/net borrowing from the financial account. Alternatively, it could be said that the current account balance is equal to the financial account balance, including the balance on reserve asset transactions, less the capital account balance.

$$CAB = FKB + BRT, \quad (13)$$

where

*FKB* = (*FAB* - *BRT*) - *KAB* (i.e., financial account balance, excluding balance on reserve asset transactions, less the capital account balance)

*BRT* = balance on reserve asset transactions

**19.14** Thus, the net provision of resources to or from the rest of the world, as measured by the current and capital account balances, must—by definition—be matched by a change in net claims on the rest of the world. For example, a surplus on the current and capital accounts is reflected in an increase in net claims, which may be in the form of acquisition of reserve assets on the part of the monetary authorities or other official or private claims on nonresidents (i.e., a positive financial account balance). Alternatively, a deficit on the current and capital accounts implies that the net acquisition of resources from the rest of the world must be paid for by either liquidating foreign assets or increasing liabilities to nonresidents (i.e., a negative financial account balance).

## C. NEXUS BETWEEN THE CURRENT ACCOUNT AND INTEGRATED INTERNATIONAL INVESTMENT POSITION

**19.15** The accounting identity between the current account and capital account balances in relation to the IIP can be derived by taking the accumulation accounts of the integrated IIP statement as a starting point. According to paragraphs 2.10 and 9.5 as well as Table 7.1, the change in the net IIP ( $\Delta IIP$ ) between two points in time can be expressed as:

$$\Delta IIP = FAB + VAL + OCV, \quad (14)$$

where

$FAB$  = financial account balance

$VAL$  = net revaluation

$OCV$  = net other changes in volume

Substituting identity (12) in (14),

$$\Delta IIP = CAB + KAB + VAL + OCV. \quad (15)$$

That is, the change in the net IIP equals the current account and capital account balances plus revaluation effects and other changes in volume, each of which might take a positive or negative value.<sup>5</sup>

**19.16** Explicitly linking net IIP changes to the current account balances offers insights into the dynamics driving IIP developments. It highlights that the size of an economy's net IIP should not be interpreted as an independent investment decision to prefer financial assets abroad over domestic ones. In the long run, the development in an economy's net IIP typically hinges on the economy's current account balance. However, an economy might experience periods in which revaluations and other changes in volume dominate changes in the net IIP. This is particularly the case for economies with large external asset and liability positions and those highly exposed to foreign financial markets and currencies. For example, the net IIP might fall despite a positive current and capital account balance if negative revaluation effects and other changes are larger.

**19.17** If an IIP is deemed not to be sustainable,<sup>6</sup> a persistent increase in the current account balance could bring it back on a sustainable path. Therefore, policy measures must aim at the corresponding current account imbalance as an intermediate target. As discussed in paragraph 19.49, an economy's response in the face of an unsustainable current account deficit and looming substantially negative net IIP might be a depreciation of the exchange rate of the domestic currency. Such a depreciation may help to lift the balance on the trade in goods and services by encouraging exports and making imports relatively more expensive, thereby increasing the current account balance.<sup>7</sup> A higher current account

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<sup>5</sup> To balance this account in practice, the statistical discrepancy of the BOP must enter equation (12) and consequently equation (15) as an additional term. Equation (15) would thus change into  $\Delta IIP = CAB + KAB + VAL + OC + SD$ .

<sup>6</sup> One approach to identify an IIP that is not sustainable can be based on the IMF External Balance Assessment Methodology (Allen et al. (2023)), which includes an external sustainability approach.

<sup>7</sup> As pointed out in paragraph 19.49, how trade flows respond to an economy's exchange rate movements differs and depends on a variety of factors, one of them being the invoicing currency for imports and exports, which might be the domestic currency or a prevailing dominant currency (see, for instance, Adler et al. (2020)).

balance will result in positive adjustments in the net IIP over time. However, the revaluation effects on the change in the net IIP position must be taken into account as well.

Revaluations may support the adjustment or may have adverse effects, depending on the currency composition of the economy's balance sheet. From the domestic economy's perspective, financial assets and liabilities denominated in foreign currency in the IIP gain value after an exchange rate depreciation. If foreign-currency-denominated assets are greater than foreign-currency-denominated liabilities, the net IIP will register a positive revaluation, or vice versa.

**19.18** On the other hand, the current account balance itself depends partly on the IIP. This feedback loop exists because investment income—being part of the current account—is determined by the size and structure of the existing IIP. The same applies to revaluations and other changes in volume. Their net effect likewise depends on the volume and composition of external assets and liabilities. Thus, equation (15) can be rewritten to differentiate between IIP changes dependent on the current IIP on the one hand, and those independent thereof on the other:

$$\Delta IIP = (CAB - II + KAB) + (II + VAL) + OCV, \quad (16)$$

where

$II$  = investment income balance

The first term might be labeled external primary balance,<sup>8</sup> encompassing the capital account balance and the current account balance less investment income. The second term represents the net total return on an economy's net external position. The total rate of return is the sum of the income rate of return and the revaluation rate of return. The income rate of return is the ratio of investment income to the corresponding average asset or liability position in the IIP. The revaluation rate of return is the ratio of revaluations, which are holding gains and losses, to the corresponding average asset or liability position. The nexus between the current account and the IIP is the pivotal point for assessing external sustainability and for calculating rates of return on IIP positions treated in paragraphs 19.86–19.92.

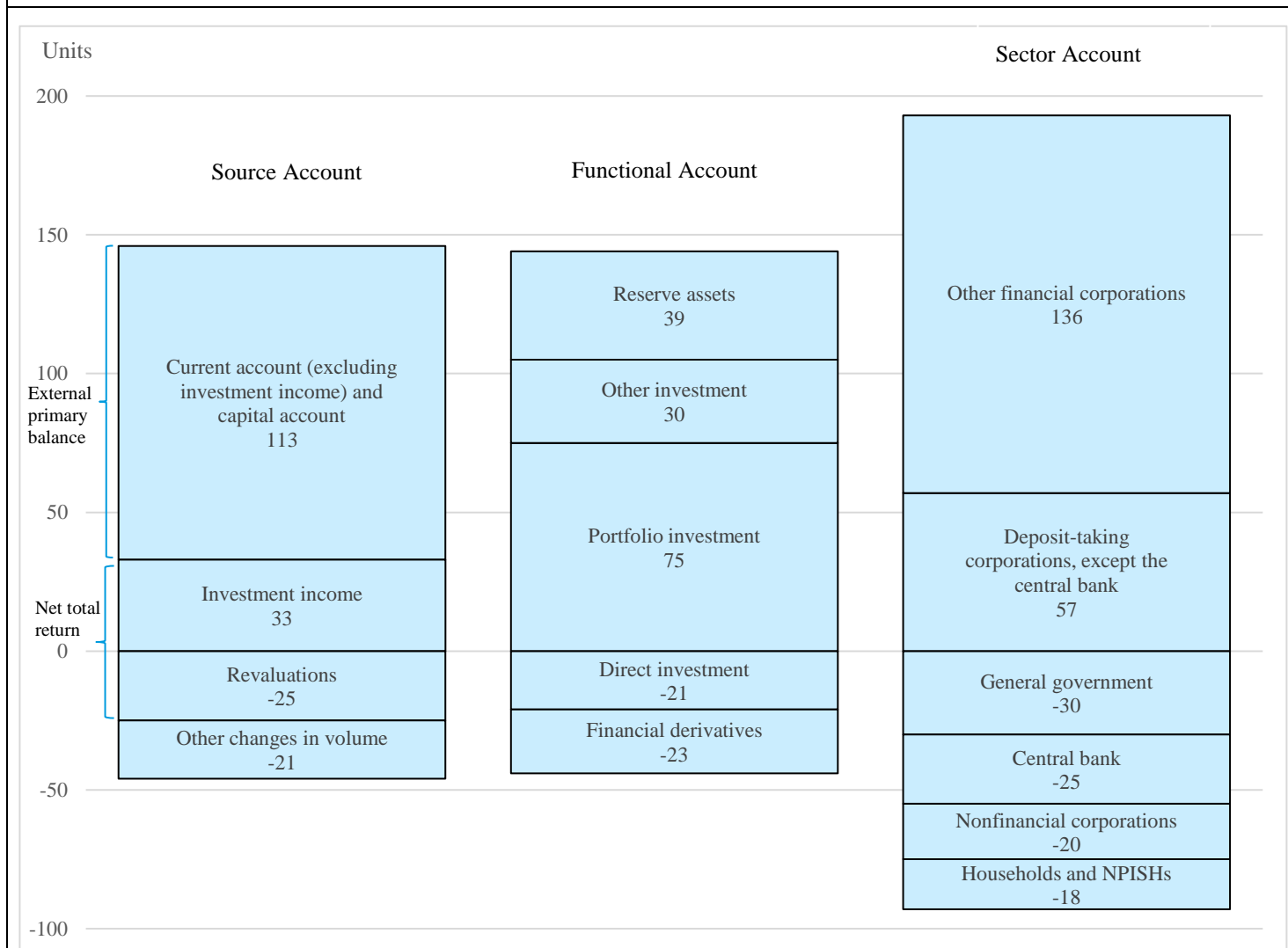
**19.19** The change in the net IIP in a given period can be visualized in a three-dimensional accounting system. Each of the three different dimensions captures a specific aspect. The first dimension shows the nexus between the current account and the integrated IIP and breaks down the sources of the change in the net IIP by the components from identity (16). The second dimension, the functional account, shows how the change in the net IIP is

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<sup>8</sup> In reference to public finances, where the term "primary balance" is defined as government's net borrowing/lending excluding interest payments.

reflected in the various functional categories. As the third dimension, the sector account allocates the change to the domestic sectors involved. An example is provided in Figure 19.1.

**Figure 19.1. Three-Dimensional Account System Presenting Changes in the Net IIP**



Note: In this example, the change in the net IIP is 100 as illustrated for all three accounts.

## D. ALTERNATIVE PRESENTATIONS OF BALANCE OF PAYMENTS DATA

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**19.20** The different presentations discussed below can be used to highlight different aspects of BOP financing and its effect on the economy. These presentations involve reorganization of the items to emphasize particular aspects.

### 1. STANDARD PRESENTATION

**19.21** The tables presented in Chapters 2 and 7–14 use a standard presentation that groups economic processes and phenomena, consistent with the *SNA* and other macroeconomic statistics. It features two major lines for balances:

- (a) between current account credits/revenues and debits/expenditures—the balancing item is the current account balance, and
- (b) between financial and nonfinancial entries—the balancing item is net lending/net borrowing.

In addition, there are a range of other balancing items shown in Chapters 2 and 7–14 that highlight different components.

### 2. “ANALYTIC” PRESENTATION

**19.22** The analytic presentation is a reorganization of the standard presentation of BOP statistics to facilitate a basic distinction between (a) reserves and closely related items and (b) other transactions. The analytic presentation is an example of a thematic table and is designed to focus on management of reserves and closely related items, but the term “analytic” should not be taken to suggest that this presentation is suitable for all analytical purposes or that other presentations are not useful for other kinds of analysis. Table 19.1 illustrates this presentation. It draws the line between the ways monetary authorities finance transactions (below the line) and other items (above the line).

**19.23** This presentation shows how reserves, along with the related items of IMF credit and loans, and exceptional financing (such as accumulation of arrears, debt forgiveness, intergovernmental grants, and debt restructuring) are used to finance other “autonomous” external transactions. Exceptional financing is discussed in detail in Annex 1. The presentation is useful for monetary authorities that use intervention, including managed exchange rate regimes, with various degrees of flexibility. Arrears related to exceptional financing are recorded below the line as transactions in the analytical presentation with the corresponding entry in the relevant instrument. (This treatment is because, although the accumulation of arrears is not a transaction, it results from the actions of the monetary

authorities.) Categories of the BOP above-the-line from which transactions could be taken to below-the-line are marked as “(n.i.e.).”

<b>Table 19.1. “Analytic” Presentation of the Balance of Payments<sup>1</sup></b>		
	Credits	Debits
<b>Current account n.i.e.</b>		
Goods		
Services		
Earned income		
Transfer income n.i.e.		
Balance on current account n.i.e.		
<b>Capital account n.i.e.</b>		
Balance on capital account n.i.e.		
<b>Financial account n.i.e.</b>		
Direct investment n.i.e.		
Portfolio investment n.i.e.		
Financial derivatives and ESOs n.i.e.		
Other investment n.i.e.		
Balance on financial account n.i.e.		
Balance on current, capital, and financial accounts n.i.e.		
<b>Reserves and related items</b>		
Reserve assets		
IMF credit and loans		
Exceptional financing		
Total reserves and related items		
<sup>1</sup> Exceptional financing items are moved from the current, capital, and financial accounts to the reserves and related items heading. For this reason, other items are stated as being n.i.e. (Exceptional financing is discussed in Annex 1.) Since the table covers a mix of transactions in the current, capital, and financial accounts, the column headings reflect the underlying double-entry basis of BOP statistics (credit/debit) as explained in Box 2.1 rather than the <i>Manual</i> standard headings credits/revenues, debit/expenditure, net acquisition of financial assets, and net incurrence of liabilities.		

### 3. SECTORAL ANALYSIS

**19.24** Another analytical presentation groups items in the financial account by the type of resident recipient of external financing—for example, central bank, deposit-taking corporations except the central bank, general government. To support this approach, sectoral splits are required for all financial account items.

**19.25** Sectoral presentations provide a convenient way to analyze the net foreign lending or borrowing of each domestic sector. These data help identify issues of sustainability and



vulnerability. Sectoral analysis is developed in conjunction with the balance sheets (see paragraphs 19.63–19.72) and in the presentation of external debt statistics (see *External Debt Statistics: Guide for Compilers and Users*).

#### 4. MONETARY PRESENTATION

Reference:

- Aguilar, Carmen Picón, Rodrigo Oliveira Soares, and Ramón Adalid, *Revisiting the Monetary Presentation of the Euro Area Balance of Payments*, European Central Bank Occasional Paper No. 238 (February 2020).

**19.26** The monetary presentation explicitly shows the link between the BOP and monetary and financial statistics. It identifies the transactions of the deposit-taking corporations (plus money market funds, if their liabilities are included in the definition of broad money), which are equal to the foreign assets and liabilities of the same units, as recorded in monetary and financial statistics.

**19.27** This presentation highlights the effects of external transactions on monetary developments. This may be summarized by the following equations:

- (a) The transactions derived from the balance sheet of deposit-taking corporations (and money market funds, where relevant) can be expressed as follows:

$$NFA + \Delta DC - \Delta M + OTR = 0, (17)$$

where

$$NFA =$$

net transactions in foreign assets and liabilities of the deposit-taking corporations

$$DC = \text{domestic credit}$$

$$M = \text{broad money (liabilities)}$$

$$OTR = \text{other (net) transactions vis-à-vis residents}$$

$$\Delta = \text{transactions derived from corresponding positions (i.e., excluding any changes due to revaluation or other changes in volume)}$$

- (b) The identification of transactions by deposit-taking corporations in the BOP leads to the following equation:

$$NFA + ETN = 0, (18)$$

where

*ETN* = nonfinancial BOP transactions and transactions in foreign assets and liabilities by sectors other than deposit-taking corporations<sup>9</sup>

- (c) Combining these equations makes explicit the link between developments in broad money and the BOP transactions of the sectors other than deposit-taking corporations:

$$\Delta M = -ETN + \Delta DC + OTR. \quad (19)$$

**19.28** This presentation highlights the effect of external transactions on domestic liquidity. It emphasizes the links between BOP and monetary statistics.

## 5. PARTNER ANALYSIS

**19.29** Data by partner economy can assist in the conduct of international trade negotiations. They are also useful in identifying potential vulnerability from excessive reliance on another economy, and in forecasting and analyzing contagion effects. They can be used to monitor data quality, through the study of comparison of bilateral data as reported by each of the partner economies (see, for example, the Bureau of Economic Analysis and Eurostat's study of asymmetries in US-EU current account data, cited at the end of this chapter). Such analysis reflects developments such as the need to monitor large payments imbalances between and among certain individual economies and groups of economies, and the analytical interest in the source of BOP flows and positions for economies.

**19.30** For analysis of IIP by partner, assets are shown according to the residence of the debtor (or issuers of nondebt instruments), and liabilities according to the residence of the creditor (or holders of nondebt instruments). For analysis of BOP transactions by partner, data both on a debtor-creditor and a transactor basis may be of interest.<sup>10</sup> The debtor-creditor basis facilitates analyses concerned with such issues as whose securities are being purchased and sold. The transactor basis allows for analysis of where residents engage in financial asset transactions with nonresidents, changes in relative importance and growth of international financial centers, and so forth.

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<sup>9</sup> Under this type of analysis, if deposit-taking corporations transact in foreign assets with other resident sectors, for the identities to hold, transactions in both NFA and ETN need to be recorded, even those that are resident-to-resident, and therefore not BOP, transactions. As noted in paragraph 3.25, in practice BOP transactions in financial assets may be derived from data that do not distinguish whether the counterparty is a resident or a nonresident.

<sup>10</sup> The debtor/creditor and the transactor bases differ in the case of secondary market transactions and are discussed in paragraph A11.35.

## E. FINANCING A CURRENT ACCOUNT DEFICIT

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**19.31** This section examines the financing of a current account deficit by means of net financial inflows, including reserve asset transactions, and some of the economic policy issues involved. For such an analysis, it would be helpful to use identity (12), and to assume that initially  $S = I$  (i.e., that the current account is in balance and that net capital and financial account balances, including reserve asset transactions, are also zero). From this initial situation, it is instructive to trace the effects, on the current account and the financial account, of an autonomous increase in investment (capital formation), which is generated by a rise in the productivity of capital. If this additional investment is not matched by a corresponding rise in saving, interest rates will tend to rise as long as the monetary authorities do not “control” the rates. The excess of investment over saving will be reflected in a current account deficit, which may be financed by a net financial inflow.

**19.32** Whether there is spontaneous financing of a current account deficit—that is, whether the gap between saving and investment is met from autonomous flows—depends on a number of considerations. The functional categories of the external accounts, as well as additional breakdowns (e.g., domestic sector, partner economy, currency of denomination), can be crucial to assess the determinants of such financing, and therefore the appropriate policy measures to foster the most appropriate and sustainable financing sources. In particular, direct investment is frequently characterized by stable and long-lasting economic links, as well as the provision of technology and management. The financial inflow may be directly related to increased capital formation as a result of direct investment, loans obtained from foreign banks, or bonds issued in international financial markets. The foreign financing can be for the purchase of imported goods and services required for an investment project and for the purchase of domestic inputs. Alternatively, additional investment may be financed domestically by means of bank loans or issues of equities and bonds. In this case, there is no direct link between increased domestic expenditures and foreign financing. However, the tendency for domestic interest rates to rise (in comparison with rates abroad) because of the increased investment will provide an incentive for funds to flow into the economy. Whether or not funds do so depends largely on how investors view the economic prospects of the economy. The prevalence of stable economic and political conditions—particularly if it is not likely that the higher interest rate will be offset by a continuing depreciation of the exchange rate of the economy—will increase the spontaneous movement of funds into the economy.

**19.33** The financial inflow associated with the excess of investment over saving involves a reduction in the net foreign asset position of the economy and the reduction, in turn, will change the net investment income flow of the economy. The key analytical issue is whether the economy will be able to service the change in the net foreign investment position without

undertaking significant modifications in economic policies or without incurring undesirable changes in interest rates or exchange rates. Servicing is likely to occur without changes if the investment makes a significant contribution to the productivity of the economy. Such a contribution can be manifested in two ways: first, the firm or government enterprise undertaking the investment must be sufficiently profitable to pay the rate of return that will attract the funds to finance the investment; second, the additional investment must enhance the debt-servicing capacity of the economy. As long as funds from abroad are invested productively, external financing for a current account deficit is likely to be forthcoming for a considerable period of time. In this situation, the finance-receiving economy's current account deficit manifests an efficient allocation of resources.

**19.34** Alternatively, it is useful to consider a case in which investment is unchanged but saving declines—for example, because of an increase in government spending not matched by a rise in tax and other revenue or because of an increase in private consumption not matched by an offsetting change in government saving. In this situation, domestic interest rates would also tend to rise. However, unlike the previous case, the shift to a current account deficit is not paralleled by an increase in productivity in the economy. Under these conditions, there may not be a sustained spontaneous inflow of funds if investors view the decline in the current account as reflecting inappropriate and unsustainable government policies. For example, the decline in saving may reflect an enlarged public sector deficit that is not associated with increased investment. Alternatively, the rise in absorption may be due to higher private spending generated by an expansionary monetary policy. Under these circumstances, investors may not wish to increase their net claims on the economy.

**19.35** In the absence of a spontaneous financial inflow, some combination of the following will be necessary: policy actions to attract private funds, the use of reserve assets for BOP financing, and the implementation of BOP adjustment measures. From identity (12), it can be seen that, if the current account shifts into deficit, financing must take place either by drawing down the economy's reserve assets or by increasing incentives for attracting private funds. The latter can be achieved by enhancing the domestic economic environment for long-term investment. The adoption of monetary and fiscal policies that support stable economic conditions and encourage direct and other investment would tend to induce financial inflows on a sustained basis. Funds may also be induced to flow in from abroad—and to provide BOP financing—by the raising of domestic monetary policy interest rates. Such a policy may well be appropriate if the current account deficit is caused by aggregate demand pressures; a restrictive monetary policy would have the effect of dampening excess demand and providing short-term financing. However, such financing may not be dependable from a long-term perspective as, for example, changes in foreign monetary conditions may make investment of liquid assets in the domestic economy appear

unattractive. Therefore, it is necessary to look at the underlying causes of a current account deficit.

**19.36** The appropriateness of using reserve assets to finance a gap between domestic expenditure and revenue, rather than undertaking adjustment measures to reduce or eliminate this gap, depends on the extent to which the gap is temporary or reversible. As an economy's stock of reserve assets (as well as the resources it can borrow to supplement its reserve assets) is limited, the use of reserve assets to finance a current account deficit is confined within these limits. However, by mitigating the necessity for BOP adjustment, official financing can perform a useful buffer function. For example, temporary shocks, such as poor harvests or other temporary supply disruptions, to domestic output do not necessarily require comparable changes in the domestic absorption of goods and services. Thus, the financing, through the use of reserve assets, of a temporary excess of consumption and investment over national income can provide a desirable smoothing of the path of expenditures by residents. The reserve assets can also be used to finance seasonal swings in foreign payments and receipts. While the financing of temporary shocks is appropriate, recourse to owned or borrowed reserve assets does not obviate the necessity for adjustment if the decline in the current account persists—although it can make the adjustment path smoother and more gradual.

**19.37** There are limits to the extent to which private funds and official resources can finance a current account deficit. The willingness of the private sector to invest in the economy may be directly influenced by ongoing changes in reserve assets. If the existing stock of reserve assets is relatively low in comparison with the current account deficit and the monetary authorities are expected to exhaust the economy's reserve assets within the investment horizon of the investors, then the probability of a depreciation of the exchange rate or the introduction of other policy measures adversely affecting the rate of return expected by investors would tend to increase significantly. Under these circumstances, any private funds from abroad that are financing all or part of a current account deficit could quickly switch from a net inflow to a net outflow. As can be seen from identity (13), unless adjustment measures are implemented to reverse both the current account deficit and the financial account outflow, reserve assets would be required to finance both an excess of domestic investment over saving and a net increase in liabilities to nonresidents. Such a situation would probably result in a loss of confidence in the currency, exacerbation of the financial outflow, and a rapid exhaustion of reserve assets.

**19.38** More generally, in a world of high financial mobility, external and domestic private sector willingness to provide financing are influenced by a complex set of expectations about future economic, political, and other developments in the recipient economy and in the rest of the world. Changes in these expectations may result in rapid rebalancing of the composition of balance sheets and cause high volatility in financial flows with significant

current account and other macroeconomic implications. Section G provides more extended discussion.

**19.39** The previously described framework for analysis of the BOP is applicable, irrespective of the exchange rate regime adopted by an economy. For example, if the exchange rate is pegged, then transactions in reserve assets will be determined by the net demand or supply of foreign exchange at that exchange rate (i.e., from identity (13),  $BRT = CAB - FKB$ ). At the other extreme, if the exchange rate arrangement involves a pure float so that no exchange market intervention takes place, then  $CAB = FKB$ . In the intermediate case of a managed float, purchases and sales of reserve assets are typically undertaken to achieve a desired exchange rate path for the domestic currency in terms of one or more foreign currencies.

**19.40** Financial account transactions, as included in the FKB term in identity (13), can be analyzed in terms of their composition. Direct investment, portfolio investment, financial derivatives, and other investment can have different implications for the economy, in terms of factors such as volatility, future returns, and effect on capital formation. More detailed data on instruments and maturity are also relevant to understanding the nature of the financing and its future effects.

**19.41** There is another connection between the financial account and the current account as described in paragraph 19.18. Financial flows generate changes in foreign claims and liabilities. In nearly all cases, these financial stocks earn returns (interest, dividends, or reinvested earnings) that appear in the current account as investment income. The rate of these returns can differ between assets and liabilities and between different types of investment. This link between the accounts is particularly relevant in the case of an economy running a current account deficit because there is an important dynamic relationship between an existing deficit and the future current account balance. A deficit in the current account must be financed by some combination of an increase in liabilities to nonresidents and a reduction in claims on nonresidents so that the net result is a decline in net foreign assets. As a consequence, there will be a reduction in net investment income (unless rates of return adjust in an offsetting manner), and this reduction will increase the current account deficit. This interaction between the current account and the financial account can lead to a destabilizing situation in which the current account balance progressively worsens unless changes in economic policies or adjustments in certain variables (e.g., exchange rates) are made to arrest the deterioration.

**19.42** In analyzing the BOP and, in particular, the sustainability of any specific current account situation, it is important to consider the determinants of financial flows. These relate mainly to factors affecting the rate of return and risk on foreign and domestic assets. Such factors include interest rates, the profitability of direct and other investments, expected

changes in exchange rates, and tax considerations. These factors are embodied in the expected real (i.e., adjusted for exchange rates and inflation) after-tax rate of return on the stock of foreign assets held by residents and on the stock of claims held by nonresidents. Residents and nonresidents are subject to different legal and tax considerations, which affect the rates of return on asset holdings. However, both are similarly affected by economic conditions external to the economies in which they are resident. Moreover, these external conditions are exogenous to an individual economy.

**19.43** Indeed, whereas in circumstances of low financial mobility and mostly official financing it could be reasonable to focus mostly on domestic conditions, in a world of high financial mobility, external conditions—such as changing world interest rates—are important factors in influencing financial flows.

**19.44** BOP statistics use the accrual principle, which reflects underlying resource flows. However, a payments crisis is usually driven by cash flows. It may therefore be useful to consider cash flow dimensions when there are significant timing differences between payments and resource flows, for example, in the cases of accrual of interest, reinvested earnings, and nonperforming loans.

## F. BALANCE OF PAYMENTS ADJUSTMENT IN RESPONSE TO A CURRENT ACCOUNT DEFICIT

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**19.45** There are many situations in which it may not be feasible to rely on private and official resources to finance a current account deficit on a sustained basis. If a deficit is unsustainable, the adjustment will necessarily happen through change in the willingness of market participants to provide financing or depletion of reserves and other financial assets, or a combination of both. Such adjustments may be abrupt and painful (up to the possibility of a BOP crisis that involves a shortage of reserves to cover BOP needs). Therefore, policy measures aimed at mitigating the adjustment path may need to be considered.

**19.46** For BOP analysis, it is therefore important to consider the possible introduction of adjustment measures to achieve a viable external payments position (i.e., conditions under which a deficit on goods, services, and income can be financed by private and official transfers, private financial inflows, and some recourse to reserve and other financial assets). The subsequent discussion illustrates some possible measures, but it is not exhaustive. It examines briefly the roles of exchange rate changes, fiscal measures, and monetary policy in achieving BOP adjustment.

**19.47** In this analysis, it may be useful to rewrite identity (9) as:

$$S - I = CAB$$

$$= BTG + BTS + BEI + BTI$$

$$= FKB + BRT \quad (17)$$

where

*BTG* = balance on trade in goods

*BTS* = balance on trade in services

*BEI* = balance on earned income

*BTI* = balance on transfer income

The magnitude of the necessary adjustment in the BOP depends, to some extent, on the nature of the components of the current account balance. For example, an economy may have been running a persistent deficit on trade in goods that was financed, in part, by borrowing from private and official sources. In this situation, the economy is also likely to be running a deficit on the balance of earned income that reflects the servicing of this debt. A deficit for goods, services, and earned income may, however, be offset by a surplus on transfer income, which could reflect both official and private current transfers. If such inward transfers are expected to be of a long-term nature and can confidently be relied upon to finance all or part of the deficit in other components of the current account, then the extent of the necessary BOP adjustment may be rather small.

**19.48** However, even in the case of a small adjustment, it is nonetheless important to be fully cognizant of the fact that external debt must be repaid. Thus, the amortization schedule of the economy is an important factor for judging the sustainability of a particular BOP situation. If large amortization payments are due in the near future and expected financial inflows are not sufficient to cover payments falling due, it may be necessary to undertake adjustment measures beforehand to avoid more drastic measures required for dealing with a subsequent BOP crisis.

**19.49** In the face of an unsustainable current account deficit in an economy with a fixed or managed exchange rate, one adjustment measure that could be considered is a depreciation of the exchange rate of the domestic currency.<sup>11</sup> Such a depreciation may be necessary to offset a domestic price rise (relative to prices abroad) that—by penalizing exports and encouraging imports—worsens the balance on trade in goods. To the extent that the depreciation raises the prices of traded goods and services (i.e., exports and imports) in comparison with the prices of nontraded goods and services, depreciation will promote the substitution of domestic for imported products and stimulate foreign demand for

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<sup>11</sup> The application of such a depreciation may be complicated by significant currency balance sheet mismatches, which need to be taken into account. These mismatches are discussed in Section H.



domestic products. However, because the depreciation will be accompanied by a rise in domestic prices in response to the increase in the cost of imported goods and services and the rise in demand for exports and domestically produced import substitutes, the improvement in international competitiveness generated by the exchange rate change will be partially or fully eroded. Such a development underscores the importance of supplementing the exchange rate adjustment with restrictive monetary and fiscal policies to facilitate the shift in resources signaled by the change (caused by the depreciation) in relative prices. Thus, an expenditure-switching policy in the form of exchange rate depreciation must generally be supported by expenditure-reducing measures; indeed, such measures are essential if there is no excess capacity in the economy.

**19.50** The effects of such action can be seen from identity (9), which shows that any improvement in the current account must be matched by a corresponding positive change in the difference between saving and investment. An exchange rate depreciation by itself may generate such a change in the desired direction. In particular, if there is no change in the stance of monetary policy, the increase in demand generated by the depreciation will raise the demand for money. With an unchanged money supply, the greater demand for money will tend to increase nominal and real domestic interest rates. As a result, interest-sensitive expenditures will be dampened, and there could be a positive impact on saving. However, it is unlikely that this induced effect on the gap between saving and investment will itself be sufficient, particularly if the economy is at full employment, to achieve the desired improvement in the current account. Therefore, in all likelihood, it will be necessary to accompany the adjustment in the exchange rate with measures to reduce the level of domestic expenditure through tighter monetary and fiscal policies that release resources to expand output in the exporting and import-substitution industries.

**19.51** The discussion of identity (11) pointed to fiscal deficits as one potential cause of external imbalances. Changes in government spending and taxation may therefore be necessary to achieve the required reduction in the saving-investment gap—to the extent that an exchange rate depreciation does not induce a sufficient response in the difference between total saving and investment. However, it is important that fiscal policy measures be designed to achieve the desired objective and not exacerbate the adjustment problem. For example, cuts in infrastructure investment may have the desired short-run BOP effect, but such cuts could have, particularly if the spending reductions are in such areas as transport or electricity, a long-run adverse impact on the supply potential of the economy and the generation and supply of energy designed to relieve bottlenecks. Moreover, tax measures that result in very high marginal tax rates or that are aimed particularly at investment income could have the undesired side effect of inducing offsetting reductions in private saving and reducing incentives to invest in the economy. Such disincentive effects can be avoided by

implementing fiscal action aimed at reducing or eliminating subsidies and by cutting back on government activity that can be performed better by the private sector.

**19.52** The stance of monetary policy plays an important role in BOP adjustment. The existing external imbalance may reflect an excess of domestic investment over saving (or what is the same thing—an excess of domestic spending over income) that results from an excessively expansionary monetary policy. It is, first of all, important to adjust the stance of monetary policy so that interest rates are generally positive in real terms and provide an incentive to savers and so that domestic economic conditions are sufficiently stable to encourage investment. From the perspective of aggregate supply and demand, it can be seen from identity (5) that monetary policy should ensure that the level of domestic expenditure is in line with the productive capacity of the economy. Thus, from the point of view of BOP analysis, the objective of monetary and fiscal policies is to limit domestic spending to what is available from domestic resources and external financing.

**19.53** One important aspect of monetary policy in BOP adjustment is the link between reserve asset transactions and domestic monetary conditions. A decline in reserve assets may be associated with a current account deficit or a net financial outflow caused by an expansionary monetary policy or both. The reserve asset decline can lead to a reduction in the monetary base and therefore to a tightening in the stance of monetary policy. A more restrictive monetary policy tends to correct the payments imbalance through higher interest rates that dampen domestic demand and make domestic assets more attractive to investors. However, this built-in adjustment mechanism can be short-circuited if the monetary authorities offset the effect of the loss of reserve assets on the monetary base by increasing the domestic component of the base (e.g., through open-market purchases of securities held by the banking system). Such offsetting action tends to prevent domestic interest rates from rising and thereby contributes to the persistence of the current account deficit.

## G. IMPLICATIONS OF A CURRENT ACCOUNT SURPLUS

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**19.54** The foregoing discussion focuses entirely on an economy that faces an actual or incipient BOP problem in the form of a persistent current account deficit. Of course, for the world as a whole, the current account deficits of economies in deficit are exactly offset by the surpluses of other economies.<sup>12</sup> Although surpluses typically do not lead to crises in the economies that run them, an analysis of some aspects of a surplus current account situation is useful as surpluses may raise important issues associated with domestic monetary

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<sup>12</sup> In practice, owing to measurement problems, the sum of the balances of all economies deviates from zero. Most issues of the *Annual Report* of the IMF Committee on Balance of Payments Statistics focus on the latest developments in terms of global imbalances.

management and vulnerabilities and the speed of adjustment toward more balanced external accounts. As can be seen from identity (13), a surplus in the current account is reflected in an increase in net claims held by the private sector or government (FKB) on nonresidents or an increase in official reserve assets (BRT), or both.<sup>13</sup> The change in the net foreign asset position may be due to a reduction in liabilities to nonresidents rather than to an increase in gross claims. Such a reduction may well be a desirable development if a previous large buildup of liabilities has imposed a severe debt service burden on the economy. In this case, a current account surplus can be an appropriate step toward achieving a viable BOP.

**19.55** The case of an economy with no recent current account deficits and an increase in its gross private claims on the rest of the world reflects an excess of saving over domestic investment. If the government's fiscal balance is in deficit, private sector saving will exceed domestic investment. The allocation of part of saving to foreign assets presumably reflects the fact that investors find the rate of return on these assets more attractive, at the margin, than investment opportunities in the domestic economy. The provision of resources to the rest of the world in the form of a buildup of net claims on nonresidents will, by and large, result in an efficient allocation of the domestic economy's saving as long as the buildup of net claims reflects the operation of market forces rather than government policies designed directly or indirectly to increase such claims.

**19.56** Thus, for analyzing the BOP of an economy in persistent surplus, one key consideration is whether government policies distort saving and investment decisions and thereby bias an economy toward a current account surplus. Such distortions can take many forms. First, there are measures that directly influence the current account. Examples are tariffs and quotas that limit imports, restrictions on payments abroad, and export subsidies and government procurement policies that give preference to domestic producers. Moreover, an exchange market intervention policy may bias the value of the currency downward. Finally, there may be measures that limit foreign acquisition of domestic assets—a limitation that would tend to bias the financial account toward a net outflow and thereby shift the current account in the direction of a surplus.

**19.57** These measures may, in fact, not lead to a larger current account surplus. Policy actions aimed at particular components of the BOP will, over time, lead to offsetting movements in other components in the absence of changes in the underlying determinants of saving and investment. In any event, if a large and persistent current account surplus appears to arise from such distortionary measures, the appropriate policy action is the reduction and eventual removal of these distortions. If a persistent surplus remains after

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<sup>13</sup> Assuming that the transactions are not offset by revaluations or other changes in the volume of financial assets and liabilities.

such measures are eliminated, then the accumulation of net claims on the rest of the world would appear to manifest the saving and investment propensities of the economy. If, in this case, one were to identify the surplus as a problem, it would generally be necessary to establish that private saving or government saving was excessively high or that domestic investment was too low. It is considerably more difficult to arrive at such a conclusion than to identify the previously enumerated distortions that relate directly to international transactions.

**19.58** A current account surplus, while reflecting entirely a response to market forces, may cause economic difficulties for an economy. For example, an economy with a “resource curse” experiences either a natural resource discovery or a substantial improvement in the terms of trade for the natural resources sector. The expanding sector or terms of trade gains lead to an improvement in the current account and an appreciation of the exchange rate. This development tends to make other sectors of the economy contract and be less competitive internationally. If the newly discovered resources are expected to be depleted fairly rapidly and the gains in terms of trade to be transitory, it may be appropriate to protect the sectors adversely affected. One way to achieve this objective is through exchange market intervention to prevent or moderate the exchange rate appreciation. The accumulation of reserve assets or special funds tends to insulate the real economy from having to adjust to the short-run disturbance.

**19.59** Current account surpluses may also create other difficulties in the domestic economy, such as difficulties in monetary management and increases in vulnerabilities associated with large and rapid monetary expansions. When a current account surplus causes an increase in reserve assets, the economy’s monetary aggregates expand and a credit expansion will tend to take place. If this credit expansion is too large and rapid, the economy may overheat (leading to inflationary pressures) or vulnerabilities in the financial sector may emerge, particularly if there are weaknesses in financial sector supervision. Sterilization of the buildup in reserves—that is, offsetting its monetary impact through, typically, sales of domestic securities—can help mitigate this effect, but not forever, and often at significant cost. These costs typically arise because the domestic securities will carry a higher interest rate than the (usually low) rate received by the monetary authorities for their reserves. Moreover, if the currency were to appreciate in the future, the monetary authority would experience a decline in net worth, because the value of the reserves would fall relative to the value of the domestic securities used for the sterilization operations.

**19.60** When a current account surplus is not the result of government policy actions, it may be difficult to establish that an economy is investing too much of its saving abroad and whether, therefore, specific policy changes are needed when an economy is facing a current account surplus. Some guidance may be obtained, however, from the behavior of reserve assets. When a current account surplus is reflected in a buildup of foreign reserve assets

rather than in a rise in net foreign assets held by the private sector, the buildup represents specific government policy action in the form of foreign exchange market intervention. Intervention, which involves the sale of domestic currency in exchange for foreign currency, has the tendency to keep the foreign exchange value of the domestic currency lower than it otherwise would be. The accumulation of reserve assets may therefore limit the extent to which the currency appreciates and—particularly when accompanied by sterilization—prevent the operation of the self-correcting mechanism that would tend to reduce the current account surplus.

**19.61** Thus, one aspect of BOP analysis for an economy with a persistent current account surplus involves an appraisal of the level of reserve assets held by monetary authorities. The accumulation of such assets is excessive if the assets exceed, by a wide margin, the amount required to finance possible future short-run deficits. In such a situation, the economy's resources may well be more efficiently used if devoted to domestic consumption or capital formation rather than financing demand in other economies. If the private and government sectors are unlikely to increase domestic capital formation, cessation of reserve asset accumulation would lead to an increase in domestic absorption or to a rise in net foreign investment by residents or both.<sup>14</sup> In either case, allocation of the economy's resources would tend to be more efficient as the allocation would be responding to market forces.

**19.62** As in the case of an economy exhibiting a current account deficit, monetary, fiscal, and exchange rate policies have an important role in the adjustment of an economy with a current account surplus. In principle, the surplus could be reduced through expenditure-expanding policies (e.g., expansionary fiscal and monetary policies) or through expenditure-switching policies that would drive consumption toward foreign goods and away from domestic goods (e.g., a currency appreciation). Nevertheless, expansionary fiscal and monetary policies could have the unwanted implication of fueling the credit boom, which would cause increased inflationary pressures and possibly heighten credit-related vulnerabilities. A currency appreciation would, on the contrary, moderate the credit expansion by increasing consumers' purchasing power in terms of foreign goods (which would drive demand toward the consumption of foreign goods), and by limiting the creation of new base money (because the monetary authority would be limiting its intervention in the foreign exchange market). Given that the currency appreciation would also make domestic goods less attractive abroad, a

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<sup>14</sup> Economies that are large exporters of nonrenewable resources, such as oil, may have limited domestic investment opportunities. In such cases, the buildup of foreign assets can be viewed not so much as an accumulation of reserve assets for BOP financing purposes but rather as a diversification of the economy's stock of wealth. Also, there may be a case for the accumulation of reserve assets in the instance of an economy subject to resource curse if the effects are expected to be transitory.

gradual appreciation process may be needed in order to achieve a smooth adjustment of the external accounts.

## H. THE BALANCE SHEET APPROACH

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### References:

- M. Allen, C. Rosenberg, C. Keller, B. Setser, and N. Roubini, *A Balance Sheet Approach to Financial Crisis*, IMF Working Paper (WP/02/210).
- J. Mathisen and A. Pellechio, *Using the Balance Sheet Approach in Surveillance: Framework, Data Sources, and Data Availability*, IMF Working Paper (WP/06/100).
- IMF and others, *External Debt Statistics: Guide for Compilers and Users*; Part III, Use of External Debt Statistics.

**19.63** As financial markets in many economies have become increasingly integrated with global markets, external borrowing has helped finance higher levels of investment than would be possible with saving by residents alone and contributed to sustained periods of growth. But the opening of financial markets has revealed that private financial flows are sensitive to market conditions, perceived policy weaknesses, and negative shocks. Flows of private finance have been volatile with some economies experiencing financial crises.

**19.64** The financial structure of economies—the composition and size of the liabilities and assets on the economy’s financial balance sheet—has been an important source of vulnerability to crises. Financial weaknesses, such as a high level of short-term debt, can be a trigger for domestic and external investors to reassess their willingness to finance an economy. The composition of the IIP also helps indicate the vulnerability of the economy to changes in external market conditions. The implications for vulnerability differ among different functional categories and instruments. In the case of direct investment liabilities and portfolio investment equity, the return to the creditor depends on the performance of the issuer. In contrast, in the case of debt liabilities other than for direct investment, the return to the creditor is usually not dependent on the performance of the debtor, so the economy of the debtor has a greater risk exposure, in that payments are required to be made even if the debtor faces difficult circumstances.

**19.65** The balance sheet approach provides a systematic analytical framework for exploring how balance sheet weaknesses contribute to macrofinancial vulnerabilities, including the origin and propagation of modern-day financial crises. It draws on the body of academic work that emphasizes the importance of balance sheets. It pays particular attention to the balance sheets of key sectors of the economy and explores how weaknesses in one sector can cascade and ultimately generate a broader crisis. It is built on

the use of harmonized classifications and definitions in different types of economic statistics, so that data can be aggregated and compared. For external accounts compilation, the balance sheet approach requires that institutional sector classifications and the level of detail should match those used for national accounts, monetary and financial, and government finance statistics.

**19.66** Unlike traditional analysis, which is based on the examination of flow variables (such as current account and fiscal balance), the balance sheet approach focuses on the examination of stock variables in an economy's sectoral balance sheets. The economy's aggregate external balance sheet—the external assets and liabilities of all sectors of the economy—is vital. The net IIP at the end of a specific period reflects not only financial flows but also valuation changes and other adjustments during the period, all of which affect the current value of an economy's total claims on nonresidents and total liabilities to nonresidents.

**19.67** Indeed, as the financial assets and liabilities of domestic sectors cancel each other out, an economy's consolidated balance sheet consists of its stock of domestic nonfinancial assets plus its net IIP. But the balance sheet approach emphasizes that it is often equally important to look inside an economy and to examine the balance sheet of an economy's key sectors, such as general government, the financial sector, and the nonfinancial corporations sector. The balance sheet of the national accounts includes data for all sectors.

**19.68** The sources of financial vulnerability are varied: creditors may lose confidence in an economy's ability to earn foreign exchange to service the external debt; in the government's ability to service its debt; in the banking system's ability to meet deposit outflows; or in corporations' ability to repay bank loans and other debt. An entire sector may be unable to attract new financing or roll over existing short-term liabilities. It must then either find the resources to pay off its debts or seek a restructuring.

**19.69** To support this analysis, the framework for assessing balance sheet risks focuses on five types of balance sheet mismatches, all of which help to determine an economy's ability to service debt in the face of shocks:

- (a) Maturity mismatches, where a gap between liabilities due in the short term and liquid assets leaves an institutional sector unable to honor its contractual commitments if creditors decline to roll over debt. They also expose the sector to the risk that interest rates will rise;
- (b) Currency mismatches, where, if unhedged, a change in the exchange rate leads to a holding loss;

- (c) Financial structure problems, where a heavy reliance on debt rather than equity financing leaves a firm or bank less able to weather revenue shocks;
- (d) Solvency problems, where assets—including the present value of future revenue streams—are insufficient to cover nonequity liabilities, including contingent liabilities;<sup>15</sup> and
- (e) Dependency problems. IIP by partner economy (and also BOP by partner) can help identify overreliance on another economy, and hence potential vulnerability and contagion concerns.

Additional items on the currency composition and residual maturity of debt liabilities are designed to support analysis of these issues. Analysis should also take into account hedging strategy; for example, currency or interest rate exposure may be hedged, or unhedged financial derivatives exposure may imply much greater vulnerability to changes than the value of the derivatives suggests. Maturity mismatches, currency mismatches, and a poor financial structure all can contribute to solvency risk, but solvency risk can also arise from simply borrowing too much or from investing in low-yielding assets.

**19.70** Composition of the IIP sheds light on the dynamics. For example, if assets are largely denominated in foreign currency and liabilities are largely denominated in domestic currency, a depreciation (an appreciation) of the domestic currency will have positive (negative) wealth effects. Currency depreciations (appreciations) usually have expansionary (contractionary) impact on production via the improvement of net exports and a contractionary (expansionary) impact on domestic consumption. The wealth effect associated with the currency composition of foreign assets and liabilities may dampen the impact of a depreciation (appreciation) on domestic consumption. On the contrary, when assets are denominated in the domestic currency and liabilities in a foreign currency the wealth effect associated with a currency change will reinforce the impact of a depreciation (appreciation) on domestic consumption.

**19.71** Further, debts among residents that create internal balance sheet mismatches also generate vulnerability to an external BOP crisis. The transmission mechanism often works through the domestic banking system. For instance, broad concerns about the government's ability to service its debt, whether denominated in domestic or foreign currency, will quickly destabilize confidence in the banks holding this debt and may lead to a deposit run. Alternatively, a change in the exchange rate coupled with unhedged foreign exchange exposure in the nonfinancial corporations sector can undermine confidence in the banks that have lent to that sector. The run on the banking system can take the form of a withdrawal of

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<sup>15</sup> The interpretation of loan asset values is enhanced by taking into account additional information on fair values and nonperforming loans.



cross-border lending by nonresident creditors, or the withdrawal of deposits by domestic residents. Indeed, if the latter results in an increased demand for foreign currency or other foreign assets by domestic residents, this could lead to financial outflows, loss of reserves, or a combination of both.

**19.72** Many of the characteristics of a financial account crisis derive from the adjustment in portfolios that follows from an initial shock. Underlying weaknesses in balance sheets can linger for years without triggering a crisis. For example, a currency mismatch can be masked so long as continued financial inflows support the exchange rate. Consequently, the exact timing of a crisis is difficult to predict. However, should a shock undermine confidence, it can trigger a large and disorderly adjustment, as the initial shock reveals additional weaknesses and a broad range of investors, including local residents, seek to reduce their exposure to the economy. If these flows cannot be financed out of reserves, the relative price of foreign and domestic assets has to adjust.

## I. INTERNATIONAL INVESTMENT POSITION AND RISK MEASUREMENT

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**19.73** The BOP was developed as a statistical tool to measure economies' external imbalances by providing a detailed overview of the economic transactions of residents vis-à-vis the rest of the world. It was only with the fifth edition of the *Manual (BPM5)* that the IIP was added to the overall framework and a broader analysis of vulnerabilities became possible. The sixth edition of the *Manual (BPM6)* developed the IIP further and made it a truly analytical tool, particularly by providing an integrated view of flows and positions. The seventh edition of the *Manual (BPM7)* builds on these developments and focuses on the link between flows and positions and in understanding the analytical power of revaluations and other changes in volume. The next paragraphs complement Section H on the balance sheet approach and provide some considerations on how to develop the IIP to increase its analytical value for risk analysis.

### 1. LIQUIDITY AND INTEREST RATE RISK

**19.74** Liquidity is one of the dimensions used in the macroeconomic statistical standards to group financial assets. This is, for example, visible in the distinction between listed and unlisted equity or in the breakdown of deposits between short-term and long-term deposits. Moreover, the breakdown by original maturity for debt instruments (e.g., loans and debt securities) provides an additional liquidity dimension but does not completely capture the liquidity needs by maturity. This can only be comprehensively captured when remaining maturity information is collected to show a more comprehensive picture of financing needs due (e.g., within the year). A classification by remaining maturity is already encouraged in

the current macroeconomic statistical standards for debt liabilities and data for short-term remaining maturity of debt liabilities by sector is requested in Table A14-III.

**19.75** Another complementary approach to liquidity risk is to collect information about the duration of assets and liabilities. Duration is defined as the weighted average term to maturity of a financial instrument and can be used as a measure of the sensitivity of the value of the instrument to changes in interest rates.<sup>16</sup> Therefore, revaluations (i.e., holding gains and losses) are intrinsically related to the duration of the portfolio—the sign of this relationship depends on the slope of the yield curve. However, the longer the duration of a portfolio, the greater the gains (or losses) for any given change in interest rates. Thus, despite the matching of the maturities of financial assets and liabilities, if the timing of the cash flows on assets and liabilities is not perfectly matched—that is, the duration of assets and liabilities differs—investors can be open to gains (or losses) as interest rates change.

## 2. CURRENCY RISK

**19.76** Currency mismatches (i.e., differences in the currency composition of financial assets and liabilities vis-à-vis the rest of the world) are frequently a source of macroeconomic risk, particularly for economies with less sophisticated and deep financial systems. The build-up of large positions in foreign-currency-denominated debt may pose substantial risks in case foreign currency inflows diminish and fixed debt payments schedules come due. This may exacerbate ongoing currency pressures, and hence an in-depth knowledge of currency risk is a critical macroeconomic policy tool. Obtaining information on the currency breakdown of debt liabilities is also crucial for financial investors since it increases transparency and improves the risk assessment of the creditor. On the asset side, detail on the currency composition of financial portfolios would support a sound macroprudential analysis and the identification of potential sources of risk arising from over-exposure to idiosyncratic shocks to certain currencies.

**19.77** The IMF Financial Soundness Indicators (FSI) encompass several currency related indicators for deposit-taking corporations, namely foreign-currency-denominated loans and liabilities, respectively, to total loans and total liabilities. Also, the risk dashboard of the European Systemic Risk Board's (ESRB) reports on currency risk by looking into the percentage of total loans denominated in foreign currency. In the context of the second phase of the G20 Data Gaps Initiative, the IMF, the Financial Stability Board (FSB), and the Bank for International Settlement (BIS) looked at the availability of a comprehensive data set

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<sup>16</sup> For fixed-rate instruments, the period until the receipt/payment of each cash flow, such as six months, is weighted by the present value of that cash flow as a proportion of the present value of total cash flows over the life of the instrument. So, the more cash flows are concentrated toward the early part of an instrument's life, the shorter the duration relative to maturity. Duration equals remaining maturity only for zero coupon instruments.

on foreign currency exposures by sponsoring the collection of the data defined in Table A14-I. Table A14-I requests data for assets and liabilities broken down by sector and currency. It also requests information on foreign currency derivatives (notional amounts) to “adjust” for those exposures being hedged. This is a rough proxy as information broken down by the underlying purpose (hedging or speculation) of the derivative contract is not available.

**19.78** While the IIP broken down by currency of denomination, in combination with information on foreign currency derivatives, provides a good picture of the structural currency exposures of an economy, it does not provide sufficient information for a comprehensive assessment of the impact of foreign currency movements to the net IIP of an economy. This analysis is supported by looking into revaluations of foreign currency derivatives and the net impact of revaluations due to exchange rate changes for other instruments. The net impact of currency-driven revaluations is in general negative for economies characterized by a net liability position in foreign currency and relative inflationary processes contributing to the depreciation of the domestic currency. For other economies, the expectation is not as clear and depends on whether the economy has a net asset or liability position in foreign currency and on the stability of domestic currency.

### 3. CREDIT RISK

**19.79** Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. It arises from several dimensions, including liquidity and currency considerations as discussed in the previous paragraphs. When debtors suffer external stress or a crisis, their creditors experience losses in the form of adverse exchange rate movements, lower asset and bond prices, and debt write-offs. This effect was particularly pronounced in the years following the 2008 global financial crisis (see, for instance, the 2020 IMF External Sector Report). It may be particularly relevant to track debt write-offs because such losses will not be recovered whereas stock prices, for instance, may recover relatively quickly from large shocks.

**19.80** IIP statistics by counterpart area or geographical detail are frequently available and can provide useful information to assess counterparty economy risk. The so-called *country risk* encompasses information on aspects such as political and social stability, rule of law, corruption, etc. It is historically one of the dimensions better covered in national BOP/IIP statistics and is particularly relevant in the context of monetary or currency unions or vis-à-vis main trading partners.

**19.81** Data broken down by counterpart sector are also gaining importance, particularly sponsored by the IMF Coordinated Portfolio Investment Survey (CPIS). Indeed, for the time being, counterpart sector information is generally available only for portfolio investment. In

some jurisdictions, it may also be available for direct investment (SPEs versus non-SPEs) and other investment. The cross-classification of IIP data by instrument, counterpart economy, and counterpart sector is a rather powerful tool to assess portfolio or credit risk.

**19.82** However, there are other aspects of relevance to make a comprehensive credit risk assessment. In particular, the existence of credit derivatives (e.g., credit default swaps) or guarantees may change the risk level of a portfolio. For derivatives, information on notional amounts would be necessary, preferably broken down by counterpart area and sector. As to guarantees, depending on their nature, they may be captured by the BOP/IIP framework (standardized guarantees) or not. In any case, for credit risk analysis, the relevant piece of information is not the market value of these guarantees, but instead the underlying (notional) value of the debt being guaranteed. Rating information would also have strong analytical value. In this context, a breakdown of portfolio investment by rating grade would better qualify the creditworthiness of the portfolio—this information is in general missing in IIP statistics.

**19.83** Another analytical presentation groups items in the financial account and the IIP by the type of resident recipient of external financing—for example, central bank, deposit-taking corporations except the central bank, general government. To support this approach, sectoral splits are required for financial account and IIP items.

## J. VALUATION PARADOX IN THE INTERNATIONAL INVESTMENT POSITION

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**19.84** As a rule, revaluation effects should be interpreted with a degree of caution when used as a measure for an economy's or sector's gains and losses. Valuations are adjusted to comply with the accounting convention requiring financial positions to be reported at market values in most cases. Thus, the values recorded in the IIP do not necessarily reflect realized gains or losses. It should also be noted, especially from a sectoral perspective, that the IIP captures only the external part of a sector's financial balance sheet. Losses recorded here might, therefore, be offset by gains on domestic positions. In addition, hedging operations, which investors may have used to fully or partially eliminate valuation risks, are likewise not always taken into account.

**19.85** Certain issues may arise as a result of marking bonds to market (see paragraphs 7.32). The valuation paradox refers to the fact that an economy's net IIP might improve, even though it is on the verge of insolvency. Given that prices for government bonds at risk of default fall, the corresponding liabilities in the IIP are assigned a lower valuation, notwithstanding the fact that the crisis economy's payment obligations remain unchanged. Box 19.1 provides a numerical example. The situation might be more pronounced in

countries within a currency union, which restricts the extent to which exchange rate changes can reflect the relative creditworthiness of a country. On the other hand, a currency union might dampen bond price responses for a member country facing solvency problems if market participants expect the currency union's other members to bail out the distressed country. Even though the focus is on government bonds, the same mechanism is at play for other bond liabilities. The valuation paradox works in the opposite direction as well when rising bond prices—for example, due to a better rating—translate into higher liabilities, thus showing a lower net IIP, even though the payment obligations have not changed.

### Box 19.1. Valuation Paradox: Numerical Example

Let us assume for the sake of simplicity that the economies' IIPs contain only two positions and that asset values are constant.<sup>17</sup> Liabilities exist in the form of a government bond which responds in Example 1 by falling in market price due to mounting solvency problems, and in Example 2 by increasing in market price due to a rating upgrade.

#### Example 1: Economy A faces mounting solvency problems

Economy A's IIP

	Assets	Liabilities	Net IIP
End of period t-1	25	100	-75
End of period t	25	50	-25

Bond price at the end of period t-1=100

Bond price at the end of period t=50

#### Example 2: Economy B's rating is upgraded, driving interest rates down and bond prices up

Economy B's IIP

	Assets	Liabilities	Net IIP
End of period t-1	25	100	-75
End of period t	25	110	-85

Bond price at the end of period t-1=100

Bond price at the end of period t=110

<sup>17</sup> The examples presented in this box are *ceteris paribus* analyses. For instance, if an economy is facing mounting solvency problems, it is likely that it may have to draw on its external assets.

## K. CALCULATING AND USING RATES OF RETURN

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**19.86** Rates of return are important for understanding the allocation of capital between economies, differences in the sustainability of current account deficits, and the development over time of the current account, the financial account, and the IIP. Current account investment income transactions, financial account transactions, and other changes in financial assets and liabilities are all interrelated with important consequences for national economies. Because of their potential to influence investment and income, rates of return also influence economic outcomes. Suggestions for presenting the integrated IIP, investment income, and rates of return are shown in Table 19.2.<sup>18</sup>

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<sup>18</sup> For additional practical guidance, refer to the updated *BPM Compilation Guide*.

**Table 19.2. Integrated International Investment Position Statement, Investment Income, and Rates of Return**

Table 19.2. Integrated International Investment Position Statement, Investment Income, and Rates of Return										
	Integrated IIP statement						Current account investment income on financial assets and liabilities <sup>1</sup>	Rates of return		
	Beginning of period position	Accumulation accounts				End of period position		Income rate of return	Revaluation rate of return	Total rate of return
		Financial account	Other changes in financial assets and liabilities account							
			Transactions in financial assets and liabilities	Revaluations						
Exchange rate changes	Other price changes									
Assets (excluding financial derivatives)										
Direct investment										
Equity and investment fund shares/units										
Debt instruments										
Portfolio investment										
Equity and investment fund shares/units										
Debt securities										
Short term										
Long term										
Other investment										
Other equity										
Currency and deposits										
Loans										
Insurance, pension, and standardized guarantee schemes										
Trade credit and advances										
Other accounts receivable										
Reserve assets										
Monetary gold										
Special drawing rights										

Reserve position in the IMF										
Other reserve assets										
Liabilities (excluding financial derivatives)										
Direct investment										
Equity and investment fund shares/units										
Debt instruments										
Portfolio investment										
Equity and investment fund shares/units										
Debt securities										
Short term										
Long term										
Other investment										
Other equity										
Currency and deposits										
Loans										
Insurance, pension, and standardized guarantee schemes										
Trade credit and advances										
Other accounts payable										
Special drawing rights										
Memoranda										
Other investment assets and interest income before deduction of implicit financial services on loans and deposits (actual interest)										
Other investment liabilities and interest income before deduction of implicit financial services on loans and deposits (actual interest)										
<sup>1</sup> Includes pure interest on other investment loans and deposits after accounting for implicit financial services on loans and deposits (see Box 11.4).										



**19.87** The income rate of return is the ratio of investment income to the corresponding average asset or liability position in the IIP. Table 5.2 shows the link between financial instruments and their corresponding income. The revaluation rate of return is the ratio of revaluations to the corresponding average asset or liability position.<sup>1</sup> Revaluations are holding gains and losses arising from changes in financial instrument prices, including exchange rates (see also paragraph 9.7). The total rate of return is the sum of the income rate of return and the revaluation rate of return. Rates of return can be computed for assets (excluding financial derivatives) and for liabilities (excluding financial derivatives).

**19.88** The estimation of pure interest on loans and deposits (i.e., after deduction of implicit financial services on loans and deposits), will cause rates of return on loans and deposits to differ from rates of return estimated from actual interest. The estimation of rates of return using both pure interest and actual interest (interest before deduction of implicit financial services on loans and deposits) would provide a more complete picture for analysis.

**19.89** The systematic estimation of rates of return across the IIP can shed light on how the characteristics of investment across functional categories can differ. Functional categories reflect the differences in economic motivations and patterns of behavior exhibited by investors in these categories. Consequently, instruments such as equity and debt that are included in portfolio investment and direct investment can have different rates of return when compared across functional categories. It is worth noting that the different treatment of retained earnings for portfolio investment equity and direct investment equity does not affect the total rate of return, but it will impact the mix between the income rate of return and the revaluation rate of return.

**19.90** While *BPM6* focused primarily on income rates of return, *BPM7* also pays attention to revaluation rates of return, both of which are important tools for many different types of analysis. For example, paragraphs 19.84–19.85 on the valuation paradox rely heavily on the effect of revaluations on positions that are marked to market in the IIP. Another example is the effect of revaluations on direct investment positions. Direct investment positions that are marked to market in the IIP (using market capitalization methods) potentially generate much larger revaluations than positions that are recorded at own funds at book value.

**19.91** Rate of return differentials can be computed by subtracting the rate of return on liabilities from the corresponding rate of return on assets. The income rate of return differential is relevant to a possibly destabilizing feedback loop between the current account

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<sup>1</sup> Because financial derivatives do not pay interest income and the revaluations are difficult to relate to an original principal investment, rates of return on financial derivatives would not be reliable if computed using the framework suggested here for estimating rates of return for other types of assets. Therefore, they are omitted from Table 19.2. Revaluation rates of return on financial derivatives could be a topic of additional research.

and the financial account as described in paragraph 19.41. A current account deficit must be financed by a decrease in net foreign assets, and the decrease in net foreign assets has the potential to increase the current account deficit through a reduction in net investment income, inducing a destabilizing feedback loop. The impact of a decrease in net foreign assets on net investment income depends on the income rate of return differential. A positive differential will reduce the impact on net investment income, a differential of zero means the change in net investment income will be proportional to the change in net foreign assets, and a negative differential will increase the impact on net investment income. Thus, the income rate of return differential can moderate or exacerbate this potential source of instability.

**19.92** Rates of return and their impact on financial flows are an important factor in a comprehensive analysis of the sustainability of a current account deficit as described in paragraph 19.42. Income and revaluation rates of return along with factors such as tax rates and expected future changes in prices play a role determining the expected real after-tax total rates of return on foreign assets and liabilities.

## L. FURTHER INFORMATION

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# Chapter 20. Communicating and Disseminating Macroeconomic Statistics

This is a common chapter with Chapter 21 of the *2025 SNA*, and for the most part, the text is identical in both the *Manual* and the *2025 SNA*.

## A. INTRODUCTION

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**20.1** The way in which macroeconomic statistics are communicated and disseminated has a significant impact on users' understanding and utilization of the data and should be viewed as a key component of the production chain of official statistics. Users benefit from comprehensive, consistent, accurate, and reliable information communicated and disseminated on a timely basis in an accessible and understandable manner.

**20.2** Macroeconomic statistics can be disseminated and communicated in various ways to enhance the full extent of their analytical usefulness, comparability through time and across economies, and to ensure that policy relevance is maximized. In addition, when communicating macroeconomic statistics, the terminology and presentation of the macroeconomic aggregates and concepts should, where sensible, reflect and align with the language of business, governments, and the public.

**20.3** There are various differences between countries when it comes to communicating and disseminating macroeconomic statistics. By developing consistent standards, a high degree of comparability will be achieved, in turn making users better aware of the basis of the data (for example, which version of the *Manual* is used by the country) before undertaking their own analyses. At the same time, recognizing the diverse needs and preferences of different user segments (e.g., policymakers, businesses, researchers, and the general public) and tailoring communication strategies accordingly can further improve the relevance of macroeconomic statistics. When communicating with different user segments, different terms may be used for the same content to assist in understanding.

**20.4** Dissemination covers the technical dimension of providing accessibility to data mainly to the more specialized and expert users. However, statistical dissemination and communication go beyond providing accessibility to numbers and include specific narratives, key messages, visualizations, etc., which improve the user understanding and reduce the risk of misrepresentation by users.

**20.5** Effective statistical communication will convey a message based on facts collected from data suppliers' explanations, comments, and feedback on data movements. This information will help to explain to users what happened, when and where something happened as well as contributing to understanding why and how it happened. However, such information may not always be available from data suppliers. Statistical organizations can use communication to demonstrate the relevance of their data whereby they can justify the public outlay and anticipate greater support for statistical programs, improve relationships with data providers and gain appropriate visibility for their products.

**20.6** This chapter aims to provide principles and guidelines for producers of macroeconomic statistics to consider, together with some additional recommendations to enhance the way those statistics are communicated. This is to help improve comparability, understanding and the experience for the users of these statistics.

**20.7** The chapter includes Section B covering the dissemination strategy and communication policy; Section C covering communication with users; Section D covering communication with data suppliers; Section E covering statistical confidentiality; Section F covering taxonomies and metadata; Section G covering a framework for measuring alignment with the international macroeconomic statistical standards; and Section H covering the use of more understandable terminology for users.

## **B. DISSEMINATION STRATEGY AND COMMUNICATION POLICY**

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**20.8** The production, analysis, and dissemination of official statistics should be undertaken in a transparent and accessible way. To aid all users, information is provided through different channels (e.g., from printed releases on paper to distribution in various forms on internet sites, including the use of social media) to meet different user needs and uses.

**20.9** The dissemination policies and strategies designed by official statistics producers form part of the vision, mission, principles, and values of their organizations, often available on official statistical producers' websites and should be consistent with the underlying *UN Fundamental Principles of Official Statistics*.

**20.10** The principal aim of statistical communication is to reveal more of the information contained in statistical data (e.g., about movements in the data) and to make statistical information easier to interpret. Statistical communication is about providing factual explanations of the data in an easily understood and interesting fashion; and encouraging journalists and other users to consider how statistics might aid their analyses. Good dissemination policies support the provision of access to consistent and coherent statistical data to all users. Good dissemination practices ensure transparency and impartiality,

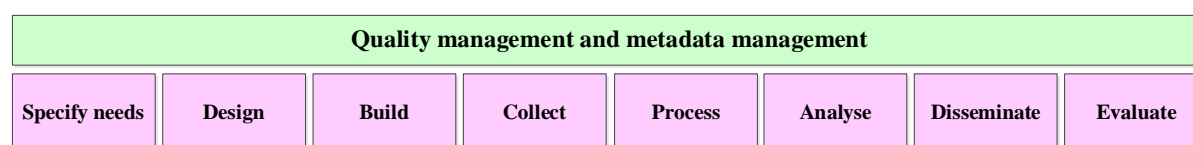
including the release of data to all users at the same time according to previously announced release calendars.

**20.11** Dissemination of statistical data encompasses the use of a diverse array of channels and formats to reach a wide audience effectively. These channels include official statistical producers' websites, printed materials, and social media platforms. Data can be presented in various formats such as tables, charts, or raw datasets to cater to different audience preferences and needs. Using the latest technologies, the publishing capability should support digital dissemination. This will require setting appropriate standards and policies; support for mobile devices without undermining conventional release modes; commissioning new processes; and making more data available in an open format such as comma-separated value files.

## 1. LINK TO THE UN GENERIC STATISTICAL BUSINESS PROCESS MODEL

**20.12** The statistical value chain reflects dissemination and communication as key steps with both suppliers and users. The *UN Generic Statistical Business Process Model* describes the set of business processes that form the statistical value chain needed to produce official statistics, providing a standard framework and harmonized terminology to help statistical organizations. The Level 1 stages form the highest level of the *UN Generic Statistical Business Process Model* and are shown in Figure 20.1.

**Figure 20.1. UN Generic Statistical Business Process Model – Level 1 Stages**



**20.13** For statistical outputs produced regularly, the dissemination phase occurs in each of the Level 1 stages. The dissemination phase is made up of various processes: updating output systems; producing, managing, and promoting dissemination products; and managing user support (including feedback from user satisfaction surveys). These processes are generally sequential but can also occur in parallel and can be iterative as well as include all activities associated with assembling and releasing a range of static and dynamic products via a range of channels. These activities support users to access and use the outputs released by the statistical organization.

**20.14** It is also important to recognize the collection phase. This is critical and relies on effective and relevant communication with suppliers, which will have a different focus than

that needed for dissemination to users. This phase collects or gathers all necessary information using different collection modes (including extractions from statistical, administrative, and other nonstatistical registers and databases) before internal processes take place thereafter. The collection phase is broken down into various processes, from design and creation of the frame (e.g., questionnaire, definitions, and notes) and sample selection to setting up and running the collection processes. The approaches and processes may differ for the different types of source data, for example, administrative data and business survey data. More detail on the supplier relationship is covered in Section D.

## 2. ORGANIZATIONAL STRUCTURE AND THE MEDIA

**20.15** The statistical systems of individual countries have a range of approaches when it comes to managing external communication functions. The placement of those functions within the organizational structure will have an impact on their effectiveness. Such placement should ensure that the communication of statistical data and the associated technological infrastructure receive a high level of attention and investment. Increased supply of data from nonofficial data producers means that there is an increasing need for the statistical organizations to improve communication in terms of quality, content, timeliness, and channels used to reach its different users, in particular the media and policymakers, as well as harder-to-reach groups (for example, students and researchers).

**20.16** The link between the economic statistics compiler and the communications team is key. This link will ensure the technical nuances and message(s) are addressed in a way the communications team can effectively communicate and draw out the important messages for the users in an understandable way. The effectiveness of this link can be enhanced through media training for the compilers as well as basic macroeconomic statistics training for the communications staff.

**20.17** It is recommended that all external communications are supported by a close working relationship with the media team, who tend to be the main distributors of statistics to the broader public. In this way, the information is available to all at the same time without privileged accesses. There may be a limited number of people with time limited pre-release access in a secure setting for specific reasons such as media outlets to prepare their headlines and briefing, or to enable officials to prepare for the briefing of government ministers at release time. In this case, the time-limit needs to be defined in such a narrow way that the risk of external interference is minimized and the existence of any such arrangements should be made public by the statistical organization.

**20.18** The communications team is usually responsible for the relationship between the statistical producer and the media by organizing and coordinating press conferences, interviews with experts, requests from journalists and other requirements such as handling

media crisis. Other key aspects that will need to be covered include handling social media, website management, digital design, and data visualization.

**20.19** In line with the above guidelines, contact with the media, their professionals and representatives, should aim to:

- promote an open relationship;
- foster mutual professional respect;
- meet the needs of media;
- treat journalists as legitimate representatives of the public; and
- provide information as quickly and completely as possible, in a factual and responsible manner supported by evidence.

### 3. PRINCIPLES AND STANDARDS

**20.20** Official statistics should be reliable, objective, and relevant for decision making. An appropriate dissemination strategy can be developed in line with the *UN Fundamental Principles of Official Statistics*, whereby Principle 1 states that "...official statistics ... are to be compiled and made available on an impartial basis by official statistical agencies to [honor] citizens' entitlement to public information." Principle 1 sets out a clear steer for dissemination. Therefore, statistical organizations should provide users with maximum access to official statistics in accordance with confidentiality guidelines.

**20.21** To help establish good dissemination practices, there is a range of information about good practices already available. For example, the European Commission has maintained the *European Statistics Code of Practice*, which discusses dissemination practices. Similarly, many countries have likewise developed statistics codes of practice suitable for their purposes, and important to note, these codes serve both users and producers.

**20.22** Box 20.1 shows several publications developed by the United Nations Economic Commission for Europe (UNECE) providing guidance to statistical organizations to aid communication and dissemination of statistics. These were prepared within the framework of the UNECE Work Sessions on the Communication and Dissemination of Statistics.



### Box 20.1. UNECE Guidance to Statistical Organizations Covering Communication and Dissemination

The target audience of the UNECE Guidance is wide, but the guidance is intended as a practical tool to help managers, statisticians, and media relations officers, in particular those in the process of developing communication and dissemination strategies, and to aid training for new staff. The guides also recognize there will be different approaches as well as practical and cultural differences across countries.

- Making Data Meaningful – Part 1 - A guide to writing stories about numbers
- Making Data Meaningful – Part 2 - A guide to presenting statistics
- Making Data Meaningful – Part 3 - A guide to communicating with the media
- Making Data Meaningful – Part 4 - A guide to statistical literacy
- Getting the Facts Right – A guide to presenting metadata (with examples on Millennium Development Goal Indicators)

## 4. DATA DISSEMINATION STANDARDS

**20.23** In 2001, seven international organizations, namely the Bank for International Settlements (BIS), the European Central Bank (ECB), Eurostat, the IMF, the Organization for Economic Cooperation and Development (OECD), the United Nations, and the World Bank launched the *Statistical Data and Metadata eXchange (SDMX)* initiative and agreed to act as sponsors in order to develop common dissemination standards for the exchange of statistical information between public bodies at national and international levels. The SDMX information model covers various elements: descriptor concepts; packaging structure; dimensions and attributes; keys; code lists; and data structure definitions. The data structure definition is key as it conveys the data classification scheme that specifies the set of concepts required to describe and identify the statistical data items. Statistical compilers are encouraged to use SDMX in disseminating statistics to the international organizations which will improve comparability and ease of accessing data from across countries.

**20.24** Countries are also encouraged to subscribe to the *IMF Special Data Dissemination Standard (SDDS or SDDS Plus)* or the *IMF Enhanced General Data Dissemination System (e-GDDS)* for those agreeing to basic standards. These data standard initiatives encourage member countries to improve data quality. The National Summary Data Page (NSDP) is a “data portal” for economies participating in SDDS Plus, SDDS, and e-GDDS, allowing users to access data, view metadata, or browse links to online datasets for all available categories for an economy. For economies participating in SDDS Plus and e-GDDS, the NSDP enables automatic exchange and sharing of statistical data and metadata in SDMX. Similarly, under the G20 data gaps initiatives, several templates have been developed for the G20 members to report data for various recommendations, for example, templates on nonbank financial intermediation (often referred to as shadow banking) and institutional sector accounts.

## 5. RELEASE CALENDAR

**20.25** The availability of a release calendar in advance of publication is important for users. Knowing when the information is released and disseminated will inform user expectations and enable them to plan their activities accordingly. For example, they can schedule the preparation of topical analyses of data releases in advance of publication. The compilation and release schedule should be realistic for compilers, as users may become frustrated if statistical organizations do not meet previously announced release timings, and, at the same time, useful for users.

**20.26** The release calendar should be published at the beginning of each year, or at least well in advance of the release date, on the websites of the statistical producers responsible for dissemination. This will also help to promote transparency and provide evidence that there has been no political or other inappropriate interference in the production and dissemination of official statistics.

## 6. DATA REVISION AND REVISION POLICIES

**20.27** Revisions are an essential part of data compilation in macroeconomic statistics. They will typically reflect new or improved data sources and methodologies but can also address corrections of past errors. Revisions, or alternatively expressed as updates or improvements, arise as a consequence of the trade-off between the timeliness of published data and their quality in terms of accuracy and comprehensiveness. Statistical producers often compile and disseminate provisional data that are then revised when new and more accurate source data become available. Attempting to avoid revisions by producing accurate but very delayed data would fail to meet users' needs for timely statistics. Regular communication with users well in advance of expected updates and improvements to published statistical data will develop better public understanding of why revisions occur and help to ameliorate negative responses.

**20.28** Countries are encouraged to develop a well-designed revision policy that is managed and coordinated with related statistical domains and is communicated to users well in advance. Such a policy should aim to enable users to understand revisions in a systematic manner. The absence of coordination and planning of revisions can be perceived as a quality problem by users. An essential feature of a good revision policy is a predetermined schedule. Other features should include reasonable stability from year to year; openness; advance notice of reasons for the revisions (perhaps also with some indicative size of the revisions); easy access for users to sufficiently analyze long time series of revised data; and adequate documentation on revisions in statistical publications and databases. To help users better understand revisions, the analysis of revisions is considered useful and may be published.

**20.29** In some cases, the compiling agency may decide to carry out a special revision for the purposes of reassessing the data coverage or data compilation methods, which could lead to significant changes in the historical time series. It is recommended that such revisions be announced in advance and accompanied by explanations for such revisions, along with an assessment of their possible impact on the available data (see also the *UN Handbook on National Accounting Backcasting Methodology (forthcoming)*).

**20.30** As part of the compilation and evaluation process, the published revisions should be evaluated to identify any persistent revisions to the earlier estimates of the aggregates or sub-aggregates in order to understand the potential for any systematic bias. This process will lead to identifying improvements to data sources and methods, thereby improving the quality of the future published estimates and reduce any revision bias. Composition of revisions and explanations for users is covered in Section F.

## C. COMMUNICATION WITH USERS

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**20.31** Macroeconomic statistics should be designed to meet the needs of a wide variety of users making different uses of the statistics.

**20.32** An understanding of the possible user needs is vital in identifying effective ways to communicate statistical information. Knowing who the users are helps to guide the content of the message being conveyed in a language accessible to all. Also, the content and the form of communication needs to be adaptable in responding to rapidly changing user needs, for example, during periods of significant economic change and major economic events (e.g., COVID-19 pandemic).

**20.33** The user community includes a range of diverse groups such as government, business, academia, analysts, economists, researchers, journalists, international statistical agencies, the media, and the public. For macroeconomic statistics, users can be grouped into two main categories: general data users and analytical users. General data users (such as general journalists, students, teachers, small businesses, or ordinary citizens) generally have wide ranging but simple data requirements, while analytical users (such as government departments, local authorities, researchers, economic journalists, central banks, and international organizations) generally have more complex data requirements on detailed variables, time series, and regional or institutional sector breakdowns.

**20.34** To meet the different demands, the communication of macroeconomic statistics can take a variety of forms, for example:

- Scheduled regular statistical releases, typically made available online and sometimes also featured as press releases, who may be particularly focused on the main findings.
- Special topic-related publications or methodological-type papers may be prepared, including time series and detailed data, accompanied by metadata and, on occasion, a short economic analysis based on these indicators.
- Highly comprehensive detailed macroeconomic statistics are usually presented in the form of scheduled annual datasets (or yearbooks) and made available online.
- Social media posts or similar short forms of communication can be used to supplement formal statistical releases and highlight newsworthy features of the published data to broader audiences.

**20.35** Good standards of data visualization in the design of tables and charts can have a role in the effective dissemination of statistics. There is also a role for independent users of statistical data to develop and maintain innovative or well-designed online data visualizations of official statistics. Statistical producers can encourage innovation of this kind by publishing appropriately extensive definitions and by making datasets available in technically compatible ways.

**20.36** As indicated, it is important to be aware of the user base and for each user base “what” should be communicated and “how” it should be communicated. The relevance of “what” is being communicated needs to be clearly understood, for example:

- Estimates versus forecasts. As the release vintages evolve, it would be useful to convey information on the increasing data content, thereby reducing data uncertainty.
- Current data versus historical (or archived) data.
- Level of aggregation.
- Micro data versus macro data.
- Metadata.
- Story or knowledge adding explanations to understanding the data movements.

**20.37** In terms of the “how” considerations, different channels of communication should be considered, for example:

- Printed format (for example, press releases, newsletters, and infographics) versus electronic (for example, PDF documents, Excel files, infographics, XML, and downloadable datasets), or available in both forms.

- Different machine-readable formats that better suit users' needs.
- Internet release, thereby addressing website design, search facilities, etc.
- Video releases, blogs, podcasts, presentations, live streaming, etc.
- Databases, tables charts, animations, etc.
- Social media.

**20.38** As different users use a range of different devices, for example, desktop, laptop, tablet or smart phones, statistical producers should seek to ensure that their release modes remain as widely accessible as possible, and not limit their approach to just one design of online format.

**20.39** Other aspects of statistical dissemination that may require consideration include:

- Freely available detail versus charged bespoke analyses requested by users.
- Regular analysis of press coverage and feedback to get early indication of changing user demands.
- User satisfaction surveys providing feedback to aid continuous improvement.
- Seminars, webinars, workshops, and conferences involving different groups of users (and producers) to increase their awareness and sign-post developments.
- Providing training and education of macroeconomic statistics for users.

## D. COMMUNICATION WITH DATA SUPPLIERS

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**20.40** Similar to the engagement between statistical producers and users, various initiatives and engagements between statistical producers and data suppliers are crucial. From the statistical producer perspective, there should be an effective data supplier engagement strategy as the suppliers have a significant stake in helping to produce high-quality official macroeconomic statistics. This strategy will need to reflect the different types of suppliers of information and the different ways the information is supplied, for example, business surveys, administrative data, and household surveys.

**20.41** There is an ever-increasing need to improve data suppliers' experience in completing the demands from statistical producers. The strategy should help suppliers understand why their participation is important. With respect to individual units that serve as important suppliers of statistical data, for example, businesses, major corporations, banks, and government departments, statistics producers should promote cooperation by explaining the essential value of the required data; minimizing the reporting burden as far as is reasonably

practicable; assuring data suppliers that proper standards of security and confidentiality are applied; and acting on their feedback as appropriate.

**20.42** The following key principles are important to reflect on:

- Providing choice to data suppliers (e.g., telephone data entry, and secure electronic file transfer, in addition to traditional paper submission) and recognizing that their time is valuable.
- Minimizing impact or burden on data suppliers (e.g., fair and equitable when it comes to how often they are selected in survey samples, only asking for the information once or minimizing any duplication).
- Having high standards for how statistical producers communicate with data suppliers (e.g., standardized responses, phone call assistance and data collection, timely communication).

**20.43** Producers of official statistics also need to consider the way they communicate with their data suppliers, who represent a unique set of stakeholders that may or may not be users of official statistics. In particular, the use of the concepts, terms, and definitions that suppliers can understand is essential in collecting data to enable the compilation of statistics in line with the concepts, terms, and definitions of the macroeconomic statistical standards, either directly or appropriately adjusted to meet the relevant definitions.

**20.44** Data collectors may not be able to use the language, terminology, etc. used within the macroeconomic statistical standards when communicating with data suppliers. Instead, they need to converse with data suppliers using company accounting or administrative terms and definitions. To enable this, for example, the questions and notes on survey questionnaires should be tested with a sample of data suppliers, or bridge tables may be needed to link the business survey data or administrative data to concepts and definitions needed to comply with those in the macroeconomic statistical standards. It is important to use common concepts, terminology, and classifications when designing business survey questionnaires in a language the supplier will understand as well as applying similar principles when publishing business survey results to aid the users. Comparability is not possible without some uniformity across the published business survey data. In addition, along with published data, some companies may provide more detail than published in the format of financial statements or using bespoke survey questionnaires designed by the producer in conjunction with the company, which will require appropriate conversion for macroeconomic statistical purposes.

**20.45** Often it is an accountant that responds to official statistical producers' requests. They tend to be more familiar with business accounting concepts, terms, and definitions than those used in the macroeconomic statistical standards. Data collectors also need to be

aware of any changes to the business accounting rules, including changes to terminology, to ensure the data collected remain valid. Sometimes the accountant may not be able to provide all the data needed, for example, labor related information such as hours worked, and persons employed may need to be collected from the human resource (personnel) department. Here, it is important to ensure the information provided is consistent, for example, covering the same reference period.

**20.46** Statistical producers can also use online platforms like crowdsourcing, which invite the public to share data and information, as well as collect data which would be unavailable to data collectors through the usual channels. Other new channels that may be utilized include AI providers. However, given the novelty of these data sources, statistical producers would need to ensure that methodological and quality issues are appropriately addressed.

**20.47** Data collectors could provide feedback to data suppliers on the quality, including accuracy and reliability, of the data they provide. This feedback loop allows data suppliers to address any issues or errors in their data submissions and helps maintain, or improve, data quality standards. Other examples of effective communication to improve the supplier experience that could be considered include:

- A survey calendar that gives suppliers an indication of when they can expect to receive a questionnaire.
- Sharing of survey results to which they have contributed.
- Personalized statistical feedback, including sharing tables with suppliers where they can see their own contributions to the totals.

## E. STATISTICAL CONFIDENTIALITY

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**20.48** In terms of statistical confidentiality, by law, most official statistics producers collect data from businesses, government bodies, and households for statistical purposes only and mostly under some form of legislation. Statistics based on these data generally cannot be disseminated, sold, or published in a way that permits the identification of data referring to a particular business or household. Thus, it is important to ensure appropriate data confidentiality policies, anonymization techniques, and disclosure checking procedures are in place as part of the process before publication of any data. There is EU guidance covering the *General Data Protection Regulation (GDPR)* and the protection of micro data as well as the UNECE Statistical Disclosure Control Committee endorsed book, *Statistical Disclosure Control*.

**20.49** One of the most important policy concerns relevant to data dissemination is the preservation of statistical confidentiality. Statistical confidentiality is necessary in order to

gain and keep the trust of both data suppliers to statistical surveys and users of the statistical information. Principle 6 of the *UN Fundamental Principles of Official Statistics* stipulates that individual data collected by statistical agencies for statistical compilation, whether they refer to natural or legal persons, are to be strictly confidential and used exclusively for statistical purposes. It is therefore important that appropriate disclosure checking procedures are in place as part of the dissemination process. In any case, permissions need to be sought from a business to publish information that would otherwise be considered confidential so as to avoid the loss of fundamental pieces of statistical information. It is also important to clearly communicate confidentiality statements and arrangements to data suppliers and users. In some cases, confidential information may be provided to a specific, limited number of users under strict and agreed conditions for the purposes of validation and quality assurance before its official release. For example, where data validation by an external organization or a specific expert is necessary or significant benefits as part of data quality assurance are expected or have been previously demonstrated. Such specific cases should be adequately publicized for transparency, for example on the website of the statistics producers.

**20.50** As much as statistical confidentiality is very important, it should not be used in itself as a reason not to release information. Instead, the goal should be to maximize the dissemination of information as a public good for the wide range of users, while still ensuring confidentiality obligations are met. It should be recognized that as more granular information is collected to meet increasing user demand for more detail, this may lead to more cases of disclosure and suppression or aggregation of cells.

**20.51** On a global scale, there is a growing challenge to ensure the data for MNE groups are properly and adequately covered (see also Chapter 15). The various impacts of globalization (e.g., cross-border flows like intellectual property products, impact of change in economic ownership, and merchanting) imply that domestic only data collection is insufficient to ensure all activities of the MNE group are adequately captured worldwide as well as to ensure that asymmetries in external trade and in transactions and positions in financial assets and liabilities are reduced to the extent possible. Respecting individual jurisdictions' rules on confidentiality, there is a need for statistical producers to be able to exchange data, share data, and reconcile the activities of MNE groups. This requires setting up of appropriate legal agreements and utilizing secure channels to enable data exchange. More details are provided in the *UNECE Guide to Sharing Economic Data in Official Statistics*.

**20.52** For researchers, alternative approaches allowing access to micro data for statistical or research purposes should be considered, for example:



- Secure data labs to allow researchers to access and analyze micro data, whereby the research published does not reveal any confidential data.
- Signed data access agreements, which allow access, with limited time, to secure online data areas for specific research or analyses.

## F. TAXONOMIES AND METADATA

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**20.53** When statistics producers publish macroeconomic statistics, they also need to provide information about the product and context of the released statistics in order to enable users to properly use and adequately interpret the data.

**20.54** This section provides guidelines, including taxonomies, that statistical producers should consider integrating into their current communication practices as appropriate. These practices will assist users and, if standardized, help to improve cross-country comparability.

### 1. METADATA

**20.55** Metadata may be understood as “data about data” that can enable and facilitate sharing, querying, understanding, and using statistical data across process stages such as collection, compilation, and dissemination. Metadata apply to data definitions at different levels of aggregation, from micro data to macro data. Accessible and comprehensive metadata also promotes data literacy by helping users navigate complex statistical concepts and understand the nuances of economic indicators. They encompass administrative facts about the data such as who created them and when, and the definition of the concepts applied along with a description of how the data were collected and processed before they were disseminated or stored in a database. Metadata are important for both producers and users. Common standards and definitions for metadata should be followed to the extent possible throughout all statistical domains, in order to facilitate the linking and integration of statistical information such as the examples covered in paragraphs 20.23 and 20.24.

**20.56** Metadata dissemination should be an integral part of the dissemination strategy. As metadata are generated and processed during every step of the compilation process, there is a strong need for a metadata management system to ensure that the appropriate metadata retain their links with data. A good practice in this regard is the active linking of metadata to the statistical data that they describe, and vice versa, by implementing a system that allows metadata to be recorded as part of the data infrastructure throughout the various stages of the statistical production process.

## 2. RELEASES AND VINTAGES OF DATA

**20.57** National statistics producers have developed a range of practices for communicating statistical outputs, updates and methodological changes to users. These practices have greatly assisted with the interpretation and use of national accounts, external accounts, and government finance statistics data as well as various other statistical domains. This variation in nationally determined approaches reflects the historically limited available guidance on aspects of dissemination and communication in macroeconomic statistical standards. For example, countries use phrases such as provisional, first, preliminary, second, and final to communicate different vintages of economic statistics. Furthermore, the substance of a given release is communicated using terms such as initial estimates, mature estimates, final estimates, data revisions, benchmark revisions, rebased estimates, improvements to methods and corrections, and experimental estimates.

**20.58** Producers of macroeconomic statistics should match the need that users have for timely, high frequency economic data with their need for highly accurate economic data. In addition to balancing this trade-off between timeliness and accuracy, producers also need to match the expectations that users have for a long consistent time series with their desire for agile macroeconomic statistical standards that ensure an exhaustive measure of economic activity.

**20.59** Vintages refer to the release of updated economic statistics for the same time period, resulting from the availability or processing of new data such as more detailed or benchmark data surveys as well as methodological improvements. Different vintages are a regular and anticipated part of the statistical production process. They should be consistently described and their release dates pre-announced in a release calendar. To illustrate this and the type of future releases, consider a national authority who releases BOP data for the first quarter of year  $t$ , on May 30 in year  $t$ . Between year  $t$  and year  $t+7$ , several revised estimates may be made for the first quarter of year  $t$  as illustrated in the example below:

- June 30, year  $t$ : Q1 of year  $t$  may be revised due to more data becoming available.
- September 30, year  $t+2$ : Q1 of year  $t$  may be revised due to adjustments required for aligning with annual estimates.
- May 29, year  $t+3$ : Q1 of year  $t$  may be revised due to the results of, for example, an economic census or a benchmark survey.
- September 30, year  $t+7$ : Q1 of year  $t$  may be revised due to the implementation of the new international standards for macroeconomic statistics.

**20.60** Adherence to standardized definitions to describe different vintages of macroeconomic statistics will improve the use and interpretation of economic data. As well

as the title and definition of the data release, the user needs to know the reference period to which it relates, the date of the release, and the origin and quality of the sources. Consistent presentation standards can facilitate data comparisons between countries.

**20.61** Statistical producers should adopt the proposed common approach when communicating different releases or vintages of data to users. The description of the release, at a minimum, should include information about the (i) substance of the release; (ii) timeliness; (iii) frequency; (iv) the reference period; and (v) the update period. Defining, describing, and communicating vintages of data is a complex undertaking. Before outlining this recommendation in detail, it is important to first establish a set of terms and definitions that help frame the recommendation, as shown in Box 20.2.

#### **Box 20.2. Terms and Definitions Related to Different Vintages of Economic Data Releases**

- **A data point** is a discrete unit that can be represented numerically. There are different sources and methodologies such as data collected, measurement of data based on data collected, and model-based estimates.
- **A time series** is a series of regular time-ordered data values of a quantitative characteristic of an individual or collective phenomenon taken at successive, in most cases equidistant, periods/points of time.
- **A data vintage** is a data value or a dataset (sequence of values) for a given reference period that has been released for use at a particular point in time (release period). A new vintage of data is established when the same set of data for the same reference period or some overlapping portion of the reference period is released for use at a different point in time (release period).
- **A reference period** is the time period represented by the data.
- **The update period** is the time period over which revisions to a data value have been applied.
- **A release period** represents the calendar date when the data are released to the public.
- **An update** is a revision which is defined as the numerical difference between two vintages of the same data point.

**2.45 A regular or routine<sup>1</sup> update** relates to the incorporation of scheduled, more complete (not necessarily final) source data, improved models, or other iterations of the compilation process. Regular revisions occur for both sub-annual and annual estimates and can occur throughout the year, at regular (often yearly or quarterly) intervals, or as new information becomes available. Regular revisions may also include for example, the impact of seasonal adjustment, the correction of compilation errors or minor methodological adjustments made outside the benchmark or comprehensive revision process.

<sup>1</sup> A regular/routine update can be referred to as either regular or routine with the same meaning and used interchangeably—hereafter, routine is used.

- **A benchmark estimate** is the final vintage of a dataset, whereby there is no further expected improvement. It is compiled using the most comprehensive and highest quality source data and the most advanced methods at that point in time. Benchmark estimates are not expected to be further revised and therefore are often referred to as the “final” estimate. However, a change in the definition of the concepts used, the application of new macroeconomic statistical standards, or the use of new data source and methodologies can change a benchmark estimate; see “comprehensive update” below.
- **A benchmark update** reflects revisions from the incorporation of a benchmark estimate(s) into a given set of macroeconomic statistics or accounts.
- **A comprehensive update** is a special case of benchmark update where the revision to the macroeconomic dataset not only incorporates the final vintages of source data but also integrates new or updated concepts, the application of new accounting treatments, classifications or substantially improved methods, or updating a base year. These generally occur when there are major changes to the macroeconomic statistical standards that are used to compile the accounts. These types of revisions often result in a discontinuity in the time series and a need for compilers to consider whether to apply methods such as back-casting to adjust historical data.

**20.62** Together the terms, routine updates, benchmark updates, comprehensive updates are the recommended terms to be used when communicating the “extent” or “substance” of revisions. The first two terms mainly reflect the vintage of source data that enter the compilation process. The term comprehensive update reflects the addition or changes to concepts, methods (substantial changes), classifications, or presentations. All other terms should preferably be phased out as part of the implementation of *BPM7*.

### 3. SOURCES OF UPDATES OR REVISIONS

**20.63** The macroeconomic statistical standards have three basic features. Firstly, they define the concepts to be measured. Secondly, they outline the methods that can be used to “quantify” those concepts and the accounting rules that need to be followed when recording various flows and stocks. Thirdly, they identify the classification systems, accounts, and table structures that should be used to present the data. One or more of these features can be the source of revising datasets or the presentation of datasets.

**20.64** Statistical producers should consider categorizing and decomposing the source of the updates (revisions) into different categories reflecting the source of the updates. These can include for example:

- “Conceptual changes” covering the alignment to an updated set of macroeconomic statistical standards.
- “Methodological changes” encompassing, for example:

- coverage adjustments (for example, exhaustiveness);
  - changes to source data (for example, new results based on improved methodology for grossing up survey results or replacing modelling algorithm with a survey-based estimate);
  - quality improvements (for example, data validation, consistency of source data results, and seasonal adjustment); and
  - accounting rules to be followed (for example, changes from cash to accrual accounting).
- “Presentational changes” covering new tables, charts, revisions triangles, granular detail, etc. The aggregate(s) may not change but the way in which the components are presented are changed.

**20.65** Such a decomposition should depend on the source and size of the revisions and may be broken down further, if appropriate (for example, if a single update (revision) combines multiple issues or affects multiple accounts), in order to help users’ interpretation. Levels and growth rates effects of updates should be distinguished. Producers may also wish to consider showing all the components of the revision(s) for a single period or across all periods revised.

#### 4. TYPES OF STATISTICAL PRODUCTS

**20.66** Statistics producers seek to disseminate established formats and content choices in statistical releases. They also seek to develop new releases or indicators in response to meeting changing user demands or public priorities or as new data collection projects come on stream. These can include developmental versions of statistical products, sometimes termed experimental statistics (or similar labels) that may not be of the quality required for data assured as existing products.

**20.67** Whatever the descriptor, the common theme is to communicate issues of quality such as whether:

- the estimates comply with nationally or internationally adopted conceptual and methodological standards;
- the source data used to compile the estimates are reliably defined and produced; and
- the compiling agency is producing the statistics in an exploration or in a development phase or is otherwise expecting user feedback on the data.

**20.68** It would be helpful for users if a consistent taxonomy could be adopted and applied through time and across countries to communicate the quality of the data. It is recommended that a two-level taxonomy for classifying product quality be adopted as shown in Table 20.1.

**Table 20.1. Statistical Product Quality: Two-Level Taxonomy**

<b>Level 1</b>	<b>Official Statistics:</b> Estimates that incorporate recommended nationally or internationally adopted concepts, methods, accounting rules, and classifications and meet all the quality standards required.
	<b>Official Provisional Estimates:</b> Estimates that incorporate nationally or internationally adopted concepts, methods, accounting rules, and classifications, but represent an early estimate before more comprehensive data becomes available.
<b>Level 2</b>	<b>Experimental Estimates:</b> Statistical products with estimates that vary in more or less limited ways from nationally or internationally recommended concepts, methods, accounting rules, or classifications, but where the producer has good confidence in their validity.

**20.69** The first level of official statistics includes official statistics and official provisional estimates. A key distinguishing feature of provisional estimates is that there is an expectation that these early estimates will soon “graduate” to a revised, more mature official statistics status as the methods already meet the standard required. Statistical producers may compile and disseminate provisional data a number of days after the period in question or when a target data content has been achieved. The provisional estimate will mature to the full official estimate once new or more accurate source data become available. It is also possible within the same vintage of release that some data items might be “official” and others “official provisional”, for example, the observations for the latest period.

**20.70** The second level reflects experimental estimates released by a statistical producer. Often, they may be of a research or indicative nature or based on a range of modelling assumptions. The source data used to compile the estimates may be untested and its quality may not be quantifiable as would be the case with Level 1 official statistics, or they may be based on indicators/proxies which may not conform to the concepts required. The data are communicated with a “proof of concept” notion and the main motivation for releasing them is to seek feedback so the estimates can be improved upon. However, with a range of improvements, they may meet the standard to be deemed as an official statistic. These releases tend to be more ad hoc with respect to frequency of updates.

## G. A FRAMEWORK FOR MEASURING ALIGNMENT WITH THE INTERNATIONAL MACROECONOMIC STATISTICAL STANDARDS

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**20.71** An important feature of the macroeconomic statistical standards is their ability to develop internationally consistent macroeconomic statistics, which in turn facilitate the comparison of estimates across countries. However, when countries use a macroeconomic statistical standard to compile macroeconomic statistics, they have discretion in implementing the recommendations to accommodate their specific circumstances while maintaining comparability and quality to the extent possible. These circumstances could range from limited resources, data availability and systems constraints to meeting user needs and policy demands. For pragmatic and resourcing reasons, the macroeconomic statistical standard recommendation may also not be implemented, if an activity or concept is economically immaterial for a given economy. This results in varying degrees of “alignment” to these standards across countries. For users to be confident when making cross-country comparisons, they need some assurance that the economies’ estimates are compiled on the same basis.

**20.72** A set of internationally accepted alignment frameworks (e.g., for the SNA, BPM, and GFSM) have been developed to provide structured, systematic, and consistent methods to assess an economy’s alignment to these standards. These alignment frameworks draw heavily on existing assessment frameworks and tools available to users. For example, the *IMF Data Quality Assessment Framework* and *IMF Reports on the Observance of Standards and Codes (ROSCs)*, the *UN Data Quality Assessment Framework*, and the *ISWGNA’s Minimum Required Data Set*.

**20.73** The alignment frameworks are stand-alone tools intended for national statistical authorities and international agencies to assess macroeconomic statistical methodologies and processes at country or country-group levels.

**20.74** These alignment frameworks are voluntary and based on self-assessment. They allow countries periodically to assess their macroeconomic statistics and development programs. It is important for statistical producers to maintain transparency and document any deviations or adaptations from the macroeconomic statistical standards in their metadata and methodological notes. They are thus encouraged to use these common frameworks and make the results publicly available in accessible ways for all users. This section focuses on the alignment framework for *BPM7*. The alignment framework is structured around the key building blocks of the statistical standards—concepts and definitions, methods, classifications, and the resulting accounts tables that are produced and published.

## 1. ALIGNMENT FRAMEWORK FOR *BPM7*

**20.75** The *BPM7* alignment framework described below reflects a degree of flexibility and is relatively easy to implement, update, and communicate after an initial set-up investment. It is structured around four key high-level components:

- Concepts and definitions, which reflect the articulation of a macroeconomic activity, interaction, state, or ideas. Concepts describe what gets measured.
- Methods, which describe how a compiler has implemented an accounting rule or measures a concept.
- Classifications, which determine the level of detail and its conformity or otherwise with the *BPM7* classification schemes used by compilers and presented to users, for example, by industry, product, functional categories, or instruments.
- Accounts/tables, which outline how information is presented to users. The *Manual* has a set of accounts or tables that form the basis of the standard, which in turn have been used as the basis of the structure of the alignment framework.

**20.76** These four categories serve as an overarching structure for the alignment frameworks. Given the *Manual* has many concepts and definitions, accounting rules, methods, classifications, and accounts/tables, to be pragmatic only a subset is expected, in the sense that the individual items to be included in the framework focus on those categories that impact the interpretation and assessment of levels and growth rates. Using these criteria, a brief overview of the *BPM7* alignment framework with a few example questions is shown in Table 20.2. Consistent and similar detailed lists have been developed for the 2025 SNA or will be developed for the future update of the *GFSM*. The proposed levels and the categories of alignment provide flexibilities to help economies share details based on the level of development of their national statistical system.

**20.77** It is worth noting that BOP data and rest of world data in the SNA sequence of economic accounts may need to be reconciled given there could be two potential data sources presenting essentially the same information from two different perspectives. Where reconciliation is not made, differences will exist, and these would need to be explained.



**Table 20.2. Overview of the External Accounts Alignment Framework with a Few Examples of the Questions**

**Metadata**

Do you have a published revision policy?	
Is the external accounts revision policy consistent with the national accounts revision policy?	
If the answer to the above question is no, are there reasons why not?	

**Concepts and Definitions, Methods, Classifications, and Accounts/Tables**

	Fully Aligned	Highly aligned	Broadly Aligned	Partially Aligned	Not Aligned	N/A	Comments
Concepts and definitions							
<i>Units of the economy</i>							
<i>BOP coverage</i>							
<i>IIP coverage</i>							
<i>Structure</i>							
<i>Functional categories</i>							
<i>Sectorization</i>							
Methods							
<i>Accounting rules</i>							
<i>Valuation</i>							
<i>Time of Recording</i>							
<i>Grossing / Netting</i>							
<i>Investment income obtained directly (rather than estimated)</i>							
<i>Direct investment relationships identified by applying the Foreign Direct Investment Relationship (FDIR)</i>							

**Classifications**

Classifications Standard	Name	Version	Level of Detail
Classification of institutional sectors			
Earned income account, financial account, and IIP classified according to functional categories			
Classification of financial assets and liabilities by instrument			
Classification of services			

## Accounts / Tables

Category	Timeliness (e.g., T+30 days or T+3 months)	Granularity (level of detail)	Limitations (e.g., any missing lines)
BOP standard components and memorandum items			
IIP standard components and memorandum items			
Other flows standard components and memorandum items			
Reserve-related liabilities			
Nonperforming loans separately at fair value			
Currency composition of assets and liabilities and institutional sector			

## 2. BENEFITS TO USERS AND PRODUCERS

**20.78** At any given time, it is likely that different countries may be conforming to different editions of the macroeconomic statistical standards or with varying extents of implementation, for example, *BPM5*, *BPM6*, or *BPM7*. As a result, cross-country data may not be directly comparable because of variations in aspects of the underlying concepts, methodologies, and coverage of the data by the different economies. The proposed alignment framework provides a structure for users to assess national statistical practices in a comparable way.

**20.79** The alignment frameworks bring several key benefits for national users and the international community. The degree of alignment with the macroeconomic statistical standards provides important signals to users about the quality of cross-country comparisons and the extent to which major revisions should be expected in the future, in cases where an economy is not aligned with the latest macroeconomic statistical standards. The alignment frameworks also provide a mechanism to present and communicate this information to users in a standardized manner.

**20.80** The proposed alignment framework would assist users in making cross-country comparisons. To illustrate, consider two countries A and B. Country A indicates it uses *BPM7* to compile its BOP but does not record some of the smuggling activity. Country B also uses *BPM7* and records smuggling activity in its BOP. When comparing the data on cross-border flows of the two countries, it is important for the user to understand these differences. Country A may not record smuggling because these activities are not material for that

economy; or it may be material, but the compilers may have no data. If it is not material, then Country A should be encouraged to provide this information to users so that they do not attempt to compensate for the different treatment when making the cross-country comparisons.

**20.81** The alignment information also benefits producers of statistics to identify areas for improvement, prioritize resources, and formulate strategic plans to align better to the macroeconomic statistical standards as well as assist users to make appropriate adjustments to achieve comparability in their analyses, among others. In addition, this type of detail will help to give users assurance of the statistics and increase their capacity to provide feedback on future priorities and demands.

**20.82** It should be noted that the alignment frameworks do not offer a comprehensive evaluation of the quality of an economy's macroeconomic statistics as this would require a more rigorous, and different, type of investigation. It is to be expected that the design and application of alignment frameworks will evolve over time.

### 3. COMMUNICATING THE ALIGNMENT FRAMEWORK WITH USERS

**20.83** Having established and completed the alignment framework, it is important how compilers communicate this information to users to ensure it is understood and used appropriately. It should not be used as a form of a scoreboard due to the various flaws in establishing a highly subjective weighting system (e.g., aligning to concepts is, or is not, more important than aligning to accounting rules). Instead, it is recommended that a dashboard approach is taken. Such an approach does not attempt to quantify or summarize the information but will still provide useful information to users in a simple, straightforward, and flexible manner.

**20.84** Many of the items in the alignment framework can be structured to provide a “yes” or “no” response, however, this may not deliver the granularity needed by users to properly interpret the results. As the framework is intended to measure the degree of alignment to a standard, it is better to show the notion of “degree” of alignment, for example, for each question or group of questions, the compiler can indicate whether the country is:

- Fully aligned with the standard – meaning that 95–100 percent of the guidelines and standards have been implemented.
- Highly aligned with the standard – meaning that 75–95 percent of the guidelines and standards have been implemented.
- Broadly aligned with the standard – meaning that 50–75 percent of the guidelines and standards have been implemented.

- Partially aligned with the standard – meaning that 25–50 percent of the guidelines and standards have been implemented.
- Not aligned with the standard – meaning 0–25 percent of the guidelines and standards have been implemented.
- Not applicable – meaning that for reasons of immateriality or irrelevance, the standard has not been implemented. Materiality in this context is subjective but a steer would be that the issue accounts for less than 0.05 percent (and/or a monetary equivalent) of GDP.

**20.85** The introduction of the notion of “percent aligned” does introduce some subjectivity and flexibility into the exercise, thus a range approach is adopted as it is difficult to define (and impossible to measure) what would constitute being 100 percent aligned to a concept, accounting rule, method, etc.

**20.86** The fully aligned, partially aligned, and not aligned categories are appropriate when considering concepts and definitions, methods, and accounting rules but not when considering classifications used, tables, or accounts. It is proposed that the timeliness (days released after the reference period) and granularity (number of detailed classes) be used in “quantifying” the alignment of tables and accounts to a given standard.

**20.87** It is recommended that the dashboard be presented in digital format and included as a part of the sources and methods documentation for a given macroeconomic statistical standard. The assessment can be done for the entirety of a macroeconomic statistics, or it can be completed for individual accounts or tables. It is also recommended that the assessment be color coded, which avoids spurious precision and allows easy to understand and quick messages to be conveyed such that:

- Fully aligned = Green
- Highly aligned = Light green
- Broadly aligned = Yellow
- Partially aligned = Light yellow
- Not aligned = Red
- Not applicable = Black

## H. USE OF MORE UNDERSTANDABLE TERMINOLOGY FOR USERS

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**20.88** The presentation of macroeconomic statistics can have a significant impact on how the statistics are interpreted and used. The macroeconomic statistical standards depend on

an extensive use of technically precise terminology and specialized constructs that may not be widely understood outside of the domain of economic statistics. Indeed, there may be situations where current terminologies are used inconsistently even within macroeconomic statistics.

**20.89** Therefore, macroeconomic statistics should be presented and communicated in such a way that the full extent of their analytical usefulness, quality, scope, comparability, and policy applications is maximized and reflects the wide user base. To this end, the terminology and branding of the macroeconomic frameworks need an international communication strategy that aligns with the latest technology and current cultural norms.

**20.90** The macroeconomic statistical standards have lots of similar technical descriptions of concepts and underlying definitions with explicit inclusions and exclusions. The commonality of the labels and concepts help the producers and facilitate communication across the producers' community. However, they are often not user friendly or understood by users, and it is important that statistical producers target their communication.

**20.91** To improve the consistency, readability and understandability for nonspecialists, a new feature of the *2025 SNA* and *BPM7* has been the development of a common glossary of terms and definitions used in macroeconomic statistics. This glossary reflects input from across several existing standards and manuals: *SNA*; *BPM*; European System of Accounts (*ESA*); Government Finance Statistics; Monetary and Financial Statistics; System of Environmental-Economic Accounting (*SEEA*); International Public Sector Accounting Standards (*IPSAS*); and guidance from the BIS. This glossary thus delivers a further level of harmonization across macroeconomic statistical standards and provides users with a clearer and more consistent understanding of key economic terms and definitions together with some alternative easier to understand terms. The glossary can be found at the end of this *Manual*.

## 1. MAIN CHANGES IN TERMINOLOGY USED IN *BPM7*

**20.92** Significant steps have been made to harmonize the concepts and methodologies in the macroeconomic statistical standards, in particular within the body of the *2025 SNA* and *BPM7* without changing the technical definition(s). This effort has also been reflected in the new common glossary of macroeconomic statistics mentioned in the above, the further alignment of terminologies across international standards (affecting variables, account labels, etc.), and improved the branding of the statistical standards such that comprehension and usability of macroeconomic statistics has been improved.

**20.93** Examples of changes in terminology affecting the names of the accounts within the *Manual* are shown in Table A13.1, while examples of changes in terminology affecting specific terms are shown in Table A13.2.

# Annex 1. Exceptional Financing Transactions

## A. INTRODUCTION

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Reference:

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

**A1.1** The identification of exceptional financing transactions is linked to an analytic construct rather than based on precise criteria. *Exceptional financing groups together financial arrangements made by the authorities (or by other sectors fostered by authorities) of an economy to meet BOP needs.* These transactions can be viewed as an alternative to the use of reserve assets and IMF credit and loans to deal with BOP imbalances, or in conjunction with such use. Exceptional financing is important for IMF operations, statistics, and member countries, as the use of IMF resources is subject to an analytical requirement of need, which—according to the Articles of Agreement of the IMF—is linked to a member’s BOP, reserve position, or developments concerning reserves. Exceptional financing is presented in the “analytic” presentation of the BOP, such as published in the IMF’s *Balance of Payments Statistics Yearbook*, with the relevant transactions reclassified from that shown in the standard components. The analytic presentation is discussed further in paragraphs 19.23–19.23.

**A1.2** Determining the need helps to distinguish:

- the above-the-line items (i.e., those that are deemed to be autonomous in the current, capital, and financial accounts and are undertaken for the sake of the transactions) and thus contribute to or result in an overall payments deficit or surplus, and
- the below-the-line items (i.e., those considered to be financing the deficit or accommodating the surplus).

In essence, from the viewpoint of the authorities of the reporting economy, the below-the-line transactions reflect (a) the transactions undertaken for BOP needs that finance payments required to be made in the current recording period such as predetermined debt service payments by the authorities as well as (b) other financial transactions undertaken by the authorities that are related to BOP needs (beyond those required) and impact on reserve assets in the current recording period, such as prepayments of debt, drawings on new

loans, and receipt of cash transfers. Given that transactions in reserve assets and in IMF credit and loans are always considered as being undertaken to meet a BOP need, it is the other below-the-line transactions that are recorded under exceptional financing (see Table 19.1). There are no below-the-line entries under exceptional financing arising from the provision of financing nor for transactions other than those undertaken to meet BOP needs.

**A1.3** This annex provides guidance on distinguishing transactions in the standard presentation that are exceptional financing transactions. Such a distinction involves a degree of judgment. Examples include government-to-government grants provided for debt payment linked to BOP needs, and rescheduling or forgiveness of debt falling due in the current period. Also, in cases of arrears, “transactions” are recorded in exceptional financing but are not recorded in the standard presentation. Exceptional financing transactions are usually recorded in the appropriate accounts of the analytic presentation as credit entries below-the-line, with corresponding debit entries shown above-the-line. However, for transactions in arrears past due from previous periods, swaps of such debts (such as described in paragraph A1.9), or where debt is repaid or cancelled through transfers (such as described in paragraph A1.5), the two entries of these transactions are recorded below-the-line.

**A1.4** The transactions identified as exceptional financing are presented below under the following sections:

- B. Transfers—such as debt forgiveness and other intergovernmental transfers, including transfers from international organizations;
- C. Debt-for-equity swap—the exchange of debt instruments for equity investment;
- D. Borrowing (including bond issues) for BOP support by the government or central bank, or by other sectors of the economy and induced by the authorities, usually through some form of exchange rate or interest subsidy;
- E. Debt rescheduling or refinancing;
- F. Debt prepayment and debt buyback; and
- G. Accumulation and repayment of debt arrears.

Some of these cases involve debt reorganization that is covered in detail in Annex 2.

Table A1.1 presents selected exceptional financing transactions in the analytic and standard presentation of the BOP.

## B. TRANSFERS

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### 1. DEBT FORGIVENESS

**A1.5** *Debt forgiveness is defined as the voluntary cancellation of all or part of a debt obligation within a contractual arrangement between a creditor and a debtor. In contrast to debt write-offs, debt forgiveness arises from an agreement between the parties to the debt with the intention to convey a benefit to the debtor, rather than unilateral recognition by the creditor that the amount can no longer be collected.* Debt forgiveness is recorded as a capital transfer (see paragraph 14.29) from the creditor economy to the debtor economy, offset by a reduction in the liability of the debtor (reduction in the asset of the creditor) under the appropriate debt instrument in the financial account, with any interest accruing in current period recorded in the earned income account.

**A1.6** In the analytic presentation, for the debtor economy, the recording of debt forgiveness depends on whether the debt being forgiven is due for payment in the current reporting period, in arrears, or not yet due (Table A1.1, rows 1–6). Forgiveness of obligations due in the current period is recorded as transfers, debt forgiveness (credit item) below-the-line, whereas the reduction of the obligations (debit item) is shown above-the-line in the respective debt instrument. For forgiveness on obligations past due from previous periods, that is, on arrears, the two entries are recorded below-the-line in exceptional financing,<sup>1</sup> that is, credit (under debt forgiveness) and debit items (under cancellation of arrears). If the obligations not yet due are forgiven, there is no entry under exceptional financing, because these payments were not required to be made in the current period, and the two entries are made above-the-line.

### 2. OTHER INTERGOVERNMENTAL TRANSFERS

**A1.7** Other transfers included within exceptional financing are grants in the form of cash from governments and international organizations (including the IMF and the World Bank) to the recipient economy. To the extent that the cash is provided for the purpose of financing a BOP need in the recipient economy, the grant received (credit item) will be recorded in the analytic presentation as exceptional financing,<sup>2</sup> with a corresponding debit entry under

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<sup>1</sup> These entries for arrears arise for two reasons: First, if arrears are repaid from reserves, a credit entry under reserves is recorded below-the-line (see Section D); not recording the “repayment of arrears” through debt forgiveness would create an asymmetry of approach. Second, the accumulation of arrears resulting from BOP difficulties is recorded as a credit item in the period in which they arise (see paragraph A1.22). The repayment recorded as a debit item ensures intertemporal consistency.

<sup>2</sup> Any interest accruing from the proceeds of the grant should be recorded by the debtor economy as a credit in the earned income account.



reserve assets (Table A1.1, row 7). An example of other intergovernmental transfers is cash grants from donor governments or multilateral financial institutions to the debtor economy to be used to repay debt and grants to finance a current account need.

**A1.8** Only the initial transaction associated with the grant is relevant for exceptional financing. If the proceeds of the grant are used for scheduled debt service payments, no exceptional financing transactions for the debt transactions are recorded. The same applies if the grant is directly used to make advance repayments of debt for BOP needs, such as a debt buyback. However, it should be noted that if an advance repayment is made out of reserve assets, an exceptional financing will be recorded for the debt transaction (see Section C).

## C. DEBT-FOR-EQUITY SWAP

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**A1.9** Exceptional financing transactions related to equity investment involve the exchange, usually at a discount, of debt instruments of an economy for nonresident investors' equity investments in the economy (see paragraphs A2.29–A2.37). Generally, such arrangements result in the extinction (debit item) of a fixed-payment liability, a debt security, or loan (usually denominated in foreign currency), to be recorded under the appropriate instrument, and the creation (credit item) of an equity liability (denominated in domestic currency) to a nonresident, to be recorded under direct or portfolio investment as relevant. These cases include exchanges of a bank loan, or a liability of an enterprise, for equity, or the resident central bank redeeming the outstanding debt owed to a nonresident, at a discount and in local currency (credit item), with the nonresident reinvesting the proceeds as equity in the enterprise.

**A1.10** For debt exchanged directly for equity investment in the debtor economy, credit entries should be made under direct investment–equity, if the investor (equity holder) directly holds equity that entitles it to 10 percent or more of the voting power in the direct investment enterprise; otherwise, the equity claim should be recorded under portfolio investment–equity. These transactions should be recorded at the value of the equity acquired, with offsetting debit entries made under the appropriate debt instrument for the reduction in liabilities.

**A1.11** For indirect debt-for-equity swaps whereby debt is exchanged, first for a local currency claim (deposit) that is in turn exchanged for equity liability of the debtor, transactions in the BOP are recorded for both the initial exchange—debt for deposit at the value of the deposit—and the exchange of deposits for equity. In the IIP, equity liabilities (either direct or portfolio investment) increase and debt liabilities decrease by the value of the instrument extinguished.

**A1.12** In the analytic presentation, only the initial transaction associated with the debt-for-equity swap is relevant. As with debt forgiveness, the recording of the exchange of claims (either debt for equity, or debt for a local currency claim) depends on whether the debt being exchanged is due for payment in the current reporting period, in arrears, or not yet due (Table A1.1, rows 8–16). Swaps of obligations that fall due in the current recording period are recorded under equity (credit item) below-the-line under exceptional financing, with debt repayment (debit item) recorded above-the-line. For arrears swapped, equity (credit item) and repayment of arrears (debit item) are both recorded below-the-line. For debt exchanged that is not yet due, there is no recording under exceptional financing, the two entries being made above-the-line.

**A1.13** All transactions should be valued at the market price of the new claim received. If there is a difference in the value between the old and new claims, this is recorded as a revaluation in the other changes in financial assets and liabilities account rather than as a transaction, except when nonmarketable debt owed to official creditors is involved, in which instance any reduction in the value of the old debt is recorded as debt forgiveness (capital transfer).

## **D. BORROWING FOR BALANCE OF PAYMENTS NEEDS**

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**A1.14** In the analytic presentation, borrowing (including bond issues) by or on behalf of the authorities to meet BOP needs is recorded (credit item) below-the-line under exceptional financing. Subsequent debt payments as scheduled are recorded above-the-line (Table A1.1, rows 17–18). However, advance repayments for BOP needs financed from reserve assets are recorded as exceptional financing (debit item), so both the reserve and debt transactions are recorded below-the-line (see also Section E).

**A1.15** Regarding short-term borrowing for BOP support, only the initial drawing of a loan and any subsequent increases in the amount borrowed need to be recorded below-the-line. In other words, a new borrowing is not recorded each time the same amount borrowed under a short-term loan is “rolled-over” and not repaid at the maturity (the debit and credit entries for the loan in such circumstances will cancel each other; see paragraph 3.215). If there is repayment of the borrowing (even partial repayment), this amount is recorded above-the-line (unless it is an advance repayment under the conditions described above). If the loan is rolled over for a number of periods, a judgment should be made as to whether the continual renewal of the amount borrowed represents exceptional financing in that the BOP circumstances are such that the debtor is unable to repay the loan (see paragraph A1.2).

## E. DEBT RESCHEDULING OR REFINANCING

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**A1.16** Debt rescheduling or refinancing involves a change in an existing debt contract and replacement by a new debt contract, generally with extended debt service payments. Thus, payments are recorded as paid on the old debt and a new debt is recorded. *Debt rescheduling is an arrangement that involves the formal deferment of debt service payments and the application of new and generally extended maturities to the deferred amounts. Debt refinancing is an arrangement that involves the replacement of an existing debt instrument or instruments, including any arrears, with a new debt instrument or instruments.* If, under a rescheduling, the government assumes the debt of banks or other sectors of the economy, the sector classification of the debtor will change (as described in paragraph 8.43).

**A1.17** In the analytic presentation, the recording of debt rescheduling and refinancing, as with debt forgiveness, depends on whether the debt being rescheduled or refinanced is due for payment in the current reporting period, in arrears, or not yet due (Table A1.1, rows 19–30). Rescheduling or refinancing of debt falling due in the current recording period is recorded below-the-line as a debt transaction (credit item) under exceptional financing, and the offsetting debit entry is recorded above-the-line. For arrears rescheduled or refinanced, both the arrears on the old debt (debit item) and the rescheduling of arrears (credit item) are recorded below-the-line. For rescheduling or refinancing of obligations not yet due, there is no recording under exceptional financing, both entries being above-the-line under the relevant debt instruments.

**A1.18** All transactions should be valued at the market price of the new claim received.<sup>3</sup> If there is a difference in the value between the old and new claim, this is recorded as a revaluation in the other changes in financial assets and liabilities account rather than as a transaction (e.g., a capital transfer), except when nonmarketable debt owed to official creditors is involved, in which instance any reduction in the nominal value of debt is recorded as debt forgiveness. Where there is no established market price for the new claim, an appropriate proxy is used (see Annex 2, Debt Reorganization and Related Transactions).

## F. DEBT PREPAYMENT AND DEBT BUYBACK

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**A1.19** *Debt prepayments consist of a repurchase, or early payment, of debt at conditions that are agreed between the debtor and the creditor; that is, debt is extinguished in return for*

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<sup>3</sup> For analytical purposes, supplementary data could be provided on the nominal value of the debt being extinguished.

*a cash payment agreed between the debtor and the creditor.* When a discount is involved relative to the nominal value of the debt, prepayments are referred to as “buybacks.”

**A1.20** In the analytic presentation, debt prepayment transactions are recorded as exceptional financing only if they are financed from reserve assets to meet BOP needs of the debtor economy (Table A1.1, rows 31–33). In this case, debit entries<sup>4</sup> are recorded below-the-line in the appropriate instrument in exceptional financing with offsetting credit entries in reserve assets also below-the-line. If the prepayment was financed from external donor funds that are placed in the debtor’s reserve assets, the debtor economy records all transactions below-the-line in the analytic presentation (Table A1.1, row 31). In the IIP of the debtor economy, reserve assets increase when donor funds are received and decline, along with debt liabilities, when the prepayment takes place. Prepayments of debt using the debtor’s own financial assets other than reserve assets are recorded above-the-line in the appropriate accounts (Table A1.1, row 33).

## G. ACCUMULATION AND REPAYMENT OF DEBT ARREARS

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### 1. ACCUMULATION OF ARREARS—CURRENT PERIOD

**A1.21** Debt arrears arise when amounts are past due for payment and are unpaid. If the contract remains unchanged, in the standard presentation, no transactions will be recorded. Debt arrears (both interest accrued and principal) remain in the outstanding amount of the debt instrument for which payments have been missed until the liability is extinguished (see paragraph 3.167).<sup>5</sup> Nonetheless, debt arrears are an arrangement recorded in exceptional financing.

**A1.22** In the analytic presentation, arrears are included because this presentation is focused on the actions of the monetary authorities to meet BOP needs, and accumulating arrears is an action the monetary authorities can take for this purpose. Arrears in the current period resulting from BOP difficulties—that is, arrears resulting from the inability of the authorities to provide foreign exchange (and not from the inability of the original debtor to provide national currency)—are recorded below-the-line as accumulation of arrears (credit) within exceptional financing, as de facto the creditor is financing the payments the debtor was required to make. The contra debit entries to the arrears are recorded in the reporting period above-the-line under the appropriate accounts, that is, accrued interest under the appropriate debt instrument in income in the current account, and other arrears (principal

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<sup>4</sup> The debit entry is recorded below-the-line because the repayment of the debt instrument affects the level of reserve assets in the reporting period.

<sup>5</sup> If the original contract provided for a change in the characteristics of a financial instrument when it goes into arrears, this change should be recorded as a reclassification in the other change in volume of assets account.

arrears, and interest arrears arising in the current period that accrued in earlier periods) under the appropriate debt instrument in the financial account (Table A1.1, rows 34–36).

<b>Table A1.1. Balance of Payments Accounting for Selected Exceptional Financing Transactions<sup>1</sup></b>				
Type of Transaction <sup>2</sup>	Analytic		Standard	
	Credit	Debit	Credit	Debit
<b>A.1. Transfers—debt forgiveness Payments falling due in the current recording period</b>				
1 Interest	Exceptional financing	<i>Investment income, other investment</i>	<i>Capital transfers, debt forgiveness</i>	<i>Investment income, other investment</i>
Interest accrued previous period	Exceptional financing	<i>Other investment, liabilities, loans</i>	<i>Capital transfers, debt forgiveness</i>	<i>Other investment, liabilities, loans</i>
3 Principal	Exceptional financing	<i>Other investment, liabilities, loans</i>	<i>Capital transfers, debt forgiveness</i>	<i>Other investment, liabilities, loans</i>
<b>Payments in arrears</b>				
4 Interest	Exceptional financing	Exceptional financing	<i>Capital transfers, debt forgiveness</i>	<i>Other investment, liabilities, loans</i>
5 Principal	Exceptional financing	Exceptional financing	<i>Capital transfers, debt forgiveness</i>	<i>Other investment, liabilities, loans</i>
<b>Payments not yet due in the current recording period</b>				
6 Principal	<i>Capital transfers, debt forgiveness</i>	<i>Other investment, liabilities, loans</i>	<i>Capital transfers, debt forgiveness</i>	<i>Other investment, liabilities, loans</i>
<b>A.2. Transfers—other intergovernmental grants<sup>3</sup></b>				
7	Exceptional financing	<i>Reserve assets</i>	<i>Current/Capital transfers</i>	<i>Reserve assets</i>
<b>B. Debt/equity swaps</b>				
<b>B.1 Direct swaps Payments falling due in the current recording period<sup>4</sup></b>				

8	Principal	Exceptional financing	<i>Other investment, liabilities, loans</i>	<i>Direct investment-equity</i>	<i>Other investment, liabilities, loans</i>
	<b><i>Payments in arrears<sup>4</sup></i></b>				
9	Interest	Exceptional financing	Exceptional financing	<i>Direct investment-equity</i>	<i>Other investment, liabilities, loans</i>
10	Principal	Exceptional financing	Exceptional financing	<i>Direct investment-equity</i>	<i>Other investment, liabilities, loans</i>
	<b><i>Payments not yet due<sup>4</sup></i></b>				
11	Principal	<i>Direct investment-equity</i>	<i>Other investment, liabilities, loans</i>	<i>Direct investment-equity</i>	<i>Other investment, liabilities, loans</i>
B.2.	<b>Indirect swaps</b> <b><i>Exchange of a fixed-payment liability denominated in foreign currency for a deposit liability denominated in domestic currency<sup>5</sup></i></b> <b><i>Payments falling due in the current recording period<sup>4</sup></i></b>				
12	Principal	Exceptional financing	<i>Other investment, liabilities, loans</i>	<i>Other investment liabilities, currency, and deposits</i>	<i>Other investment, liabilities, loans</i>
	<b><i>Payments in arrears<sup>4</sup></i></b>				
13	Interest	Exceptional financing	Exceptional financing	<i>Other investment liabilities, currency, and deposits</i>	<i>Other investment, liabilities, loans</i>
14	Principal	Exceptional financing	Exceptional financing	<i>Other investment liabilities, currency, and deposits</i>	<i>Other investment, liabilities, loans</i>
	<b><i>Payments not yet due<sup>4</sup></i></b>				
15	Principal	<i>Other investment liabilities, currency, and deposits</i>	<i>Other investment, liabilities, loans</i>	<i>Other investment liabilities, currency, and deposits</i>	<i>Other investment, liabilities, loans</i>
	<b><i>Subsequent exchange of a deposit liability denominated in domestic currency for equity investment</i></b>				

16	Principal	<i>Direct investment-equity</i>	<i>Other investment, liabilities, currency, and deposits</i>	<i>Direct investment-equity</i>	<i>Other investment, liabilities, currency, and deposits</i>
c.	<b>Borrowing for BOP support<sup>6</sup></b>				
17	Drawing on new loans	Exceptional financing	<i>Reserve assets</i>	<i>Other investment, liabilities, loans</i>	<i>Reserve assets</i>
18	Bond issues	Exceptional financing	<i>Reserve assets</i>	<i>Portfolio investment, liabilities, debt securities</i>	<i>Reserve assets</i>
D.	<b>Debt rescheduling/refinancing</b>				
	<b>D.1 Debt rescheduling</b>				
	<b><i>Payments falling due in the current recording period</i></b>				
19	Interest	Exceptional financing	<i>Investment income, other investment</i>	<i>Other investment, liabilities, loans</i>	<i>Investment income, other investment</i>
20	Interest accrued previous period	Exceptional financing	<i>Other investment, liabilities, loans</i>	<i>Other investment, liabilities, loans</i>	<i>Other investment, liabilities, loans</i>
21	Principal	Exceptional financing	<i>Other investment, liabilities, loans</i>	<i>Other investment, liabilities, loans</i>	<i>Other investment, liabilities, loans</i>
22	Capitalization of moratorium interest (interest as it falls due) <sup>7</sup>	Exceptional financing	<i>Investment income, other investment</i>	<i>Other investment, liabilities, loans</i>	<i>Investment income, other investment</i>
	<b><i>Payments in arrears</i></b>				
23	Interest	Exceptional financing	Exceptional financing	<i>Other investment, liabilities, loans</i>	<i>Other investment, liabilities, loans</i>
	Principal	Exceptional financing	Exceptional financing	<i>Other investment, liabilities, loans</i>	<i>Other investment, liabilities, loans</i>
	<b><i>Payments not yet due in the current recording period</i></b>				
25	Principal	<i>Other investment, liabilities, loans</i>	<i>Other investment, liabilities, loans</i>	<i>Other investment, liabilities, loans</i>	<i>Other investment, liabilities, loans</i>
D.2.	<b>Debt refinancing—loan/bond swap</b>				

<b><i>Payments falling due in the current recording period<sup>8</sup></i></b>					
26	Interest	Exceptional financing	<i>Other investment, liabilities, loans</i>	<i>Portfolio investment, liabilities, debt securities</i>	<i>Other investment, liabilities, loans</i>
27	Principal	Exceptional financing	<i>Other investment, liabilities, loans</i>	<i>Portfolio investment, liabilities, debt securities</i>	<i>Other investment, liabilities, loans</i>
<b><i>Payments in arrears<sup>8</sup></i></b>					
28	Interest	Exceptional financing	Exceptional financing	<i>Portfolio investment, liabilities, debt securities</i>	<i>Other investment, liabilities, loans</i>
29	Principal	Exceptional financing	Exceptional financing	<i>Portfolio investment, liabilities, debt securities</i>	<i>Other investment, liabilities, loans</i>
<b><i>Payments not yet due</i></b>					
30	Principal	<i>Portfolio investment, liabilities, debt securities</i>	<i>Other investment, liabilities, loans</i>	<i>Portfolio investment, liabilities, debt securities</i>	<i>Other investment, liabilities, loans</i>
<b>E. Debt prepayment and buyback</b>					
<b><i>Payments not yet due in the current recording period</i></b>					
31	Receipt of donor funds	Exceptional financing	<i>Reserve assets</i>	<i>Capital transfers</i>	<i>Reserve assets</i>
32	Principal	<i>Reserve assets</i>	Exceptional financing	<i>Reserve assets</i>	<i>Other investment, liabilities, loans</i>
33	Principal (using debtor financial assets other than reserve assets)	<i>Other investment, assets, currency, and deposits</i>	<i>Other investment, liabilities, loans</i>	<i>Other investment, assets, currency, and deposits</i>	<i>Other investment, liabilities, loans</i>
<b>F. Accumulation/repayment of arrears</b>					
<b>F.1. Accumulation of arrears</b>					
34	Interest accrued in the current period	Exceptional financing	<i>Investment income, other investment</i>	<i>Other investment, liabilities, loans</i>	<i>Investment income, other investment</i>
35	Interest accrued previous period	Exceptional financing	<i>Other investment, liabilities, loans</i>	No transaction	No transaction



36	Principal due and not paid	Exceptional financing	<i>Other investment, liabilities, loans</i>	No transaction	No transaction
<b>F.2. Repayment of arrears<sup>9</sup></b>					
37	Interest	<i>Reserve assets E</i>	Exceptional financing	<i>Reserve assets</i>	<i>Other investment, liabilities, loans</i>
38	Principal	<i>Reserve assets E</i>	Exceptional financing	<i>Reserve assets</i>	<i>Other investment, liabilities, loans</i>
<b>G. Debt-for-development swaps<sup>10</sup></b>					
<b><i>Payments falling due in the current recording period</i></b>					
39	Interest	Exceptional financing	<i>Investment income, other investment</i>	<i>Other investment, liabilities, currency and deposits</i>	<i>Investment income, other investment</i>
40	Principal	Exceptional financing	<i>Investment income, other investment</i>	<i>Other investment, liabilities, currency and deposits</i>	<i>Other investment, liabilities, loans</i>
<b><i>Payments in arrears</i></b>					
41	Principal	Exceptional financing	Exceptional financing	<i>Other investment, liabilities, currency and deposits</i>	<i>Other investment, liabilities, loans</i>
<b><i>Payments not yet due in the current recording period</i></b>					
42	Principal	<i>Other investment, liabilities, currency and deposits</i>	<i>Other investment, liabilities, loans</i>	<i>Other investment, liabilities, currency and deposits</i>	<i>Other investment, liabilities, loans</i>
43	Subsequent use of debt/development swap funds in the debtor economy	<i>Capital transfers</i>	<i>Other investment, liabilities, currency and deposits</i>	<i>Capital transfers</i>	<i>Other investment, liabilities, currency and deposits</i>

<sup>1</sup> For debt rescheduled or refinanced, swapped into equity or bonds, or canceled before maturity, the reduction in the liability should be attributed to the appropriate instrument in the financial account. In this table, it has been assumed that loans are the instrument.

<sup>2</sup> Since the table covers a mix of transactions in the current, capital, and financial accounts, the column headings reflect the underlying double-entry basis of BOP statistics (credit/debit) as explained in Box 2.1 rather than the Manual standard headings credit/revenue, debit/expenditure, net acquisition of financial assets, and net incurrence of liabilities. In practice, because net recording is recommended for financial

*account items, entries affecting the same item will be offsetting and thus will not appear as separate entries in a BOP statement.*

<sup>3</sup> *Only intergovernmental grants received to finance BOP need. (Grants received from IMF subsidy accounts are included since such grants are considered exceptional financing transactions.)*

<sup>4</sup> *These payments are recorded by using the price at which the new claim on the debtor was acquired by the nonresident investor.*

<sup>5</sup> *Initially the debtor country exchanges the liability denominated in a foreign currency for a liability denominated in domestic currency. The appropriate credit entry depends on the type of liability for which the liability that is denominated in foreign currency is exchanged for; in this table the liability is assumed to be a deposit.*

<sup>6</sup> *Borrowing (including bond issues) by authorities or other sectors on the authorities' behalf to finance BOP need.*

<sup>7</sup> *Only moratorium interest linked to BOP difficulties. Capitalization of moratorium interest when past due is treated as rescheduling of payment arrears.*

<sup>8</sup> *These payments are recorded at the value of the new claim received.*

<sup>9</sup> *Cash settlement only.*

<sup>10</sup> *Debt-for-development swaps are described in paragraphs A2.38–A2.40.*

## 2. REPAYMENT OF ARREARS

**A1.23** In the standard presentation, the repayment of debt arrears to meet a BOP need is recorded as a debit entry under the appropriate debt instrument in the financial account and a corresponding credit entry under reserve assets. In the analytic presentation, repayment of arrears (through currency and deposits) is recorded below-the-line as a debit entry under repayment of arrears within exceptional financing, and a credit entry under reserve assets (Table A1.1, rows 37 and 38).

## Annex 2. Debt Reorganization and Related Transactions

### A. DEBT REORGANIZATION

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Reference:

- IMF and others, *External Debt Statistics: Guide for Compilers and Users*, Chapter 8, Debt Reorganization.
- IMF, *Government Finance Statistics Manual 2014*, Appendix 3, Debt and Related Operations.

**A2.1** This annex discusses various forms of debt reorganization and related transactions, and how they are recorded in the external accounts. References are made, where applicable, to exceptional financing when reorganization may arise to finance BOP needs, and to debt concessionality when reorganization may involve transfers to account for such concessionality. Table A1.1 in Annex 1 provides a summary presentation of the recording of debt reorganization in the standard and analytic presentations of the BOP.

**A2.2** *Debt reorganization (also referred to as debt restructuring) is defined as an arrangement that involves both the creditor and the debtor (and sometimes third parties) in altering the terms established for servicing an existing debt.* Governments are often involved in debt reorganization, as a debtor, creditor, or guarantor, but debt reorganization can also involve the private sector, such as through debt exchanges.

**A2.3** Debt reorganization usually involves relief for the debtor from the original terms and conditions of debt obligations it has entered into. This may be in response to liquidity issues, where the debtor does not have the cash to meet looming debt service payments, or sustainability issues, where the debtor is unlikely to be able to meet its debt obligations in the medium term.

**A2.4** A failure by a debtor economy to honor its debt obligations (default, unilateral moratorium, etc.) is not debt reorganization because it does not involve an arrangement between the creditor and the debtor. Such failure gives rise to arrears, which are also covered in this annex. Similarly, a creditor can reduce the value of its debt claims on the debtor in its own books through debt write-offs—unilateral actions that arise, for instance, when the creditor regards a claim as unrecoverable, perhaps because of bankruptcy of the debtor, and so no longer carries it on its books. Again, this is not debt reorganization as defined in the *Manual*.

**A2.5** The four main types of debt reorganization are:

- (a) A reduction in the amount of, or the extinguishing of, a debt obligation by the creditor via a contractual arrangement with the debtor. This is *debt forgiveness*.
- (b) A change in the terms and conditions of the amount owed, which may result, or not, in a reduction in burden in present value terms.<sup>1</sup> Depending on the nature of the transaction undertaken, the reorganization is described as *debt rescheduling or refinancing* (or debt exchange).
- (c) The creditor exchanges the debt claim for something of economic value, other than another debt claim, on the same debtor. This includes *debt conversion*, such as debt-for-equity swaps, debt-for-real-estate swaps, debt-for-development swaps, and debt-for-nature swaps,<sup>2</sup> and *debt prepayment* (or *debt buybacks for cash*).
- (d) *Debt assumption and debt payments on behalf of others* when a third party is also involved.

**A2.6** A debt reorganization package may involve more than one of the types mentioned above; for example, most debt reorganization packages involving debt forgiveness also result in a rescheduling of the part of the debt that is not forgiven or cancelled.

## 1. DEBT FORGIVENESS

### a. Definition

**A2.7** *Debt forgiveness (or debt cancellation by mutual agreement) is defined as the voluntary cancellation of all or part of a debt obligation within a contractual arrangement between a creditor and a debtor.<sup>3</sup> In contrast to debt write-offs, debt forgiveness arises from an agreement between the parties to the debt with the intention to convey a benefit to the debtor, rather than unilateral recognition by the creditor that the amount can no longer be*

<sup>1</sup> Also called “discounted cash flow,” present value is the value today of a future payment or stream of payments discounted at some appropriate compounded interest rate.

<sup>2</sup> Some agreements described as debt swaps are equivalent to debt forgiveness from the creditor and the debtor viewpoint. At the same time, there is a commitment from the debtor country to undertake a number of developments, environment, etc., expenses. These transactions should be considered under debt forgiveness because no value is provided to the creditor.

<sup>3</sup> This includes forgiveness of some or all of the principal amount of a credit-linked note arising from an event affecting the unit 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, such as forgiveness in the event of a type of catastrophe.

*collected*. Debt forgiveness is unlikely to arise between commercial units. Debt forgiven may include all or part of the principal outstanding, inclusive of any accrued interest arrears (interest that fell due in the past) and any other interest costs that have accrued. Debt forgiveness does not arise from the cancellation of future interest payments that have not yet fallen due and have not yet accrued.

### ***b. Treatment of Debt Forgiveness***

**A2.8** In the BOP, debt forgiveness, as noted in paragraphs A1.5–A1.6, is recorded (at the time specified in the agreement that the debt forgiveness takes effect) in the standard presentation as a capital transfer from the creditor economy to the debtor economy, offset by a reduction in the liability of the debtor (reduction in the asset of the creditor) under the appropriate debt instrument in the financial account. (See Table A1.1, rows 6–11.) In the IIP, the debtor's liability and creditor's asset are also reduced by the amount of debt that is forgiven. As to the value of the debt forgiveness, market prices are the basis of valuation for flows and stocks, except for loans where the nominal value is used.

**A2.9** In the analytic presentation, the recording, or not, of debt forgiveness in exceptional financing (below-the-line) depends on whether the debt is due for payment in the current period, in arrears, or not yet due (Table A1.1, rows 1–6). Forgiveness of obligations due in the current period is recorded below-the-line as a credit item under debt forgiveness, whereas the reduction of the obligations is shown above-the-line as a debit item.<sup>4</sup> For forgiveness in arrears from previous periods, a credit entry under debt forgiveness and a debit entry under cancellation of arrears are both recorded below-the-line under exceptional financing. If the obligations not yet due are forgiven, there are no entries under exceptional financing; all entries are above-the-line.

## **2. DEBT RESCHEDULING AND REFINANCING**

**A2.10** Debt rescheduling and refinancing involve a change in an existing debt contract and replacement by a new debt contract, generally with extended debt service payments. Debt rescheduling involves rearrangements on the same type of instrument, with the same principal value and the same creditor as with the old debt. Refinancing entails a different debt instrument, generally at different value, and may be with a creditor different than that

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<sup>4</sup> Since this annex refers to Table A1.1, which incorporates a mix of transactions from the current, capital, and financial accounts, it uses the underlying double-entry basis of BOP statistics (credit/debit) as explained in Box 2.1, rather than the *Manual's* standard terminology of credit/revenue, debit/expenditure, net acquisition of financial assets, and net incurrence of liabilities.

from the old debt.<sup>5</sup> For instance, a creditor may choose to apply the terms of a Paris Club agreement either through a debt rescheduling option (that is, changing the terms and conditions of its existing claims on the debtor) or through refinancing (making a new loan to the debtor that is used to repay the existing debt).

### **a. Debt Rescheduling**

#### **Definition**

**A2.11** *Debt rescheduling is an arrangement that involves the formal deferment of debt service payments and the application of new and generally extended maturities to the deferred amounts.* The new terms normally include one or more of the following elements: extending repayment periods, reductions in the contracted interest rate, adding or extending grace periods for the repayment of principal, fixing the exchange rate at favorable levels for foreign currency debt, and rescheduling the payment of arrears, if any. In the specific instance of zero-coupon securities, a reduction in the principal amount to be paid at redemption to an amount that still exceeds the principal amount outstanding at the time the arrangement becomes effective could be classified as either an effective change in the contractual rate of interest or a reduction in principal with the contractual rate unchanged. Such a reduction in the principal payment to be made at maturity should be recorded as debt forgiveness, or debt rescheduling if the bilateral agreement explicitly acknowledges a change in the contractual rate of interest. Under Paris Club arrangements, rescheduling can be characterized as “flow” or “stock” rescheduling. A flow rescheduling refers to a rescheduling of specified debt service falling due during a certain period and, in some cases, specified arrears outstanding at the beginning of that period.<sup>6</sup> A stock rescheduling refers to rescheduling the outstanding debt at a particular point in time.

#### **Treatment of Debt Rescheduling**

**A2.12** The BOP treatment for debt rescheduling is that the existing contract is extinguished, and a new contract created. The applicable existing debt is recorded as being repaid and a new debt instrument (or instruments) created with the new terms and conditions. In the standard presentation for the debtor, a debit entry (i.e., a negative net incurrence of liabilities) is recorded under the appropriate instrument representing the repayment of the old debt with a credit entry (i.e., a positive net incurrence of liabilities) under the appropriate

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<sup>5</sup> From the debtor perspective, debt refinancing may involve borrowing from a third party to repay a creditor. The definition of debt refinancing in the *Manual* is a narrower concept reflecting transactions between the debtor and same creditor only. The transactions associated with borrowing from a third party for BOP support are set out in Section D, Borrowing for Balance of Payments Support, of Annex 1.

<sup>6</sup> In the BOP, if the debt falling due during the period is rescheduled, the transaction is treated the same as the rescheduling of a debt stock.

instrument representing the creation of a new debt (Table A1.1, rows 19–25). This treatment does not apply, however, to interest arrears that are being rescheduled when the conditions in the existing debt contract remain intact. In such a case, the existing debt contract is not considered to be rescheduled, only the interest arrears. The IIP reflects the transactions extinguishing the old debt instrument and creating the new instrument. If the debt rescheduling includes an element of debt forgiveness (e.g., part of principal outstanding and/or any accrued interest arrears), then a capital transfer would be recorded as the difference in the value of the contracts.

**A2.13** The transaction is recorded at the time both parties record the change in terms in their books. If no precise time is determined, the time at which the creditor records the change in terms in its books is decisive. If the rescheduling of obligations due beyond the current period is linked to the fulfillment of certain conditions by the time the obligations fall due (such as multiyear Paris Club rescheduling), entries are recorded in the BOP only in the period when the specified conditions are met.

**A2.14** In the analytic presentation, as noted in Annex 1, the recording of debt rescheduling transactions in exceptional financing depends on whether the debt being rescheduled is due for payment in the current period, in arrears, or not yet due. Obligations falling due in the reporting period are recorded under exceptional financing (below-the-line as credit entries under the appropriate instruments), with debit entries made above-the-line under the appropriate debt instruments in the financial account and the income account (for accrued interest) (Table A1.1, rows 19–22). For arrears, the two entries are under exceptional financing, that is, below-the-line, with credit items (under the relevant instrument) and debit items (under rescheduling of arrears) (Table A1.1, rows 23–24). For obligations not yet due, both debit and credit entries are recorded above-the-line under the appropriate instruments in the financial account (Table A1.1, row 25).

## ***b. Debt Refinancing***

### ***Definition***

**A2.15** *Debt refinancing is an arrangement that involves the replacement of an existing debt instrument or instruments, including any arrears, with a new debt instrument or instruments.* It can involve the exchange of the same type of debt instrument (e.g., loan for a loan) or different types of debt instruments, for example a loan for a bond or the consolidation of various export credit debts into a single loan. Also, debt refinancing can be said to have taken place when a debtor exchanges existing bonds for new bonds through exchange offers given by its creditor (rather than a change in terms and conditions). So, debt refinancing can occur irrespective of whether the debtor is experiencing BOP difficulties or not.

### ***Treatment of Debt Refinancing***

**A2.16** The BOP treatment of debt refinancing transactions is similar to debt rescheduling to the extent that the debt being refinanced is extinguished and replaced with a new financial instrument or instruments. However, unlike in rescheduling, the old debt is extinguished at the value of the new debt instrument except for nonmarketable debt owed to official creditors.

**A2.17** If the refinancing involves direct debt exchange, such as a loan-for-bond swap, in the standard presentation, debit entries are recorded by the debtor under the appropriate debt instrument in the financial account (i.e., extinction of the debt liability) and the income account (for accrued interest) and a credit entry under portfolio investment liabilities to show the creation of the new obligation (Table A1.1, rows 26–30). The transaction is valued at the value of the new debt with the difference between the value of the old debt and that of the new instrument recorded in the revaluation account. However, if the debt is owed to official creditors and is nonmarketable (loan), the old debt is extinguished at its original value with the difference in value with the new instrument recorded as debt forgiveness.

**A2.18** Where there is no established market price for the new bond, an appropriate proxy is used. For example, if the bond is similar to other bonds being traded, the market price of a traded bond would be an appropriate proxy for the value of the new bond. If the debt being swapped was recently acquired by the creditor, the acquisition price would be an appropriate proxy. Alternatively, if the interest rate on the new bond is below the prevailing interest rate, the discounted value of the bond, using the prevailing interest rate, could serve as a proxy. If such information is not available, the face value of the bond being issued may be used as a proxy. See also debt-for-equity conversion below.

**A2.19** The IIP reflects the transactions extinguishing the old debt instrument and creating the new debt instrument along with any valuation change recorded in the revaluation account. For instance, a loan-for-bond exchange undertaken will generally result in a reduction in the liabilities of the debtor (reduction in the claim of the creditor on the debtor economy) because the loan is recorded at nominal value versus the market value of the bond.

**A2.20** In the analytic presentation, debt-for-bond exchange of obligations falling due in the reporting period are recorded below-the-line as credit entries under the appropriate instruments in exceptional financing, with debit entries made above-the-line under the appropriate debt instruments in the financial account and the income account (for accrued interest) (Table A1.1, rows 26–27). For arrears refinanced, there are offsetting credit (under the relevant instrument) and debit items (under rescheduling of arrears) under exceptional financing. For obligations not yet due, both debit and credit entries are recorded above--the--line under the appropriate instruments in the financial account (Table A1.1,



row 30). When arrears are cancelled as a result of a debt-for-debt exchange, the two entries are below-the-line: a debit entry under cancellation of arrears (under the relevant debt instrument in the standard presentation) and a credit item under debt forgiveness (Table A1.1, rows 28–29).

**A2.21** If the proceeds of the new debt are used to partially pay off existing debt, any remaining debt is recorded as the extinguishment of the old debt and creation of a new debt, unless it is paid off through a separate transaction.

**A2.22** If the terms of any new borrowings are concessional, the creditor could be seen as providing a transfer to the debtor. Debt concessionality is discussed below.

### 3. DEBT CONVERSION AND DEBT PREPAYMENT

#### **a. Definitions**

**A2.23** *Debt conversion (swap) is an exchange of debt (typically at a discount) for a nondebt claim such as equity, or for counterpart funds that can be used to finance a particular project or policy.* Typically, debt conversion involves an exchange of external debt in foreign currency for a nondebt obligation in domestic currency, at a discount. Debt for equity, debt for exports, debt for nature, and debt for development swaps are all examples of debt conversion. In essence, external debt is extinguished and a nondebt liability created.

**A2.24** A debt-for-equity swap results in reduced debt liability and an increase in equity liability of the debtor economy. A third party, usually a nongovernmental organization (NGO) or a corporation, is often involved in a debt-for-equity swap, buying the claims from the foreign creditor and receiving shares in a corporation or local currency (to be used for equity investment) from the debtor economy.

**A2.25** Other types of debt swaps, such as external debt obligations for exports (debt for exports) or external debt obligations for counterpart assets that are provided by the debtor to the creditor for a specified purpose, such as wildlife protection, health, education, and environmental conservation (debt for sustainable development) are also debt conversions.

**A2.26** It is important to distinguish direct and indirect debt conversion, that is, whether the swap leads directly to the acquisition of a nondebt claim on the debtor, or indirectly via another claim on the economy, such as a deposit that is subsequently used to purchase equity.

#### **b. Treatment of Debt Conversion**

**A2.27** Where debt is exchanged for another item (e.g., equity or counterpart funds for development purposes), the transaction is recorded at the time both parties record the exchange of value in their books. The general principle is for the old debt to be valued at the

value of the item acquired (converted at the prevailing market exchange rate if the item is in foreign currency). Any difference between the value of the debt being extinguished and the corresponding claim or funds provided is recorded as a revaluation in the other changes in financial assets and liabilities account. An exception arises when official creditors are owed nonmarketable debt, and the counterpart claim (assets) has a lower value than the debt, in which case the transaction in the old debt is recorded at its full value and any difference in value between the debt and counterpart item (or assets) is recorded as debt forgiveness, a capital transfer. With debt-for-development swaps, the transactions recorded should be based on the type of debt obligation forgiven rather than the subsequent use of the funds.

**A2.28** Debt-for-equity and debt-for-development swaps are the most commonly used debt conversion arrangements.

### ***c. Debt-for-Equity Swaps***

#### ***Direct Debt Conversion***

**A2.29** For debt exchanged directly for equity investment in the debtor economy, credit entries should be made under direct investment–equity, or portfolio investment–equity. These transactions should be recorded at the value of the equity acquired, with offsetting debit entries made under the appropriate debt instrument for the reduction in liabilities. The treatment of transactions recorded depends on whether the debt being swapped is due for payment in the current period, is in arrears, or is not yet due (Table A1.1, rows 8–11).

#### ***Debt Due for Payment in the Current Period***

**A2.30** In the standard presentation, for a debt-for-equity swap there are debit entries under the relevant instrument, such as other investment liabilities, and the income account (for accrued interest) for all payments falling due in the current period. The value of the repayment of the old debt is equal to the market value of the equity liability being swapped, with the contra-entry credit recorded in direct investment–equity, or portfolio investment–equity. If the market value of the new liability is lower than the value of the old debt, a revaluation is recorded under the relevant instrument, such as loan liabilities in the other changes in financial assets and liabilities account (see also paragraph A1.13).

**A2.31** In the analytic presentation, the debit entries are recorded above-the-line, and the contra-entry credit is recorded below-the-line under direct investment or portfolio investment-equity.

#### ***Debt in Arrears***

**A2.32** In the standard presentation, debt-for-equity swaps for arrears are recorded as a debit entry under the relevant instrument in the financial account, at the value of the equity liabilities being provided, with the contra-entry credit in direct investment–equity or portfolio

investment–equity. In the analytic presentation, a debit entry is recorded in exceptional financing under cancellation of arrears, with the offsetting credit entry also recorded in exceptional financing under direct investment–equity or portfolio investment–equity.

### ***Debt Due for Payment in the Future***

**A2.33** In the standard presentation, debit entries arising from debt-for-equity swap operations for debt due for payment in the future and exchanged at a price below nominal value are recorded as a debit entry in the respective accounts at the value of the equity liabilities being provided with the contra-entry credit in direct investment–equity, if the direct investor (equity holder) directly holds equity that entitles it to 10 percent or more of the voting power in the direct investment enterprise; otherwise, the equity claim should be recorded under portfolio investment–equity. If the market value of the new liability is lower than the value of the old debt, a revaluation is recorded under the relevant instrument, such as loan liabilities in the other changes in financial assets and liabilities account (see also paragraph A1.13). In the analytic presentation, all entries are made above-the-line as in the standard presentation.

**A2.34** In all cases, in the IIP, equity liabilities (either direct or portfolio) increase and debt liabilities decrease by the value of the instrument extinguished.

### ***Indirect Debt Conversion***

**A2.35** A debt-for-equity swap may also involve indirect conversion. An example is when a fixed-payment foreign currency liability (e.g., a debt security or loan) is exchanged at a discount for a domestic financial instrument, such as a domestic currency deposit. The proceeds are then reinvested by the nonresident into the equity of the debtor. These swaps are valued at market prices in the BOP.

**A2.36** In the standard presentation, this transaction is recorded by the debtor as an increase in liabilities (credit) under the financial instrument provided, with corresponding debit entries under the instrument (liability) being extinguished (Table A1.1, rows 12–16). Subsequently, the nonresident creditor exchanges the financial instrument received for equity investment in an enterprise of the debtor economy. At this point, a credit entry is recorded under direct investment–equity, if the direct investor (equity holder) directly holds equity that entitles it to 10 percent or more of the voting power in the direct investment enterprise; otherwise, the equity claim should be recorded under portfolio investment–equity. The offsetting debit entry is made under the relevant instrument being exchanged for the equity, such as currency and deposits. In the IIP, equity liabilities (either direct or portfolio) increase and debt liabilities decrease by the value of the instrument extinguished.

**A2.37** In the analytic presentation, the treatment is the same as described for direct debt conversion except that only the initial transaction is relevant, so the credit entry is recorded under the relevant financial instrument provided, rather than equity.

#### ***d. Debt-for-Development Swaps***

**A2.38** A debt-for-development swap involves the exchange at a discount of an existing liability (e.g., a debt security or loan) for a claim (such as a domestic deposit) earmarked for a specific development purpose in the debtor economy. For example, an NGO purchases debt from the original creditor at a substantial discount using its own foreign currency resources, and then resells it to the debtor country government for local currency equivalent. The NGO in turn spends the money on a development project, previously agreed on with the debtor country government.

**A2.39** In the standard presentation, the debtor economy records the transaction only with the creditor (such as an NGO). The debtor records an increase in liabilities (credit) under the appropriate debt instrument provided to the creditor, with an offsetting debit entry recorded under the appropriate debt instrument being extinguished (Table A1.1, rows 39–43). In the IIP, liabilities decline by the value of the debt extinguished and increase by the value of the other claim provided that it is still outstanding at the end of the period.

**A2.40** If a debt-for-development swap is undertaken to meet a BOP need (see paragraphs A1.2–A1.3), only the initial transaction with the creditor is relevant for the analytic presentation. Subsequent use by the creditor of the assets acquired for development in the debtor economy is not exceptional financing—the credit items are recorded as capital transfers (Table A1.1, row 43).

#### ***e. Debt Prepayment***

##### ***Definitions***

**A2.41** *Debt prepayments consist of repurchases, or early payments, of debt at conditions that are agreed between the debtor and the creditor; that is, debt is extinguished in return for a cash payment agreed between the debtor and the creditor.* When a discount is involved relative to the nominal value of the debt, prepayments are referred to as “buybacks.” Debt prepayment could be driven by the debtor’s need to reduce the cost of its debt portfolio by taking advantage of favorable economic performance or market conditions to repurchase debt, or for BOP purposes, such as a looming BOP constraint.

##### ***Treatment of Debt Prepayment***

**A2.42** In the standard presentation, debit entries relating to debt prepayment are recorded by the debtor in the appropriate instrument in the financial account when the transactions

take place at the value of the debt prepaid. Credit entries are recorded in reserve assets or in currency and deposits in other investment–assets depending on the source of financing. In the IIP, the debtor's liability declines by the amount of debt prepaid. As noted in Annex 1, if prepayment of debt is linked to BOP needs and is financed from reserve assets, both credit and debit items are recorded below-the-line in exceptional financing and reserve assets, respectively (Table A1.1, rows 31–32). Prepayments of debt using debtor's own financial assets other than reserve assets is recorded above-the-line as in standard presentation (Table A1.1, row 33). If the debt is owed to official creditors and is nonmarketable (loan), some element of debt forgiveness could arise—that is, if the prepayment occurs within an agreement between the parties with an intention to convey a benefit (see paragraph A2.7).

**A2.43** In the analytic presentation, debt prepayment transactions are recorded as exceptional financing only if they are financed from reserve assets for the BOP purposes of the debtor economy. In this case, debit entries are recorded below-the-line in the appropriate instrument in exceptional financing with offsetting credit entries in reserves recorded below-the-line.

**A2.44** If the prepayment was financed from external donor funds, transactions could result in a two-stage analysis if cash is provided to the debtor economy that subsequently uses the proceeds to prepay the debt.

### ***Stage 1***

**A2.45** The debtor economy records in the standard presentation a credit entry under capital transfers in the capital account equal to the donor funds provided. An offsetting debit entry is recorded in reserves assets. In the analytic presentation, the debtor economy records a credit entry below-the-line under transfers in exceptional financing, with the offsetting debit entry recorded in reserve assets.

### ***Stage 2***

**A2.46** When the debt prepayment occurs, the debtor economy records in the standard presentation the repayment of the debt instrument as a debit entry at the value paid, with an offsetting credit entry in reserve assets. In the analytic presentation, the debit entry is recorded under the relevant debt instrument below-the-line<sup>7</sup> and the credit entry under reserve assets. Savings arise in future years as a result of the prepayment of the debt. The debit entry is recorded below-the-line as the transaction affects reserve assets in the reporting period.

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<sup>7</sup> Advance payments for BOP need are recorded below-the-line (see Annex 1, Exceptional Financing Transactions).

**A2.47** In the IIP of the debtor economy, assets increase in the first stage and decline, along with debt liabilities, when the prepayment takes place.

#### **4. DEBT ASSUMPTION AND DEBT PAYMENTS ON BEHALF OF OTHERS**

##### ***a. Debt Assumption***

###### ***Definition***

**A2.48** *Debt assumption is a trilateral agreement between a creditor, a former debtor, and a new debtor, under which the new debtor assumes the former debtor's outstanding liability to the creditor and is liable for repayment of debt.* Calling a guarantee is an example of debt assumption. If the original debtor defaults on its debt obligations, the creditor may invoke the contract conditions permitting the guarantee from the guarantor to be called. The guarantor unit then must either repay the debt or assume responsibility for the debt as the primary debtor and the liability of the original debtor is extinguished. Governments can be the debtor that is defaulting or the guarantor. Also, a government through agreement can offer to provide funds to pay off the debt obligation of another government owed to a third party.

###### ***Treatment of Debt Assumption***

**A2.49** The amount of the debt to be recorded is the full amount of the outstanding debt unless there is an agreement with the creditor to reduce the amount of debt owed. The timing of the recording is at the time the debt is removed from the original debtor's balance sheet.

**A2.50** In the standard presentation the transaction recorded between the creditor and debtor is as described in paragraphs 8.40–8.43 and Box 8.1. The creditor records a new debt claim on the new debtor. The extinguishing of the original debt is classified as a transaction if the original debtor continues to exist, or as other change in volume (with a capital transfer recorded from the new debtor to the creditor) if the original debtor no longer exists.

**A2.51** In many cases it is likely that the unit assuming the debt and the original debtor are resident in the same economy, such as the case of a government assuming the debt of a resident unit. In such instances, the sector classification of the debtor may change.

**A2.52** However, if the assuming unit was in a different economy from the original debtor was, then the nature of the transactions recorded would depend on whether the assuming economy obtained a claim on the original debtor and, if not, the relationship between the two units. The terms of the debt assumption may include a legal obligation for the defaulting unit to pay back to the guaranteeing unit the amount of debt assumed. If so, in the standard presentation, the original debtor economy would record both credit and debit

entries under the relevant debt instrument(s) in the financial account. If no claim was established, then a capital transfer (debt forgiveness) would be recorded from the assuming to the original debtor economy. However, if the original debtor was in a direct investment relationship with the unit in the assuming economy, an increase in the direct investor's equity (or decrease if the parent is the original debtor) would be recorded in the direct investment enterprise. If the new debtor acquires a claim that only partially covers the debt acquired, the difference is classified as debt forgiveness by both the original and new debtors. If the original debtor no longer exists, an other change in volume is recorded, as described in paragraph A2.50.

**A2.53** In the analytic presentation, if the new debtor and original debtor are resident in different economies, the recording of debt assumption is the same as for debt rescheduling if the new debtor acquires a claim on the original debtor. If not, then the recording of the debt assumption is the same as for debt forgiveness (except in the case of direct investment as described in the previous paragraph). When a partial claim is acquired, the recording as between debt rescheduling and debt forgiveness is prorated accordingly.

### ***b. Debt Payments on Behalf of Others***

#### ***Definition***

**A2.54** Rather than assume the debt, a government may decide to repay a specific borrowing or make a specific payment on behalf of another institutional unit, without the guarantee being called or the debt being taken over. In this case, the debt stays recorded solely in the balance sheet of the other institutional unit, the only legal debtor. As the existing debt remains extant, and the terms remain unaltered, this is not considered debt reorganization. Such a situation may occur where the debtor is experiencing temporary financial difficulties rather than permanent financial problems.

#### ***Treatment of Debt Payments on Behalf of Others***

**A2.55** As with debt assumption, the recording of transactions depends on whether the two units are located in the same economy or not, and whether or not the payer receives a financial claim on the debtor in respect of the debt service payments it has made on behalf of the debtor.

**A2.56** If the paying unit and the original debtor are resident in the same economy, then no BOP transactions are reported between them. If they are in different economies, and a claim is established on the original debtor, the paying economy records an increase in financial assets and a decrease in reserve assets or currency and deposits, depending on the source of funding. Otherwise, as with debt assumption, a capital transfer or direct investment–equity transaction is recorded. The payment of the debt service is not recorded as a

payment of interest or principal by the paying economy because the payments are not related to a liability in its balance sheet.

**A2.57** If a financial claim has not been established, and the transactions arise from a BOP need, in the analytic presentation the debtor country records a credit entry below-the-line in transfers (other intergovernmental grants) under exceptional financing and a debit entry above-the-line reflecting any interest and principal payments made.

## 5. SPECIAL CASES

### ***a. Debt Service Falling Due Between Paris Club Agreed Minutes Date and Specified Implementation Date<sup>8</sup>***

**A2.58** Under Paris Club debt rescheduling arrangements, creditor countries as a group usually agree in the nonbinding “Agreed Minutes” that they sign, that payment terms and conditions of applicable debt falling due before the specified effective (implementation) date of the Paris Club bilateral agreement might not be paid on schedule. However, interest continues to accrue based on the existing loan terms, but payments are not made, up until the point when there is a formal bilateral agreement.

**A2.59** When such payments fall due, they are considered technical arrears (*External Debt Statistics: Guide for Compilers and Users*, paragraph 3.44). Given that there is a mutually signed understanding between the debtor and the creditor that the terms and conditions in the mother agreement are temporarily suspended, technical arrears are treated in the standard presentation of the debtor economy as rescheduled short-term debt and classified under other investment, other accounts receivable/payable, until the effective date of the bilateral agreement when the new terms apply.<sup>9</sup> When the new terms apply, there may be a need to reclassify technical arrears to the appropriate instruments in the financial account.

**A2.60** In the analytic presentation, debit entries are recorded above-the-line as in the standard presentation, while corresponding credit entries are recorded below-the-line as accumulation of arrears, in exceptional financing.

### ***b. Debt Service Moratorium Extended by Creditors***

**A2.61** Debt service moratorium involves an individual creditor permitting the debtor a formal suspension of debt service payments falling due within a given period. Debt service moratorium may be granted when a debtor has difficulties in servicing its debt (e.g., in the

<sup>8</sup> The guidance in this section is based on the Paris Club arrangements because the issue described most commonly arises in that forum. But the guidance is equally applicable to other fora in which the same issue arises.

<sup>9</sup> This approach is applicable to other debt rescheduling arrangements with similar terms.



event of natural disasters or other crises), such as the moratorium granted to less developed countries under the G20 Debt Service Suspension Initiative during the COVID-19 pandemic, and usually involves formal exchange of letters (e.g., consent solicitation) but not necessarily a formal bilateral agreement.

**A2.62** As the intention of the action is to provide the debtor with short-term debt relief, debt service moratorium extended by creditors should be classified as debt rescheduling, provided there is some formal process that demonstrates agreement on behalf of both the debtor and creditor, such as the exchange of letters, to delay payment. In such instances, arrears are not created. In the standard presentation for the debtor, a debit entry is recorded under the appropriate instrument representing the repayment of obligations as they fall due with a credit entry under the same instrument representing the creation of a new debt. In the analytic presentation of the debtor economy, debit entries of obligations falling due in the current period are recorded above-the-line, and contra-entries are recorded as rescheduling of existing debt under other investment liabilities in exceptional financing.

## **B. OTHER DEBT-RELATED TRANSACTIONS AND ARRANGEMENTS**

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### **1. NEW MONEY FACILITIES**

**A2.63** In some debt reorganization arrangements to assist the debtor to overcome temporary BOP difficulties, new money facilities are agreed with the creditor to be used to repay maturing debt obligations. In the standard presentation, drawings on the new money facilities are recorded by the debtor as a credit (usually as a net incurrence of a long-term loan liability), and offsetting debit entries are made under the appropriate instrument, such as reserve assets. As the maturing debt obligations are paid, debit entries are recorded under the debt instrument for principal amounts falling due and under income for interest accrued in the current period. In the IIP, the liabilities (assets) of the debtor (creditor) are increased by the new borrowing.

**A2.64** In the analytic presentation, a credit entry for the full amount borrowed is recorded under drawings on new loans within exceptional financing, with the offsetting debit entry under reserve assets. Scheduled debt payments out of the proceeds of the new borrowings are not regarded as exceptional financing; that is, debit entries are made above-the-line and offsetting entries under reserve assets, but advance repayments of debt for BOP purposes from reserve assets are recorded as debit items under exceptional financing under the relevant financial instrument. If the terms of the new borrowings are concessional, the creditor is providing a transfer to the debtor. Debt concessionality is discussed below.

## 2. DEFEASANCE

**A2.65** With defeasance, a debtor unit removes liabilities from its balance sheet by pairing them with financial assets, the income and value of which are sufficient to ensure that all debt-service payments are met. Defeasance may be carried out by placing the assets and liabilities in a separate account within the institutional unit concerned or by transferring them to another unit (see paragraphs 8.28–8.29). In either case, the macroeconomic statistical systems do not recognize defeasance as affecting the outstanding debt of the debtor. That is, the debt should continue to be shown on the liabilities side and the financial assets recorded on the asset side of the balance sheet, and the transactions associated with those assets and liabilities recorded in the BOP provided they are with nonresidents. If a separate unit is created to hold the assets and liabilities, the transactions by which the assets and liabilities are moved to the second institutional unit are recorded in the financial account, if the second unit is resident of another economy. If the two units are resident in the same economy but are classified in different sectors, a reclassification in other changes in volume account is recorded.

## 3. DEBT WRITE-OFFS

**A2.66** A creditor can unilaterally decide to write off debt owed to it (see paragraph 9.9). No transactions are recorded but the creditor economy records the reduction in its financial assets through the other changes in the volume of assets account. (The corresponding liability should also be removed from the balance sheet of the debtor, through the other changes in volume account.)

## 4. DEBT CONCESSIONALITY

**A2.67** *Concessional loans are loans intentionally provided at a contractual interest rate below market interest rates, for similar grace and repayment periods as equivalent market loans, with the purpose to convey a benefit, occurring in a noncommercial context.* Debt concessionality has gained increasing importance in discussions relating to debt relief to the heavily indebted poor countries.

**A2.68** While the transfer element for concessional lending is not recorded in the central framework of macroeconomic statistics,<sup>10</sup> economies are encouraged to provide these data as supplementary items for concessional loans provided in a nonmarket context (i.e., those provided by governments, central banks, and international organizations). This supplementary recording should be made as a one-off capital transfer at the point of loan

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<sup>10</sup> The only exception is concessional loans provided by employers to employees, mainly because of a more accurate accounting for remuneration of employees.

origination equal to the difference between the present value of the cash flows discounted by the contractual interest rate and the present value using a relevant market discount rate such as the OECD's Commercial Interest Reference Rate (CIRR).<sup>11</sup> This approach has the advantage of considering all the possible sources of transfers in debt concessionality—maturity period, grace period, frequency of payments, interest rate, and other applicable costs—and reflects that the concessional element relates to an explicit policy decision to provide a lower interest rate at the start of the loan. In addition, this approach is consistent with the economic equivalence between a concessional loan of say, 100 units with an embedded grant element of 35 percent, and a commercial loan of 100 units combined with a direct grant of 35 units.

**A2.69** If the loan is retired before maturity and replaced by a new loan, adjustment of the previously recorded transfers is required. This means that the value of any transfers not yet received on the original loan that is replaced would need to be subtracted from the original transfer value calculated; otherwise, the amount of concessionality recorded over time would be overstated.

**A2.70** This can be done by recalculating the transfer at inception using the actual payment schedule outturn, including the retirement of the entire remaining loan at the time of rescheduling.<sup>12</sup> This recalculated value should replace the originally calculated value in the historical supplementary series, so the historical data reflect the actual transfers received and do not mix any new concessional transfer with the value not received on the original loan, when there may have been a different set of market-related interest rates.

## 5. DEBT ARISING FROM OFF-MARKET SWAPS

**A2.71** In macroeconomic statistics, swaps give rise to financial derivatives, which are nondebt instruments (see paragraph 5.34). However, off-market swap contracts have a debt component.

**A2.72** An off-market swap is a swap contract that has a nonzero value at inception as a result of having reference rates priced differently from current market values—that is, “off-the-market.” The economic nature of an off-market swap contract is a combination of a debt (i.e., the nonzero value provided to/from the counterparty at inception), in the form of a loan, and an on-market swap (financial derivative). If a resident institutional unit receives the loan component from a nonresident, this will be part of external debt. Examples of swaps

<sup>11</sup> These rates are determined on the fifteenth day of each month for applicable currencies on the basis of secondary market yields on government bonds with residual maturity of three to 10 years.

<sup>12</sup> This retirement value would include any amount that is forgiven because such forgiveness is recorded as a capital transfer in the period given.

contracts that may involve off-market reference rates include interest rate and currency swaps.

**A2.73** Because the economic nature of an off-market swap contract is equivalent to a combination of a loan and a financial derivative, two positions are recorded in the balance sheet:

- A loan—a debt instrument—which is equal to the nonzero value of the swap contract at inception and with a maturity date equivalent to the expiration date of the swap.
- A financial derivative—a nondebt instrument—that has a market value of zero at inception.

In addition, if the swap involves an exchange of principals, this should be recorded at market value in the relevant item (most likely in currency and deposits).

**A2.74** The loan position is a liability of the party that receives it (i.e., the nonzero value of the swap contract at inception), while the derivative position may appear either on the financial asset or liability side, depending on market prices on the balance sheet date.

**A2.75** Future streams of flows relating to these positions are also partitioned between those relating to the loan and financial derivative component, respectively.

**A2.76** Off-market central bank swap arrangements or other similar arrangements should be treated as an exchange of deposits with maintenance of value without any recordings in financial derivatives (see paragraphs 6.107–6.111).

## Annex 3. Regional Arrangements: Currency Unions, Economic Unions, and Other Regional Statements

### A. INTRODUCTION

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**A3.1** Since the previous edition of the *Manual*, a growth in regional arrangements for monetary and economic cooperation has been evident. Such regional arrangements include customs unions, which have common tariff and other trade policies with nonmember economies; economic unions, which harmonize certain economic policies to foster greater economic integration; and monetary and currency unions, which provide for a single monetary policy for member states. Concepts and recommendations noted in the chapters of the *Manual* for compilation of BOP and IIP statements also apply to these regional arrangements, but beyond these, specific statistical issues arise.

**A3.2** This annex begins by addressing issues relating to currency unions (CUs), because such unions raise most of the methodological issues and there is the essential policy need for CU BOP and IIP statistics.<sup>1</sup> Methodological guidance is provided for the compilation at both the CU and member-economy levels. The annex also covers economic unions (EcUns) and customs unions. As indicated by Table A3.1, which lists various methodological issues that can arise from regional arrangements, those issues relevant for EcUn and customs unions are largely a subset of those relevant to a CU.

**A3.3** Compiling BOP and IIP statistics for regional arrangements such as CUs and EcUns involves the aggregation of data for two or more economies.<sup>2</sup> In contrast, “regional statements” are compiled by an economy vis-à-vis a grouping of selected economies (geographical breakdown of statistics). Issues pertaining to this category of statement are also addressed at the end of this annex.

**A3.4** IIP data by partner are shown according to the debtor-creditor approach. In addition, national contributions for compiling financial flows data in CU and EcUn BOP are allocated

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<sup>1</sup> References to specific statistical issues that apply to unilateral adoption of a foreign currency (such as dollarization) are also included in this section.

<sup>2</sup> In this context, “regional” is not used to mean a region within an economy.

along the debtor-creditor approach as a way to ensure bilateral symmetry.<sup>3</sup> This convention means that cross-border transactions in financial claims are allocated to the economy of residence of the nonresident debtor, and cross-border transactions in liabilities are allocated to the economy of residence of the nonresident creditor.

## B. CURRENCY UNIONS

**A3.5** In a CU, full BOP and IIP statements are essential to support the policy analysis at the CU level. The single monetary policy of the CU requires the availability of information on the main variables that affect monetary and foreign exchange conditions for the union as a whole, among which BOP statistics are of primary importance. In that sense, the statistical requirements for a CU are the same as for an economy that issues its own currency.

**A3.6** As monetary policy is no longer conducted at an economy level, the statistical requirements might appear less necessary for economies that are members of a CU. However, because economic and fiscal policies are often still largely defined at the national level, there is a need to compile national BOP and IIP statement for member states in a CU.

<b>Table A3.1. Methodological Issues Relevant for Different Types of Regional Cooperation</b>			
Issue	Customs Union	Economic Union	Currency Union (CU)
1. Definition of a CU central bank	n.a.	n.a.	X
2. Domestic/foreign status of the common currency*	n.a.	n.a.	X
3. Allocation of intra-CU claims among CU's central banks	n.a.	n.a.	X
4. Reserve assets*	n.a.	n.a.	X
5. Regional organizations	X	X	X
6. Economic territory	n.a.	X	X
7. Debtor/creditor versus transactor principle*	X	X	X

<sup>3</sup> As opposed to the transactor principle. Under the transactor principle, cross-border transactions in claims are allocated to the economy of residence of the nonresident party to the transaction (the transactor). Information on the location of counterparties can be of analytical interest, such as the markets in which or with which residents transact.

8. Geographic allocation of goods	X	X	X
<p>*These three items also raise statistical issues in “dollarized economies.”</p> <p>X = relevant issue.</p> <p>n.a. = not applicable issue.</p>			

**A3.7** The specific statistical issues that need to be addressed are of three types:

- Definitional issues that are central to any discussion of CU BOP and IIP statement.
- Application of core BOP concepts to the context of a CU.
- Methodological issues arising from the operational and technical aspects of a CU.

## 1. DEFINITIONAL ISSUES

### ***a. Definition of a CU***

**A3.8** The adoption of a single monetary policy by more than one economy can be facilitated through a range of different types of monetary arrangements. A situation in which there is the presence of a single monetary policy among economies, established by an intergovernmental legal agreement, is defined in the *Manual* as a *monetary union*.<sup>4</sup> A monetary union that replaces national currencies with a common currency to form a *currency union* raises specific methodological issues for the compilation of a BOP and IIP. These issues include treatment of the central monetary authority, the arrangements for reserves management, and the definition of a domestic currency.

**A3.9** *For statistical purposes, a CU is defined as a group of economies that adopts a common currency and has a central decision-making body (usually a currency union central bank) with the authority to issue the legal tender of the area and conduct a single monetary policy. A CU is established by means of an intergovernmental legal agreement (e.g., a treaty). To belong to a CU, the economy must be a member of the central decision-making body, participate in its regular monetary policy decision-making process, and be subject to its monetary policy decisions. Participation in the monetary policy decision-making process includes representation and voting rights, possibly on a rotating basis, in the central decision-making body.*

**A3.10** Monetary arrangements reached by any CU economy (on behalf of and in line with guidelines set up by the CUCB) with an economy outside the CU, such as overseas

<sup>4</sup> In compiling data for a monetary union that is not a currency union, account would need to be taken of the specific institutional arrangements to determine which principles set out in this annex need to be applied.

dependent territories, to regulate the use of the common currency do not qualify the other economies to CU membership under this definition. Similarly, the unilateral adoption of another currency by third-party economies (e.g., dollarization, euroization) is not considered sufficient to regard the economy, or economies, to be a member, or members, of a currency union for statistical purposes. Where different economies establish a common monetary area (CMA) that allows free movement of finance and a common exchange control regime with the rest of the world, but different national currencies remain legal tender in their respective economies, even if one currency is a reference currency against which the other currencies are pegged, the arrangement does not meet the above criteria to be classified as a CU. The same applies for a CMA established among members by coordinating the peg with a third economy.

### ***b. The Currency Union Central Bank***

**A3.11** The regional central decision-making body in a CU referred to above is usually the CUCB. A CUCB is a regional financial institution that acts as the common central bank for the member states of the CU. The CUCB is an institutional unit in its own right, owning assets and liabilities on own account, and is nonresident of any CU member state but resident in the CU.

### ***c. Regional Organizations***

**A3.12** More generally, regional organizations are a type of international organization. They consist of those institutions whose members are governments or monetary authorities of economies that are located in a specific region of the world. Regional organizations, which include CUCBs, are created for many purposes including supporting, guiding, and even governing aspects of the economic relationships or integration processes among the region's economies. Regional organizations are established by means of an intergovernmental legal arrangement (e.g., a treaty). They can be financial (e.g., regional development banks) or nonfinancial (e.g., relating to the administration of an economic union) organizations.

### ***d. Centralized and Decentralized CU***

**A3.13** This *Manual* identifies two kinds of CUs. In one model, the CU has a CUCB owned by the governments of the member states with the common currency issued by the CUCB and central bank operations in each economy carried out by branches or agencies of the CUCB. This model, referred to as a “centralized” model, is of the type observed in Africa and the Caribbean (Central African Economic and Monetary Community (CEMAC), West African Economic and Monetary Union (WAEMU), Eastern Caribbean Economic and Currency Union (ECCU)).



**A3.14** In the other model, the CU comprises a CUCB and CU national central banks (CUNCBs) of the member states with the CUCB being owned by the CUNCBs. The monetary policy decisions are taken by the decision-making body of the CUCB, which also coordinates the implementation of the decisions, a primary responsibility of the CUNCBs. This model, referred to as a “decentralized” model, is the type observed in the euro area. Table A3.2 provides the main characteristics of different currency unions.

**A3.15** In some instances, as described ahead, the specific guidance for reporting differs between the two models because of the differing institutional arrangements.

#### ***e. Definition of a Domestic Currency in a CU***

**A3.16** A domestic currency is defined in paragraph 3.188. The currency issued in a CU is the domestic currency of the CU. It should always be considered a domestic currency from the viewpoint of each member state, even though this currency can be issued by a nonresident institution (either another CUNCB or the CUCB). One consequence is that, in a CU, from a national perspective, holdings of domestic currency can be a claim on a nonresident.<sup>5</sup>

#### ***f. Application of Core Balance of Payments Concepts***

##### ***Residence***

##### **Residence in a Currency Union**

**A3.17** The economic territory of a CU consists of the economic territory of the CU economies that comprise the CU, plus the CUCB. Any other regional organizations that comprise the same or a subset of the same economies are included in the CU. Within this territory, the same principles of residence apply as described in paragraphs 4.10–4.15 and Section J.2, Chapter 4.

**A3.18** So, being a resident of an economy of a CU necessarily implies being a resident of the CU, along with the CUCB. Other regional organizations that are within the CU territory are also resident, except those whose membership of economies is not the same as, nor a subset of, those in the CU. Such regional organizations should be regarded as nonresident of the CU.

##### **Residence Status of Multiterritory Enterprise Located in a CU (or EcUn)**

**A3.19** Union-wide incorporation for multiterritory enterprises might create problems in determining the residence of units and the allocation of activities across member states in

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<sup>5</sup> In the case of a “dollarized economy,” the banknotes and coins of legal tender should be considered foreign currency as stated in paragraph 3.189.

which the company has operations, and so present difficulties for national statistics. In some instances, the location of incorporation or registration may not be easily allocated to one specific economy, if the jurisdiction that allows the creation and regulates the entity is at the union level. However, the attribution of residence of multiterritory enterprises also arises in other circumstances, and so the treatment described in paragraphs 4.66–4.69 should be applied to multiterritory enterprises located in a CU (or EcUn).

### ***Institutional Sector Allocation***

**A3.20** The institutional sector (and, where relevant, subsector) classification of regional organizations in the CU or EcUn BOP and IIP that are nonresident of member states but resident of the CU or EcUn should be decided on a case-by-case basis. However, in the CU external accounts, the CUCB should always be attributed to the central bank sector, and, for example, a regional investment bank could be classified as a financial corporation.

### ***Geographical Allocation of Stocks and Flows***

**A3.21** The compilation of the BOP and IIP statement of a CU or EcUn has implications for the collection of data at the national level in that the issue of geographical allocation of stocks and flows, not essential for national data, becomes fundamental for the compilation of a CU BOP and IIP. Compiling the BOP and IIP of a CU from the simple aggregation of national data would not be appropriate.

**A3.22** There are several reasons for this. The compilation of a CU BOP and IIP by the simple addition of gross national data would unduly inflate the gross flows and stocks of the CU because these would also include transactions and positions between CU members (“intra” transactions). The addition of only the net national transactions or positions of the CU members would solve this problem, but would provide only net aggregates, because only net balances could be shown, without separating out debits/expenditures from credits/revenues in the current account and assets from liabilities in the financial account. In addition, it is very likely that, in practice, intra transactions would not cancel out entirely because of asymmetries in bilateral figures, which would result in erroneous aggregate data.

**A3.23** Therefore, the compilation of the BOP and IIP of the CU is typically undertaken by aggregating the national contributions for compiling the transactions and positions of the CU with nonresidents of the CU, the so-called extra-CU data. Given the aggregation of data from different economies, it is essential that the CU member states consistently follow the internationally agreed standards for the classification of transactions and assets and liabilities and provide adequate metadata describing their methodology.

**A3.24** Data on intra-CU transactions and positions can also be essential. An example is with portfolio investment, where liabilities vis-à-vis nonresidents of the CU may need to be calculated as the difference between total national securities liabilities to nonresidents and

the transactions and positions in these securities by residents in the other CU economies. The reason for this is that national BOP and IIP collection systems may not be able to identify whether nonresident purchasers and owners of domestic securities are resident of other economies of the CU, or not.<sup>6</sup> In such instances, asymmetries in intra data would affect the quality of BOP and IIP data of the CU.

**A3.25** For direct investment, intra-CU transactions between a parent company and a branch or subsidiary located within different economies of the CU would be classified as domestic transactions of the CU. Given the different treatment of entities in a direct investment relationship in the external and domestic accounts, close cooperation among compilers may be required; for example, reinvested earnings among entities in different CU member states are recorded as cross-border transactions in national BOP but are not recorded as transactions in CU national accounts.

#### Geographic Allocation of Transactions in Goods (Imports and Exports)

**A3.26** In BOP methodology, the change of ownership is the principle determining the coverage and time of recording of external transactions. The consequence of applying the change-of-ownership concept to merchandise trade is that goods exports will be allocated to the region of residence of the new owner and imports to the region of residence of the former owner. However, international standards for international merchandise trade statistics, as well as customs returns in most economies, are based instead on physical movements of goods across national or customs frontiers, and the recording of these movements does not necessarily coincide with changes in ownership.

**A3.27** For the recording of goods in customs data, three concepts are usually used: the economy of origin, the economy of final destination, and the economy of consignment (see paragraphs A11.10–A11.15). The concepts of “economy of origin” (imports) and “economy of last destination” (exports) are generally acceptable approximations to the change of ownership principle. However, in the context of a CU or EcUn, where customs declarations are in many cases completed in a third economy (economy of consignment) that does not itself obtain ownership of the goods, double recording of “extra” trade flows is likely: first at the port of entry into the CU or EcUn, second at the economy of final destination. In these circumstances, a combination of the three concepts is necessary to arrive at a proper recording of both extra- and intra-union trade. Box A3.1 provides a numerical example.

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<sup>6</sup> For securities, the issuer may not know the identity or residence of the creditor. Such information can be obtained only from the intermediary or the creditor. Because of the importance of this information, economies are increasingly developing reporting systems to capture data on a debtor-creditor basis, often through cooperative efforts, including the IMF's Coordinated Portfolio Investment Survey and Coordinated Direct Investment Survey.

### Box A3.1. Recording of Trade Transactions in Currency and Economic Unions

To compile trade data, gross transactions of the member states with partner economies outside the CU or EcUn area are aggregated. This approach allows for a CU or EcUn's BOP statement to be compiled on a gross (credits/revenues and debits/expenditures) basis. This is evidenced in the example below, where economy A is not a member of the union, and economies B and C are members of the union. Economy A (economy of origin) exports goods to economy C (economy of last known destination), and B is the economy of consignment.

#### 1. Use of economy of origin and economy of last known destination:

Partner economy attribution			
Reporting economy	Intra-union		
	Extra-union Economy A	Economy B	Economy C
Economy A records			export: 10
<b>Economy B records</b>	<b>import: 10</b>		<b>export: 10</b>
<b>Economy C records</b>	<b>import: 10</b>		
Union	import: 20		export: 10

In this example, the compilation of trade data for the union (economies B and C) leads to an overestimation of imports (double counting of imports from A) and also to an incorrect intra-union export recorded by B (because only a physical movement of goods without a change of ownership takes place between B and C which is not recorded as an import by C). However, if the union is without internal customs borders and the goods are cleared on the external border of the union and released into free circulation, then only the customs data of Economy B would record the transaction (imports from A but not exports to C). Subsequent dispatches and arrivals need to be collected through enterprise surveys.

#### 2. Use of economy of consignment:

Partner economy attribution			
Reporting economy	Intra-union		
	Extra-union Economy A	Economy B	Economy C
Economy A records		export: 10	
Economy B records	import: 10		export: 10
Economy C records		import: 10	

Union	import: 10	import: 10	export: 10																										
<p>If, instead, the concept of economy of consignment is used, this results in an appropriate recording of extra-union trade, but not a proper recording of intra-union trade which is artificially inflated (due to the recording of physical movement of goods where no change of ownership takes place). In addition, in BOP of member states, the geographic allocation of flows is inaccurate.</p> <p>3. Combination of the two methods:</p> <p>In this case, economies record goods transactions of the economy of origin and the economy of last destination as imports/exports. Additionally, physical movement of goods between intermediary economies are recorded as arrivals/dispatches. Arrivals and dispatches can be disregarded when compiling the extra-union transactions of the union.</p> <table> <tr> <th rowspan="3">Reporting economy</th><th colspan="3">Partner economy attribution</th></tr> <tr> <th colspan="3"><i>Intra-union</i></th></tr> <tr> <th><i>Extra-union</i> Economy A</th><th>Economy B</th><th>Economy C</th></tr> <tr> <td>Economy A records</td><td></td><td>dispatch: 10</td><td>export: 10</td></tr> <tr> <td><b>Economy B records</b></td><td><b>arrival: 10</b></td><td></td><td><b>dispatch:10</b></td></tr> <tr> <td><b>Economy C records</b></td><td><b>import: 10</b></td><td><b>arrival: 10</b></td><td></td></tr> <tr> <td>Union</td><td>import: 10</td><td></td><td></td></tr> </table> <p>Therefore, only a combination of the two methods will achieve a proper recording of trade flows.</p>				Reporting economy	Partner economy attribution			<i>Intra-union</i>			<i>Extra-union</i> Economy A	Economy B	Economy C	Economy A records		dispatch: 10	export: 10	<b>Economy B records</b>	<b>arrival: 10</b>		<b>dispatch:10</b>	<b>Economy C records</b>	<b>import: 10</b>	<b>arrival: 10</b>		Union	import: 10		
Reporting economy	Partner economy attribution																												
	<i>Intra-union</i>																												
	<i>Extra-union</i> Economy A	Economy B	Economy C																										
Economy A records		dispatch: 10	export: 10																										
<b>Economy B records</b>	<b>arrival: 10</b>		<b>dispatch:10</b>																										
<b>Economy C records</b>	<b>import: 10</b>	<b>arrival: 10</b>																											
Union	import: 10																												

**A3.28** From a recording perspective, in CUs and EcUns that still have internal customs border, reliance on customs data, with economy of consignment data as supplementary, is feasible. In CUs and EcUns without national customs borders (the most likely situation), data on economy of origin, the economy of last known destination, and the economy of consignment are required from reporters.

### **Definition of Reserve Assets**

**A3.29** Reserve assets shown in the BOP and IIP of the CU should include only those assets that (a) represent claims on nonresidents of the CU and (b) meet the criteria described in Chapter 6. Also, the definition of the reserve assets at the CU level and at the member economy level should be the same; in other words, with respect to national data,

reserve assets should include only those assets that qualify as reserve assets at the CU level.<sup>7</sup>

**A3.30** Similarly, liabilities classified as reserve-related liabilities in the national data should include only those liabilities that qualify as reserve-related liabilities at the CU level.

## 2. ISSUES RELATED TO THE OPERATIONAL ASPECTS OF A CU

**A3.31** Issues arise from the operational aspects of the functioning of a CU that relate mostly to the attribution of transactions and positions among member states and the CUCB, and do not affect the CU BOP and IIP statements.

### ***a. Treatment of National Agencies and Reserve Assets in a Centralized CU***

**A3.32** In a centralized CU, in each member state the monetary authority functions are deemed to be carried out by a national (resident) monetary authority. Typically, the CUCB maintains national offices in each member state.<sup>8</sup> This institutional unit, called “the national agency,” acts as the central bank for that economy and must be treated for statistical purposes as an institutional unit that is separate from the headquarters of the CUCB.

**A3.33** The national agencies of CUCBs have close links with the member states and perform the functions of monetary authorities as in any other economy with an independent central bank. Further, complete set of accounts including the balance sheet of these agencies are available for statistical purposes. The nature of the transactions conducted by national agencies are different from the usual transactions carried out by international organizations. Therefore, the above treatment permits an evenhanded treatment of member states of centralized CUs vis-à-vis economies with independent central banks (including in decentralized CUs), where transactions/positions of monetary authorities with resident units are always considered as domestic transactions/positions.

**A3.34** In general, all regional organizations including regional development banks (e.g., the Development Bank of Central African States and the West African Development Bank, at the time of writing this *Manual*) are treated as nonresident of their member states and their transactions/positions with member states are treated as external transactions/positions.

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<sup>7</sup> In the case of a dollarized economy, reserve assets shown in the external accounts should meet the criteria described in Chapter 6.

<sup>8</sup> In rare occurrences where this is not the case, for statistical purposes a resident notional institutional unit is to be created to record the CUCB transactions and positions with the residents of the economy described in this section. This unit is identified for statistical purposes because the operations of that unit have a strong connection to the location of its operations in all ways other than incorporation.

**A3.35** Transactions among resident units of the same member state settled through accounts at the CUCB are not to be recorded in the national BOP but attributed to the national agency as domestic transactions and positions.

**A3.36** Transactions with nonresidents settled through the CUCB are to be recorded as transactions of the national agency in the national BOP according to the nature of the transaction, with the corresponding entry in the relevant financing item attributed by the CUCB, such as reserve assets (to illustrate this, see numerical example at the end of this annex). As changes in reserve assets of a CUCB in a centralized system for the most part reflect member states underlying external transactions, these transactions and positions in reserve assets should continue to be shown in the balance of payments and IIP of member states.

**A3.37** Transactions of residents with the CUCB, where the CUCB is acting on its own account, should be recorded in the national balance of payments according to the nature of the transaction. The CUCB own account transactions are those that cannot be attributed to national agencies. In simple terms, for the most part, the balance sheet of CUCB could be seen as the sum of the balance sheets of the national agencies of CUCB. This implies that every transaction conducted by the CUCB is mostly recorded in the imputed balance sheet of the national agencies of the CUCB. Own account transactions of CUCB are considered to be those that do not relate to regular operations of the monetary authority of an economy. For example, debt securities issued by the CUCB and subscribed by residents of an economy of the CU are treated as own account transactions of the CUCB. They are recorded as portfolio investment in the national BOP.

**A3.38** Transactions and positions of the CUCB with nonresidents of the CU, where the CUCB is acting on its own account, such as interest on the part of reserve assets that are not allocated to any member state or bonds issued by the CUCB and subscribed by nonresidents of the CU, should not be recorded in any national BOP of member states but are included in the BOP of the CU.

**A3.39** Gross assets and liabilities of member states at the end of the period should reflect the position at the beginning of the period together with any transactions and other flows recorded during the period between residents and nonresidents (including the CUCB). Usually, the member states will have a net claim on the CUCB, which represents its share of the reserve assets of the CUCB (i.e., imputed reserve assets of the member state).<sup>9</sup> However, if an economy has a net liability position, transactions in liabilities, other investment, loans, central bank, short-term (and in the memo item “reserve-related

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<sup>9</sup> This guidance is specific to foreign currency reserves (mainly securities and deposits) component of the reserve assets.

liabilities”), rather than reserve assets, should be recorded because the position has the nature of an overdraft. In compiling CU data, compilers will need to ensure that assets and liabilities of the CUCB are not double counted.

**A3.40** The reserve assets of the member states of CEMAC, ECCU, and WAEMU are pooled. In CEMAC and WAEMU, the solidarity principle in place implies that all CU member states have full access to the CU pooled reserves, irrespective of their individual contributions, with no individual country allocations. Consequently, these CUs do not present reserve assets of individual member states in the BOP and IIP (as per the guidance in A3.37) and reserve assets are recorded only in the balance sheet of the CUCB. In this case, net claims on the CUCB could be recorded under other investment in the national BOP and IIP of CU member states.<sup>10</sup> This *Manual* recommends explaining this recording in the ESS metadata of the individual member states.

**A3.41** In contrast, ECCU member states maintain a national share within the common pool of reserve assets. The imputed reserve assets of each member state are computed as the difference between its assets held with the ECCB and its liability to the ECCB, following the guidance in A3.37.

**A3.42** Any assets held by the CUCB on behalf of member states, such as monetary gold,<sup>11</sup> reserve position at the IMF and SDRs, and more generally foreign assets that are assigned to member states in the accounts of the CUCB, are to be shown in the BOP and IIP of the member states. Any liabilities attributable to the economy, such as use of IMF credit, are to be shown in the BOP of the member state. The recording of SDR allocations/holdings in the BOP /IIP of a member state of a decentralized (euro area) or centralized CU (CEMAC, ECCU, and WAEMU) is no different from that of any other country. SDR holdings and allocations are assets and liabilities of the member state that participates in the IMF’s SDR Department (attributed to the national agency) and should be recorded in its BOP/IIP.

### ***b. Treatment of National Central Banks and Reserve Assets in a Decentralized CU***

**A3.43** The methodology recommended for a centralized CU is de facto applied in the decentralized system where, in each economy, monetary activities with residents of the CU are carried out by national central banks having their own assets and liabilities.

<sup>10</sup> Regarding the reserve position in the IMF, SDRs holdings, and cash holdings in foreign currencies, the data on these reserve assets are available by each national agency and should not be recorded under other investments given their reserve asset status.

<sup>11</sup> In WAEMU, monetary gold is not separately available by member states but included in the reserve assets of the union following the solidarity principle, at the time of writing this *Manual*.



**A3.44** Where reserve assets are held by the CUNCBs (i.e., the assets are actually recorded on their balance sheets), the institutional setting may in certain circumstances result in some restrictions on the effective control over these assets by the CUNCBs. That is, CUNCBs may be able to transact in some of the reserve assets only with the agreement of the CUCB, such as to ensure appropriate coordination of reserve activity among CUNCBs. Provided there has been no transfer of ownership to the CUCB and the foreign assets owned by the CUNCBs can be mobilized by the CU to meet BOP needs, that is, are reserve assets of the CU, the CUNCB of the member state should classify them as reserve assets in their national BOP and IIP, even though the CUNCB may not have complete control of their use because of operational constraint at the CU level.

### ***c. Transactions and Positions in Banknotes***

**A3.45** For CU BOP and IIP statistics, transactions and positions in banknotes should be treated according to the same principles as for national data, with nonresident purchases recorded as an increase in external liabilities and the corresponding entry, such as travel, recorded as appropriate. From a national perspective, holdings of the CU banknotes issued by a CUNCB in another member state are external assets at the same time, even though the currency is classified as a domestic currency.

**A3.46** If the issuer of the banknotes can be identified, such as in the Caribbean CU at the time of writing, the methodology described in paragraph A3.42 above can be applied in the national BOP and IIP data. However, when the issuer of the banknotes cannot be identified, such as presently in Europe where the banknotes are collectively issued by the system without any indication of the economy of origin, this methodology cannot be strictly applied among the CU members, and approximations in national data are needed.

### ***d. Other Intra-CU Claims and Liabilities***

#### ***Subscription of the CUCB's Capital***

**A3.47** Initial subscriptions to a CUCB's capital as well as any subsequent changes<sup>12</sup> are to be recorded in the BOP and IIP of member states as assets, other investment, other equity and equity in international organizations (see paragraph 6.62). All the member states and the CUCB of a CU must classify this transaction and position the same.

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<sup>12</sup> Such changes may be due to (i) a re-assessment of the share of each member state when new countries join or leave; (ii) a re-assessment after certain number of years (e.g., five years in the case of the ECB) to adjust for the change in economic/demographic weights of the country members; and (iii) increases in the paid-up contributions to support the activities of the CUCB.

### ***Initial Transfer of Reserve Assets***

**A3.48** Claims arising from a transfer of reserve assets to the CUCB are to be classified as assets, other investment, under either other equity and equity in international organizations or currency and deposits, depending on the nature of the claim. If a CU member does not fully meet its obligations to transfer reserve assets to the CUCB, the CUCB reports a claim on the member state. Such claims on the member state should be classified in its BOP and IIP as liabilities, other investment, other accounts payable—other, central bank (or general government), short-term.

### ***Intra-CUNCBs and CUCB Balances***

**A3.49** Transactions and positions corresponding to claims and liabilities among CUNCBs and the CUCB (including those arising from settlement and clearing arrangements) are to be recorded for the central bank under other investment, currency and deposits or loans (depending on the nature of the claim) in the BOP and IIP of member states. If changes in these intra-CU claims and liabilities do not arise from transactions, relevant entries are to be made under the other changes in financial assets and liabilities accounts of the integrated IIP statement. Remuneration of these claims and liabilities is to be recorded in the BOP of CU member states as income on a gross basis under investment income, other investment.

### ***Allocation of Seigniorage***

**A3.50** Seigniorage is income received by the central bank from the issuance of currency (i.e., *the difference between the return on interest-bearing assets commensurate to currency issued and the cost of acquisition, distribution, and maintenance of the currency*). Reallocations of income among member states and the CUCB where no underlying asset and liability positions are recognized are to be recorded as a current transfer.

### ***Distribution of Profits***

**A3.51** Distribution of profits of the CUCB should be classified as income on the financial asset to which member states' subscriptions are attributed.

## **C. ECONOMIC UNIONS**

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**A3.52** For the purpose of macroeconomic coordination and cooperation, EcUns formulate specific data requirements including for BOP statistics, which help assess aspects such as the degree of integration of the EcUn internal market and share of trade with economies outside the EcUn.

**A3.53** At the EcUn level, the current account, the capital account, and the direct investment account are relevant for monitoring economic performance of the EcUn.

However, as different currencies continue to coexist, and the respective monetary authorities set their monetary policy objectives in terms of developments of monetary variables, interest rates, and exchange rates, the portfolio and other investment categories are less meaningful at the EcUn level. For instance, reserve assets of a union other than a CU are the sum of the total of the national reserves (without consolidation) and this total has no specific meaning at the union level.

## 1. DEFINITIONAL ISSUES

### ***a. Definition of an EcUn***

**A3.54** *For statistical purposes, an EcUn is a group of economies established by means of an intergovernmental legal agreement among sovereign countries or jurisdictions with the intention of fostering greater economic integration. In an EcUn some of the legal and economic characteristics associated with a national economic territory are shared among the different countries or jurisdictions. These elements include (a) the free movement of goods and services within the EcUn and a common tax regime for imports from non-EcUn economies (free trade zone); (b) the free movement of finance within the EcUn; and (c) the free movement of (individual and legal) persons within the EcUn.<sup>13</sup> Also in an EcUn, specific regional organizations are created to support the functioning of the EcUn under points (a) to (c). Some form of cooperation and coordination in fiscal and monetary policy usually exists within an EcUn.*

**A3.55** This type of regional arrangement represents greater cooperation than in a customs union agreement (discussed below) because the members agree to harmonize a significant part of the conditions in which economic activity is undertaken over the whole union territory. The main example is the European Union (EU). The EU takes the form of common legislation in some areas, most notably in competition or product norms. Harmonization of taxes is also being envisaged in some areas. The aim of such unions is to unify markets by enlarging their size, improving efficiency, and developing specialization. EcUns usually achieve a large, if not total, freedom of circulation for goods, services, capital, and individuals by removing the obstacles to such movements.

### ***b. Residence in an EcUn***

**A3.56** The economic territory of an EcUn consists of the economic territory of the member states or jurisdictions, and the regional institutions that comprise the same or a subset of the same economies and are set up to manage the functioning of the EcUn.

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<sup>13</sup> As noted in Chapter 4, an economy, and by extension, an economic union, can include physical or legal (special) zones to which, to some extent, separate laws are applied.

**A3.57** so, being a resident of an economy of an EcUn necessarily implies being a resident of the EcUn, and regional organizations that are within the territory of the EcUn are also its residents. However, regional organizations whose membership of economies is not the same as, nor a subset of, those in the EcUn should be regarded as nonresident of the EcUn.

## 2. RECORDING ISSUES

**A3.58** Because the compilation of EcUn BOP statistics relies on national contributions, as with the data for CUs, it is essential that the EcUn member states consistently follow internationally agreed standards for the classification of transactions and assets and liabilities and provide adequate metadata describing their methodology. The discussion in paragraphs A3.27–A3.28 on the geographic allocation of transactions in goods also applies to EcUns.

## D. CUSTOMS UNIONS

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**A3.59** Regional integration can take the form of customs arrangements between several economies. In general, these customs arrangements, based on a common customs tariff vis-à-vis nonmember economies, do not raise specific BOP issues.<sup>14</sup> However, when customs unions generate cross-border flows, such as through a revenue-sharing formula, the recording of transactions and positions in the external accounts is affected by the institutional and administrative arrangements of the customs union.

**A3.60** In customs unions such as the Southern African Customs Union (which comprises Botswana, Eswatini, Lesotho, Namibia, and South Africa), there may be a cooperative approach among members to levying, collecting, and distributing customs duties. How and when these functions are undertaken is important for determining the appropriate recording approach. One or all of these functions may be assigned to one economy specifically, to all the member states collectively, or to a designated international agency created by the members. Most important, economies in a customs union are encouraged to agree on common, appropriate, statistical recording for the benefit of regional consistency and comparability.

**A3.61** The following paragraphs set out some of the possible types of arrangements.

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<sup>14</sup> However, a specific compilation issue relating to the estimation of freight and insurance from the CIF value of imports may arise. Under a customs union, imports are recorded at CIF value at the first port of entry into the customs union, which may be different country from the country of destination. Given this difference, the freight and insurance estimates based on CIF at the first port of entry need to be adjusted further to include freight and insurance from the country of the first port of entry to the port of entry of the country of final destination.

## 1. A DESIGNATED AGENCY LEVIES, COLLECTS, AND DISTRIBUTES THE PROCEEDS FROM THE DUTIES

**A3.62** In this scenario, the designated agency has the right to levy and collect the customs duties and distribute the proceeds. If it is recognized as an institutional unit, in the external accounts the customs duties are classified as its own tax revenue (earned income), and recorded at the time the underlying economic event occurs that gives rise to the customs duties, along with an increase in financial assets (such as cash received). The importing economy reports the accrual of taxes (given that in the BOP import taxes are payable by the importer) and a reduction in financial assets or increase in liabilities. If the payment of customs duties occurs after the underlying economic event, the designated agency records an accounts receivable claim (debit) on the importer in the importing economy, recorded in the financial account. The importing economy records an accounts payable liability (credit).

**A3.63** If the designated agency is to distribute the revenue pool to member states on the basis of an underlying economic event (import of goods), it records a current transfer (debit/expenditure) (member states record a current transfer (credit/revenue)) and accounts payable (credit) (member states, accounts receivable) at the time the underlying economic event occurs, the size of which depends on the nature of the revenue-sharing agreement. However, if the distributions are made on an agreed and negotiated formula, the current transfer should be recorded at the time the member state acquires an unconditional claim on the designated agency.<sup>15</sup> At the time of distribution, the designated agency extinguishes the accounts payable (member states extinguish the accounts receivable), with a corresponding entry of a reduction in foreign assets (member states record increase in foreign assets).

**A3.64** The institutional unit could be an international agency in which all the transactions described in the previous paragraphs are between the international agency and the member states, or be a resident of one member state, in which case all the transactions described in the previous paragraphs are between that economy and all the other member states.

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<sup>15</sup> Sometimes, the revenue-sharing distributions are based on preliminary estimates and require final adjustments to the distributed revenue at a later stage. Such adjustments to the estimates of the distributed revenue should be recorded in the periods in which they are made. So if the revenue to be received by an economy is increased, a current transfer credit/revenue and accounts receivable debit (or cash if paid when the adjustment is made) for the amount of the increase is recorded in that period; if revenue to be received is reduced, a current transfer debit/expenditure and a negative accounts receivable (or cash if repaid when the adjustment is made) are recorded in that period.

## 2. A DESIGNATED AGENCY LEVIES DUTIES BUT MEMBER STATES COLLECT DUTIES

**A3.65** In a variant, if member states act as collecting agents on behalf of the designated agency for the customs duties from importers in their own economy, the collecting member state records an accounts payable liability in the financial account to the designated agency, which records an accounts receivable claim as the customs duties accrue. The contra-entry will be reflected as an increase in taxes (earned income) payable by the importing economy and receivable by the designated agency. When the member state makes the payment to the designated agency, the member state will record a reduction in cash, with a contra-entry in the financial account to eliminate the accounts payable liability.

**A3.66** If the member state collects customs revenue due from importers outside their own economy—that is, it collects customs duties from importers in other economies in the customs union—it records accounts payable to the designated agency as well as an increase in financial assets reflecting the cash received; the importing economy records taxes payable to the designated agency unit and a reduction in financial assets (increase in foreign liabilities) to the collecting economy, reflecting, say, the cash paid; and the designated agency records taxes (earned income) from the importing economy and account receivable from the collecting economy.

**A3.67** Distributions of revenue by the designated agency are treated as described in paragraph A3.6359.

## 3. MEMBER STATES HAVE COLLECTIVE RIGHTS TO LEVY AND COLLECT THE DUTIES

**A3.68** If member states have collective rights to levy the customs duties under the agreement, the revenue attributed to each member state is either in proportion to the respective underlying economic activity that gives rise to the customs duties, or not. Each member state records customs duties due on their imports on an accrual basis, regardless of how the revenue is to be shared or where the customs duties are collected.

**A3.69** Should the customs agreement provide for any member state to receive a larger share of the customs pool than is evidenced by the underlying economic activities, a current transfer element exists between member states. The current transfer is recorded at the time unconditional claims are established, with a corresponding entry in accounts receivable/payable.

**A3.70** It could be that the ports of entry for the customs union are situated in one or a small group of member states. If so, there could be a discrepancy between the revenue collected by a member state and that member's share of the customs pool. In these circumstances,

an accounts receivable (importing economy) and accounts payable (collecting economy)<sup>16</sup> are recorded at the time that such a claim can be established, with the corresponding entry in a reduction in financial assets of the importing economy and an increase in financial assets for the economy that collects more customs revenue than that member's share of the customs pool. The discrepancies between the customs revenue collected by each of the customs union members and the total of each member's share of the customs pool share should sum to zero across the customs union, as the customs revenue collected by the customs union equals the revenue to be shared out among member states.

#### 4. MEMBER STATES HAVE COLLECTIVE RIGHTS TO LEVY THE DUTY, BUT ONLY ONE MEMBER COLLECTS THE DUTIES

**A3.71** If one of the member states collects all the customs revenue, the recording is as described in the previous paragraphs. Only the collecting member state will record accounts payable, as all other member states will have claims on the collecting member state for their share of the customs revenue.

**A3.72** In all the above circumstances, where there are economic arrangements involving a small group of economies, to avoid bilateral asymmetries, it is recommended that all the economies involved agree and follow the same recording procedures.

## E. OTHER REGIONAL STATEMENTS

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**A3.73** Similar statements can be compiled on a regional basis to show the CU's or EcUn's external transactions with, or position vis-à-vis, another selected group of economies or a particular economy. These are known in the *Manual* as data by partner economy and are covered in Annex 11.

### 1. RECORDING PRINCIPLES

#### **a. General**

**A3.74** Concepts and recommendations noted in the chapters of the *Manual* for compilation of BOP and IIP statements also apply to regional statements, but specific references to residents of the relevant foreign economy or group of economies should be substituted for

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<sup>16</sup> Net recording of accounts payable or receivable might be appropriate when a member state both is to receive more (less) of the customs pool than is evidenced by the underlying economic activities and collects more (less) of the revenue than its share of the revenue pool.

the general references to nonresidents or the rest of the world. This substitution should be made for all transactions and positions.

### ***b. Current and Capital Accounts***

**A3.75** In the current account, as noted in previous paragraphs, trade in goods—reflecting the change of ownership principle associated with coverage of this item—generally would show exports allocated to the region of residence of the new owner and imports allocated to the region of residence of the former owner. For trade in services, allocation would be to the region where the provider or acquirer of the service is resident and, for income, the region on which the resident has the associated financial claim or liability. For transfers (current and capital), allocation would be to the region of the donor or recipient, as appropriate.

### ***c. Financial Account and IIP***

**A3.76** In the financial account and IIP data, consistent with paragraph A3.4, allocation should be on the basis of the debtor-creditor principle.<sup>17</sup>

## **2. SPECIFIC RECORDING ISSUES**

### ***a. Multilateral Settlements***

**A3.77** Although a BOP statement vis-à-vis the rest of the world, whether for an economy or for a CU or EcUn, should in concept balance, any statement vis-à-vis a subset of nonresidents generally does not. For instance, a resident in the compiling economy may make payment to or accept payment from a nonresident (resident of economy A) in the form of a claim on another nonresident (resident of economy B). This situation occurs when a currency is used in external transactions by other economies for making settlements. The discrepancies resulting from the allocation of transactions in real resources to the region of the nonresident owner or transactor and changes in financial items to the region of the nonresident creditor or debtor, however, are explicitly recognized by presenting a regional statement compiled in that way. Thus, an entry is provided under the item *multilateral settlements* to restore an accounting balance by serving as an offset to the discrepancies in the regional statement. That item may be seen to represent, in concept, the settlement of an imbalance in the compiling economy's transactions with one region by a transfer to or from that region of claims on, or liabilities to, some other region or regions.

**A3.78** The data needed to compile statistics on multilateral settlements, however, are seldom available. In practice, therefore, the item is usually derived as a residual; however, it can be calculated only in combination with the item for statistical discrepancy, which is also

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<sup>17</sup> As noted above, information on the basis of the transactor principle can also be of analytical interest.



a residual or balancing item. Inconsistencies or errors of this or any other kind in classifying entries regionally should not have any effect on a global statement, which represents the sum total of all regional statements, because multilateral settlements appearing in individual regional statements cancel each other when all regions are combined.

### ***b. Selection of Regions***

**A3.79** Guidelines on residence in Chapter 4 are applicable for determining the residence of the entity. A region would then comprise an economic territory or a group of economic territories, because the residence of any entity is attributed to a specific economic territory. For transactions and positions vis-à-vis CUs and EcUn, the territories are as defined above.

**A3.80** Because most international organizations are not included in the economic territory of a economy or region and so are not considered resident in that economy, a separate region for international organizations would be appropriate for allocation purposes. The regional breakdown that will be relevant for a particular economy or group of economies depends primarily on how the statement is to be used. The *Manual* does not contain a standard list of economies or regions for which the reporting economy or group should compile separate statements.

<b>Table A3.2. Main Characteristics of the Currency Unions</b>				
	<b>Centralized Currency Unions</b>			<b>Decentralized Currency Union</b>
	<b>CEMAC</b>	<b>ECCU</b>	<b>WAEMU</b>	<b>EMU</b>
<b>Composition</b>	Six Central African countries Cameroon, Central African Republic, Chad, Equatorial Guinea, Gabon, and the Republic of Congo.	Six Caribbean countries: Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines; and two territories: Anguilla and Montserrat.	Eight West African countries: Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.	20 European countries: Austria, Belgium, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia,

				Slovenia, and Spain.
<b>Trade Integration</b>	Customs union in place but full implementation has been delayed.	Customs union in place for most sectors of the economy, but tariffs are not fully harmonized.	Customs union established between 1996 and 2000 but issues remain.	EU common market.
<b>Type of Currency Union</b>	“Centralized”, characterized by having only one regional central bank—no national central banks exist. The BEAC (the central bank of the CEMAC) is headquartered in Cameroon, and each has national directorates in each member country. National branches are not autonomous and serve essentially as local quarters for the regional central bank. They help implement regional policies and provide analysis of local economic conditions to support regional policy-making.	“Centralized”, characterized by having only one regional central bank—no national central banks exist. In the ECCU, the regional central bank (ECCB) is headquartered in Saint Kitts but maintains agency offices in the other seven islands.	“Centralized”, characterized by having only one regional central bank—no national central banks exist. The BCEAO (the central bank of the WAEMU is headquartered in Senegal, and each has national directorates in each member country. National branches are not autonomous and serve essentially as local quarters for the regional central bank. They help implement regional policies and provide analysis of local economic conditions to support regional policymaking.	“De-centralized”. In a decentralized currency union, central banks at national level coexist with the European Central Bank (ECB), which is headquartered in Germany. National central banks maintain their individual balance sheets and are integral part of the Eurosystem. The Eurosystem (ECB and NCBs) is governed by the decision-making bodies of the ECB.

<b>Reserve Pooling</b>	French Treasury acts as guarantor.	ECCB maintains a peg to the U.S. dollar through a quasi-currency board arrangement. ECCU members pool foreign exchange to a common reserve pool. ECCB must maintain their contribution to pooled official reserves at no less than 60 percent of its demand liabilities.	French Treasury acts as guarantor.	Reserves are partially transferred to the ECB; part remain on national central banks' books. Upon creation of the ECB, member national banks contributed to the ECB reserves (in relation to the ECB capital key). Given the euro's status as a reserve currency and its fully floating nature, reserve coverage and/or reserve buildup are not considered explicit objectives.
<b>Repatriation Requirements</b>	Yes, there are repatriation requirements.	In the ECCU, these vary country by country.	Yes, there are repatriation requirements.	No repatriation requirements
Note: (i) This table presents the characteristics at the time of writing the <i>Manual</i> ; (ii) For further details, see IMF Policy Paper " <i>Program Design in Currency Unions</i> "				

## APPENDIX A3.1. NUMERICAL EXAMPLE: EXTERNAL TRANSACTIONS AND POSITIONS IN THE NATIONAL DATA FOR A MEMBER STATE OF A CENTRALIZED CURRENCY UNION

Example	Description of the Transaction
1.	Opening statistical balance sheet of CUCB and the national agencies
2.	Following (1), Economy A exports 100 of goods to Economy Y (not a member of the CU), which are paid in foreign exchange (U.S. dollars)— <b>extra union transaction of member Economy A</b>
3.	Following (1), Economy A exports 100 of goods to B (external transaction settled in domestic currency)— <b>intra-union transaction</b>
4.	Following (1), Economy A imports goods for 400 from Economy Y (not a member of the CU), which are paid in foreign exchange (U.S. dollars)— <b>extra union transaction of member Economy A</b>
5.	Following (1), CUCB lends 100 to a bank in Economy A (in the context of regular monetary authority function)— <b>funds channeled through NA of Economy A</b>
6.	Following (5), the bank in Economy A lends 100 to a bank of Economy B (which increases its deposits in 100)— <b>intra-union transaction</b>
7.	Following (1), the government of Economy A borrows 100 from IMF— <b>extra union transaction of member Economy A</b>
8.	Following (1), HQ of the CUCB borrows 300 from the government of Economy Y (not a member of the CU)— <b>CUCB own account transaction with nonresidents</b>
9.	Following (8), the CUCB lends 300 to the government of Economy B (in the context of regular monetary authority function)— <b>funds channeled through NA of Economy B</b>
10.	Following (9), the government of Economy B uses the funds for goods imports 300 from Economy Y (not a member of the CU), which are paid in foreign exchange (U.S. dollars)— <b>extra union transaction of member Economy B</b>

**Example 1:** Opening period (it is assumed that the CUCB has no assets and liabilities on “own account”)

CUCB Balance Sheet			
Assets		Liabilities	
RA	500	Banknotes	1600
Claims on CU residents	1500	Deposits of CU banks	400
Total	2000	Total	2000

NA Balance Sheet—Economy A			
Assets		Liabilities	
Net claim on CUCB-RA	300	Banknotes	1000
Domestic assets (residents of A)	950	Bank deposits (residents of A)	250
Total	1250	Total	1250

NA Balance Sheet—Economy B			
Assets		Liabilities	
Net claim on CUCB-RA	200	Banknotes	600
Domestic assets (residents of B)	550	Bank deposits (residents of B)	150
Total	750	Total	750

**Example 2:** Following example 1, Economy A exports 100 of goods to Economy Y (not a member of the CU), which are paid in foreign exchange (U.S. dollars).

The exporter sells foreign currency (100) and the bank account at the exporter's resident commercial bank is credited (100). The commercial bank sells foreign currency to the CUCB (100) and the commercial bank's account at the CUCB is credited (from 250 to 350).

For statistical purposes, it will be assumed that the national agency in Economy A holds the account of the commercial bank, and that in turn the national agency acquires the foreign currency from the CUCB.

CUCB Balance Sheet			
Assets		Liabilities	
RA	600	Banknotes	1600
Claims on CU residents	1500	Deposits of CU banks	500
Total	2100	Total	2100

NA Balance Sheet—Economy A			
Assets		Liabilities	
Net claim on CUCB-RA	400	Banknotes	1000
Domestic assets (residents of A)	950	Bank deposits (residents of A)	350
Total	1350	Total	1350

NA Balance Sheet—Economy B			
Assets		Liabilities	
Net claim on CUCB-RA	200	Banknotes	600
Domestic assets (residents of B)	550	Bank deposits (residents of B)	150
Total	750	Total	750

**Example 3:** Following example 1, Economy A exports 100 of goods to B (external transaction settled in domestic currency).

The resident importer's bank in B settles in domestic currency with the exporter's bank through its accounts at the CUCB. Thus, B's commercial bank account at the CUCB is debited (from 150 to 50), while A's commercial bank account is credited (from 250 to 350).

Net claims of economy A on the CUCB increase (from 300 to 400) as a result of the crediting of the national agency's account and net claims of B decline (from 200 to 100) as a result of the debiting of the national agency's account. This recording applies only to member states of a CUCB where national shares within the common pool of reserve assets are maintained, in accordance with the guidance in A3.37 (see paragraph A.37-2).

For the member states of CUs that adhere to the solidarity principle (see paragraph A3.37-1), transactions in domestic currency discussed in this example could be classified under other investment in BOP/IIP.

CUCB Balance Sheet			
Assets		Liabilities	
RA	500	Banknotes	1600
Claims on CU residents	1500	Deposits of CU banks	400
Total	2000	Total	2000

NA Balance Sheet—Economy A			
Assets		Liabilities	
Net claim on CUCB-RA	400	Banknotes	1000
Domestic assets (residents of A)	950	Bank deposits (residents of A)	350
Total	1350	Total	1350

NA Balance Sheet—Economy B			
Assets		Liabilities	
Net claim on CUCB-RA	100	Banknotes	600
Domestic assets (residents of B)	550	Bank deposits (residents of B)	50
Total	650	Total	650

**Example 4:** Following example 1, Economy A imports goods for 400 from Economy Y (not a member of the CU), which are paid in foreign exchange (U.S. dollars).

The government of A buys the foreign currency with bank deposits (250) and the difference (150) is recorded as a loan. Thus, A's commercial bank account at the CUCB is debited (from 250 to 0); net claims of Economy A on the CUCB become negative (from 300 to -100).

CUCB Balance Sheet			
Assets		Liabilities	
RA	100	Banknotes	1600
Claims on CU residents	1650	Deposits of CU banks	150
Total	1750	Total	1750

NA Balance Sheet—Economy A			
Assets		Liabilities	
Net claim on CUCB-RA	-100	Banknotes	1000
Domestic assets (residents of A)	1100	Bank deposits (residents of A)	0
Total	1000	Total	1000

NA Balance Sheet—Economy B			
Assets		Liabilities	
Net claim on CUCB-RA	200	Banknotes	600
Domestic assets (residents of B)	550	Bank deposits (residents of B)	150
Total	750	Total	750



**Example 5:** Following example 1, CUCB lends 100 to a bank in Economy A (in the context of regular monetary authority function).

CUCB Balance Sheet			
Assets		Liabilities	
RA	500	Banknotes	1600
Claims on CU residents	1600	Deposits of CU banks	500
Total	2100	Total	2100

NA Balance Sheet—Economy A			
Assets		Liabilities	
Net claim on CUCB-RA	300	Banknotes	1000
Domestic assets (residents of A)	1050	Bank deposits (residents of A)	350
Total	1350	Total	1350

**Example 6:** Following example 5, the bank in Economy A lends 100 to a bank of Economy B (which increases its deposits in 100).

The bank of Economy A acquires an external asset (it is recorded in the balance sheet of the bank, which is not shown below), bank deposits of A decrease as well as the net claim on CU of the NA of the Economy A.

The bank of Economy B incurs in an external liability (it is recorded in the balance sheet of the bank, which is not shown below), bank deposits of B increase as well as the net claim on CU of the NA of the Economy B.

CUCB Balance Sheet			
Assets		Liabilities	
RA	500	Banknotes	1600
Claims on CU residents	1600	Deposits of CU banks	500
Total	2100	Total	2100

NA Balance Sheet—Economy A			
Assets		Liabilities	
Net claim on CUCB-RA	200	Banknotes	1000
Domestic assets (residents of A)	1050	Bank deposits (residents of A)	250
Total	1250	Total	1250

NA Balance Sheet—Economy B			
Assets		Liabilities	
Net claim on CUCB-RA	300	Banknotes	600
Domestic assets (residents of B)	550	Bank deposits (residents of B)	250
Total	850	Total	850

**Example 7:** Following example 1, the government of Economy A borrows 100 from IMF.

At inception, the government of Economy A incurs in an external liability of 100 (it is recorded in the balance sheet of the government as well as the matching deposit with the NA/CUCB, which is not shown below), bank deposits of residents of A increases as well as the net claim on CU of the NA of the Economy A. Total RA of the CU increase in 100.

CUCB Balance Sheet			
Assets		Liabilities	
RA	600	Banknotes	1600
Claims on CU residents	1500	Deposits of CU banks	500
Total	2100	Total	2100

NA Balance Sheet—Economy A			
Assets		Liabilities	
Net claim on CUCB-RA	400	Banknotes	1000
Domestic assets (residents of A)	950	Bank deposits (residents of A)	350
Total	1350	Total	1350

NA Balance Sheet—Economy B			
Assets		Liabilities	
Net claim on CUCB-RA	200	Banknotes	600
Domestic assets (residents of B)	550	Bank deposits (residents of B)	150
Total	750	Total	750

Alternatively, if the contractual debtor is the NA of Economy A:

NA Balance Sheet—Economy A			
Assets		Liabilities	
Net claim on CUCB-RA	400	Banknotes	1000
Domestic assets (residents of A)	950	Bank deposits (residents of A)	250
		IMF credit and loans	100
Total	1350	Total	1350

**Example 8:** Following example 1, HQ of the CUCB borrows 300 from the government of Economy Y (not a member of the CU)—own account transaction with nonresidents.

Reserve assets of the CU increase by 300 matched by an increase in liabilities to nonresidents. This will be recorded in balance sheet of CUCB, but not attributed to any of the NAs.

CUCB Balance Sheet			
Assets		Liabilities	
RA	800	Banknotes	1600
Claims on CU residents	1500	Deposits of CU banks	400
		Loans to nonresidents	300
Total	2300	Total	2300

NA Balance Sheet—Economy A			
Assets		Liabilities	
Net claim on CUCB-RA	300	Banknotes	1000
Domestic assets (residents of A)	950	Bank deposits (residents of A)	250
Total	1250	Total	1250

NA Balance Sheet—Economy B			
Assets		Liabilities	
Net claim on CUCB-RA	200	Banknotes	600
Domestic assets (residents of B)	550	Bank deposits (residents of B)	150
Total	750	Total	750

**Example 9:** Following example 8, the CUCB lends 300 to the government of Economy B (in the context of regular monetary authority function).

This lending will be seen as channeled through the NA of Economy B and recorded in its balance sheet for statistical purposes.

CUCB's claims on CU residents increase by 300 matched by an equal increase in deposits of CU banks (counterpart entries are recorded in the balance sheet of NA of Economy B).

CUCB Balance Sheet			
Assets		Liabilities	
RA	800	Banknotes	1600
Claims on CU residents	1800	Deposits of CU banks	700
		Loans to nonresidents	300
Total	2600	Total	2600

NA Balance Sheet—Economy A			
Assets		Liabilities	
Net claim on CUCB-RA	300	Banknotes	1000
Domestic assets (residents of A)	950	Bank deposits (residents of A)	250
Total	1250	Total	1250

NA Balance Sheet—Economy B			
Assets		Liabilities	
Net claim on CUCB-RA	200	Banknotes	600
Domestic assets (residents of B)	850	Bank deposits (residents of B)	450
Total	1050	Total	1050

**Example 10:** Following example 9, the government of Economy B uses the funds for goods imports 300 from Economy Y (not a member of the CU), which are paid in foreign exchange (U.S. dollars).

The government of B buys the foreign currency with bank deposits. Thus, B's commercial bank account at the CUCB is debited (from 450 to 150); net claims of Economy B on the CUCB become negative (from 200 to -100).

CUCB Balance Sheet			
Assets		Liabilities	
RA	500	Banknotes	1600
Claims on CU residents	1800	Deposits of CU banks	400
		Loans to nonresidents	300
Total	2300	Total	2300

NA Balance Sheet—Economy A			
Assets		Liabilities	
Net claim on CUCB-RA	300	Banknotes	1000
Domestic assets (residents of A)	950	Bank deposits (residents of A)	250
Total	1250	Total	1250

NA Balance Sheet—Economy B			
Assets		Liabilities	
Net claim on CUCB-RA	-100	Banknotes	600
Domestic assets (residents of B)	850	Bank deposits (residents of B)	150
Total	750	Total	750

## Annex 4. Remittances

### A. ECONOMIC CONCEPT OF REMITTANCES AND WHY THEY ARE IMPORTANT

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**A4.1** Remittances represent household income and other resources from nonresident institutional units arising mainly from the temporary or permanent relocation of people from their home economy to other economies.<sup>1</sup> They largely consist of funds and noncash items sent or given by individuals who have migrated to a new economy and become residents there, as well as the net remuneration of nonresident workers (border, seasonal, other short-term or remote workers who are employed in an economy in which they are not resident and local staff employed by embassies, consulates, and military bases, etc.). Remittances include cash and noncash items and can be sent through electronic or digital means (e.g., wire transfer, electronic funds transfers, mobile money wallets, digital wallets, and other applications), as well as through other channels, such as money or goods carried across borders.

**A4.2** For many economies, remittances represent a sizable and stable source of funds that sometimes exceed official aid or financial inflows from direct investment. Remittances may have a significant impact on poverty reduction and can finance economic activity in recipient economies.

**A4.3** The *Manual*, as well as the *International Transactions in Remittances Guide for Compilers and Users*, identify three main aggregates to measure remittances, which are compiled using BOP standard components and supplementary items. No single data item in the BOP framework comprehensively captures transactions in remittances. This annex explains the different items needed to calculate remittance aggregates and the relationships between the different aggregates.

**A4.4** The concepts and related measurement of the remittances aggregates are presented in Section B. Section C discusses the BOP standard components related to remittances (remuneration of employees and personal transfers), while Section D identifies other transactions related to remittances. Section E discusses the application of BOP concepts of residence, valuation and time of recording to remittances. Table A4.1 shows various

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<sup>1</sup> The concept of remittances is broadly aligned with the balance of payments framework. However, the coverage of concepts related to remittances in the BOP is somewhat broader than transfer of funds and noncash items arising from relocation of persons, because they are not based on the concepts of migration, employment, or family relationships.

measures of remittances and the components required to compile them. Table A4.2 presents the components required for compiling remittance items and their sources.

## B. MEASURES OF REMITTANCES

**A4.5** There are various measures and levels of aggregation of remittances. They include personal remittances, total remittances, and total remittances plus transfers to nonprofit institutions serving households (NPISHs). These are cumulative measures and the components in the external accounts needed to compile them are as illustrated in Table A4.1. As supplementary items, compilation and dissemination of remittances is encouraged but voluntary, depending on the data needs of the compiling economy.

<b>Table A4.1. Tabular Presentation of the Definitions of Remittances</b>					
Total Remittances plus Transfers to NPISHs: a+b+c+d+e+f					
Total Remittances: a+b+c+d				e	f
Personal Remittances: a+b+c			d		
a	b	c			
Personal transfers (part of current transfers)	Remuneration of employees /less taxes, social contributions, transport, and travel	Capital transfers between households	Social benefits	Current transfers to NPISHs	Capital transfers to NPISHs
Note: Personal transfers is a standard item; other items are supplementary.					

### 1. PERSONAL REMITTANCES

**A4.6** Personal remittances are defined as current and capital transfers in cash or in kind between resident households and nonresident households, plus remuneration of employees, less taxes and social contributions paid by nonresident workers in the economy of employment, less transport and travel expenditures related to working abroad (Box 13.2(a)). In short, this item includes all household-to-household transfers and the net remuneration of nonresident workers.

**A4.7** Household-to-household transfers are included within current or capital transfers, as appropriate, in the BOP accounts. Compilers in both economies are required to be aware of the sector of the transacting party on both sides. Personal transfers are a standard item in



the transfer income account, while capital transfers between households are a supplementary item in the capital account. Capital transfers included in personal remittances are household-to-household transfers, in cash or in kind, which are linked to the acquisition or disposal of an asset (other than cash or inventories).

**A4.8** The gross remuneration of nonresident workers is recorded under “remuneration of employees,” a standard component. To derive the relevant component for the calculation of personal remittances, remuneration is adjusted by deducting taxes and social contributions of nonresident employees payable to the economy of the employer and transport and travel expenses of border, seasonal, and other short-term workers. The three items that are deducted are all supplementary items in the BOP framework. Social contributions are defined as “the actual or imputed contributions made by households to social insurance schemes to make provision for social benefits to be paid” (paragraph 13.30).

**A4.9** It should be noted that “personal remittances” include personal and capital transfers originating from individuals who are not migrant workers. On the other hand, the earnings of individuals from the provision of services to another economy are not included. Paragraph 12.16 provides the definition of an employer-employee relationship, which clarifies the difference between “remuneration of employees” and payments for services.

## 2. TOTAL REMITTANCES

**A4.10** Total remittances are the sum of personal remittances and social benefits. Social benefits include benefits payable under social security and pension schemes. They may be in cash or in kind (paragraph 13.39). Total remittances include transfers from individuals residing abroad, income from nonresident employers, and social benefits from abroad. Social benefits is a supplementary item in the BOP framework within transfer income.

## 3. TOTAL REMITTANCES PLUS TRANSFERS TO NPISHS

**A4.11** This item includes total remittances and both current and capital transfers to NPISHs from any institutional sector of the sending economy. Therefore, it has a very wide definition. In fact, much private and official aid, as well as cross-border sponsorship of educational and cultural activities (including scholarships), will be included in this item. Current transfers received by NPISHs and to NPISHs are supplementary items under transfer income, whereas capital transfers received by NPISHs and to NPISHs are supplementary items under the capital account.<sup>2</sup>

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<sup>2</sup> Of the supplementary remittance aggregates in the external accounts, some data users consider “total remittances plus transfers to NPISHs” to most closely match the economic concept of remittances (see Section A

**A4.12** The identification of NPISHs is not without problems. Although compilers will be able to appropriately identify the NPISHs resident in their economy, they will find it more problematic to identify NPISHs in partner economies. This makes the compilation of debit transactions of “total remittances plus transfers to NPISHs” particularly challenging because the definition is partially based on identifying the sector of the transacting party in the partner economy. “Total remittances plus transfers to NPISHs” is a supplementary item in the BOP statement.

<b>Table A4.2. Components Required for Compiling Remittance Items and Their Source</b>	
Item	Source and description
1. Remuneration of employees	Earned income account, standard component
2. Personal transfers	Transfer income account, standard component
3. Travel and transport related to employment of border, seasonal, and other short-term workers	Services account, supplementary items
4. Taxes and social contributions related to remuneration of employees	Transfer income account, supplementary items
5. Remuneration of employees less related travel and transport expenses and taxes and social contributions	Earned income account (for remuneration of employees), standard component
	Services account (for travel and transport expenses) and transfer income account (for taxes and social contributions), supplementary items
6. Capital transfers between households	Capital account, supplementary item
7. Social benefits	Transfer income account, supplementary item
8. Current transfers to NPISHs	Transfer income account, supplementary item
9. Capital transfers to NPISHs	Capital account, supplementary item
Important relationships are: “Net” remuneration of employees (#5) = #1 minus the sum of #3 and #4	

above). Unlike the other supplementary remittance aggregates, this measure includes funds and noncash items that flow indirectly to households, through nonprofit institutions.

Personal remittances = #2 plus #5 plus #6

Total remittances = #2 plus #5 plus #6 plus #7

Total remittances plus transfers to NPISHs = #2 plus #5 plus #6 plus #7 plus #8 plus #9.

## C. STANDARD COMPONENTS IN THE BALANCE OF PAYMENTS FRAMEWORK RELATED TO REMITTANCES

**A4.13** The two items in the BOP framework that substantially relate to remittances are “remuneration of employees” and “personal transfers.” Both of these standard components are recorded in the current account.

### 1. REMUNERATION OF EMPLOYEES

**A4.14** *Remuneration of employees presents total remuneration, in cash or in kind, payable by an enterprise to an employee in return for work done by the latter during the accounting period.* In the external accounts, remuneration of employees refers to the income of border, seasonal, and other short-term workers and of other residents (including remote workers) employed by nonresident entities.<sup>3</sup> Remuneration of employees is recorded gross before taxes and other expenses. Paragraphs 12.13–12.28 provide more details. However, in the derivation of personal remittances, a net measure of remuneration of employees is used, as discussed in paragraph A4.8.

### 2. PERSONAL TRANSFERS

**A4.15** *Personal transfers consist of all current transfers, in cash or in kind, made or received by resident households to or from nonresident households* (paragraph 13.21).<sup>4</sup> Therefore, personal transfers are a subset of current transfers.

**A4.16** Personal transfers<sup>5</sup> are defined independently of the source of income of the sending household and the relationship between the households. Although it is recognized that

<sup>3</sup> Nonresident employers include embassies and international institutions as well as nonresident companies (paragraphs 4.214–4.217). In some economies, income obtained from nonresident employers is significant.

<sup>4</sup> In some cases, however, households might send funds or non-cash items to an individual located in another economy, but no current transfer transaction occurs because the individual is a resident of the same economy as the household (e.g., students and patients abroad). Such transactions are between residents of the same economy and therefore are not included in personal transfers.

<sup>5</sup> The term “personal transfers” replaced workers’ remittances in *BPM6*. Worker’s remittances are current transfers by migrants who are employed in new economies and considered residents there. Workers’ remittances are a supplementary item in the BOP.

personal transfers will often originate from migrants sending resources to support their relatives in their economy of origin, personal transfers, as defined in this *Manual*, are not limited to such activity.

## D. RELATED TRANSACTIONS

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### 1. INVESTMENT BY MIGRANTS

**A4.17** Migrants<sup>6</sup> frequently invest in their economy of origin, whether they intend to return or have left permanently. Such investments can take numerous forms, but financial investments (notably bank deposits and portfolio investments) and investments in real estate are probably the most common. Small enterprises, located in the economy of origin and sometimes managed by relatives, can also benefit from investments by migrants. These transactions are considered cross-border investments and are therefore included in the financial account. Although these investment flows are of analytical interest in the context of the economic effects of migration, they are not remittances in the BOP framework.

**A4.18** However, in some cases, investment transactions by migrants may be vehicles for the provision of remittances. When a migrant deposits funds in an account in the economy of origin, and relatives have access to these funds, this can be a personal transfer. For joint accounts, a transfer can be recorded when the funds move across borders rather than when they are withdrawn (paragraph 4.227). When a migrant purchases real estate and relatives occupy it without paying market rents, or when a migrant sets up an enterprise and relatives are employed and paid above-market incomes by this enterprise, personal transfers could be imputed. In the individual case, the value of the transfers would be calculated as the difference between actual transactions and market equivalent values. In practice, it is difficult to identify such transfers and calculate their value. If larger patterns are known to compilers—if, for example, there are large numbers of migrants buying real estate for use by their relatives in the home economy—estimates can be made on the basis of aggregate transaction data and benchmarks.

### 2. TRAVEL

**A4.19** Travel refers to the acquisition of goods and services in an economy by visiting individuals who are not residents in that economy. Acquisitions of goods and services by border, seasonal, and other short-term workers in their economy of employment are also included in travel (paragraph 11.37). However, travel excludes the acquisition of valuables,

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<sup>6</sup> In this annex, the term “migrant” refers to a person who emigrates from an economy of origin and becomes a resident in another economy.

consumer durables, and other consumer purchases that are included in general merchandise (paragraph 11.38). The compilation of the supplementary definitions of remittances requires that the travel expenses of border, seasonal, and other short-term workers are subtracted from remuneration of employees. In practice, it may be difficult to separate travel related to employment from all other travel.

## E. CONCEPTS OF RESIDENCE, VALUATION, AND TIME OF RECORDING

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### 1. RESIDENCE

**A4.20** The macroeconomic statistical standards rest on the identification of residents and nonresidents respective to each reporting economy. Because the concepts of personal transfers and remittances are based on the concept of residence rather than migration status, the concept of migration is not defined in the BOP. This is consistent with the use of residence criteria elsewhere in the BOP and national accounts frameworks.

**A4.21** The residence of households is determined according to the center of predominant economic interest of its members. The general guideline for applying this principle—being present for one year or more in a territory or intending to do so—is sufficient to qualify as being a resident of that economy (paragraph 4.200). Short trips to other economies—for recreation or work—do not lead to a change of residence but going abroad with the intention of staying one year or longer does. “If a member of an existing household ceases to reside in the territory where this household is resident, the individual ceases to be a member of that household” (paragraph 4.201). Migrants going abroad to work thus become residents of the host economy (assuming they plan to stay for a year or longer), but they can join their original household on return. In addition, there are guidelines for the residence of specific cases of students, medical patients, and ships’ crews, as well as diplomats, military personnel, and civil servants employed abroad in government enclaves. Regardless of the length of stay in a host economy, these groups are considered residents of the originating economy (paragraphs 4.203–4.206).

**A4.22** Residence is important for remittance data because transactions are recorded differently depending on the residence status of the individual in his or her host economy. Border, seasonal, and other short-term workers are not resident in the economy where they work, and their gross income is recorded as “remuneration of employees.”<sup>7</sup> There are no

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<sup>7</sup> Similarly, cross-border remote workers are not resident in the economy of their employer.

entries in the BOP for the wages of migrant workers who stay for at least a year and thus are residents of the same economy as their employer (assuming that their employer is a resident entity). However, when they send remittances to a household in another economy, these are recorded as “personal transfers.”

**A4.23** In many cases, it is assumed that the entities employing workers are resident in the economy where the work is performed. However, nonresident employers can have a substantial impact on remittance data. Nonresident employers include embassies and other diplomatic missions, international organizations, and numerous enterprises, including employers of cross-border remote workers (paragraphs 4.214–4.226, and 12.18). When resident workers work for nonresident employers, their wages and other benefits are recorded as “remuneration of employees.”

**A4.24** In addition to current and capital transfers, some other resource flows may be of analytical interest. While migrant workers reside in a host economy, their remittances will be recorded as current or capital transfers. These include gifts in cash and kind to their household of origin. When returning home to reside, many migrants bring goods or own assets that will, on return, be owned by their household of origin. However, assets that migrants bring with them on return are excluded from BOP transactions, and so are not transfers. Rather, because the residence of the owner changes but not the ownership, the change in assets (such as bank balances and real estate ownership) between economies is recorded as a reclassification in the IIP not a transaction.

**A4.25** Although the distinction between a transaction and a reclassification of residence is important for the structure of the system, the effect on the asset position of households and economies is much the same whether the resources come through remittances or through migrants returning home. Data users who are interested in understanding all contributions that migrant workers may make to their households and economies of origin should note this potential misalignment of their data needs and BOP definitions and should seek to make appropriate additional estimations.

**A4.26** Further, no special residency treatment is adopted for refugees (paragraph 4.211). Therefore, their residence will change from their home territory to the territory of refuge if they have stayed or intend to stay in their place of refuge for one year or more. If they are considered residents in the country of refuge, then the funds they receive from nonresidents will be included in remittances, as will any funds they send to nonresident households.

## 2. VALUATION

**A4.27** All valuations in the BOP framework are based on market values (paragraph 3.97–3.99).

**A4.28** Remuneration of employees comprises wages and salaries in cash and in kind, and employers' social contributions. Also included are all forms of bonuses and allowances (paragraphs 12.22–12.23). All transactions in kind should be valued at current market prices, that is, the current exchange value.

**A4.29** Transfers in kind should be valued at the market value of the goods or services provided to the recipient (paragraphs 3.103–3.104). The valuation of cash transfers is clear, while transfers of other financial assets should be recorded at market value.

### 3. TIMING

**A4.30** Remuneration of employees is recorded on an accrual basis (paragraph 12.20). Transfers are also recorded on an accrual basis (discussed in paragraph 3.160). In the case of voluntary transfers, accrual and settlement are often identical (paragraph 3.162 provides details on the time of recording of transfers). However, this is not the case with involuntary transfers (such as taxes or alimony) and they should, in principle, be recorded when accrued, although this can be difficult in practice. Remittances are mostly voluntary transfers.

# Annex 5. Selected Issues on Cross-Border Trade

## A. INTRODUCTION

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**A5.1** This annex addresses a range of cross-cutting issues associated with trade in goods and services to provide additional dimensions for both compilers and users, but that fall outside the scope of the standard components of the BOP. Classification systems used in the compilation of trade in goods and trade in services are explored in Section B, providing information on frameworks for the effective organization of trade data. Section C, shedding light on the implications of currency choice in international trade covers trade classified by currency. Price and volume measures are examined in Section D. The area of digital trade is discussed in Section E, highlighting its increasing significance in today's global economy. Collectively, these topics are presented to enhance the clarity and usability of information on cross-border trade supporting informed decision-making and analysis related to external sector statistics.

**A5.2** Apart from this annex, and Chapters 10 and 11, topics associated with trade are discussed elsewhere in this *Manual*. These include the following: trade by enterprise characteristics in Chapter 15; digital goods and services, and digital intermediation platforms in Chapter 16; informal trade in Chapter 18; insurance services in Annex 8; and trade by partner economy in Annex 11.

## B. CLASSIFICATION

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References:

- United Nations, *International Merchandise Trade Statistics: Concepts and Definitions*
- United Nations, *International Merchandise Trade Statistics: Compilers Manual*
- United Nations, *Manual on Statistics of International Trade in Services*

**A5.3** A statistical classification is a structured framework, usually of mutually exclusive and clearly defined categories, organized hierarchically that standardizes concepts and facilitates the compilation of statistical data, enhancing the reliability and comparability of information for informed decision-making and analysis.

**A5.4** The standard presentation in this *Manual* as shown in Annex 14 decomposes the goods and services accounts into components, subcomponents and some supplementary



items. This section brings together other classification systems of trade in goods and services. The main purpose, features, and usage of each classification system are discussed with appropriate references to the relevant manuals and standards. The currency composition of international trade is discussed separately in the next section. Table A5.1 summarizes the information.

### ***Classification Systems Used for Trade in Goods***

**A5.5** There are two key standardized methods of classifying products in international merchandise trade statistics (IMTS). These are the *Harmonized Commodity Description and Coding System* (Harmonized System or HS and the *Standard International Trade Classification* (SITC)). It is recommended that countries use HS for the compilation of their IMTS. It is further recommended that, in addition to HS, countries can use SITC for the dissemination and analysis of IMTS, according to user requirements.

**A5.6** The HS developed by the World Customs Organization (WCO) is used as the basis for customs tariffs and for the compilation of IMTS. It was introduced in 1988, is updated every five to six years, and is used by over 200 countries. The HS assigns specific six-digit codes to more than 5,000 commodities, providing a detailed and standardized system for classifying goods in international trade. Countries may add to the codes beyond the first six digits, creating extended versions, such as the Combined Nomenclature (CN) that is used in the EU. The latest version of HS is the HS Nomenclature 2022.<sup>1</sup>

**A5.7** The SITC was developed by the UN in 1950, building on previous classification systems. The Standard International Trade Classification, Revision 4 was published in 2006 and has 2,970 basic headings and provides a correspondence between each of these basic headings and one or more corresponding subheadings from the fourth edition of HS (2007). Whereas HS is used both for customs and statistical needs, SITC is designed to be suitable for economic analysis.

### ***Mode of Transport***

**A5.8** Freight transportation is a vital element of global trade, incorporating a variety of modes including sea, road, rail, and air. Each mode presents unique advantages based on the characteristics of the cargo, its intended destination, and the urgency of delivery. International merchandise trade statistics by *mode of transport* refer to the method(s) of transport used for the carriage of goods that enter or leave an economic territory. These statistics are important for analysis of transportation routes and supply chain management, for formulating transportation policy, for infrastructure planning, and for measuring the environmental impacts associated with freight transportation, as sustainability becomes

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<sup>1</sup> The next version of HS is scheduled for release in 2028.

increasingly important in global trade practices. Additionally, the information is often used in the calculation of costs related to freight transport to convert goods imports from CIF to FOB (see paragraph 10.29).

**A5.9** There are four main categories in the Mode of Transport classification system used in the IMTS: transport by air, water, land, and a category for modes not elsewhere classified. Transport via pipelines or cables, which is widely used for specific commodities, and postal consignments, mail or courier shipments are included in the not elsewhere classified category. More detailed (2- or 3-digit) subcategories can be used for compiling and reporting the mode of transport. Further information is given in the *IMTS Compilers Manual*.

**A5.10** Where goods are carried by at least two different means of transportation from the location of exporter to importer, the *IMTS: Concepts and Definitions* recommends that the mode of transport should be the one utilized when the goods cross the border. It also recognizes that countries may choose to provide additional information based on other criteria, such the predominant mode of transport used.

**A5.11** In Chapter 11 (and Annex 14), the term mode of transport is used in a slightly different context. Transport services are broken down by three main modes: sea, air, and other modes of transport. (There is also a separate category of postal and courier services.) The modes are then categorized by passenger transport, freight transport, and other. While the modes of transport presented in Chapter 11 is a further breakdown of transport services, modes of transport presented in this annex is a classification of trade in goods based on the delivery methods used.

### ***Classification Systems Used for Trade in Services***

**A5.12** Chapter 11 of this Manual provides a comprehensive framework for classifying trade in services. The Extended Balance of Payments Services Classification (EBOPS), as the name suggests, is fully consistent with, and an extension of, the BOP standard services components and subcomponents. It is designed to provide a more granular view by introducing further subcategories of trade in services. The *Manual on Statistics of International Trade in Services (MSITS)* describes the EBOPS categories in detail and is used by compilers of trade in services statistics as a companion to Chapter 11. Compilers can adopt the level of detail specified in EBOPS based on the relevance of the various services components to their economies.

**A5.13** EBOPS meets a number of user requirements such as information needs related to the General Agreement on Trade in Services (GATS) and other trade agreements. It responds to the data requirements of policy makers and other analysts. It is consistent as much as possible with the Central Product Classification (CPC) and as such is designed to facilitate the integration of national accounts and the BOP at a product level.

**A5.14** The GATS identifies four *modes of supply* for the international supply of services, which are based on the respective location of the services supplier and the services consumer when services are rendered. In Mode 1, cross-border supply, the supplier and the consumer remain in their respective territories, and only the service crosses the border, for example, through the postal service or the internet, such as when an architect sends plans to a client overseas. Mode 2, consumption abroad, involves consumers consuming services outside their home economy, like tourists attending the theatre while traveling. Mode 3, commercial presence, refers to a company from one economy establishing a presence in another to provide services, such as the financial services provided by a resident branch of a nonresident bank. Lastly, Mode 4 covers the presence of natural persons, where individuals (the service provider or employees of the service provider) travel temporarily to another economy to provide a service, for example if a computer specialist is sent abroad by their employer to install software for a client. The four modes of supply, and how services transactions would be allocated to each mode, are discussed fully in the *MSITS*.

**A5.15** The four modes of supply measure the ways that services can be *supplied* between economies. The international supply of services is not equivalent to trade in services between economies. There is an overlap between the BOP services account and total services by modes of supply. Services that belong in GATS Modes 1, 2, and 4 would generally be a subset of the services account. However, goods that are included in parts of travel, construction, and government goods and services n.i.e. would not be included in any of the four modes of supply. More importantly, GATS Mode 3 which concerns the resident-to-resident sales of services through a locally established branch (or controlled affiliates) of a nonresident unit are not part of the services account.

**A5.16** Mode 3 (commercial presence) provides information on when a services supplier in one economy establishes (or acquires) an affiliate, branch, or representative office in another economy through which they provide their services. For a service to be considered Mode 3, the service must be sold locally, and the seller must be controlled through majority ownership by a nonresident. Direct investors with greater than 50 percent ownership of their direct investment enterprises may be considered to supply services to the economy of their investment via the direct investment enterprise. It should be noted, in this context, that the term affiliate is used in *MSITS* to mean an affiliate that is controlled by its direct investor and refers to a direct investment enterprise where the direct investor has majority ownership. Mode 3 is typically measured through Foreign Affiliates Statistics (FATS).

**A5.17** While Mode 3 supply of services is not applicable to the services account, recording services included in the BOP by modes 1, 2, and 4 provides significant value. The classification enhances the understanding of service delivery mechanisms supporting further analysis of the services account. It further provides insight into services that may be digitally delivered as discussed below (paragraph A5.47).

### ***Other Classifications and Presentations of Trade***

**A5.18** Classifications of products are important for researchers, for national accountants, and for various types of analyses and related concepts about domestic production and consumption. The CPC developed by the UN is a product classification covering both goods and services and is used in the national accounts. A correspondence table between CPC and HS is published on the UNSD classifications website.

**A5.19** Trade by Broad Economic Category (BEC), developed by the UN, provides a set of broad product categories for the analysis of trade statistics. The system classifies products into groups based on their main end-use. It helps to understand how the flow of trade interacts with the use within the domestic or destination economy. The classification can be used, for example, to indicate the level of integration within global value chains. The fifth revision, BEC Rev. 5 was endorsed by the United Nations Statistical Commission in 2016 and introduced broad economic categories for services as well as for goods. For goods, BEC is an aggregation of HS and CPC categories. Goods and services are broken down by six hierarchical dimensions under BEC. The third dimension is based on SNA end-use and categorizes traded goods into goods destined for intermediate consumption, fixed capital formation, or final consumption.

**A5.20** The International Standard Industrial Classification of All Economic Activities (ISIC) serves as the global reference classification for productive activities. Initially adopted in 1948, ISIC, Rev. 5 was approved by the United Nations Statistical Commission in 2025. Establishments sharing the same principal activity are categorized into industries based on the ISIC framework. Regional variations of ISIC are either derived from or closely related to ISIC and include the General Industrial Classification of Economic Activities within the European Communities (NACE), the North American Industry Classification System (NAICS) and the Australian and New Zealand Standard Industrial Classification (ANZSIC).

**A5.21** The relationship between ISIC, on the one hand, and the product classifications CPC, HS and SITC, on the other, is based on the fact that the product classifications in principle combine in one category goods or services that are normally produced in only one industry as defined in ISIC.

<b>Table A5.1. Classification Systems of Goods and Services</b>			
<b>Name of classification system</b>	<b>Main Function</b>	<b>Categories</b>	<b>Main users</b>
Harmonised System (HS)	Customs	Goods trade	IMTS

SITC	Statistical	Goods trade	IMTS/national accounts
CPC	Statistical	Goods and services	National accounts
Mode of transport	Customs	Goods trade	IMTS / environmental
BOP standard components	Statistical	Services trade	External accounts
EBOPS	Statistical	Services trade	Services trade statistics/external accounts
Modes of supply	Trade negotiations	Services trade	GATS/Services trade statistics/external accounts
BEC	Statistical	Goods and services trade	National accounts
ISIC	Statistical	Enterprises	National accounts/Business statistics
Currency composition	Statistical	Goods and services trade	External accounts

## C. INTERNATIONAL TRADE CLASSIFIED BY CURRENCY

**A5.22** The currency in which international trade transactions are denominated does not necessarily reflect the currency of either the exporter or the importer and is a factor of importance in external accounts.

**A5.23** The currency composition of international trade is useful for various stakeholders, including policymakers, researchers, analysts, and foreign exchange market participants. It aids in assessing vulnerabilities in the external sector, analyzing trends in foreign exchange markets, and determining the adequacy of reserves (see also paragraphs 6.77–6.78). Additionally, it plays a significant role in IMF research, particularly in evaluating the usability of currencies for external transactions.

**A5.24** Acknowledging the importance of currency composition of trade for users and policy makers, this *Manual* recommends the development of supplementary information on disaggregation of international trade by currency of denomination. The totals in the trade by currency composition would equal the totals in the goods and services accounts making the statistics straightforward to interpret and increase their usefulness. This presentation would further allow for additional breakdowns, for example by product type or by partner country.

**A5.25** In international trade, the currency of denomination is the currency in which the price, and value of the goods and services is fixed and is known at the same time or close to the

time when the change of ownership of goods occurs or when the service is rendered (see also paragraph 3.191). The currency of denomination refers to *the* currency in which the value of flows is fixed as specified in a contract between parties, that is, the currency indicated on the invoice document that serves as a record of the transaction. It may be different from the currency of settlement. Based on resources, availability of data and on national compilation practices, a combination of data sources for the goods and services accounts, such as surveys, settlements data from an international transactions reporting system or other administrative data could be used to obtain the best estimates for trade by currency of denomination. The currency of settlement, which is *the currency in which a payment is made*, could be acceptable if denomination data are not available or of sufficient quality.

**A5.26** Certain transactions in goods and services are estimated using model-based methods such as parts of the unobserved and informal economy, and additional reasonable assumptions can be made to estimate currency composition. Some transactions in the services account are measures of implicit services such as implicit financial services on loans and deposits. For these and other items where reliable assumptions cannot be made, the category of unallocated can be used.

**A5.27** It is recommended to publish annually the currency composition of the gross totals for both imports and exports of both goods and services. A first level breakdown in currencies would distinguish domestic from foreign currency. Beyond the first level the information provided can specify the most used currencies worldwide (such as the SDR basket of currencies) and currencies of importance to the compiling country. Currency composition of international trade should also have an unallocated item. A recommended reporting template is shown in Table A5.2.

<b>Table A5.2. Currency Composition of International Trade in Goods and Services</b>				
Year	Goods		Services	
	Credits/ Revenues	Debits/ Expenditures	Credits/ Revenues	Debits/ Expenditures
Total				
Domestic Currency				
Foreign currency				
SDR basket				
US dollar				
Euro				

Chinese renminbi				
Japanese yen				
Pound sterling				
Other currencies, of which:				
Currency A				
Currency B				
Currency C				
Unallocated				
<p>Notes:</p> <p>The totals should be equal to total goods and total services in the goods and services accounts.</p> <p>Other currencies are reported if a non-SDR currency is an important currency for international trade of the country.</p>				

## D. PRICE AND VOLUME MEASURES

### References:

- 2025 SNA, Chapter 18, Measuring prices, volumes and productivity
- Eurostat, ILO, IMF, OECD, UNECE and World Bank, *Export and Import Price Index Manual: Theory and Practice* (2009)
- Eurostat, ILO, IMF, OECD, UN and World Bank, *Consumer Price Index Manual: Concepts and methods* (2020)

**A5.28** Chapters 10 and 11 describe how the goods account and services account may be compiled. The changes in the values of flows of goods and services from one period to the next can be directly factored into two components, one reflecting changes in the prices of the goods and services concerned and the other the changes in their volumes. 2025 SNA Chapter 18 discusses the application of index number theory to the derivation of volume measures of exports and imports which is *a time series of exports and imports of goods and services expressed in prices of a certain reference period, thus adjusted for changes in prices*. This annex presents a very short introduction to the most important concepts and considerations of the application of price indices to imports and exports. Further information should be sought from the *Export and Import Price Index Manual: Theory and Practice* and other guidance referred to in 2025 SNA Chapter 18.

**A5.29** The derivation of a volume measure is based on the availability/use of export and import price indices (XMPI) or approximations of such indices. These indices are crucial for adjusting trade statistics to reflect real changes in volume rather than price fluctuations. The export price index, for example, measures the changes in prices of goods and services sold by residents to nonresident buyers over time. It computes an average price change across different export items, using a weighted average approach. The index compares the current prices of export items to their prices during a reference period (for each item known as a “price relative”). Each item’s contribution to the index is based on its share of the total export value.

**A5.30** An import price index measures the changes in the prices of goods and services purchased by residents from nonresident sellers.

**A5.31** It is important to consider both the quantity and quality of an individual product when evaluating its volume. The *Consumer Price Index Manual* provides examples illustrating how changes in quality can impact perceived value. For instance, when prices remain constant, an increase in the concentration of a detergent (resulting in more washes per kilogram), improvements in internet service speed, and the inclusion of a warranty with a dishwasher all represent effective decreases in price, as consumers receive more value for their money. Conversely, reductions in quality—such as less legroom in economy flights—while maintaining the same price, effectively translate to increases in price from the consumer’s perspective. This highlights the importance of factoring in both quantity and quality when assessing product value and measuring price changes over time.

**A5.32** An ideal computation of a price index for exports or imports involves several key steps. First, a representative basket of goods and services that reflects the trade patterns of the economy must be established. This basket should include a diverse range of products to capture the overall price movements accurately. Next, specified constant-quality transactions of these products need to be collected systematically over time ideally through establishment surveys. Changes in these transaction prices are used to calculate product-level indices. These product-level indices are then combined to create higher-level aggregations using a weighted formula, with the product weights derived from trade in goods and services data in a reference year.

**A5.33** A unit value related to imports and exports of goods is defined as the total value of shipments for a specific commodity class divided by the corresponding total quantity of that class during a given period. Depending on the commodity class, prices within the same class may vary a little or significantly. Essentially, the unit value represents an average price for that commodity, calculated by taking the total value of trade and dividing it by the number of units traded.



**A5.34** Using unit values derived from customs data to compute a price index for goods trade has its advantages and disadvantages. On the positive side, unit values are relatively easy to obtain and provide broad coverage of trade, making them a cost-effective source of information. They can efficiently aggregate price changes for homogeneous items, so that identical goods sold for different prices throughout a period would be averaged. However, there are notable disadvantages, such as the potential for bias arising from compositional changes in the quantities and the quality of goods traded such as when consumer preference changes. Unit value indices are unreliable for heterogeneous items and can reflect changes in the types of goods transacted each period rather than pure price changes. Additionally, customs data may not always be comprehensive and may include information without quantity reports or with less reliable information on quantity measures, which can limit their overall accuracy.

**A5.35** A promising way forward would be to develop a hybrid model that combines unit values for homogenous goods with price indices based on survey data for heterogeneous goods. This approach would leverage the strengths of both methods, enhancing the accuracy and reliability of price index calculations. By integrating unit values, which provide broad coverage, with detailed survey data that can account for quality changes and heterogeneous goods, the hybrid model could offer a more nuanced understanding of price movements in the economy. This comprehensive strategy is more resource intensive but would help mitigate the biases associated with using unit values alone and improve the overall robustness of price index measurements.

**A5.36** One final consideration in the measurement of unit prices for trade in goods is the current recommendation for the valuation of goods based on the FOB valuation method (see paragraph 10.24). For imports, some adjustments may be needed to convert the customs-based unit values to FOB valuation.

**A5.37** Measuring price changes of services presents unique challenges due to their intangible nature, making it difficult to observe quantity and quality changes over time. Furthermore, some services such as insurance services and some financial services are not directly observable and must be derived from other observable data.

**A5.38** Exports and import price indices for business-to-consumer service categories would follow methods in place for the construction of a consumer price index (see *Consumer Price Index Manual: Concepts and methods*). This would include travel credit items and air passenger fares. Export price indices for services can also build upon the methods of (or may be a subset of) the producer price index. The selection of enterprises in this case would be restricted to exporting firms and only to the services being exported by these firms. The most effective method for constructing import price indices for business-to-business services

would involve a similar approach, focusing on tracking the price changes of specific services utilized by importing enterprises over time.

**A5.39** Construction of reliable export and import price indices of goods and services rely on collection of data on price changes from exporting and importing enterprises. It is, however, challenging to obtain these data, leading to the frequent application of second-best solutions in practice.

**A5.40** For goods and services impacted by digitalization, compilers of price indices face new challenges. The rapid changes in product characteristics can lead to disruptions of existing products and significant quality improvements. These advancements may result in products that differ substantially from their predecessors, making it difficult to distinguish between genuine price changes and improvements in quality or features. Consequently, maintaining consistent price comparisons over time becomes increasingly complex, requiring innovative approaches to accurately reflect the value of these evolving products in price indices. This is discussed in further detail in Chapter 16.

## E. DIGITAL TRADE

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Reference:

- IMF/OECD/UNCTAD/WTO, *Handbook on Measuring Digital Trade*, second edition (2023)

**A5.41** Digital technologies have enabled the online ordering of goods and services, providing producers with easier access to markets and facilitating more efficient sourcing of inputs, particularly for micro, small, and medium-sized enterprises. Consumers benefit from this shift through easier access to products, greater variety, and lower prices. They have enabled the delivery of services across borders creating the potential for more international trade in services. Additionally, online platforms have emerged as transformative actors across numerous industries, not only in wholesale and retail trade but also in transport, accommodation, food services, and more, effectively matching supply and demand while facilitating transactions.

**A5.42** Digital trade refers to the exchange of goods and services that is facilitated by digital technologies and platforms, transforming traditional trade practices by enabling instantaneous transactions and interactions across borders. As digital technologies continue to evolve, understanding the nuances of digital trade becomes increasingly important for policymakers, businesses, and researchers. The second edition of the *Handbook on Measuring Digital Trade* (2023), “the handbook”, provides a comprehensive framework for measuring and analyzing various aspects of digital trade, outlining key concepts and definitions critical to this emerging field at the time of drafting the *Manual*.

**A5.43** Digital trade consists of *all international trade that is digitally ordered and/or digitally delivered*. The definition of digital trade is thus based on the nature of the transaction (whether it is digitally ordered or digitally delivered) rather than the nature of the product. Digital trade is a subset of all international trade in goods and services and all the accounting principles such as the scope, time of recording and valuation from the goods account and the services account apply to digital trade. Goods can be digitally ordered but cannot be digitally delivered. All services can be digitally ordered, and many services can be digitally delivered.

**A5.44** Digitally ordered trade refers to *the international sale or purchase of a good or service, conducted over computer networks by methods specifically designed for the purpose of receiving or placing orders*. This encompasses activities such as online shopping via websites or mobile applications and business-to-business orders made using the internet or via electronic data interchange (EDI), that is, through machine generated or readable messaging that may not be connected to the world-wide web. Digitally ordered trade captures the buyer engagement with digital interfaces, highlighting the role of technology in facilitating access to goods and services globally. Orders made via telephone, fax or manually typed email are excluded from digitally ordered trade. The definition of digitally ordered trade aligns with the 2011 OECD definition of e-commerce.<sup>2</sup> In fact digitally ordered trade is synonymous with international e-commerce.

**A5.45** Digitally delivered trade refers to *all international trade transactions that are delivered remotely over computer networks*. This includes products delivered electronically, such as software downloads, e-books, and streaming services but also includes services in the form of outputs such as documents, designs, blueprints, and the like that have been delivered in the form of digital files.

**A5.46** Only services can be digitally delivered. However, some services like transport, construction and travel, except for digitally deliverable services consumed while travelling, cannot be digitally delivered. Services that can be delivered remotely over computer networks are called digitally deliverable services. Digitally deliverable services include a wide range of services including software and cloud computing, online banking, e-learning and tele-health, and architectural services where the blueprints are delivered as an attachment to an email.

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<sup>2</sup> According to the *OECD Guide to Measuring the Information Society 2011*, an E-commerce transaction is the sale or purchase of goods or services, conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders. The goods or services are ordered by those methods, but the payment and the ultimate delivery of the goods or services do not have to be conducted online. An e-commerce transaction can be between enterprises, households, individuals, governments, and other public or private organizations.

**A5.47** Digitally delivered services are connected to the modes of supply classification (see paragraphs A5.14–A5.17). Digitally deliverable services that are delivered via cross-border mode of supply (mode 1) would generally be digitally delivered services (although this would not have been true before the current age where digital technologies are widely used). A very small proportion of services supplied via consumption abroad (mode 2) could also be digitally delivered, for instance, one might have an online consultation with a local medical practitioner while on vacation. Services supplied via mode 4 are not deemed to be digitally delivered, since such services are delivered via the presence of natural persons.

**A5.48** There is an overlap between services that are digitally ordered and services that are digitally delivered. Total digital trade equals all international trade that is digitally ordered *plus* all international trade that is digitally delivered *less* those services that are both digitally ordered and digitally delivered (see Table A5.3)

**A5.49** Nonfinancial digital intermediation platforms (DIPs) are *online interfaces that facilitate, for a fee, the direct interaction between multiple buyers and multiple sellers, without the platform taking economic ownership of the goods or rendering the services that are being sold, or intermediated*. DIPs may also facilitate interaction between buyers and sellers of nonproduced nonfinancial assets. Examples of platforms that provide digital intermediation services include e-commerce marketplaces, platforms that facilitate ride-hailing or accommodation services, and social media platforms with integrated shopping features. DIPs are remunerated for providing digital intermediation services through fees received from the buyer, seller, or both. Transactions facilitated by DIPs typically involve three actors: a buyer (or consumer) of the goods or services being intermediated; a seller (which may also be the producer) of the goods or services being intermediated; and a DIP facilitating the transaction and thus providing digital intermediation services. When at least one of these actors is resident in a different economy than the others, the relevant transactions must be recorded in the external accounts. See paragraphs 16.44-16.51 for further discussion of the recording of flows related to DIPs.

**A5.50** The handbook provides a foundational understanding and the conceptual framework of digital trade by elucidating key concepts such as digitally ordered, digitally delivered, and trade facilitated by DIPs. It provides a reporting template (see Table A5.3) for measuring digital trade as well as extensive measurement guidance.

Table A5.3. Proposed Template for Reporting Digital Trade			
Item		Total exports	Total imports
1	<b>Total digital trade (=2+3-4)</b>		

2	<b>Digitally ordered trade (=2.1+2.2)</b>
2.1	Goods
2.1.a	<i>of which: via DIPs</i>
2.2	Services
2.2a	<i>of which: via DIPs</i>
3	<b>Digitally delivered trade</b>
3.a	<i>of which: via DIPs</i>
4	<b>Digitally ordered <i>and</i> digitally delivered trade</b>
4.a	<i>of which: digital intermediation services</i>
	<b>Addendum items</b>
A.1	Digital trade in services (=2.2+3-4)
A.2	Digitally deliverable services (>3)
Source: <i>Handbook on Measuring Digital Trade, second edition (2023)</i>	
Notes: Trade in goods and services facilitated by DIPs is recorded under <i>of which: via DIPs</i> ; intermediation services provided by DIPs is recorded under <i>of which: digital intermediation services</i> .	

## Annex 6. Selected Issues on Direct Investment

### A. INTRODUCTION

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**A6.1** This annex focuses on selected issues related to direct investment. It first gives an overview of direct investment by bringing together topics that cut across different chapters, in contrast to the main part of the *Manual*, which is organized according to accounts rather than topics. The annex then goes into detail on specific issues that are particularly relevant to direct investment statistics, namely ultimate control and pass-through funds; corporate inversions; public-private partnerships; cash pooling; and greenfield investment and extension of capacity. The compilation of direct investment statistics described in this *Manual* is consistent with the *OECD Benchmark Definition of Foreign Direct Investment, fifth edition*, where additional details can be found.

### B. OVERVIEW OF DIRECT INVESTMENT

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**A6.2** Direct investment arises when an investor resident in one economy makes an investment that gives control or a significant degree of influence on the management of an enterprise that is resident in another economy. Direct investment statistics cover the investment income and financial flows and positions that arise between parties in a direct investment relationship.

**A6.3** Direct investment relationships and associated concepts are defined in paragraphs 6.8–6.24. More details are available in the description of the Framework for Direct Investment Relationships in Chapter 2 of the *OECD Benchmark Definition of Foreign Direct Investment, fifth edition*. Some important terms are defined briefly in Box A6.1.

**A6.4** In operational terms, a direct investment relationship is defined as arising when an entity has equity that gives it voting power of 10 percent or more in the enterprise (paragraph 6.12). The definition also spells out how control or a significant degree of influence may be achieved by immediate ownership or indirect ownership, by a chain of ownership of enterprises that in turn own other enterprises (paragraph 6.12). All enterprises that are under the control or influence of the same direct investor are in a direct investment relationship with each other.

**A6.5** Whereas a direct investment relationship is defined in terms of voting power, most financial flows and positions between the entities, including loans and trade credit, are

classified as direct investment (paragraphs 6.25–6.35). The only financial flows and positions excluded are debt between selected affiliated financial corporations and financial derivatives (paragraphs 6.28–6.29). Debt included in direct investment is called “intercompany lending” (paragraph 6.26). “Funds in transit” or “pass-through funds” refer to funds passing through a direct investment enterprise resident in an economy to an affiliate in another economy, so that the funds do not stay in the economy of the first enterprise (paragraphs 6.32 and A6.22–A6.23). Pass-through equity and debt are included in direct investment (unless classified as debt between selected affiliated financial corporations—paragraph 6.28) but may be identified separately (paragraphs 6.32–6.33).

**A6.6** The typical direction of direct investment is from the direct investor to its direct investment enterprise. However, there may also be direct investment in the reverse direction, as discussed in paragraphs 6.41–6.42. Whereas the primary presentation of data in this *Manual* is according to whether the item relates to an asset or liability, an alternative presentation called the directional principle, based on the direction of the direct investment relationship, can be derived from the components and is of analytical interest—see paragraphs 6.43–6.44, Box 6.4, and Chapter 2 of the *OECD Benchmark Definition of Foreign Direct Investment*, fifth edition.

**A6.7** Issues associated with direct investment positions are discussed in paragraphs 7.14–7.26. Valuation of equity not listed on a market is discussed in paragraphs 7.15–7.19. Entities that borrow on behalf of their affiliates are discussed in paragraphs 7.20–7.22.

**A6.8** Issues associated with financial account transactions in direct investment are discussed in Chapter 8. Reinvestment of earnings is the corresponding entry to reinvested earnings in the earned income account and is discussed in paragraphs 8.15–8.16. The possibility of imputed direct investment flows arising from goods, services, or other items supplied above or below market price or with no payment (i.e., distorted transfer pricing) is discussed in paragraph 8.18. Mergers and acquisitions are covered in paragraph 8.19, while corporate inversion and other restructuring are discussed in paragraphs 8.20 and A6.24–A6.26.

### Box A6.1. Direct Investment Terms

*Direct Investment:* A category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Ownership of 10 percent or more of the voting power is evidence of a direct investment relationship. As well as the equity that gives rise to control or influence, direct investment also includes associated debt (except debt between selected affiliated financial corporations, specified in paragraph 6.28) and other debt and equity between enterprises that have the same direct investor.

*Direct Investment Relationship:* A direct investment relationship arises when an investor resident in one economy makes an investment that gives control or a significant degree of influence on the management of an enterprise that is resident in another economy (paragraph 6.9). All enterprises that are under the control or influence of the same direct investor are in a direct investment relationship with each other. Direct investment statistics cover investment income and financial transactions, other flows, and positions in equity and selected debt instruments between entities in a direct investment relationship.

*Direct Investor:* An entity or group of related entities that is able to exercise control or a significant degree of influence over another entity that is resident of a different economy (paragraph 6.11).

*Direct Investment Enterprise:* An enterprise in one economy subject to control or a significant degree of influence by a direct investor (paragraph 6.11). An exception is investment funds, which cannot be direct investment enterprises (paragraph 6.24). A direct investment enterprise is either a subsidiary or an *associate* (paragraph 6.15).

*Control and Influence:* *Control* is determined to exist if the direct investor has more than 50 percent of the voting power in a direct investment enterprise. Such a direct investment enterprise is a subsidiary. A *significant degree of influence* is determined to exist if the direct investor has from 10 to 50 percent of the voting power in the direct investment enterprise. Such a direct investment enterprise is an associate. The control or influence may be immediate (through ownership of voting power) or indirect (through ownership of enterprises that in turn have voting power). More detail on the identification of control and influence is given in paragraphs 6.11–6.14.

*Fellow Enterprises:* Enterprises under the influence or control either directly or indirectly of the same direct investor, but neither of the enterprises controls or influences the other enterprise. (paragraph 6.17).

*Affiliates:* Enterprises in an immediate or indirect direct investment relationship with each other, or that have the same immediate or indirect direct investor. Affiliates of an enterprise thus consist of its immediate or indirect direct investor(s), its immediate or indirect direct investment enterprise(s), and its fellow enterprise(s).

*Reverse Direct Investment:* Direct investment resulting from a direct investment enterprise lending funds to or acquiring equity in its immediate or indirect direct investor, provided it does not own equity comprising 10 percent or more of the voting power in that direct investor (paragraph 6.40).



**A6.9** Issues associated with income on direct investment are discussed in Chapter 12. Reinvested earnings are discussed in paragraphs 12.42–12.49, 12.50–12.56, and 12.116–12.119.

**A6.10** In addition, the general accounting rules; issues of residence, institutional units, and sectors; and classification of instruments are also applicable to direct investment. They are dealt with in Chapters 3, 4, and 5, respectively. The case of distorted transfer pricing between affiliated enterprises is discussed in paragraphs 3.113–3.116 and 12.120–12.121.

**A6.11** The identification of institutional units in the case of branches; construction projects; production delivered from a base; notional resident units for land and other natural resources, and buildings and structures owned by nonresidents; multiterritory enterprises; joint ventures; head offices and holding companies; special purpose entities (SPEs); and trusts and similar types of funds are dealt with in paragraphs 4.51–4.93 and pertain particularly to direct investment.

**A6.12** Standard components and selected supplementary items, including items related to direct investment, are shown in Annex 14. Because of interest in different types of direct investment, additional breakdowns could be provided on a supplementary basis for components of particular relevance to an economy. Examples include data on mergers and acquisitions (paragraph 8.19), SPEs (paragraphs 4.77–4.80), pass-through funds (paragraphs 6.32–6.33 and A6.22–A6.23), corporate inversions (paragraphs 8.20 and A6.24–A6.26), greenfield investment and extension of capacity (paragraphs A6.43–A6.44), industry classification (paragraph 6.51), and private equity (paragraph 5.26).

**A6.13** Direct investment data may also be classified by partner economy, as discussed in paragraphs A11.49–A11.52. The partner may be on the basis of the immediate investor or the ultimate investing or host economy, as discussed in paragraphs A6.16–A6.21.

**A6.14** Whereas external accounts data show the external flows and positions, another aspect of the impact of direct investment is on domestic variables, such as employment, sales, value added, and gross fixed capital formation. Statistics that include such variables are called Activities of Multinational Enterprises statistics and are discussed in Chapter 15.

## **C. ULTIMATE CONTROL AND PASS-THROUGH FUNDS**

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**A6.15** Complex financing and ownership structures of multinational enterprises (MNEs) can inflate direct investment flows and positions as each flow into and out of an economy is counted, even if the funds or income are merely passing through. Consequently, interpreting direct investment statistics becomes challenging, and these statistics fail to reveal the ultimate sources and destinations of direct investment when compiled by immediate partner

economy. To address these issues, this section presents supplementary presentations of direct investment by ultimate partner economy and a supplementary identification of pass-through funds. These supplementary presentations aim to improve the interpretability and usefulness of direct investment statistics and are based on the directional principle (see Box 6.4). More details on ultimate control and pass-through funds are available in Chapter 6 and Annexes 8.A–8.B of the *OECD Benchmark Definition of Foreign Direct Investment, fifth edition*.

## 1. INWARD DIRECT INVESTMENT BY THE ULTIMATE INVESTING ECONOMY

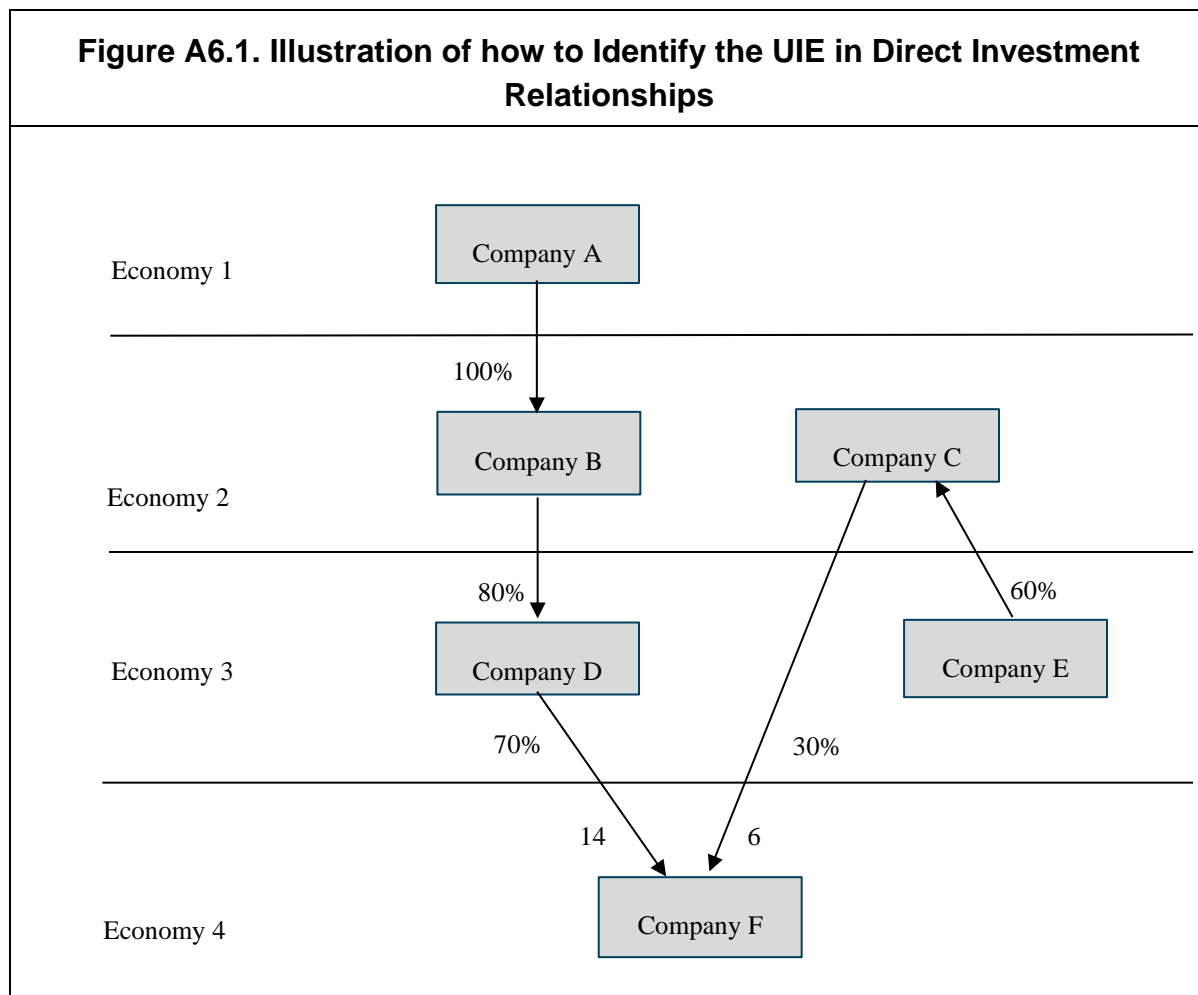
**A6.16** Inward direct investment may be broken down by the immediate investing economy (IIE) or the ultimate investing economy (UIE). The IIE refers to the economy of each immediate counterpart, while the UIE attribution is based on the economy of the ultimate controlling parent(s) (UCP). *The UCP is defined as the entity that ultimately controls an enterprise, identified by proceeding up the ownership chain from the enterprise through the controlling links (ownership of more than 50 percent of the voting power) until an individual, household, or company that is not controlled by another company is reached. If there is no company, individual, or household that controls the resident enterprise, then the resident enterprise may be considered to be its own ultimate controlling parent.* The UIE may be the same as the host economy.

**A6.17** Different methods can be employed to identify the UIE. The *Manual* recommends the “winner takes all” (WTA) method, where the entire inward direct investment flow or position of a resident institutional unit is attributed to the economy of its UCP. An alternative approach is the “proportional ownership” (PO) method, which assigns each inward direct investment flow or position of a resident institutional unit to the economy of the immediate counterpart’s UCP. MNEs often rely on the International Financial Reporting Standards (IFRS) consolidation approach, outlined in IFRS 10. This approach may prove valuable in identifying the UCP.

**A6.18** An example can be used to illustrate the differences between the IIE and UIE (WTA/PO) methods. Figure A6.1 shows the direct investment relationships for Company F that has immediate direct investors and indirect investors along its ownership chain. Economy 4 would record the following under the various methods:

- (i) **IIE:** Inward direct investment of 6 from Economy 2 (investment from Company C) and 14 from Economy 3 (investment from Company D).
- (ii) **UIE (WTA method):** Inward direct investment of 20 from Economy 1 since Company A is the UCP of Company F.

- (iii) **UIE (PO method):** Inward direct investment of 6 from Economy 3 (since Company E is the UCP of Company C) and 14 from Economy 1 (since Company A is the UCP of Company D).



## 2. OUTWARD DIRECT INVESTMENT BY THE ULTIMATE HOST ECONOMY

**A6.19** Outward direct investment may be broken down by the immediate host economy (IHE) or the ultimate host economy (UHE). The IHE refers to the economy of the immediate counterpart to the outward direct investment. To compile direct investment by the UHE, the outward direct investment flows or positions should be reallocated from the immediate counterparts to the economy (or economies) of the entity (or entities) below them in the investment chain. Like for the identification of the UIE, various methods can be deployed to determine the UHE.

**A6.20** The *Manual* recommends defining the UHE as the economy of the first operating unit, i.e., the first unit in the investment chain whose purpose extends beyond administrative, management, or asset-holding functions. Figure A6.2 shows the direct investment relationships for Company A. This example can be used to illustrate the breakdowns of outward direct investment according to the IHE and UHE.

**Economy 1:**

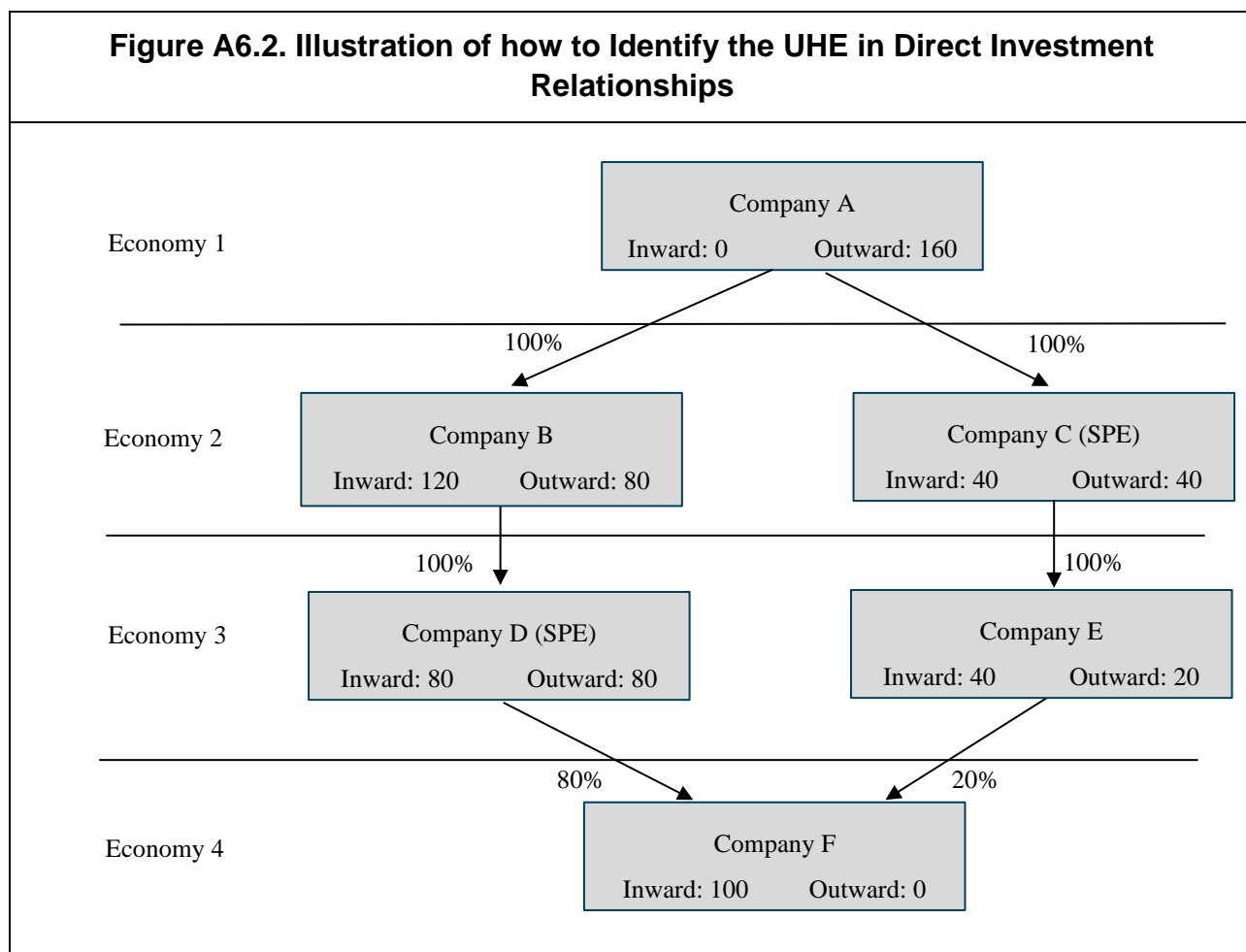
- **IHE:** Outward direct investment of 160 to Economy 2 (investments in Company B and Company C).
- **UHE:** Outward direct investment of 120 to Economy 2 (investment in Company B) and 40 to Economy 3 (investment in Company C reallocated to the first operating unit, i.e., Company E).

**Economy 2:**

- **IHE:** Outward direct investment of 120 to Economy 3 (investments in Company D and Company E).
- **UHE:** Outward direct investment of 80 to Economy 4 (investment in Company D reallocated to the first operating unit, i.e., Company F) and 40 to Economy 3 (investment in Company E).

**Economy 3:**

- **IHE:** Outward direct investment of 100 to Economy 4 (investment in Company F).
- **UHE:** Outward direct investment of 100 to Economy 4 (investment in Company F).



**A6.21** More research on the UHE allocation is necessary. For instance, it needs to be determined how to allocate flows and positions when a nonoperating unit in the investment chain invests in multiple affiliates across various economies. Additional approaches for compiling outward direct investment by the UHE could also be considered as described in Chapter 8 of the *OECD Benchmark Definition of Foreign Direct Investment, fifth edition*.

### 3. PASS-THROUGH FUNDS

**A6.22** *Pass-through funds—or funds in transit—are funds passing through a direct investment enterprise resident in an economy to an affiliate in another economy, so that the funds do not stay in the economy of the first enterprise.* By separately identifying financial transactions, positions, and associated income flows to and from resident SPEs, a lower-bound estimate of the amount of pass-through funds in an economy can be established. This approach specifically targets funds passing through a subset of affiliates (i.e., SPEs) that are typically established for this purpose. For more information on SPEs, see paragraphs 4.77–4.80 and 15.9–15.12.

**A6.23** Presenting inward and outward direct investment according to the UCP of resident entities can be used to estimate the extent of pass-through funds in an economy, as shown in Table A6.1. Cell A identifies inward direct investment into resident entities with a nonresident UCP, and cell B represents the outward direct investment from these entities. The amount in cell B can be seen as an upper-bound estimate of funds simply passing through the host economy, while cell A minus cell B gives an indication of how much of the inward direct investment into foreign-controlled entities remains in the host economy.<sup>1</sup> Cell C identifies the inward direct investment into resident entities with a resident UCP, and cell D represents the outward direct investment from these entities. Some of the inward direct investment in cell C may be round tripping.

<b>Table A6.1. Breakdown of Inward and Outward Direct Investment by Residency of the Ultimate Controlling Parent</b>		
	Inward direct investment	Outward direct investment
UCP is nonresident	A	B
UCP is resident	C	D

## D. CORPORATE INVERSIONS

**A6.24** *Corporate inversion describes the corporate restructuring of a multinational enterprise group such that the original ultimate controlling parent company in one economy becomes a subsidiary of the new parent in another economy. In addition, ownership of a group of enterprises may be shifted to the new parent company (see also paragraph 8.20).* The definition clarifies two important aspects that distinguish corporate inversions from other types of operations. First, corporate inversions differ from other cross-border mergers and acquisitions because the acquired company takes an active role rather than being a passive entity, i.e., the acquired company initiates the transaction. Second, corporate inversions differ from other forms of corporate restructurings in that the original parent company becomes a subsidiary of a new parent in another economy. A typology of the most usual

<sup>1</sup> This difference can, in principle, be negative, given that direct investment enterprises with a nonresident UCP may make outward direct investment using funds raised from domestic or external non-direct investment sources (e.g., an SPE attracting portfolio investment). These issues can be explored as part of the research into pass-through funds, as recommended in the research agenda (see Annex 15).

cases of corporate inversions or other forms of restructuring with comparable economic effects includes the following four cases:

- (i) **Pure inversion:** A cross-border restructuring between the original parent company (the inverter) and a nonresident subsidiary, with the new foreign parent company incorporating in the economy of the subsidiary. The subsidiary often holds a negligible amount of assets and liabilities in its balance sheet before the inversion and might have been created for the sole purpose of the inversion. As the inversion is achieved by transactions in financial assets between different entities (often through stock swaps), it usually results in financial transactions being recorded in the financial account.
- (ii) **Inversion by Merger:** A cross-border share swap between the shareholders of the original parent company (the inverter) and those of an independent company in a foreign economy, with the new nonresident parent company incorporating in the foreign economy. Like the first case (pure inversion), the inversion is achieved by transactions in financial assets between different entities and usually results in financial transactions being recorded in the financial account.
- (iii) **Born inverted:** An establishment of a new domestic company where a nonresident entity is the owner. The headquarter functions of the MNE remains in the economy of the new domestic company. The establishment of the new domestic company with a nonresident owner typically leads to financial transactions being recorded in the financial account.
- (iv) **Changing company residence** (also known as transfers of registered offices): A change of residence of a company that does not involve any merger or transaction with another company. Although a change in residence may involve the emigration of an entity to another jurisdiction, it has comparable economic effects as an inversion in the first case (pure inversion). However, the change of residence would be recorded as other change in volume because no financial transactions occurred (see paragraphs 4.231 and 9.39).

**A6.25** While the economy of the direct investor is changed by corporate inversion, the operational structure and ultimate shareholders remain effectively unchanged, but the new parent company typically has the benefit of the taxation and regulatory environment of its economy of incorporation. Because inversions can involve large values in the financial account but with little or no movement in resources, there may be analytical interest in separating them from other direct investment.

**A6.26** Economies are encouraged to provide supplementary data on corporate inversions if they are significantly impacted by them. These supplementary data could include financial

transactions, positions, and income associated with corporate inversions, not only for direct investment but also for portfolio investment. This is because corporate inversion often involves a portfolio transaction that almost exactly offsets the direct investment transaction. The differing treatment of reinvested earnings on direct investment and portfolio investment tends to increase net earned income of the economy hosting the new parent company, resulting in higher gross national income. However, supplementary recording of reinvested earnings on portfolio investment as described in paragraph 12.49 could address this asymmetry.

## E. PUBLIC-PRIVATE PARTNERSHIPS

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**A6.27** *Public-private partnerships (PPPs) are long-term contracts between a private unit (usually a private enterprise but occasionally a private nonprofit institution) and a public unit for the provision of a public asset or set of assets and related services in which the private party acquires, builds, or refurbishes an asset, operates the asset for the contract period, and bears significant risk and management responsibility.* Such arrangements are particularly relevant for the external accounts when they involve a private unit and a public unit that are resident in different economies. There are many types of PPP arrangements, described variously as private finance initiatives (PFIs), build-operate-transfer schemes (BOTs), build-own-operate-transfer schemes (BOOTs), design-build-operate schemes (DBOs), design-build-finance-operate schemes (DBFOs), concessions, and so on.

**A6.28** Governments engage in PPPs for several reasons, including the expectation that private management may lead to more efficient production, the desire to defer or spread payment obligations, and to benefit from access to a broader range of financing sources. During the contract period, the PPP contractor operates the asset and assumes the associated risk and has the economic ownership. The legal ownership of the assets during the contract period depends on the terms of the contract and the applicable laws. Usually, once the contract period is over, the asset is transferred to the public sector, leaving the government with both economic and legal ownership. (An asset's economic owner can differ from its legal owner, as economic ownership in the external accounts is based on who bears the majority of the risks and rewards, and economic ownership in the external accounts may also differ from ownership of PPP assets in business accounts based on control over the assets).

**A6.29** PPP contracts vary in their terms concerning the operation and maintenance of the assets during the contract period and the disposition of the assets at its end, and in the standards for the price, quality, and volume of the services to be supplied. A common type of arrangement is for a private enterprise to acquire a complex of fixed assets and then use those assets to produce services delivered to the government, either for use as an input to



its own production (for example, motor vehicle maintenance services) or for distribution to the public without payment (for example, education services). If the services are to be distributed to the public, the government will make performance-based periodic payments linked to the asset's availability and the delivery of the related services. Alternatively, in a concession arrangement, the private enterprise builds or acquires assets, then uses those assets to sell services to the public (for example, a toll road). In either case, the payments to be received by the private enterprise are expected to cover its costs and allow it to earn an adequate rate of return on its investment.

**A6.30** There can be many variations in PPP contracts regarding the legal ownership of the asset during the contract period, the disposition of the assets at the end of the contract, the required operation and maintenance of the assets during the contract, the price, quality, and volume of services produced, and so forth. At the end of the contract period, the government may gain legal and economic ownership of the assets without payment.

**A6.31** Even though the private enterprise is responsible for constructing or acquiring the fixed assets, the financing may be provided by the government or facilitated by a government guarantee, and the contract may require that the assets meet the design, quality, and capacity specified by the government. The contract may also require that the assets be used in the manner specified by the government to produce services and be maintained in accordance with standards specified by the government. Furthermore, the assets typically have longer service lives than the contract period, so that the government will control the assets, bear the risks, and receive the rewards for a significant portion of the assets' service lives. Thus, it frequently is not obvious whether the private enterprise or the government bears the majority of the risks and reaps the majority of the rewards.

**A6.32** As with operating and financial leases, the economic owner of the assets of a PPP is determined by assessing which unit bears the majority of the risks and which unit is expected to receive a majority of the rewards of the assets. The factors to consider in making this assessment can be broadly divided into two groups, those associated with acquiring the asset and those associated with using it in production. Some of the risks associated with acquiring the asset are:

- a. The degree to which the government controls the design, quality, size, and maintenance of the assets;
- b. Construction risk, which includes the possibility of additional costs resulting from late delivery, not meeting specifications or building codes, and environmental and other risks requiring payments to third parties.

Some of the risks associated with using the asset in production are:

- a. Supply risk, which covers the degree to which the government is able to control the services produced, the units to which the services are provided, and the prices of the services produced;
- b. Demand risk, which includes the possibility that the demand for the services, either from government, or from the public at large in the case of a concession arrangement, is higher or lower than expected;
- c. Residual value and obsolescence risk, which includes the risk that the value of the asset will differ from any price agreed for the transfer of the asset to government at the end of the contract period;
- d. Availability risk, which includes the possibility of additional costs or the incurrence of penalties because the volume and/or quality of the services do not meet the standards specified in the contract.

**A6.33** The relative importance of each factor is likely to vary with each PPP. It is not possible to state in advance a set of prescriptive rules that will be applicable to every situation. The provisions of each PPP must be evaluated in order to decide which unit is the economic owner.

**A6.34** Likewise, the complexity and variety of PPP contracts preclude the enumeration of detailed rules governing the transactions to be recorded concerning the control and use of the assets. Instead, the facts and circumstances of each contract should be considered, and an accounting treatment should be selected that best brings out the underlying economic relationships. There are, however, a few common difficulties.

**A6.35** If the private enterprise is assessed as being the legal owner during the contract period and if, as usual, the government obtains legal and economic ownership at the end of the contract without an explicit payment, a transaction must be recorded for the government's acquisition of the assets. One approach is for the government gradually to build up a financial claim and the private unit gradually to accrue a corresponding liability such that the value of both is expected to be equal to the residual value of the assets at the end of the contract period. At the end of the contract period, the government records the acquisition of the asset and the disappearance of the financial claim, and the private unit records the disposal of the asset and the disappearance of the liability for the claim. Implementing this approach requires existing monetary transactions to be partitioned or new transactions to be imputed using assumptions about expected asset values and interest rates.

**A6.36** A simpler alternative is to record the change of legal and economic ownership as a capital transfer occurring in the same period as the change in ownership. This approach does not reflect the underlying economic reality as well, but data limitations, uncertainty about the expected residual value of the assets, and contract provisions allowing various options to be exercised by either party could make recording a capital transfer acceptable on pragmatic grounds.

**A6.37** If the government is assessed as being the economic owner of the PPP asset during the contract period but does not make any explicit payment at the beginning of the contract, transactions must be imputed to cover the acquisition of the asset. An acquisition via a financial lease may be imputed because of the similarity with actual financial leases. The details of the implementation of this approach depend on the specific contract provisions, and possibly other factors, but in general, a loan structured as financial lease is imputed. If there are actual government payments to the private unit, they could be partitioned so that portions of each payment go towards imputed payments of principal and interest on the loan. If there are no actual government payments (as in a concession arrangement), part of the payments from the public for use of the asset may be re-routed through the government, with the imputed revenue being used by the government for imputed payments of principal and interest on the loan.

**A6.38** PPPs can impact direct investment statistics in different ways. For instance, direct investment income and financial flows may increase if the private unit participating in the PPP is a direct investment enterprise. In addition, when a private nonresident unit participates in a PPP and becomes the economic owner of an immovable nonfinancial asset (such as land or a building) within the compiling economy, a notional resident unit must be created. This notional unit is treated as the owner of the asset (see paragraph 4.59). Consequently, a direct investment relationship emerges between the nonresident unit (the direct investor) and the notional unit (the direct investment enterprise). Even if the nonresident unit is not the economic owner of an asset in the PPP arrangement, a direct investment relationship may still need to be established. For example, major construction projects that span a year or more and are managed through a local site office usually satisfy the criteria for identifying a branch (as described in paragraph 4.54). In such cases, there would be a direct investment relationship between the nonresident unit (the direct investor) and the branch (the direct investment enterprise).

## **F. CASH POOLING**

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**A6.39** Cash-pooling arrangements provided by banks allow corporations to externalize the intra-group cash management, enabling them to manage their global liquidity more effectively and at lower costs. Financial innovation has addressed the needs of corporate

groups to manage funds in a centralized way by creating different cash-pooling arrangements. These are agreements between a bank and the entities of a group, which can be located in the same or in different economies, allowing for pooling of cash in real time.

**A6.40** The three main types of cash-pooling arrangements are as follows:

- (i) **Single legal account:** Consists of (a) a set of virtual transactions/operational sub-accounts, which are used directly by the individual companies in the group, as well as the parent company, for their day-to-day operations; and (b) a top/master group account (usually held by the parent company), which constitutes an obligation of the pooling bank vis-à-vis the beneficiary and concentrates the funds of the group. The virtual sub-accounts only track the intra-group positions and are not in a direct relationship with the bank. The information on virtual transactions usually is part of the service provided by the pooling bank to the client but are not necessary for the bank's accounting system. From the point of view of the bank, only changes in the top/master account should be reported as this will reflect changes in its claims vis-à-vis the parent company, the only direct client in this type of cash pool.
- (ii) **Physical cash pool:** Each company that participates in the cash-pooling arrangement holds an account with the pooling bank. In addition, there is a master account that usually is held by the parent company. The balances of the surplus accounts are transferred to the master account on a regular basis (e.g., daily at close of business). Conversely, the parent company transfers liquidity from the master account to the accounts in deficit at the end of the period (e.g., day). In that sense, they are all counterparties of the bank, and the deficit balances from pooling participants appear only temporarily as assets on the bank's balance sheet. There are two types of physical cash pools. In a zero-balancing cash pool, the full balance of the surplus accounts is transferred to the master account on a regular basis. The target-based cash pooling specifies a (positive) threshold whereby liquidity is transferred to the master account from individual accounts when the balances of individual accounts exceed the threshold, and conversely, liquidity is transferred from the master account to individual accounts when their balances are below the threshold.
- (iii) **Notional cash pool:** As in the physical cash pool, all the bank accounts represent a legal relationship between the pooling bank and the participating entities, which are thus direct counterparties of the bank. The pooling is performed by the bank by creating a notional top/master account that virtually consolidates the positions of the pooling participants but does not represent a

resource or an obligation of the bank. As a result, no liquidity transfers resulting in inter-company loans take place. The funds will remain in the assets of the bank as a loan to a particular participating entity. However, following the structure of the cash pooling, the loan is guaranteed by the cash pooling members, subject to lower charges, restrictions, and implicit interest, and typically can only be drawn upon to the extent that the overall pool has a positive net balance.

**A6.41** The recording of cash-pooling arrangements in the external accounts is complex and depends on the identification of the actual debtor and creditor instead of the payment service provider. The parent company and its subsidiaries should be able to report the internal booking entries as intercompany lending, i.e., as assets or liabilities depending on the direction of the funds. The presence of cash-pooling arrangements between affiliated parties needs to be identified via direct investment surveys when they take the form of single legal account or physical cash pool.

**A6.42** Table A6.2 summarizes the statistical treatment for the different types of cash-pooling arrangements from the perspective of the compiling economy of the participant subsidiaries. It is assumed that the pooling bank is not part of the MNE group and that all units participating in the cash-pooling arrangements are residents of different economies. If an overdraft or loan is received by a pooling participating subsidiary and covered by a single legal account or a physical cash pool, the creditor is the parent company (the holder of the top/master account), and the recording is done as intra-group loans in direct investment (except for the debt between selected affiliated financial corporations—see paragraph 6.28).<sup>2</sup> However, if the overdraft or loan is based on a notional cash pool, the creditor is the pooling bank, and the recording is done as other investment between the pooling bank and participating entities.

<b>Table A6.2. Summary of the Treatment of the Participation of a Subsidiary in a Cash-Pooling Arrangement</b>				
Types of cash-pooling arrangements		Instrument/Functional category		Counterpart
		Asset	Liability	
Single legal account (SLA)		Debt instruments/direct investment <sup>1</sup>	Debt instruments/direct investment <sup>1</sup>	Owner of SLA
Physical cash pool with a master account (MA)	Zero-balancing	Debt instruments/direct investment <sup>1</sup>	Debt instruments/direct investment <sup>1</sup>	Owner of MA
	Target-based	Deposits (up to the target)	Loan/other investment	Bank

<sup>2</sup> In a target-based cash pool, the creditor is the pooling bank for amounts up to the target threshold, and the recording is done as other investment between the pooling bank and participating entities.

		Debt instruments/direct investment <sup>1</sup>	Debt instruments/direct investment <sup>1</sup>	Owner of MA
Notional cash pooling		Deposits/other investment	Loan/other investment	Bank
Note: <sup>1</sup> Except for the debt between selected affiliated financial corporations that should be included under other investment (see paragraph 6.28). Debt instruments refer only to deposits and loans following the convention that if a bank is the debtor, the instrument takes the form of deposits, otherwise the instrument is a loan.				

## G. GREENFIELD INVESTMENT AND EXTENSION OF CAPACITY

**A6.43** *Greenfield investment (GI) comprises investments in direct investment enterprises established within the last three years. Extension of capacity (EC) comprises capital injections that are used to expand the capacity of direct investment enterprises that have existed for three years or more.* Economies are encouraged to provide supplementary data on GI and EC transactions for (i) equity (other than reinvestment of earnings), (ii) reinvestment of earnings, and (iii) debt instruments. The recording should be on net transactions in inward direct investment and should exclude pass-through funds if possible. Ideally, GI and EC statistics should include an industry breakdown by the direct investment enterprise and a geographical breakdown by the ultimate controlling economy.

**A6.44** The method recommended in the *Manual* follows the *transaction approach*, which focuses on the direct investment funds received by the direct investment enterprise. An alternative method is the *capital approach*, which considers gross fixed capital formation expenditures by direct investment enterprises. While the capital approach provides a direct measure of new capacity, it extends beyond the boundaries of direct investment by measuring gross fixed capital formation regardless of the source of financing. Consequently, it may include gross fixed capital formation financed domestically or by nonresident unrelated parties. More details on greenfield investment and extension of capacity are available in Chapter 9 of the *OECD Benchmark Definition of Foreign Direct Investment, fifth edition*.

## Annex 7. Selected Financial Issues

### A. INTRODUCTION

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**A7.1** This annex addresses two specific financial issues: financial derivatives and reverse transactions. It provides a comprehensive overview by integrating elements that span multiple chapters. Each issue is discussed in separate sections, beginning with definitions of key concepts and descriptions of the main types of financial derivatives and reverse transactions. The sections then delve into their recording in the external accounts and other relevant aspects.

### B. FINANCIAL DERIVATIVES

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#### 1. DEFINITION

**A7.2** *Financial derivatives are financial instruments linked to another specific financial instrument, indicator, or commodity, through which specific risks (e.g., interest rate risk, foreign exchange risk, equity and commodity price risks, credit risk) can be traded in their own right in financial markets.* Financial derivatives also include derivative crypto assets (i.e., derivative contracts that rely on cryptography and that can be exchanged peer-to-peer even if the underlying asset is not a crypto asset) (see paragraph 16.81). Transactions and positions in financial derivatives are treated separately from the values of any underlying items to which they are linked.

**A7.3** The risk embodied in a financial derivative contract can be traded either by trading the contract itself, as is possible with options, or by creating a new contract embodying risk characteristics that match, in a countervailing manner, those of the existing contract. The latter practice, which is termed offsetability, occurs in forward markets. Offsetability means that it is often possible to eliminate the risk associated with a derivative by creating a new but “reverse” contract having characteristics that countervail the risk underlying the first derivative. Buying the new derivative is the functional equivalent of selling the first derivative because the result is the elimination of the underlying financial risk. The ability to countervail the underlying risk in the market is therefore considered the equivalent of tradability in demonstrating value. The outlay that would be required to replace the existing derivative contract represents its value; actual offsetting is not required.

**A7.4** In many cases, derivatives contracts are settled by payments of net amounts in cash, rather than by the delivery of the underlying items. Once a financial derivative reaches its

settlement date, any unpaid overdue amount is reclassified as other accounts receivable/payable, as its value is fixed, and thus the nature of the claim becomes debt.

**A7.5** The following types of financial arrangements are not financial derivatives:

- (a) A fixed-price contract for goods and services is not a financial derivative unless the contract is standardized so that the market risk therein can be traded in financial markets in its own right. For example, an option to purchase an aircraft from the manufacturer is not classified as a financial derivative.
- (b) Insurance and standardized guarantees are not financial derivatives. Insurance involves the collection of funds from policyholders to meet future claims arising from the occurrence of events specified in insurance policies. That is, insurance and standardized guarantees are used to manage event risk primarily by the pooling, not the trading, of risk. However, some guarantees other than standardized guarantees meet the definition of financial derivatives (as covered in paragraph 5.78).
- (c) Contingent assets and liabilities, such as one-off guarantees and letters of credit, are not financial assets (as discussed in paragraphs 5.12–5.15).
- (d) Instruments with embedded derivatives are not financial derivatives.  
*Instruments with embedded derivatives are financial instruments that contain a derivative feature, which is inseparable from the nonderivative components of the instrument.* If a primary instrument, such as a security or loan, contains an embedded derivative, the instrument is classified according to its primary characteristics—even though the value of that security or loan may well differ from the values of comparable securities and loans because of the embedded derivative.<sup>1</sup> Examples are bonds that are convertible into shares, and securities with options for repayment of principal in currencies that differ from those in which the securities were issued. However, detachable warrants are treated as separate financial derivatives, because they can be detached and sold in financial markets.
- (e) Timing delays that arise in the normal course of business and may entail exposure to price movements do not give rise to financial derivatives. Timing delays include normal settlement periods for spot transactions in financial markets.

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<sup>1</sup> If the owner of the primary instrument subsequently creates a new but reverse financial derivative contract to offset the risk of the embedded derivative, the creation of this new financial derivative contract is recorded as a separate transaction, and it does not affect the recording of transactions and positions in the primary instrument.



- (f) Gold swaps and most central bank swap arrangements are not financial derivatives (as discussed in paragraphs 5.62 and 6.107–6.111).<sup>2</sup>
- (g) Subscription rights are classified as equity, rather than financial derivatives, since the sum of the value of the shares after the subscription issuance and that of subscription rights represents the total value of the corporation that issued the subscription rights.

## 2. TYPES OF FINANCIAL DERIVATIVES

**A7.6** There are two broad types of financial derivatives—option-type contracts and forward-type contracts. Option-type contracts entail two payment streams, a "premium leg," comprising of fixed payments from the buyer to the seller, and a "contingent leg," comprising payments from the seller to the buyer depending on the underlying asset's pricing, whereas forward-type contracts entail contingent payments between the parties involved depending on the underlying asset's pricing. The contingent leg in an option-type contract usually entails a single payment at maturity; the premium leg in standard put and call options consists in a single payment at inception.

**A7.7** Option-type contracts can be contrasted with forward-type contracts in that:

- (a) at inception, there is usually no up-front payment for a forward-type contract and the derivative contract begins with zero value, whereas there is usually a premium paid for an option-type contract representing a nonzero value for the contract;
- (b) during the life of the contract, for a forward-type contract, either party can be creditor or debtor, and it may change, whereas for an option-type contract, the buyer is always the creditor, and the writer is always the debtor except for contracts with multiple payments in the premium leg such as credit default swaps;<sup>3</sup> and
- (c) at maturity, redemption is unconditional for forward-type contracts, whereas the buyer of the contract determines it for standard call and put option contracts.

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<sup>2</sup> Most central bank swap arrangements have different pricing and/or conditions from those for a standard market priced currency swap. If a central bank swap arrangement follows pricing and conditions of a regular market priced swap, it should be recorded as a financial derivative.

<sup>3</sup> Credit default swaps are generally regarded as option-type contracts. However, either party of a credit default swap contract can be creditor or debtor.

### **Option-Type Contracts**

**A7.8** *Option-type contracts (options) are contracts that give the purchaser of the option the right but not the obligation, to buy (a “call” option) or to sell (a “put” option) a particular financial or nonfinancial item at a predetermined price (the “strike” price) either within a given time span (American option) or on a given date (European option).*<sup>4</sup> “Option-type contract” is used as the main term because it includes other than standard options, such as credit default swaps. The purchaser of an option pays a premium to the writer of the option. In return, the buyer acquires the right but not the obligation to buy (call option) or sell (put option) a specified underlying item (real or financial) at an agreed-on contract price (the strike price) on or before a specified date. (On a derivatives exchange, the exchange itself may act as the counterparty to each contract.)

**A7.9** *Warrants are tradable financial instruments which give the holder the right but not the obligation to buy from or sell to the issuer of the warrant a fixed amount of an underlying asset, such as shares or bonds.* Although similar to other traded options, a distinguishing factor is that the exercise of the warrants can create new securities, thus diluting the capital of existing bond- or shareholders. If attached to bonds (warrant-linked bonds) to allow for a lower coupon payment, the warrants are not treated as separate financial asset (see paragraph 5.94(d)). Warrants also include covered warrants. A covered warrant is generally issued by a financial corporation and gives the holder the right, but not the obligation to buy or sell an underlying asset, at an agreed contract price for a specified period of time or on a specified date. A covered warrant allows the holder to buy or sell a variety of financial or nonfinancial items (e.g., equities, currencies, and commodities).

### **Forward-Type Contracts**

**A7.10** *Forward contracts (forwards) are unconditional contracts by which two counterparties agree to exchange a specified quantity of an underlying item (financial or nonfinancial) at an agreed-on contract price (the strike price) on a specified date. Forward contracts are traded over-the-counter.* Forward-type contracts also include futures and swaps (except for certain arrangements discussed in paragraph A7.13). Forward-type contract is used as a term because the term “forward” is often used more narrowly in financial markets (often excluding swaps). Forward rate agreements and forward foreign exchange contracts are common types of forward-type contracts.

**A7.11** Futures are forward-type contracts traded on organized exchanges. The exchange facilitates trading by determining the standardized terms and conditions of the contract,

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<sup>4</sup> Some options give the purchaser the right to receive payments if certain conditions are met (e.g., weather derivatives).

acting as the counterparty to all trades, and requiring margin to be deposited and paid to mitigate against risk.

**A7.12** At the inception of a forward-type contract, risk exposures of equal market value are exchanged, so a contract typically has zero value at that time. As the price of the underlying item changes, the market value will change, although it may be restored to zero by periodic settlement during the life of the forward. Financial derivative contracts may switch between asset and liability positions, except for those of standard option contracts.

**A7.13** *Swap contracts (swaps) are contractual arrangements where the counterparties exchange financial instruments or cash flows based on the reference prices of the underlying items, in accordance with prearranged terms.* Swap contracts classified as forward-type contracts include foreign exchange swaps, currency swaps, interest rate swaps, and cross-currency interest rate swaps. Under a swap contract, the obligations of each party may arise at different times, for example, an interest rate swap for which payments are quarterly for one party and annual for the other. In such cases, the quarterly amounts payable by one party prior to payment of the annual amount payable by the other party are recorded as transactions in the financial derivative contract. Other types of arrangements also called swaps but not meeting the definition above include gold swaps (see paragraphs 5.62 and 7.63), most central bank swap arrangements (see paragraphs 6.111–6.111), and credit default swaps (see paragraph 5.105).<sup>5</sup>

**A7.14** For foreign currency financial derivative contracts (e.g., foreign exchange swaps, currency swaps, and foreign exchange forwards), it is necessary to distinguish between a transaction in a financial derivative contract and transactions in the underlying currencies. At inception, the parties' exchange of the underlying financial instruments is usually classified under other investment. At the time of settlement, the difference in the values, as measured in the unit of account at the prevailing exchange rate, of the currencies swapped are allocated to a transaction in a financial derivative, with the values swapped recorded in the relevant other item (usually other investment).

**A7.15** Foreign currency financial derivative contracts typically involve the exchange of principal (i.e., notional/nominal value) at maturity, but the amount of principal to be returned/delivered at maturity is not recorded as a liability on the balance sheet. To capture these off-balance sheet items, scheduled payments and receipts of foreign currencies associated with these financial derivatives are to be compiled as described in A7.46–A7.48.

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<sup>5</sup> See paragraphs A2.71–A2.76 on the treatments of off-market swaps.

## **Credit Derivatives**

**A7.16** *Credit derivatives are financial derivatives whose primary purpose is to trade credit risk. They are designed for trading in loan and security default risk. In contrast, the financial derivatives described in the previous paragraphs are mainly related to market risk, which pertains to changes in the market prices of securities, commodities, interest, and exchange rates. Credit derivatives take the form of both forward-type (total return swaps) and option-type contracts (credit default swaps).<sup>6</sup> Under a credit default swap, premiums are paid in return for a cash payment in the event of a default by the debtor of the underlying instrument. Like other financial derivatives, credit derivatives are frequently drawn up under standard master legal agreements and involve collateral and margining procedures.*

## **Other Issues Associated with Financial Derivatives**

### *Margins*

**A7.17** *Margins are collateral provided to cover potential obligations. The required provision of margin reflects counterparty risk and is standard in financial derivative markets, especially for futures and exchange-traded options. Ownership of the margin remains with the unit that provided it. Cash margins for financial derivatives are classified as deposits (if they are liabilities of a deposit-taking corporation) or other accounts receivable/payable. When a margin is placed in a noncash asset (such as securities), no transaction is recorded because no change in economic ownership has occurred.*

**A7.18** *In organized exchanges and clearing houses, margins are increased or decreased as a result of settling profits/losses of the derivative contracts by marking them to market value often on a daily or intraday basis. They are recorded as an increase or decrease in deposits (if they are liabilities of a deposit-taking corporation) or other accounts receivable/payable with a corresponding entry in a decrease in financial derivative assets or liabilities. If the margin falls short of a required level (often called a maintenance margin), an additional margin must be posted to meet the requirement. This payment is not to settle a financial derivative contract and should not be recorded in financial derivatives.*

### *Employee Stock Options*

**A7.19** *Employee stock options (ESOs) are options to buy the equity of a company at a discount to the market value, offered to employees of the company as a form of remuneration. In a few cases, the company that issues the option is a resident of a different economy from the employee (e.g., where the employer is a branch or subsidiary of the*

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<sup>6</sup> Credit default swaps also have some characteristics of forward-type contracts (e.g., potential switch of the creditor-debtor positions for both parties).

company to which the option relates). ESOs have similar pricing behavior to financial derivatives, but they have a different nature—including arrangements for the granting and vesting dates (in general, granted ESOs are vested once the employee has fulfilled the conditions or the relevant time period)—and purpose (i.e., to motivate employees to contribute to increasing the value of the company, rather than to trade risk). If a stock option granted to employees can be traded on financial markets without restriction, it is classified as a financial derivative.

**A7.20** In some cases, stock options may be provided to suppliers of goods and services to the enterprise. Although these are not employees of the enterprise, for convenience they are also recorded under ESOs because their nature and motivation are similar. (Whereas the corresponding entry for stock options granted to employees is remuneration of employees as discussed in paragraph 12.24, the corresponding entry for stock options granted to suppliers is the goods and services supplied.)

**A7.21** For transactions associated with the issue of ESOs, see paragraph 8.39.

### 3. FINANCIAL DERIVATIVES IN FUNCTIONAL CATEGORY

**A7.22** The functional categories are the primary classification used for each of financial transactions, other flows, positions, and income in the external accounts. Five functional categories of investment are distinguished in the external accounts:

- (a) direct investment,
- (b) portfolio investment,
- (c) financial derivatives (other than reserves) and ESOs,
- (d) other investment, and
- (e) reserve assets.

**A7.23** The functional categories are built on the classification of financial assets and liabilities discussed in Chapter 5, but with an additional dimension that takes into account some aspects of the relationship between the parties and the motivation for investment. The functional categories are designed to facilitate analysis by distinguishing categories that exhibit different economic motivations and patterns of behavior.

**A7.24** The definition of the functional category financial derivatives and ESOs (other than reserves) largely coincides with the corresponding financial instrument class, which is discussed in detail in paragraphs 5.90–5.114. The difference in coverage between the functional category and the financial instrument is that financial derivatives associated with reserve asset management are excluded from the functional category and included in

reserve assets (see paragraph 6.95). This category is identified separately from the other categories because it relates to risk transfer, rather than supply of funds or other resources.

**A7.25** Unlike other functional categories, no earned income accrues on financial derivatives. Any amounts accruing under the contract are classified as revaluations and are included in the other changes in financial assets and liabilities account. (These entries are discussed in paragraphs 9.12–9.13.) In addition, as noted in the footnote to paragraph 11.74, an intermediary may provide services associated with transactions in derivatives.

**A7.26** Recording of financial derivatives separately for both assets and liabilities is encouraged for both positions and transactions. However, it is recognized that measuring transactions on a gross basis may not be feasible, in which case net reporting is acceptable. For example, in cases where several payments by both counterparties are made in a period when a derivative contract switches between asset and liability positions (e.g., forwards and swaps), gross recording may be impractical. In such cases, net recording is acceptable by recording net payments as a reduction in liabilities for one party and a decrease in assets for the other. Information on financial derivatives (other than reserves) and ESOs is included in Chapter 5 (conceptual framework and classifications), Chapter 6 (functional category), Chapter 7 (concerning positions), Chapter 8 (concerning financial account transactions), Chapter 9 (concerning revaluations), and Chapter 11 (concerning financial services). No investment income arises from holdings of financial derivatives (see paragraph 12.115).

#### 4. VALUATION

**A7.27** Financial derivatives and ESOs are valued at market prices prevailing on balance sheet recording dates. If market price data are unavailable, other fair value methods (such as option models or present values) may be used to value them. Compilers are generally constrained to use the parties' own accounts. The value of a derivative contract can change if payments are made before the derivative contract expires (such as payments in interest swaps). These changes in the value of the contracts due to the payments between the two parties are recorded as transactions (not as revaluations).

**A7.28** A key characteristic of many derivative contracts is that the counterparties make commitments to transact, in the future and at agreed-on prices, in underlying items. The present value (or market price) of a financial derivative is derived from the difference between the agreed-on contract price of an underlying item and the prevailing market price (or the market price expected to prevail), appropriately discounted, for that item. For options, the price depends on the potential price volatility of the underlying instrument, the time to maturity, interest rates, and the difference between the strike price and the market price of the underlying item. The counterpart liability is attributable to the writer of the option and is valued at the current cost of buying out the rights of the option holder. For a warrant, the

counterparty liability of the issuer is the current outlay required to buy out the exercise rights of the holder. The value of a credit default swap is determined by the difference between the present value of the series of premium payments and the estimated present value of the potential payments in the event of default. The value of a swap contract is derived from the difference, appropriately discounted, between expected gross receipts and gross payments.

**A7.29** The market value of financial derivative contracts except for standard option contracts can switch from an asset position to a liability position (and vice versa) between reporting dates. The switch is a result of movement in the price of the underlying item(s) from which the value of the derivative contract is derived. When a switch in position occurs (and there are no settlement payments), the market value of the gross asset or liability position at the close of the previous accounting period is revalued to zero, and the gross liability or asset position is revalued from zero to the market value at the end of the present accounting period.

**A7.30** Gross asset and gross liability data should be compiled by summing, respectively, the values of all individual contracts in asset positions and the values of all individual contracts in liability positions. *The notional value of a financial derivative is the amount underlying a financial derivative contract that is necessary for calculating payments or receipts on the contract, sometimes called notional amount or nominal amount of a financial derivative.* This amount may or may not be exchanged. The notional values are useful for analysis because they provide information about the risk exposure and assist in understanding the link between financial derivatives and the underlying items to which they relate. See paragraphs 7.39 and A7.46–7.48 for compiling currency composition of notional values for foreign exchange related financial derivatives.

**A7.31** Any value changes in financial derivatives are classified as revaluations and are included in the other changes in financial assets and liabilities account (paragraph 6.62). For financial derivatives that include a foreign exchange risk, the steps for separating revaluations into exchange rate changes and other price changes, as stated in paragraph 9.10, are not applicable. In those cases, a valuation change due to exchange rate changes can arise even in the currency of denomination of the instrument. In some cases, such as cross-currency swaps that are also interest rate swaps, it may not be practical to separate exchange rate revaluations from other revaluations. The convention is that all revaluation effects are due to other price changes.

**A7.32** Cumulation of transactions should never be used to estimate financial derivative positions. Transactions relate largely to option premiums and to settlements. Settlements eliminate positions, while the value of derivatives positions emerges largely from revaluations.

**A7.33** ESOs are valued consistently with the cumulated remuneration of employees until the vesting date (see paragraphs 12.24–12.25); thereafter, they are valued at market prices (see paragraph 9.12). ESOs can be measured from a market value of equivalent options or according to an options-pricing model, such as Black-Scholes. International accounting standards give guidance on methods, and recording in the external accounts normally will follow business accounts.

## 5. RECORDING OF FINANCIAL DERIVATIVES AND EMPLOYEE STOCK OPTIONS

**A7.34** Transactions involving financial derivatives may arise at inception, on secondary markets, with ongoing servicing (such as payments in an interest rate swap), and at settlement. Financial account entries for derivatives preferably should be shown separately for each of assets and liabilities, but recording of transactions on a net basis is acceptable where separate data on transactions in assets and liabilities are not available. Any explicit or implicit service charges should be deducted from the value of the financial derivative. However, distinguishing implicit service charges is not usually possible, in which case, the entire value of the financial derivative is classified as being for the financial asset.

**A7.35** The exchanges of claims and obligations at the inception of a derivative contract are financial transactions creating asset and liability positions that normally have, at inception, zero value if the instrument is a forward-type contract and value equal to the total premium payable if the instrument is an option-type contract. Changes in the value of derivatives due to change in the underlying item are recorded as revaluations. (Changes in the value of derivatives to or from zero are classified as revaluations, not economic appearance or disappearance of assets.)

### ***At Inception***

- (a) The creation of a forward-type contract does not generally require the recording of a transaction in a financial derivative because risk exposures of equal value are usually being exchanged. That is, there is usually zero exposure and zero value for both sides. In some cases, however, there may be a nonzero transaction value at issue. (In addition, there may be a service charge for the issue, as mentioned in paragraph 11.74.)
- (b) The buyer of an option pays a premium to the seller, which is the acquisition price of the instrument.<sup>7</sup> Sometimes a premium is paid after the inception of the contract. In that case, the value of the premium is recorded at the inception of the contract in the

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<sup>7</sup> The buyer of a credit default swap contract usually pays a series of premiums to the seller during the life of the contract.



same manner as if it had been paid then but is shown as being financed by other accounts receivable/payable between the writer and the buyer.

Subsequent changes in the prices of derivatives are recorded as revaluations, not as transactions (see paragraphs 9.12–9.13).

### ***Transactions in the Secondary Market***

**A7.36** Sales of options in secondary markets—whether on exchanges or over the counter—are valued at market prices and recorded in the financial account as transactions in financial derivatives.

### ***Servicing and Margins***

**A7.37** When a contract requires ongoing servicing (such as payments in an interest rate swap) and a cash payment is received, there is a decrease (increase) in a financial derivative asset (liability) if, at the time of the payment, the contract is in an asset (liability) position. If compilers are unable to implement this approach because of market practice, all cash receipts should be recorded as reductions in financial assets, and all cash payments should be recorded as decreases in liabilities.

**A7.38** If margins are increased or decreased to settle a profit or loss as a consequence of the marking of derivatives to market value on an ongoing basis, they are recorded as an increase or decrease in deposits or other accounts receivable/payable with a corresponding entry in a decrease in financial derivative assets or liabilities.

### ***At Settlement***

**A7.39** At settlement, either a cash payment is made, or an underlying item is delivered.

- (a) When a financial derivative is settled in cash, a transaction equal to the cash value of the settlement is recorded for the derivative. In most instances, when a cash settlement payment is received, a reduction in a financial derivative asset is recorded. When a cash settlement payment is made, a reduction of a financial derivative liability is recorded.
- (b) When an underlying item is delivered, two transactions are recorded:
  - (i) The transaction involving the underlying item is valued at the market price at the time. The entry for the underlying item is recorded under the relevant heading (goods, financial instrument, etc.).
  - (ii) The transaction involving the derivative is valued as the difference, multiplied by the quantity, between the market price for the underlying item and the strike price specified in the derivative contract.

- (c) When more than one contract is settled—in cash, at the same time, and with the same counterparty—some of the contracts being settled are in asset positions and some are in liability positions. In this situation, transactions involving assets should be recorded separately from those involving liabilities, wherever possible, but net settlements are acceptable when gross reporting is impractical.

### ***Recording of Post Trading Activities in Financial Derivatives***

**A7.40** The recording of post-trading activities in financial derivatives, particularly focusing on novation and portfolio compression, is described in Box A7.1.

#### **Box A7.1. Recording of Post Trading Activities in Financial Derivatives**

The 2008 global financial crisis triggered several legislative actions around the world, particularly in the European Union and in the United States, to mitigate the risk of financial derivatives' trading. Regulations such as the European Market Infrastructure Regulation (EMIR) in the European Union and the Dodd-Frank Act in the United States changed considerably the landscape of the financial derivatives markets by introducing, amongst others, stricter clearing and reporting obligations. These changes brought along so-called post-trade processes, which are necessary for the completion of the trade, including novation, clearing, portfolio compression, and collateral management. These processes are conducted by specialized financial infrastructure providers, including central clearing counterparties (CCPs). Central clearing is required in the European Union for certain classes of financial derivatives. This box provides methodological guidance for the recording of novation and portfolio compression as financial transactions.

**Novation** is a process in which a bilateral OTC derivative contract between two market participants is replaced by two bilateral contracts between each of the market participants and a CCP. An important factor in the recording of novation is the timing between entering the initial contract and the novation. If the novation process takes place immediately after the initial contract (i.e., within the reporting time frame of the units involved), only the (novated) contracts vis-à-vis the CCP have to be reported. However, there may be cases in which novation takes place with a significant delay after entering the initial contract. In such cases, both counterparts of the original contract should report two (offsetting) transactions for the reference period(s) when they take place: one transaction terminating the initial contract (e.g., extinguishing an asset position in financial derivatives) and a second transaction creating an asset position in financial derivatives of equal market value vis-à-vis the CCP. The CCP thus becomes the new counterpart to both initial parties and takes over the risks and rewards associated with the contract. In case the two initial parties are not clearing members of the CCP, each side of the bilateral contract may be replaced by two, rather than one contract—one between the initial unit and the clearing member, and another one between the clearing member and the CCP, giving rise in total to four transactions/positions.<sup>8</sup> The

<sup>8</sup> The relationship between the client and the clearing member may take two main forms: the agency model or the principal-to-principal model. Under the agency model, the clearing member acts as an agent on behalf of the client and is not considered as a counterparty to a derivative transaction. Under the principal-to-principal model,

country (countries) of residence of the initial units, the clearing member, and the CCP is decisive in determining whether a novated contract is recorded in cross-border statistics and how it is treated in national accounts (see Example 1 for more details).

**Portfolio compression** refers to a bilateral or multilateral process in which the counterparties wholly or partially terminate the derivatives submitted for inclusion in the portfolio compression and replace the terminated derivatives with new derivative(s) whose combined notional value is less than the combined notional value of the terminated derivatives.

In particular, a number of contracts between market participants are replaced by new (fewer) contracts. Consequently, all counterparties involved in the compression process should report a number of offsetting transactions: (i) transactions terminating the initial contracts (extinguishing asset/liability positions in financial derivatives) and (ii) transactions creating new asset/liability positions in financial derivatives. While the overall net positions of the involved parties should remain unchanged, the post-compression gross positions can be quite different compared to the initial positions. Moreover, the bilateral counterparts of the new transactions and positions may also differ considerably from the original ones. Hence, a comprehensive recording of all transactions extinguishing the initial positions and of the transactions creating the new positions is required (see Example 2 for more details).

#### Example 1. Recording Positions in Financial Derivatives Before and After Novation

This example shows how two units (A and B), which are clearing members of a CCP and resident in Country X, sign a financial derivative OTC contract, resulting in assets and liabilities of 100 of A and B, respectively. As both units are resident in Country X, there are no entries in the external accounts.

Subsequently, the contract is novated to the CCP which is resident in Country Y, requiring a recording in the external accounts. The original contract between A and B is replaced by two new contracts, respectively of A and B with the CCP. As the CCP is resident abroad, the novation creates a cross-border asset position for A and a cross-border liability position for B, while the original purely domestic asset and liability positions of A and B disappear.<sup>9</sup> These changes in asset and liability positions arise entirely from financial transactions as shown in the example.

Globally, the novation results in a doubling of positions compared with the situation before novation. The net IIPs of countries X and Y remain, however, unchanged at 0.

**Table 1. Recording of Positions in Financial Derivatives Before and After Novation**

	Unit A	Unit B	CCP
Resident in country	X	X	Y

each party acts on their own behalf, which implies that for cleared derivatives, there will usually be two derivative contracts: one between the client and the clearing member, and another one between the clearing member and the CCP. The distinction whether the clearing member acts as an agent or as a principal is based on the risk exposure (economic as well as counterpart) with regard to the derivative contract according to the contractual arrangements with the client.

<sup>9</sup> If units A, B, and the CCP are all residents of economy X, no transactions or positions in the external accounts will be recorded, but the domestic asset and liability positions will both amount to 200 after the novation.

	<b>1. Before novation</b>				
	Vis-à-vis nonresidents (IIP)	Assets			
		Liabilities			
	Vis-à-vis domestic sectors	Assets	100		
		Liabilities	100		
	<b>2. After novation</b>				
	Vis-à-vis nonresidents (IIP)	Assets	100	100	
		Liabilities	100	100	
	Vis-à-vis domestic sectors	Assets	0		
		Liabilities	0		

### Example 2. Recording Positions in Financial Derivatives for Portfolio Compression Related Trades

This example shows how three units (residents A and B, and nonresident C) compress positions outstanding at the end of the previous reporting period.

**Table 2. Recording of Positions in Financial Derivatives Arising from Compression**

Resident in country		Unit A	Unit B	Unit C
		X	X	Y
<b>1. Before compression</b>				
Vis-à-vis nonresidents (IIP)	Assets	10		20
	Liabilities		20	10
Vis-à-vis domestic sectors	Assets		30	
	Liabilities	30		
Net assets position		-20	10	10
<b>2. After compression</b>				
Vis-à-vis nonresidents (IIP)	Assets			10
	Liabilities	10		
Vis-à-vis domestic sectors	Assets		10	
	Liabilities	10		
Net assets position		-20	10	10

For the purpose of this example, there are no obstacles for units to involve in multilateral compression. Units A and B have both bilateral domestic positions and cross-border positions with nonresident unit C. The net overall position of unit A is a liability (20), while the other two units each have asset positions (10 + 10). The original deals are “torn up” and replaced with new, lower volume deals that do not change net position of each unit. The new positions should be created through transactions, and the old positions should also be terminated through transactions (for the economy of units A and B, a decrease in both assets and liabilities by 10). The net cross-border position changes for units A and B in this example (i.e., from assets of 10 to liabilities 10 for A; and from liabilities of 20 to zero for B), but it remains unchanged for unit C (asset 10 before and after compression). Net domestic and cross-border positions of each unit do not change.

### ***Employee Stock Options***

**A7.41** An ESO is created on a given date (the “grant” date), providing that 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. Transactions in ESOs are recorded in the financial account as the corresponding entry to the remuneration of employees (as discussed in paragraph 12.24) or direct investment (paragraph 12.25). When the option is exercised, the transaction in the ESO is recorded in the financial account at a value that reflects the difference between the market price of the equity and the price paid by the buyer for the equity (see also paragraph 8.38(a) and (b)).

**A7.42** Cancellation of ESOs is discussed in paragraph 9.12. Changes in the values of ESOs at or after the vesting date are revaluations (see paragraphs 7.42, 9.12, and 12.24). (In practice, it may be feasible to recognize the revaluation only at exercise date.) ESOs do not generally raise separate issues to those for financial derivatives, but one special case occurs when an employee of a subsidiary is issued options for stock in the parent company. Because the parent is not the employer, the subsidiary is shown as acquiring the option from the parent. (If the subsidiary pays nothing or an unrealistic value to the parent, a value may be imputed, possibly in direct investment, as discussed in paragraphs 12.120–12.121 on transfer pricing.).

## **6. SPECIFIC ISSUES RELATED TO FINANCIAL DERIVATIVES**

### ***Additional Breakdowns***

**A7.43** Financial derivatives can be further classified in many other ways. They include the following:

- (i) *By market risk category:* foreign exchange, single-currency interest rate, equity, commodity, credit, or risks to other underlying instruments;
- (ii) *By instrument:* options, forwards and related instruments (other than futures and swaps), futures, swaps, credit derivatives and other and hybrid instruments;
- (iii) *By trading venue and clearing status:* exchange traded; over-the-counter (OTC) (cleared); OTC (not cleared)

**A7.44** Particularly, the information from the classification by market risk category of the underlying instrument is often used for financial market and macroeconomic analysis. Each market risk category has distinctive characteristics:

- (a) **Foreign exchange derivatives** involve the exchange of currencies in the forward market. They include all contracts involving exposure to more than one currency, whether in interest rates or exchange rates, and cover outright forwards, foreign exchange swaps, currency swaps (including cross-currency interest rate swaps), and currency options.
- (b) **Single currency interest rate derivatives** are restricted to those deals where all the legs are exposed to only one currency's interest rate. These are contracts related to an interest-bearing financial instrument whose cash flows are determined by referencing interest rates or another interest rate contract (e.g., an option on a futures contract to purchase a Treasury bill). They include forward rate agreements, single-currency interest rate swaps and interest rate options, including caps, floors, collars, and corridors, but exclude contracts involving the exchange of currencies (e.g., cross-currency swaps and currency options) and other contracts whose predominant risk characteristic is foreign exchange risk.
- (c) **Equity derivatives** contracts have a return, or a portion of their return, linked to the price of a particular equity or to an index of equity prices.
- (d) **Commodity derivatives** are contracts that have a return, or a portion of their return, linked to the price or to a price index of a commodity such as a precious metal, petroleum, lumber, or agricultural products.
- (e) **Credit derivatives** are contracts in which the payout is linked primarily to some measure of the creditworthiness of a particular reference asset. They specify an exchange of payments in which at least one of the two legs is determined by the performance of the reference asset. Payouts can be triggered by a number of events, including a default, a rating downgrade, or a stipulated change in the credit spread of the reference asset. Typical credit derivative instruments are credit default swaps, credit-spread forwards and options, credit event or default swaps, and total return swaps.
- (f) **Other derivatives** are any other derivative contracts, which do not involve an exposure to foreign exchange, interest rate, equity, commodity, or credit risk. They include inflation-indexed derivatives, volatility derivatives, dividend derivatives, weather derivatives, property derivatives, or freight derivatives as well as any derivatives with a nonstandard underlying item which are developed for a particular client.

**A7.45** In practice, however, individual financial derivatives may straddle more than one risk category. In such cases, financial derivatives that are simple combinations of exposures should be reported separately in terms of their individual components. Those that cannot be

readily broken down into separable risk components should be reported in only one risk category. The allocation of such products with multiple exposures should be determined by the underlying risk component that is most significant. However, if there is doubt about the correct classification of multi-exposure financial derivatives, the allocation by risk component should be made according to the order of precedence adopted by the BIS: commodity, equity, foreign exchange, single-currency interest rate, credit, and other.

### ***Currency Composition of Notional Values of Foreign Exchange Derivatives***

**A7.46** In the external accounts, financial derivative contracts are recorded at market value (or at fair value when market value is not available). In terms of foreign exchange related financial derivatives, such as foreign exchange forwards, foreign exchange swaps, and currency swaps, their notional values also provide useful information to assess currency exposures of the economy. Foreign exchange forwards, foreign exchange swaps, and currency swaps have debt-like characteristics because they may require delivery of the principal amount (i.e., notional value/amount) at maturity. However, as these obligations are not carried on the balance sheet (nor recorded as a liability in IIP), the currency composition of the notional values of foreign exchange related financial derivatives are to be compiled in Tables I–II in Annex 14, along with the currency composition for debt instruments carried on the balance sheet (see paragraph 7.39).<sup>10</sup>

**A7.47** Several foreign exchange derivatives products—in particular foreign exchange swaps, currency swaps, and foreign exchange forwards—have properties that make them special. In a foreign exchange swap or currency swap, two parties typically exchange currencies at the spot price and commit to reverse the exchange at some pre-agreed future date and price (the forward rate). Once the spot transaction is complete, the position is indistinguishable from an outright foreign exchange forward position. Traded amounts in these instruments typically require two-way payments at maturity. This exchange of principal distinguishes these instruments from other types of derivatives (e.g., interest rate swaps) where relatively small payments are made to reflect differences in rates of returns based on a notional amount. The payment obligations from foreign exchange swaps, currency swaps, and forwards can be large. Contracts are typically short term. Thus, markets for these products are subject to squeezes when foreign-currency-funding conditions deteriorate, as happened during the 2008 global financial crisis and again in March 2020 when the COVID-19 pandemic went global. Yet, under standard accounting treatments, the payment obligations associated with these products are not recorded on the balance sheet.

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<sup>10</sup> The tables for the notional values of forward-type foreign exchange-related derivatives (e.g., foreign exchange forwards, foreign exchange swaps, and currency swaps) are memorandum items and thus part of the standard items. The tables for the notional values of foreign exchange-related options are supplementary items since the delivery of foreign exchange is conditional for options.

**A7.48** Additional information about the payment obligations from foreign exchange derivatives helps users of the IIP form a more complete view of the currency profile in a country's IIP position. Specifically, a comprehensive picture of a country's gross and net foreign currency positions, which are important in financial stability analysis, requires information about future payment obligations and receipts that arise from positions carried both on and off the balance sheet. Tables A14-I-1b, A14-I-2b, A14-II-1b, and A14-II-2b in Annex 14 that capture off-balance sheet payment obligations from foreign exchange derivatives are designed to be used in conjunction with Tables A14-I-1a, A14-I-2a, A14-II-1a, and A14-II-2a in Annex 14 that capture the currency breakdown of on-balance sheet positions. The combination of the information in these tables provides users with more complete measures of countries' and sectors' external foreign currency exposures.

## C. REVERSE TRANSACTIONS

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### 1. DEFINITION

**A7.49** *Reverse transactions are contractual arrangements involving a change of legal ownership of securities, gold, or other assets (e.g., commodities) with a commitment to repurchase the same or similar securities, gold, or other assets either on a specified date or with open maturity.* They include securities repurchase agreements, gold swaps, securities lending, and gold loans. The commitment to reverse the change in legal ownership in the future at a fixed price means that the original owner retains the risks and rewards of changes in the price of the asset. Accordingly, there is considered to be no change of economic ownership of the security, gold, or other asset, so no transaction in that asset is recorded, and ownership of the asset as shown in the IIP, if the asset is a financial asset, is unchanged.

**A7.50** A reverse transaction may be with or without the supply of cash. If cash is supplied, as in a repurchase agreement (repo or securities lending with cash collateral), and in return the other party supplies securities, the arrangement is regarded as giving rise to a loan or deposit. (The classification of the cash supplied is discussed in paragraphs 5.59–5.61.) Analogously to repos, a gold swap or a swap of other assets for cash is treated as being a loan with the gold or the other assets as collateral, and there is no change in the economic ownership of the gold or the other assets.



## 2. MAJOR TYPES OF REVERSE TRANSACTIONS

### ***Security Repurchase Agreements***

**A7.51** *A securities repurchase agreement (repo) is a contractual arrangement involving the sale of securities for cash, at a specified price, with a commitment to repurchase the same or similar securities at a fixed price either on a specified future date or an “open” maturity. Repos, securities lending with cash collateral, and sale-buybacks are different terms for arrangements with the same economic effect as a securities repurchase agreement—all involve the provision of securities as collateral for a loan or deposit. A repo is used as a term from the perspective of the security provider, while a reverse repo is used from the perspective of the security taker.*

### ***Gold Swaps***

**A7.52** *A gold swap is an arrangement that involves an exchange of gold for foreign exchange with an agreement that the transaction be reversed at an agreed future date at an agreed gold price. The gold taker (cash provider) usually will not record the gold on its balance sheet, while the gold provider (cash taker) usually will not remove the gold from its balance sheet. In this manner, the transaction is analogous to a repurchase agreement and should be recorded as a collateralized loan or deposit. Gold swaps are similar to securities repurchase agreements except that the collateral is gold.*

### ***Securities Lending***

**A7.53** *Securities lending is a contractual arrangement whereby a security holder transfers securities to another party (security taker), subject to the stipulation that the same or similar securities be returned on a specific date or on demand. As with security repurchase agreements, most securities lending is structured to give the borrower legal title to the securities for the life of the transaction, even though, economically, the terms are more akin to a loan from the security taker/borrower to the security lender. The borrow fee is generally agreed in advance, and the lender has contractual rights similar to beneficial ownership of the securities, with rights to receive the equivalent of all interest payments or dividends and to have equivalent securities returned. The importance of the transfer of legal title is twofold. First, it allows the security borrower to deliver the securities onward, for example in another securities loan or to settle an outright trade. Second, it means that the security lender usually receives value in exchange for the disposition of legal title (whether in cash or securities), which ensures that the loan from the security taker/borrower to the security lender is collateralized.*

## **Gold Loans**

**A7.54** *Gold loans (sometimes known as gold lending or gold deposits) consist of the delivery of gold for a given time period, with an obligation to redeliver a like quantity of gold at the end of the period.* They may be associated with physical gold or (less frequently) unallocated gold accounts. As with securities lending, legal ownership of the gold is transferred (the temporary borrower may on-sell the gold to a third party), but the risks and benefits of changes in the gold price remain with the lender. Gold borrowers (usually market dealers or brokers, but also gold producers and industrial gold users) often use these transactions to cover their sales to third parties in periods of (temporary) gold shortage. A comparable fee is paid to the original owner for the use of the gold. The amount of the fee is determined by the value of the underlying asset and the duration of the reverse transaction.

### **3. RECORDING OF REVERSE TRANSACTIONS**

#### ***Recording of a Loan or Deposit***

**A7.55** The supply and receipt of funds under a reverse transaction, including the supply and receipt of margin calls in cash, is treated as a loan or deposit (as other deposits—see paragraph 5.48). It is generally a loan, but it is classified as a deposit if it involves liabilities of a deposit-taking corporation. If a reverse transaction does not involve the supply of cash (e.g., there is an exchange of one security for another, or one party supplies a security without collateral), there is no loan or deposit.

**A7.56** The securities or gold provided as collateral under a reverse transaction, including a securities repurchase agreement, securities lending, or a gold swap, is treated as not having changed economic ownership, as discussed in paragraph 7.63. This treatment is adopted because the security lender/cash receiver is still subject to the risks or benefits of any change in the price of the security or gold. (The same treatment is adopted for repurchase agreements without cash collateral, in which case there is no transaction in the securities and no loan.)

**A7.57** There may be problems in attributing securities' economic ownership when using custodians as a data source, because custodians may not know whether securities being held are under a repurchase agreement or not.

#### ***Recording of Short/Negative Positions***

**A7.58** Short positions occur when an institutional unit sells securities for which it is not the economic owner. For example, a security subject to a repurchase agreement may be on-sold by the security-receiving party (see paragraphs 5.59–5.61 on repurchase agreements). Delivery to the purchaser is made using a borrowed security. The party with

the short position records a negative value for the holding of the asset. The short position is shown as a negative asset, rather than a liability.

**A7.59** This treatment reflects the economic ownership in that the holder of the negative position is exposed to the risks and rewards of the security, in an equal and opposite way, as the party in a long position. Interest accrues on the negative position negatively (i.e., the negative position becomes larger). In aggregate, the recording of a negative position overcomes the double counting of the security by both the economic (original) owner and the final owner (the party who bought the borrowed security) and helps present consistent debtor-creditor relationship at a global level. Reverse transactions may be sequenced in a long chain of transactions and positions using the same security.

### ***Recording of Income***

**A7.60** The economic owner of securities continues to record dividends and the accrual of interest on the securities even when the legal ownership changes under a reverse transaction (see paragraph 7.63) or a custodian has on-sold the securities to a third party (see paragraph 11.79). If the reverse transaction covers the period when dividends or coupons are payable, the security taker is typically obliged to pass these amounts on to the security lender. Even if securities under a reverse transaction are on-sold by the security taker to a third party, the security taker is still obliged to compensate the amounts to the security lender. The payments are called “manufactured interest” or “manufactured dividends.”

**A7.61** Manufactured interest and dividends corresponding to on-sold securities are recorded as positive credits/revenues for the security lender and negative credits/revenues for the security borrower (i.e., the on-seller who pays the manufactured interest or dividends). The recording of negative credits/revenues for the security borrower provides coherence between income and positions in the underlying instrument. It reflects the negative position in the security the borrower records on the balance sheet and IIP, and for debt securities, it would match an increasing negative asset position when interest accrues. The recording of negative credits/revenues in interest/dividends for the security borrower also offsets the double-recording of positive credit (by the security lender and the security holder to whom the security is on-sold).<sup>11</sup>

**A7.62** Securities and monetary gold are financial instruments and thus the fees for securities lending without cash collateral and gold loans are payments for putting a financial instrument at the disposal of another institutional unit. Accordingly, fees on securities

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<sup>11</sup> The security lender should identify the partner for manufactured interest/dividends by the economy and sector of the security issuer, not the security borrower which pays the manufactured interest/dividends to the security lender, consistent with the position held by the lender against the issuer.

lending (equity securities as well as debt securities) and gold loans accrue to the security owner or gold owner and are treated as interest (with the corresponding entry in other accounts receivable/payable; see paragraph 5.83). As a simplifying convention, fees paid on loans of nonmonetary gold are also treated as interest. For securities lending, although, in some circumstances, the fee is payable to the custodian in the first instance (and used to defray custodial charges, in whole or in part), in principle, all of the fee is payable to the owner of the security who, in turn, is deemed to pay part or all of it to the custodian in a separate transaction. (Amounts accruing to custodians are included under custodial services, discussed under financial services in paragraphs 11.74 and 11.79.)

**A7.63** Box A7.2 includes examples that show how reverse transactions are recorded in the external accounts.

Box A7.2. Recording Reverse Transactions in the External Accounts						
Table 1. RTs - Accrual recording of transactions related to repos and security lending						
Country/sector A		Country/sector B	National Accounts and Balance of Payments			
			Income Account		Financial Account	
			Country/sector A	Country/sector B	Country/sector A	Country/sector B
Repo/security lending with cash collateral (security lender)		Reverse repo/security lending with cash collateral (security borrower) /1	Accrued interest for cash received (debit) /1	Accrued interest for cash provided (credit) 1/	Loan liability (increase) (no recording of securities)	Loan asset (increase) (no recording of securities)
Security lending with security collateral (security lender)		Security lending with security collateral (security borrower)	Accrued security lending fees (recorded as interest - credit)	Accrued security lending fees (recorded as interest - debit)	Accounts receivable for security lending fees (increase)	Accounts payable for security lending fees (increase)
Security lending without collateral (security lender)		Security lending without collateral (security borrower)	Accrued security lending fees (recorded as interest - credit)	Accrued security lending fees (recorded as interest - debit)	Accounts receivable for security lending fees (increase)	Accounts payable for security lending fees (increase)
/1 In cases where security lending fees are involved, they should be recorded separately. Security lending fees are recorded as interest (BPM7 paragraph 12.91). Note: → orange arrow represents a change in the legal ownership, but not in the economic ownership.						
Table 2. Recording of (1) dividends and (2) accrued interests for securities acquired under repo and security lending						
Country A		Country B		Country C	Balance of Payments	
					Country A	Country B
					Income Account	
Security lender/securities provided under repo		Security borrower/securities acquired under reverse repo		Security issuer	1. Dividends as shares go ex-dividend (credit)	1. No recording
					2. Accrued interest (credit)	2. No recording
					Financial Account	
					1. Accounts receivable (for dividends) - assets (increase)	1. Accounts payable (for dividends) - liabilities (increase)
					2. Debt security - assets (increase)	2. Debt security - liabilities (increase)

Table 3. Recording of actual (1) dividend and (2) interest payments for securities acquired under repo and security lending						
Country A		Country B		Country C	Balance of Payments	
					Country A	Country B
					Income Account	
					1. No recording	1. No recording
Security lender/securities provided under repo	dividends payments/ interest payments	Security borrower/securities acquired under reverse repo	dividends payments /interest payments	Security issuer	2. No recording	2. No recording
					Financial Account	
					1. Accounts receivable (for dividends) - assets (decrease)	1 & 2. No recording other than increase in currency and deposits (for dividend/interest receipt from Country C) followed by decrease in currency and deposits (for dividend/interest payment to Country A)
					2. Debt security - assets (decrease)	2. Debt security - liabilities (decrease)

Table 4. Recording of on-selling of securities acquired under repo and security lending						
Country B		Country D	Balance of Payments		International Investment Position	
			Financial Account			
			Country B	Country D	Country B	Country D
Security borrower/securities acquired under reverse repo	security cash	Security purchaser	Security assets (decrease/credit)	Security assets (increase/debit)	Security assets (negative position) /2	Security assets (positive position)

/2 Assuming the opening position is zero.

#### 4. TREATMENT OF REVERSE TRANSACTIONS IN RESERVE ASSETS

**A7.64** Monetary authorities may also be engaged in reverse transactions as part of their reserve asset management strategies. Securities or monetary gold transferred under reverse transactions (e.g., repos) by the monetary authorities in exchange of cash collateral remains an asset of the original monetary authorities. However, securities and monetary gold under reverse transactions are collateralized and generally not readily available for a BOP financing need during the tenor of the contract. Assets that are not readily available do not qualify as reserve assets.

**A7.65** If securities provided as collateral under a repurchase agreement are not readily available for meeting a BOP financing need for the monetary authorities, they are excluded from reserve assets and reclassified to portfolio investment assets through the end of the transaction. This treatment is also applied to cases where the securities are available for meeting a BOP financing need only if a substitute reserve asset is provided as collateral. This is because the securities and the substitute reserve asset cannot be readily available for the monetary authorities simultaneously. Monetary gold provided as collateral under a gold swap is treated similarly. If it is not readily available for a BOP financing need for the monetary authorities, it is excluded from reserve assets and either removed from financial assets (for gold bullion) or reclassified to other investment, currency and deposits, assets (for unallocated gold accounts).

**A7.66** Any loan or deposit liability under reverse transactions is recorded within “other investment.” Convertible foreign currency received is recorded as an increase in currency and deposits in reserve assets, provided it meets the reserve assets criteria. If the monetary authorities provide funds and receive securities or gold as collateral (e.g., reverse repos), the funds provided to the counterparty are recorded as a decrease in currency and deposits in reserve assets. If the financial claim (e.g., repo asset) is liquid and available upon demand to the monetary authorities, then it is considered part of reserve assets in “other financial claims” (or “deposits” if the financial claim is with a deposit-taking corporation). Securities or gold collateral should not be included in reserve assets of the receiving monetary authorities because the receiving monetary authorities are not the economic owner of the asset.

## 5. SUPPLEMENTARY INFORMATION ON REVERSE TRANSACTIONS

**A7.67** Reverse transactions are not separately identified in the standard presentation of the external accounts. Provision of cash is recorded under loans or deposits, but assets used as collateral (e.g., securities) are not recorded because there is no change in their economic ownership. To identify these items, a table could be compiled on a supplementary basis to show loans/deposits and collateralized securities, gold, and other items (i.e., commodities) under reverse transactions, covering movements of these assets comprehensively regardless of the change in their economic ownership. This information may have high analytical value, particularly for economies that are actively involved in reverse transactions.

## Annex 8. Insurance and Pensions

### A. GENERAL ISSUES

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Reference:

- 2025 SNA, Chapter 24, Insurance and Pensions

**A8.1** Insurance provides individual institutional units exposed to certain risks with financial protection against the consequences of the occurrence of specified events. In addition, insurers often act as financial intermediaries who invest funds collected from policyholders in financial or other assets to meet future claims.<sup>1</sup>

**A8.2** Pension schemes are established for the purpose of providing benefits for retirement or for invalidity. Pension schemes may be operated by a separately constituted fund or by a fund that is part of the employer or be unfunded. It may also be administered by an insurance corporation. Pension funds are similar to insurance in that they act as intermediaries for investing the funds for their beneficiaries and redistribute some risks.

**A8.3** Insurance and pension fund operations have common features but can be distinguished in that life insurance and pension funds include a large saving component, whereas the primary objective of nonlife insurance (including term life insurance) is to pool risk.

**A8.4** The transactions undertaken by insurers include charging premiums, paying claims, and investing funds. Similarly, pension funds' transactions include receiving contributions, paying benefits, and investing funds. To analyze the underlying economic nature of these operations, it is necessary to rearrange these processes to derive the service, investment income, transfer, and investment elements. Users may also be interested in supplementary data on insurance transactions before the adjustments discussed in this section, particularly data on premiums and claims. (Box A8.1 provides a numerical example on nonlife insurance to show the calculation of the derived items for service, investment income, transfers, and investment.)

**A8.5** Aspects of insurance are dealt with in several chapters:

- Insurance corporations and pension funds are defined as institutional subsectors in paragraphs 4.151–4.152;

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<sup>1</sup> In the context of insurance, a claim is the obligation of an insurance company to pay the policyholder under the terms of the policy because an insured event has occurred. .

- Nonlife insurance technical reserves, life insurance and annuity entitlements, pension entitlements, and provisions for calls under standardized guarantees are defined as financial instruments in paragraphs 5.70–5.79 and as part of the other investment functional category in paragraph 6.65;
- The measurement of nonlife insurance technical reserves, life insurance and annuity entitlements, and pension entitlements in the IIP is discussed in paragraphs 7.69–7.75;
- Financial account entries are discussed in paragraphs 8.44–8.47;
- Other changes in volume associated with nonlife insurance technical reserves, life insurance and annuity entitlements, and pension entitlements are discussed in paragraph 9.29;
- Insurance and pension services are discussed in paragraphs 11.58–11.69;
- The investment income accruing to policyholders and contributors is discussed in paragraphs 12.94–12.102; and
- The transfers associated with these schemes are discussed in paragraphs 13.40–13.49 and 14.34–14.35.

**A8.6** Cross-border insurance is particularly common in specialized areas such as reinsurance and high-value items such as insurance of ships and aircraft. For some small economies, the small size of their risk pool means that a wider range of items tends to be insured with nonresidents. With international mobility of population, life insurance and pensions can also occur cross-border on a significant scale.

**A8.7** *Direct insurance is between an insurance company and another type of institutional unit.* There are two types of direct insurance, life and nonlife insurance. *Life insurance is an activity whereby a policyholder makes regular payments to an insurer in return for which the insurer guarantees to provide the policyholder (or in some cases another nominated person) with an agreed sum, or an annuity, at a given date or earlier if the policyholder dies beforehand. It excludes term life insurance.* Nonlife insurance is an activity similar to life insurance except that *it is an insurance providing cover to the policyholder against loss or damage suffered as a result of accidents, sickness, fire, etc. It also includes term life insurance.* A policy that provides a benefit in the case of death within a given period but in no other circumstances, usually called term (life) insurance, is regarded as nonlife insurance because, as with other nonlife insurance, a claim is payable only if a specified contingency occurs and not otherwise. In practice, because of the way in which insurance corporations keep their accounts, it may not always be possible to separate term (life) insurance from other life insurance. In these circumstances, term (life) insurance may have to be treated in



the same way as life insurance for purely practical reasons. See paragraphs 24.6–24.9, 2025 SNA for additional details.

**A8.8** *Reinsurance is insurance between one insurance corporation and another with the aim to spread the insurance risk.* That is, reinsurance allows insurance risk to be *transferred* from one insurer to another. Many insurers act as both direct insurers and reinsurers. There may be chains of transferring risk, from insurer to reinsurer to secondary reinsurer and so on. Reinsurance companies and their policyholders are often residents of different economies because of the specialized functions of reinsurance and the objective to spread risk. A direct insurer may pass on an entire set of risks (i.e., the direct insurer is like a retailer), a proportion of risks, or the risk of claims being more than a specified amount (e.g., arising from a catastrophic loss) to a reinsurer. Because it is often used as protection against exposure to large losses, reinsurance is particularly likely to be subject to irregular transactions.

**A8.9** The principles for measurement of reinsurance and direct insurance services are the same. They are shown as separate items on a supplementary basis, as are other components such as auxiliary services and standardized guarantees.

**A8.10** In some countries, one can observe hybrid insurance products that are a mixture of life and nonlife insurance. These products should be allocated to one category or the other depending on which features are predominant, i.e., the saving component (life insurance) or the component whereby claims are paid only if the insured event occurs (nonlife insurance).

## B. NONLIFE INSURANCE

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Reference:

- 2025 SNA, Chapter 24, Insurance and Pensions.

### 1. TYPES OF NONLIFE INSURANCE

**A8.11** Types of nonlife insurance include accident and health; term life; marine, aviation, and other transport; fire and other property damage; pecuniary loss; general liability; and credit insurance.

**A8.12** Freight insurance is a form of nonlife insurance that raises particular issues for valuation of goods. Like freight transport, as discussed in paragraph 11.24, the identification of who pays the insurance and whether it is included in the price of the good is determined by the FOB valuation concept, as discussed in paragraph 11.66.

**A8.13** Nonlife insurance is distinguished from life insurance in that it pays claims only if an insured event occurs. That is, nonlife insurance is designed primarily for pooling risk, rather

than as an investment. Therefore, nonlife insurance claims and premiums less service charges are recorded as transfers, while the equivalents for life insurance are recorded in the financial account. In contrast to life insurance, term life insurance claims are payable only on the death or incapacity of the insured, and so term life insurance is included in nonlife insurance.

## 2. ROLE OF RESERVES IN NONLIFE INSURANCE

**A8.14** Insurance policies are paid in advance, while claims are paid only after the insured events happen, sometimes much later. Insurance technical reserves represent the amounts identified by insurance companies to account for these prepayments of premiums and claims incurred but not yet paid. That is, reserves can be seen as the application of usual accrual accounting principles. Reserves for claims reported but not yet resolved, and estimates of claims incurred but not yet reported, should be included, as they relate to insurable events that have already occurred.

**A8.15** Insurance corporations in some economies may also set aside other reserves, such as amounts to cover fluctuations in claims between periods (e.g., the increase in claims in the event of a natural disaster). However, if there is no entitlement by any counterparty to these reserves, they cannot be recognized as an asset of the policyholders.

**A8.16** Insurance companies hold assets to meet the liabilities to policyholders represented by the reserves. The management of these financial and nonfinancial assets is an integral part of the business of insurance. The income generated by these investments has a considerable influence on the level of premiums that insurance enterprises need to charge (indeed, in some cases, they have allowed claims to exceed actual premiums earned). Consequently, the income earned on the investment of the insurance technical reserves, excluding holding gains and losses, is treated as being receivable by the policyholders who are then treated as paying it back to the insurance enterprises as premium supplements.

## 3. VALUE OF NONLIFE INSURANCE SERVICE OUTPUT

**A8.17** Actual premiums earned and investment income represent the inflow of resources to the insurance company, whereas the claims incurred are the resources allocated to the policyholders. The margin between these inflows and outflows is the amount available to the insurance company to cover its costs and provide an operating surplus. This margin represents the value of insurance services provided.

**A8.18** The value of output of nonlife insurance services (also known as insurance service charges) can be expressed with the following formula, following an expectations approach or accounting approach:

$$\begin{array}{rcl}
 & \text{Actual premiums earned;} \\
 + & \text{premium supplements;} \\
 - & \text{Adjusted claims incurred.}
 \end{array}$$

While in the case of expectation approach, adjusted claims are estimated from past experience, they are determined by using claims incurred plus the changes in equalization provisions (and, if necessary, changes to own funds) in the case of accounting approach. See paragraph A8.26 for guidance on the expectation and accounting approaches.

**A8.19** If the necessary accounting data are not available and the historical statistical data are not sufficient to allow reasonable average estimates of output to be made, the output of nonlife insurance may be estimated as the sum of costs (including e.g., intermediate consumption, remuneration of employees, depreciation of and net return to capital used in production, and rent payable on (rented) nonproduced nonfinancial assets used in production) plus an allowance for “normal profit”. However, since any reasonable estimate for normal profit is likely to involve expected claims, this option is hardly different from the expectations approach.

#### **a. Actual Nonlife Insurance Premiums**

**A8.20** *Actual nonlife insurance premiums are defined as the actual amount payable to the direct insurer or reinsurer to secure insurance cover for a specific event over a stated time period, as covered by a nonlife insurance (or reinsurance) policy.*

#### **b. Actual Premiums Earned**

**A8.21** “Actual premiums earned” refers to the part of actual nonlife insurance premiums that relates to the insurance cover provided in the accounting period. Premiums earned are on an accrual basis, so differ from premiums received because insurance policies are usually paid in advance. Actual premiums earned should be calculated by deducting any rebates payable to the policyholder. In the case of a reinsurer accepting risks on proportional reinsurance contracts, actual premiums earned are recorded after deducting the reinsurance commissions payable to the direct insurer.

**A8.22** Insurance premiums are normally paid in advance, so a measure on an accrual basis differs from premiums paid by the deduction of prepayments for insurance cover in future periods and adds back cover for the current period that was prepaid in previous periods.

### ***c. Premium Supplements***

**A8.23** Investment income earned on the assets invested to meet insurance companies' future liabilities, excluding any holding gains and losses, is attributable to insurance policyholders. The income is recorded in the earned income account as discussed in paragraphs 12.94–12.102 and A8.30. The same value is then treated as being paid back to the insurance companies as premium supplements. Premium supplements are added to premiums earned in the calculation of the value of insurance services, as shown in Box A8.1.

### ***d. Adjusted Claims Incurred***

**A8.24** **Actual** claims payable are claims for events that occurred within the accounting period. Claims payable include claims paid within the accounting period plus changes in the reserves against outstanding claims. That is, claims on an accrual basis are recognized as due when an event takes place that gives rise to a valid claim, whether or not paid, settled, or reported during that period.

**A8.25** Adjustments for claims volatility should be included in the calculation for lines of insurance subject to fluctuations. For example, major catastrophes such as earthquakes and hurricanes may be expected to occur, on average, once in each several years. If only claims incurred during a single accounting period are used in the formula, the resulting values of insurance services could be erratic, and even negative in catastrophic periods, and so are an inadequate measure of the production and pricing of insurance. In such cases, an adjustment to claims incurred should be made, to reflect a longer-term view of claims behavior, in line with insurance decision making. In periods when large values of claims are incurred, the adjustment would be negative (thus causing an increased value of the service), while in other periods, the adjustment would be positive (thus reducing the value of the service). However, for some types of insurance, there is limited volatility, and no adjustment is necessary. The term “adjusted claims” is used in the output formula describes the level of claims used in determining the value of output.

**A8.26** The adjustments for claims volatility show the difference between actual claims in a particular period and a normally expected level of claims. The adjusted claims incurred may be calculated according to one of the following methods:

- (a) The **expectations approach** is based on an estimate of adjusted claims incurred, using smoothed past figures of actual claims incurred or smoothed past ratios of actual claims incurred over premiums, applied to current premiums. It replicates the ex-ante model used by insurers to price their premiums on the basis of their expectations. When accepting risk and setting premiums, insurers consider their

expectation of loss.<sup>2</sup> For estimating output, it is advisable to use information broken down by “line of business”, that is for motor insurance, buildings insurance, etc. separately. This allows for more accurate and detailed estimates, as each line of business may have different characteristics.

- (b) The **accounting approach** is based on changes in insurers’ equalization reserves (see paragraph 5.72 (b)) and changes in own funds to account for the volatility of claims. In contrast to the expectation approach, the accounting approach uses ex post data, that is, observed claims incurred. It is to be noted that if changes in own funds are introduced in one given period to dampen the volatility of a claim in case of catastrophe, the rebuilding of own funds after this period will also intervene (with an inverse sign) in the formula for the next periods. Practices for calculation of equalization reserves vary, so they may not be sufficient to cover all volatility in claims.

### ***e. Reinsurance***

**A8.27** As explained in paragraph A8.8, reinsurance allows insurance risk to be transferred from one insurer to another. The transactions between the direct insurer and the reinsurer are recorded as an entirely separate set of transactions and no consolidation takes place between the transactions of the direct insurer as issuer of policies to its clients on the one hand and the holder of a policy with the reinsurer on the other. The prepayments of premiums by the direct insurer to the reinsurer and claims incurred but not yet paid by the reinsurer are used by the reinsurer to earn investment income. This investment income, excluding any holding gains and losses, is treated as investment income payable to the direct insurer and returned to the reinsurer as a premium supplement. The output of reinsurance is measured in a way similar to that for direct nonlife insurance. However, there are some payments peculiar to reinsurance. These are commissions payable to the direct insurer under proportionate reinsurance and profit sharing in excess of loss reinsurance. Once these are taken into account the output of reinsurance can be calculated as:

	Actual premiums earned less commissions payable;
+	premium supplements;
–	Adjusted claims incurred and profit sharing.

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<sup>2</sup> In such a case, conceptually premium supplements (i.e., the investment income, excluding holding gains and losses, derived from the investment of the nonlife insurance technical reserves) should also be estimated on the basis of past experience. However, since premium supplements are less volatile than claims, in practice no such adjustment may be necessary.

#### 4. EXPORTS AND IMPORTS OF NONLIFE INSURANCE SERVICES

**A8.28** The formula for total production of insurance services stated in paragraph A8.17 includes elements that may only be able to be observed by insurers in aggregate. For exported and imported insurance services, which represent the output provided to a subset of policyholders, additional methods are required to allocate totals.

**A8.29** Usually, ratios will be able to be used to make estimates. The case of imports is particularly difficult, as the insurance companies are not residents in the economy of compilation and so data collection is constrained. In each case, the objective is to find a result consistent with the overall method, after taking into account which information is available in the circumstances. Possible methods are discussed in paragraph 11.64 and Box 11.3.

#### 5. INVESTMENT INCOME ATTRIBUTABLE TO NONLIFE INSURANCE POLICYHOLDERS (EARNED INCOME ACCOUNT)

**A8.30** Investment income earned on the assets invested to meet insurance companies' future liabilities is attributable to insurance policyholders. The income, excluding any holding gains and losses, is recorded in the earned income account as discussed in paragraphs 12.94–12.102. The same value is then treated as being paid back to the insurance companies as premium supplements in the calculation of the value of insurance services, as shown in paragraph A8.23 and Box A8.1 (and consequently increases the value of premiums less service charges).

#### 6. NONLIFE INSURANCE PREMIUMS LESS SERVICE CHARGES (TRANSFER INCOME ACCOUNT)

**A8.31** Nonlife insurance premiums less service charges are defined as the sum of actual nonlife premiums earned and premium supplements less the insurance service charge payable by the policy holders. (actual premiums earned were discussed in paragraph A8.20 in the context of deriving the service charge). Nonlife insurance premiums less service charges are shown as current transfers. They are discussed in paragraphs 13.40–13.41.

#### 7. NONLIFE INSURANCE CLAIMS RECEIVABLE OR PAYABLE (TRANSFER INCOME ACCOUNT)

**A8.32** Claims incurred during the period are generally shown as current transfers. They are discussed in paragraphs 13.46–13.49 and in paragraph A8.24 in the context of deriving the service charge. In exceptional cases, such as those following a major catastrophe or disaster at a national level, they may be classified as capital transfers as discussed in

paragraph 14.34–14.35. Catastrophic events include earthquakes, tsunamis, floods, cyclones, hurricanes, hailstorms, bushfires, and so forth, except where these events can be considered periodic and expected within the normal course of nonlife insurance business. The criteria for when the effects of a catastrophe should be treated like this must be determined according to national circumstances, but these may involve the number of policyholders affected and the amount of the damage done. It is noted that the recording of claims incurred to catastrophic events as capital transfers is restricted to damages to nonfinancial assets. Claims incurred related to losses to consumer durables should be recorded as current transfers. However, from a feasibility perspective, it may be difficult to differentiate catastrophic damages to nonfinancial assets from similar damages to consumer durables. Unless this information is available, it is recommended to treat all claims arising from catastrophic events as capital transfers as the default option. (see paragraphs 24.41–24.42, 2025 SNA). The transactions and positions of claims outstanding plus unearned premiums is recognized as a financial asset or liability (i.e., as part of nonlife insurance technical reserves) and is shown in the financial account and IIP respectively (see paragraphs 5.72, 7.69–7.75, and 8.45).

### Box A8.1. Numerical Example of Calculations for Nonlife Insurance

#### 1. Basic information

This example covers policies of resident insurers with nonresident policyholders; the same principles apply for nonresident insurers with resident policyholders, although the availability of data is less in practice, so that ratios may be needed for some items, as discussed in Box 11.3.

Actual premiums earned from abroad = 135

Actual premiums received from abroad = 150

Reserves relating to prepayments—beginning of period = 40

Reserves relating to prepayments—end of period = 55

Net increase in reserves relating to prepayments = 15

Investment income attributable to nonresident policyholders = 8

Claims payable abroad = 160

Claims paid to abroad = 155

Reserves relating to claims incurred—beginning of period = 10

Reserves relating to claims incurred—end of period = 15

Net increase in reserves for claims incurred but not paid = 5

Adjustment for volatility in claims payable = -40

(i.e., expected long-term level of claims would be 120, that is 160 – 40)



**2. Derived items**

Goods and services account:

Insurance service charges (credits/revenues)

= actual premiums earned plus premium supplements less adjusted claims incurred (i.e., adjusted claims incurred is derived as actual claims payable plus adjustment for volatility)

=  $135 + 8 - 120$

= 23

(Note: not taking into account the volatility would lead to a negative value of services: – 17.)

Earned income account:

Investment income attributable to insurance policyholders (debits/expenditures) = 8

Transfer income account:

Premiums less service charges receivable (credits/revenues)

= actual premiums earned plus premium supplements less service charges =  $135 + 8 - 23$   
= 120

Claims payable (debits/expenditures) = 160

Financial account:

Nonlife insurance technical reserves (increase in liabilities to policyholders) = 20 (= 15 + 5)

Currency and deposits (decrease in assets of resident insurers) = –5 (= 150 – 155)

IIP—Liabilities

Nonlife insurance technical reserves (prepayments and claims incurred)—beginning of period = 50 (= 40 + 10)

Nonlife insurance technical reserves (prepayments and claims incurred)—end of period = 70 (= 55 + 15)

**C. LIFE INSURANCE AND ANNUITIES**

Reference:

- 2025 SNA, Chapter 24, Insurance and Pensions.

**A8.33** Life insurance is distinguished from nonlife insurance in paragraph A8.7. Life insurance involves a stream of payments by the policyholder in return for a lump sum at a given date or earlier, as in the case of death of the person insured. Annuities are the reverse, where a stream of payments is made by the insurer in return for a lump sum at the beginning of the policy. Both direct insurance and reinsurance also exist for life insurance and annuities.

**A8.34** The principles for the measurement of life and nonlife insurance are similar. However, in the case of life insurance, the premiums less service charges and payments of benefits are recorded in the financial account, rather than the transfer income account. This treatment follows from the role of life insurance as paying benefits even without an insured event occurring, and therefore operating mainly as a way for policyholders to build assets; in contrast, nonlife insurance operates to redistribute costs among policyholders by transfers. Because life insurance is based on managing large values of assets, the premium supplements can be relatively large.

**A8.35** The value of output of life insurance services can be expressed with the following formula:

$$\begin{array}{ll}
 & \text{Actual premiums earned;} \\
 + & \text{premium supplements;} \\
 - & \text{benefits due;} \\
 - & \text{Increases (+ decreases) in life insurance entitlements.}
 \end{array}$$

The formula is basically the same as for nonlife insurance, except that the payments to policyholders are called benefits instead of claims, and entitlements are added to account for the accrual of future benefits. Life insurance benefits are the amounts payable under the policy in the accounting period in question. No adjustment for unexpected volatility is necessary in the case of life insurance.

**A8.36** If adequate data are not available for the calculation of life insurance output according to this formula, an approach based on the sum of costs, similar to that described for nonlife insurance, may be used (see paragraph A8.19). As for nonlife insurance, an allowance for normal profits must be included.

**A8.37** The item for entitlements in the formula for life insurance reflects the financial claims of policyholders against an institutional unit offering life insurance. They are shown as accruing to particular policyholders because they consist of allocations to the actuarial reserves and reserves for with-profits insurance policies to build up the sums guaranteed under these policies. Changes in the life insurance entitlements include the provision made for bonuses payable in future.

**A8.38** It is common with life insurance policies for amounts to be explicitly attributed by the insurance corporation to the policyholders in each year. These sums are often described as bonuses. The sums involved are not actually paid to the policyholders but the liabilities of the insurance corporation toward the policyholders increase by this amount. This amount is shown as investment income attributed to the policyholders and are treated as premium supplements being paid back to the insurance corporations. The fact that some of it may

derive from holding gains does not change this designation; as far as the policyholders are concerned it is the return for making the financial asset available to the insurance corporation.

**A8.39** In the case of annuities, the same principles apply, but the calculation is different because of the opposite cash flow. The output of an insurance corporation associated with administering annuities is calculated as:

- Investment income attributable to the annuitants;
  - amount payable to the annuitants (or surviving beneficiaries) under the terms of the annuity;
  - change in the annuity entitlements but excluding the initial payments for new annuities.

The amount of the investment income attributable to the annuitants is equal to the discount factor times the start of year reserves and is independent of actual investment income and holding gains or losses earned by the insurance corporation. The item is parallel to the concept of premium supplement in the life insurance context. For additional details, see 2025 SNA, Chapter 24, Insurance and Pensions.

**A8.40** In the current account, in addition to services, life insurance gives rise to investment income attributable to policyholders, as discussed in paragraph 12.98, of equivalent value to premium supplements. For life insurance, (a) premiums less service charges; and (b) benefits are shown as increases and reductions in life insurance entitlements in the financial account. (In contrast, for nonlife insurance, (a) premiums less service charges; and (b) claims are shown as transfers—see paragraphs A8.31 and A8.32.)

**A8.41** Life insurance and annuity entitlements are defined as a financial instrument in paragraph 5.73. They are classified as other investment in the functional classification; see paragraph 6.65. More details are provided on recording them in the IIP in paragraphs 7.71, the financial account in paragraph 8.46, and other changes in volumes in paragraph 9.29.

## D. PENSION SCHEMES

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Reference:

- 2025 SNA, Chapter 24, Insurance and Pensions.

**A8.42** Pension schemes include those operated with an autonomous fund as well as funds that are not separate units and unfunded pension schemes. Pensions may be provided by social security schemes, other social insurance schemes, and social assistance schemes.

They may also include employer-independent schemes, for example similar schemes for self-employed persons, or individual insurance policies qualifying as social insurance.

**A8.43** Social contributions to social security schemes are discussed in paragraphs 13.30–13.32. Social benefits under social security and social assistance schemes are dealt with in paragraph 13.39. These schemes operate through transfers and do not have financial account entries because an obligation to pay is not recognized. For further information on social security and social assistance schemes, and for employment-related schemes through social security schemes, see *2025 SNA*, Chapter 24. The remainder of this section deals with other social insurance schemes (excluding social security schemes), in the form of defined contribution and defined benefit pension schemes.

**A8.44** Pension funds are defined as an institutional subsector in paragraphs 4.152. Pension entitlements are defined as a financial instrument in paragraphs 5.75–5.77. These entitlements may be liabilities of funded pension schemes or, in certain cases, unfunded schemes. The liabilities may also arise from autonomous employer-independent pension schemes or funds if accumulated contributions are set aside for retirement income and are subject to regulation or supervision in line with or similar to employer-related pension schemes or funds.

**A8.45** An employer may contract with a third party to administer the pension funds for the employees. If the employer retains the responsibility for any deficit in funding as well as the right to retain any excess funding, the employer is described as the pension sponsor, and the unit working under the direction of the pension sponsor is described as the pension administrator. A funding deficit or excess of the pension fund to be paid by/to the sponsor is recorded under a separate financial instrument, called “claims of pension funds on pension sponsor”. If the agreement between the employer and the third party acting as an administrator is such that the employer passes the risks and responsibilities for any deficit in funding to the third party in return for the right of the third party to retain any excess, the third party becomes the pension sponsor as well as the administrator.

**A8.46** The pension entitlements are classified as other investment in the functional classification; see paragraph 6.65. The valuation of pension entitlements in the IIP is discussed in paragraph 7.73. Financial account entries are discussed in paragraphs 8.46–8.47. Changes to pension entitlements as a result of changes in model assumptions are shown as other changes in volume, whereas changes negotiated between the parties are recorded as (capital) transfers, as discussed in paragraph 9.29. Insurance and pension services are discussed in paragraphs 11.58–11.67.

**A8.47** There may be explicit or implicit service charges for pension schemes. If the charges are implicit, they are measured in a similar way to those for life insurance and annuities, namely:

- Social contributions;
- + Contribution supplements;
- social benefits payable;
- Increases (+ decreases) in pension entitlements.

**A8.48** Investment income is attributable to beneficiaries of pension schemes and is repaid to the pension fund as contribution supplements, as discussed in paragraph 12.99. The investment income payable

- (a) for defined contribution schemes is equal to the investment income on the accumulated assets (excluding holding gains and losses) plus any income earned by renting land or buildings owned by the fund; and
- (b) for defined benefit schemes, is equal to the increase in benefits payable because the date when the entitlements become payable is closer by one year due to the unwinding of the discount factor used to calculate the present value. The amount of the increase is not affected by whether the pension scheme actually has earned sufficient income to meet its obligations.

**A8.49** . A pension sponsor may be obliged to meet liabilities of a defined benefit scheme in case of shortfall (see paragraph A8.45). Imputed investment income on this shortfall is recorded as income from the pension sponsor to the pension fund, which may be negative in the case of an excess.

**A8.50** Social contributions to pension schemes are discussed in paragraphs 13.30–13.36. Social benefits are current transfers receivable by households intended to provide for the needs that arise from certain events or circumstances, for example, sickness, unemployment, retirement, housing, education or family circumstances. Social benefits include pension and nonpension benefits payable under social security and other social insurance schemes (see paragraph 13.39). In the *SNA*, social contributions are viewed as both transfers and as an investment in the scheme; similarly, social benefits are viewed as both transfers and as a withdrawal of investment from the scheme. These different views require an entry for the adjustment for the change in pension entitlements, discussed in paragraphs 13.37–13.38, transfer income account.

# Annex 9. Positions and Transactions with IMF

## A. INTRODUCTION

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Reference:

- IMF, *2024 Review of the Poverty Reduction and Growth Trust Facilities and Financing — Reform Proposals*

**A9.1** A core responsibility of the IMF is to make financing available to member countries experiencing actual, potential, or prospective BOP problems, including when the country cannot find sufficient financing on affordable terms to meet its net international payments (for example, for imports or external debt redemptions). The three channels of IMF lending are: General Resources Account (GRA) that provides nonconcessional lending available to all Fund members;<sup>1</sup> the Poverty Reduction and Growth Trust (PRGT),<sup>2</sup> which provides concessional lending to low-income countries; and the Resilience and Sustainability Trust (RST) that also provides lending to low-income and vulnerable middle-income countries, as well as small states.<sup>3</sup>

### I. Overview of the IMF Lending and Borrowing Operations

**A9.2** This section provides a brief overview of the IMF lending and borrowing operations, at the time of writing this *Manual*, to facilitate proper understanding of how to record these arrangements in the external accounts.

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<sup>1</sup> While nonconcessional lending offers loans at market-based interest rates, loans under concessional lending are well below market interest rates.

<sup>2</sup> In October 2024, a new interest rate mechanism was introduced to better reflect the heterogeneity among Low-Income Countries (LICs) and focus further concessional resources to the poorest countries. These countries (31 LICs at the time of drafting the *Manual*) will continue to benefit from an interest-free lending under the PRGT, while other LICs will be charged a modest, and still concessional, interest rate. PRGT loans often have a grant element that is below 35 percent.

<sup>3</sup> A tiered interest structure differentiates financing terms across country groups, with low-income members benefitting from more concessional terms.

## 1. NONCONCESSIONAL (GRA) LENDING

### References:

- IMF, *IMF Financial Operations*, fourth edition (Table 2.5).
- IMF, 2020, Policy Paper: “IMF Covid-19 Response—A New Short - Term Liquidity Line to Enhance the Adequacy of the Global Financial safety Net”
- IMF, 2023, Policy Paper: “Review of the Flexible Credit Line, the Short-Term Liquidity Line, and the Precautionary and Liquidity Line, and Proposals for Reform”

**A9.3** The nonconcessional lending channels are (i) the Stand-By Arrangement (SBA); (ii) the Extended Fund Facility (EFF); (iii) the Flexible Credit Line (FCL); (iv) the Precautionary and Liquidity Line (PLL); (v) the Rapid Financing Instrument (RFI); and (vi) the Short-term Liquidity Line (SLL).

**A9.4** Resources (borrowing by the IMF): Quota subscriptions are the primary source of the IMF’s financing. The IMF can supplement its quota resources through borrowing if it believes that resources may fall short of members’ needs. Borrowing can be conducted under its main standing borrowing arrangements, namely the New Arrangements to Borrow (NAB) and Bilateral Borrowing Agreements (BBAs).

## 2. CONCESSIONAL (PRGT) LENDING

### References:

- IMF, *IMF Financial Operations*, fourth edition (Table 3.2).
- IMF, *2023 Handbook of IMF Facilities for Low-Income Countries*.
- IMF, *2024 Review of the Poverty Reduction and Growth Trust Facilities and Financing — Reform Proposals*

**A9.5** The IMF’s financial assistance for low-income countries is composed of concessional loans and grants for debt relief. The concessional lending facilities are the Extended Credit Facility (ECF), the Standby Credit Facility (SCF), and the Rapid Credit Facility (RCF).

**A9.6** Resources for the IMF’s concessional lending operations are provided through contributions by a broad segment of the membership, as well as by the IMF.

## 3. DEBT RELIEF ASSISTANCE

### Reference:

- IMF, *IMF Financial Operations*, fourth edition (Sections 3.5.5–3.5.6).

**A9.7** Debt relief assistance is administered under the Trust for Special Poverty and Growth Operations for the Heavily Indebted Poor Countries and Interim ECF Subsidy Operations (PRGHIPC Trust) and the Catastrophe Containment and Relief Trust (CCRT) for debt relief. The IMF in its capacity as trustee for both trusts is responsible for mobilizing and managing their resources. See Sections 3.5.5–3.5.6 for additional details on these trusts.

#### 4. RST LENDING

**A9.8** The IMF established a trust in 2022 called the RST to help low-income, small states, and vulnerable middle-income countries tackle long-term structural challenges including climate change and pandemic preparedness. RST resources are mobilized based on voluntary contributions from IMF members with strong external positions, including those wishing to channel SDRs for the benefit of eligible members.

## II. Fiscal Agency and Depository

**A9.9** The IMF conducts its financial dealings/operations with a member through the fiscal agency and the depository designated by the member. The fiscal agency may be the member's treasury (ministry of finance), central bank, official monetary agency, stabilization fund, or other similar agency. The IMF only deals with a member through the designated fiscal agency for financial operations. In addition, each member is required to designate its central bank as a depository for the IMF's holdings of the member's currency ("designated depository") or, if it has no central bank, a monetary agency or a commercial bank acceptable to the IMF. Although most members of the IMF have designated their central bank as both the depository and the fiscal agency, the specific institutional arrangements for holdings/allocations of SDRs and/or recording liabilities to the IMF may vary among Fund members due to differences in legal and institutional frameworks. Therefore, domestic arrangements and the accounting treatment may differ across Fund members, especially for cases where not all transactions with the Fund are undertaken by the central bank. For example, the ministry of finance may undertake transactions with the IMF without direct central bank involvement in countries where it has been designated as the fiscal agency.<sup>4</sup>

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<sup>4</sup> See Annex 4.2, *Monetary and Financial Statistics Manual and Compilation Guide 2016* for further details.



## B. RECORDING OF POSITIONS AND TRANSACTIONS WITH THE IMF

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### 1. QUOTAS

**9.41** IMF member countries are assigned a quota on joining the IMF. The subscription of the quota, which is paid into the IMF's General Resources Account, consists of two components:

- (a) Foreign exchange component. A member is required to pay 25 percent of its quota in SDRs or in foreign currencies acceptable to the IMF. This 25 percent portion is a component of the member's reserve assets. In the BOP, subscribing this portion is shown as a transaction involving a reduction in other reserve assets (credit) (see paragraphs 6.90-6.96 for the discussion on other reserve assets) offset by an increase in the reserve tranche position in the IMF (debit).
- (b) Domestic currency component. The remaining 75 percent of the quota is payable to the IMF in the member's own currency at a designated depository, which holds this currency on behalf of the IMF as the beneficiary. The payment is made either in domestic currency (IMF No. 1 Account) or by issuance of a promissory note (IMF Securities Account). The IMF No. 1 Account is used for the IMF's operational transactions (e.g., purchases and repurchases). The IMF may periodically instruct the designated depository to transfer domestic currency from the IMF No. 1 Account to the IMF No. 2 Account, which is used for the payment of local administrative expenses incurred by the IMF in the member's currency. No interest is payable on either the IMF No.1 or No.2 Accounts or the note, which is nonnegotiable and encashable by the IMF on demand. The domestic portion of the quota payment is not recorded in the member's BOP or in the IIP (see paragraph 6.89),<sup>5</sup> except for the balance in the IMF No. 2 account (see below).

**A9.10** There are periodic reviews of the size of member quotas. Recording transactions that reflect a change in a member's quota is the same as the recording that takes place when the quota is initially paid.

### 2. RESERVE POSITION IN THE IMF

**A9.11** *Reserve position in the IMF of a member country includes the reserve tranche and any indebtedness of the IMF (under a borrowing agreement) in the General Resources*

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<sup>5</sup> The domestic currency component of the quota is considered in economic terms to be of a contingent nature and so is not classified as an asset or liability in the external accounts.

*Account that is readily available to the member country* (for further details, see paragraph 6.89). The reserve tranche represents the member's unconditional drawing right on the IMF and is created by the foreign exchange portion of the quota subscription. A member's reserve tranche can increase if its currency is used by the IMF to provide financial assistance to other members facing a BOP financing need. Conversely, it may decrease when that financial assistance is repaid. A member's reserve position in the IMF constitutes part of its reserve assets in the IIP.

**A9.12** To use its reserve tranche in the IMF, a member may purchase foreign exchange from the IMF with its own currency, provided that it has a BOP financing need. The domestic currency, equal to the value of the foreign exchange, is paid into the IMF No. 1 Account with the member's central bank or through the issuance to the IMF of a promissory note recorded in the IMF Securities Account. The transaction is recorded in the BOP as a reduction in the member's reserve tranche in the IMF, which is offset by an increase in the member's other reserve assets.

### 3. CREDIT AND LOANS FROM THE IMF

**A9.13** This subsection covers IMF credit through nonconcessional lending arrangements discussed in Section A.I.1 (e.g., SBA, EFF, RFI) and concessional lending arrangements in Section A.I.2 (e.g., ECF/SCF/RCF funded through the PRGT) as well as credit extended under the RST (see Section A.I.4). A member may make use of IMF credit or PRGT loans to acquire additional foreign exchange from the IMF. Economically, the use of IMF credit and PRGT loans results in the same outcome—that is, the member obtaining this financial assistance has access to foreign exchange in return for agreeing to meet a set of conditions. Both IMF (GRA) credit and PRGT loans are classified as loans under other investment (see paragraph 6.61),<sup>6</sup> although the two types of arrangements are executed in different ways:

- A PRGT loan results in the member borrowing foreign exchange with a commitment to repay. Such loans do not affect the IMF No. 1 Account.
- When a member country uses IMF (GRA) credit, it “purchases” foreign exchange from the IMF in return for its domestic currency. Use of IMF credit is shown as the member's liability (denominated in SDRs) in the BOP and IIP, whereas the domestic currency provided in return to the IMF in the IMF No. 1 Account, or promissory note issued and reflected in the IMF Securities Account, is not shown as a BOP

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<sup>6</sup> For loans with concessional interest rates, no adjustment is made to the recording of the loan or of interest, nor is any transfer recorded in the core external sector statistics. However, the transfer element can be shown as a capital transfer at inception in supplementary data. See paragraphs 3.117, 14.41, and A2.67–A2.68.

transaction or in the IIP. Liabilities under IMF credit arrangements are extinguished when the member uses foreign exchange to “repurchase” its domestic currency.

**A9.14** For use of IMF credit, if the value of the member’s domestic currency changes in relation to the SDR, “currency valuation adjustments”<sup>7</sup> are made at least once a year in the IMF No. 1 Account or IMF Securities Account denominated and settled in domestic currency to maintain a constant liability in SDRs. Because the liability is denominated in SDRs, the currency valuation adjustments are not entered as transactions in the BOP but as exchange rate changes in the other changes in financial assets and liabilities account.

#### 4. DEBT RELIEF THROUGH IMF ADMINISTERED TRUSTS

**A9.15** Grants from IMF administered trusts (e.g., CCRT) that are used to repay eligible IMF debt should be classified as other capital transfers (see paragraph 14.39) under the relevant sector (central bank or general government depending on the specific country situation). Further, to the extent that the grant is provided for the purpose of financing a BOP need in the recipient country, it should be recorded under memorandum items—exceptional financing<sup>8</sup> (within the BOP standard presentation) under capital transfers. Table A9.1 provides an example on the recording of CCRT debt relief in the BOP standard presentation.

<b>Table A9.1. Recording of CCRT Debt Relief in the BOP</b>		
Recording of the debt service relief for the principal payment (SDR 100), interest (SDR 4), <sup>1</sup> and charges (SDR 1) <sup>1</sup> falling due in the specified period.		
	<b>BOP standard presentation</b>	
	Credit/revenue	Debit/expenditure
<b>Current account</b>		5
Services		1
Financial services		1
Investment income		4

<sup>7</sup> Members must pay additional currency if their currency depreciates against the SDR, and the IMF refunds some of these currency holdings if a currency appreciates. Currency valuation adjustments are conducted to ensure compliance with the maintenance of value concept under Article V, Section 11 of the IMF’s Articles of Agreement.

<sup>8</sup> For additional details refer to paragraph A1.7.

Other investment Interest		4
<b>Capital account</b>	105	
Capital transfers General government <sup>2</sup> Other capital transfers	105	
	Net acquisition of financial assets	Net incurrence of liabilities
<b>Financial account</b>		-100
Other investment Loans General government <sup>3</sup> Credit and loans with the IMF		-100
<p>Notes: <sup>1</sup>Due to the General Resources Account (GRA), if applicable</p> <p><sup>2</sup>It will be included under capital transfers/financial corporations if the external debt liability to the IMF is on the central bank's balance sheet</p> <p><sup>3</sup>It will be included under loans/central bank if the external debt liability to the IMF is on the central bank's balance sheet</p>		

## 5. LENDING TO IMF AND IMF ADMINISTERED TRUST ACCOUNTS

**A9.16** When a member lends funds to the IMF as a participant in the NAB, or through bilateral loans/note purchase agreements, and if those claims are eligible for immediate early repayment to meet a BOP financing need, the member obtains a claim on the IMF that qualifies as a reserve asset (and is included as part of the member's reserve position in the IMF).

**A9.17** A member may also extend credit or make loans to the IMF that are not considered to be a part of the reserve position in the IMF. Such a situation arises, for example, if a member's claim on the IMF is not immediately encashable at a time of BOP financing need. Such lending to IMF should be recorded as other investment assets/loans.

**A9.18** Lending to the IMF administered trusts, such as the PRGT and RST, if readily available to meet a BOP financing need, should be included in official reserve assets. These

claims are to be recorded as other reserve assets/other financial claims and not to be included under reserve position in the IMF as claims on the IMF administered trusts are not claims on the IMF.

**A9.19** Lending to the IMF administered trusts that is not readily available to meet a BOP financing need does not qualify as official reserve assets and should be recorded under the appropriate functional category (most frequently, other investment).

## 6. REMUNERATION

**A9.20** The IMF pays its members “remuneration” quarterly on the basis of their reserve tranche position, except for a small portion related to prior quota payments in gold that are interest-free resources to the IMF. This remuneration is classified on an accrual basis as investment income—reserve assets—interest (credit), which is offset by an increase in reserve assets (debit).

## 7. IMF NO. 2 ACCOUNT

**A9.21** As discussed above, the IMF No. 2 Account is used by the IMF for administrative payments. Unlike the IMF No. 1 Account, it is reflected in the BOP of a member as a liability. Transactions involving the IMF No. 2 Account are recorded as increases or decreases in this liability and are offset by the source of funds (in the case of an increase) or the use of funds (in the case of a decrease). For example, when the IMF transfers funds from the IMF No. 1 Account to the IMF No. 2 Account in a member economy, the member’s BOP shows an increase in its reserve tranche (debit). The increase reflects the reduction in IMF holdings of the member’s currency in the IMF No. 1 Account and is offset by an increase in the member’s other investment liabilities relating to currency and deposits (credit). When the IMF uses funds from the IMF No. 2 Account to pay for the acquisition of goods and services, the BOP of the member shows a reduction in this account (debit) and an offset (credit) under government goods and services n.i.e.

## 8. SPECIAL DRAWING RIGHTS

**A9.22** The SDR is an international reserve asset created by the IMF in 1969. It is administered by the SDR Department of the IMF, which is required by the IMF’s Articles of Agreement to keep its accounts strictly separate from the General Resources Account. The SDR is not a claim on the IMF. Rather, the membership of the SDR Department incurs the asset or liability position. Further information is covered in other chapters:

- SDRs are instruments as defined in paragraphs 5.37–5.38.

- SDR allocations received by a country are reported as liabilities under other investment (paragraph 6.65) and reserve-related liabilities (paragraph 6.123). They are not included in short-term foreign currency drains, implying that the net international reserves (NIR) would increase with the new SDR allocation. See Box 6.6 for additional details on the standard statistical definition of NIR.
- SDR holdings are classified as reserve assets (paragraph 6.88).
- SDR-related interest is recorded on a gross basis.<sup>9</sup> Members earn interest on their SDR holdings (income on reserve assets) and pay interest on their cumulative allocation at the SDR interest rate (income under other investment liabilities) (paragraph 12.129).
- Recording of SDR allocations/holdings in the BOP/IIP of a member economy of a decentralized or centralized currency union is no different from that of any other country (paragraph A3.39).

**Table A9.2. Summary Recording of Positions and Transactions with the IMF**

This table provides a summary recording of different lending/borrowing arrangements in the BOP/IIP of the member economy.

Lending/Borrowing Arrangement	BOP/IIP of Member Economy
Loans (readily available to meet a BOP financing need) to the IMF under NAB and BBAs	Reserve assets/reserve position in the IMF
Loans (not readily available to meet a BOP financing need) to the IMF under NAB and BBAs	Other investment assets/loans
Lending to IMF administered trusts (readily available to meet BOP financing needs)	Reserve assets/other reserve assets/ other financial claims
Lending to IMF administered trusts (not readily available to meet BOP financing needs)	Other investment assets/loans
Credit and loans with the IMF	Other investment liabilities/loans

<sup>9</sup> Interest on SDR holdings and allocations accrue on a daily basis and are settled after the end of each financial quarter (on May 1, August 1, November 1, and February 1) through a debit or credit to each member's SDR account (see paragraphs A8.20, *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template*).

Cash grants from IMF trusts (e.g., CCRT) for repaying debt	Capital transfers/other capital transfers (credit/revenue)
SDR allocations	Other investment liabilities
Interest on cumulative SDR allocations	Investment income/other investment/interest (debit/expenditure)
SDR holdings	Reserve assets
Interest on SDR holdings	Investment income/reserve assets/interest (credit/revenue)
Transfer of funds from the IMF No. 1 Account to the IMF No. 2 Account	Reserve assets/reserve position in the IMF
	Other investment liabilities/currency and deposits

# Annex 10. Integrating Measures of Sustainable Finance and Climate Change into External Sector Statistics

## A. INTRODUCTION

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**A10.1** During the past few decades, the increased awareness of macroeconomic and financial relevance of environmental and climate change-related risks has led to a surge in demand for data on the financial and economic implications of climate change and environmental risks, including funding activities which contribute to sustainable outcomes. The UN Intergovernmental Panel on Climate Change and other international platforms, including through the 2015 Paris agreement, has been placing increased emphasis on making more information available to better assess climate-related risks and opportunities and their financial impacts.<sup>1</sup> In that context, the objective of this annex is to demonstrate how the BOP/IIP data can inform the current demands for data on environment and climate change, with a particular focus on the latter.

**A10.2** Consistent with the 2025 SNA (Chapter 35, Measuring the Sustainability of Wellbeing), this annex recommends compilation of supplementary BOP/IIP data in support of the analysis of financing activities that contribute to the achievement of more sustainable outcomes (sustainable finance). It also provides initial ideas on how external sector statistics could be used to better understand climate change. The annex does not, however, intend to introduce a framework for data compilation or rigorous conceptual guidance, as the expert work in macroeconomic implications of sustainable finance and climate change is still evolving.

**A10.3** While there are a number of international, regional, and national initiatives to define climate change- and sustainable finance-related statistical concepts in the context of economic measurement, consistent and widely adopted definitions are yet to exist. The G20 Data Gaps Initiative 3 (DGI-3) is expected to mobilize progress in this area to develop methodological guidance and reporting templates to produce more comparable indicators of green financing via debt securities and equity instruments across the G20 economies. The 2025 SNA also includes updates to its classification systems (including the classification of

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<sup>1</sup> The final report on Recommendations of the Task Force on Climate-Related Financial Disclosures, June 2017, also describes climate-related opportunities that can arise from efforts to mitigate and adapt to climate change, such as resource efficiency and cost savings, adoption of low-emission energy sources, the development of new products, and building supply chain resilience.



institutional sectors, transactions, other economic flows, and stocks), addressing the emerging issues related to sustainability, climate change, renewable energy, waste and recycling activities, environmental, social progress, governance, or environmental depletion. The measurement of sustainable finance requires determining which components of the different financial instruments should be considered sustainable. Paragraph A10.10 elaborates on the primary types of sustainable finance, namely, ESG (Environmental, Social, Governance) finance and green finance.

**A10.4** Given the lack of consensus on taxonomies for climate change- or sustainable finance-related concepts, this annex does not recommend a single taxonomy but instead encourages national compilers and users to refer to the ongoing international work including through the DGI-3 as well as to support the development of official taxonomies nationally or regionally to support the availability of reliable, comparable, and consistent data on sustainable finance and climate-related risks.

**A10.5** Going forward, the annex could be complemented with further guidance to reflect advances in methodology and data availability as well as the development of a broader framework to identify the cross-border aspects of sustainable finance as well as environment and climate change.

**A10.6** Section B of this annex focuses on sustainable finance, for which supplementary tables are introduced, as well as international cooperation grants. Section C introduces a number of other data that could be derived from the BOP/IIP framework as well as some additional data that could inform the compilers in support of climate change related analysis and policy making. Section D presents additional climate change-related data that could be useful depending on national circumstances. Finally, Section E discuss future areas of work.

## **B. SUSTAINABLE FINANCE AND INTERNATIONAL COOPERATION GRANTS**

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**A10.7** Alongside the increasing range of activity and policy response to the challenges of sustainability, there is increasing level of financing of these activities. This financing can come from both public and private sources, and can include different types of activities, such as debt or equity issuance, financing from own funds as well as grants and subsidies.<sup>2</sup> The

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<sup>2</sup> Note that climate finance, as defined by the United Nations Framework Convention on Climate Change, includes not only financing of climate action through debt (bond issuance or loan subscription) or equity issuance, but also financing from own funds as well as grants and subsidies (see IPCC Sixth Assessment Report, Chapter 15, Investment and Finance, Box 15.4). Financing from own funds and domestic financing are out of scope for external sector statistics.

external accounts framework would conceptually include cross-border flows of such financing.

## 1. CROSS-BORDER INVESTMENT IN FINANCIAL INSTRUMENTS INTENDED TO FINANCE SUSTAINABLE PROJECTS

**A10.8** While the financial instruments (e.g., loans, bonds, and equities and investment fund shares/units) that are used to provide resources for sustainable development are the same as those used for other purposes, separate quantification of the level of financing for sustainability purposes, for example measures of the value of green bonds, is important for tracking investment in the green and climate/transition economy and informing decisions on monetary and fiscal incentives relating to it (OECD, *Developing Sustainable Finance Definitions and Taxonomies*, 2020). (See 2025 SNA Chapter 35).

**A10.9** The measurement of sustainable finance requires determining which components of the different financial instruments should be considered sustainable. This is an active area of research and discussion in many fora across both the private and public sector. Nonetheless, recognizing the policy relevance of the data, definitions have been determined in order to operationalize the concept of sustainable finance. These definitions should be reviewed in the light of further advances, especially in the context of changes in the regulatory and reporting requirements.

**A10.10** Two primary types of sustainable finance are defined:<sup>3</sup> ESG finance and green finance, with green finance being a subset of ESG finance. *ESG finance is finance for activities or projects that sustain or improve the condition of the environment or society or governance practices. Green finance is finance for activities or projects that sustain or improve the condition of the environment.* The general principle for establishing greenness is positive contribution to the environment, rather than “do no harm.”

**A10.11** Countries are encouraged to compile measures of ESG finance and green finance as supplementary “of which” items for the following financial instruments: equity and investment fund shares/units, debt securities, and loans—under the three relevant functional categories—direct investment, portfolio investment, and other investment. The relevant breakdowns are shown in Table A10.1.

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<sup>3</sup> The definitions would need benefit from further work in the area, including the further elaborations/updates in the SEEA.

Table A10.1. Supplementary Table for ESG and Green Financial Instruments (BOP and IIP)			
		BOP (Transactions)	IIP (Positions)
<b>1</b>	<b>Direct investment</b>		
<b>1.1</b>	Equity		
	▪ <i>Of which: ESG equity</i>		
	▪ <i>Of which: Green equity</i>		
<b>1.2</b>	Debt instruments		
	<i>Of which: Debt securities</i>		
	▪ <i>Of which: ESG debt securities</i>		
	▪ <i>Of which: Social debt securities</i>		
	▪ <i>Of which: Green debt securities</i>		
	▪ <i>Of which: Sustainability debt securities</i>		
	▪ <i>Of which: Sustainability-linked debt securities</i>		
	▪ <i>Of which: Other ESG debt securities</i>		
<b>2</b>	<b>Portfolio investment</b>		
<b>2.1</b>	Equity and investment fund shares/units		
	▪ <i>Of which: ESG equity and investment fund shares/units</i>		
	▪ <i>Of which: Green equity and investment fund shares/units</i>		
<b>2.2</b>	Debt securities		
	▪ <i>Of which: ESG debt securities</i>		
	▪ <i>Of which: Social debt securities</i>		
	▪ <i>Of which: Green debt securities</i>		

	▪ <i>Of which: Sustainability debt securities</i>		
	▪ <i>Of which: Sustainability-linked debt securities</i>		
	▪ <i>Of which: Other ESG debt securities</i>		
<b>3</b>	<b>Other investment</b>		
<b>3.1</b>	Loans		
	▪ <i>Of which: ESG loans</i>		
	▪ <i>Of which: Green loans</i>		

**A10.12** The definitions of each of the instruments are adaptations of the general definitions of ESG and green finance above.

- ESG debt securities: *Debt securities where the use of proceeds is restricted to financing or refinancing activities or projects that improve the condition of the environment or society or governance practices, or where the issuer agrees to achieve performance objectives that improve the condition of the environment or society or governance practices. These include green debt securities, social debt securities, sustainability debt securities, sustainability-linked debt securities, and other ESG debt securities.*
- ESG loans: *Loans in which 50 percent or more of the debtor's activities improve the condition of the environment or society or governance practices. In the case of business loans, the debtor's activities would be reflected in the business's revenue, while in the case of loans to households, they would depend on the use of the loan proceeds.*
- ESG equity: *Equity investments by investors in institutional units in which 50 percent or more of the institutional unit's revenue comes from activities that improve the condition of the environment or society or governance practices.*
- ESG investment fund shares/units: *Share or units in investment funds investing in financial instruments, companies, projects, or other funds that intend to achieve performance objectives that improve the condition of the environment or society or governance practices.*

The definitions concerning green instruments have the same measurement scope except that they are limited to improving the condition of the environment.

**A10.13** Focus should be placed on recording the positions for these instruments, with transactions being recorded as a second order of priority. If possible, the estimates should be provided for all of the main sectors and subsectors. For debt securities, total ESG debt securities may be further broken down to identify the following “of which” items:

- Social debt securities: *Debt securities where the use of proceeds is restricted to financing or refinancing of activities or projects that improve the condition of society;*
- Green debt securities: *Debt securities where the use of proceeds is restricted to financing or refinancing of activities or projects that improve the condition of the environment;*
- Sustainability debt securities: *Debt securities where the use of proceeds is restricted to financing or refinancing of activities or projects that improve the condition of the environment and society;*
- Sustainability-linked debt securities: *Debt securities in which certain characteristics, such as the associated cash flows, are linked to achieving performance objectives that improve the condition of the environment and/or society; and*
- Other ESG debt securities: *All ESG debt securities other than social, green, sustainability, and sustainability-linked debt securities.*

No maturity breakdown would need to be introduced as in the main BOP/IIP tables.

**A10.14** As the work in this area evolves, further guidance for addressing the range of measurement challenges in implementing the recommendations for sustainable finance related information in *BPM7* could be developed.

**A10.15** There is a range of measurement challenges in implementing these recommendations. A principal challenge is effectively determining whether the purpose of a given financial instrument satisfies the definition of sustainable finance. This may be determined by the label placed on the financial instrument and the certification approach. The following approaches are acceptable: (i) self-labeling, where the issuing unit decides on the ESG or green classification; (ii) second party opinion, where a trusted unit provides the ESG or green label; and (iii) certification, where, in the presence of standards (public or private), a specialized unit grants the ESG or green status. A combination of approaches, potentially country specific, may need to be adopted. To combat concerns about “greenwashing,” it is important to provide metadata indicating the levels of assurance provided (through labelling and certification) that the estimates are ESG or green.

## 2. INTERNATIONAL COOPERATION GRANTS

**A10.16** Additional data on international cooperation grants to low-income countries to finance climate change mitigation and adaptation could also be useful to monitor global progress towards meeting climate finance commitments. Climate-related grants could be in the form of current or capital transfers between governments or between international organizations and governments, used by recipient countries to mitigate and adapt to the adverse effects of climate change. Separately identifying these climate-related grants, both by the recipient and donor countries, could be considered depending on the magnitude, macroeconomic implications for recipient economies, and the feasibility of separately identifying them. Such data could be included in the BOP as an “of which” category of international cooperation grants.

**A10.17** Two international datasets that include climate-related international grants are from the United Nations Framework Convention on Climate Change (UNFCCC) and the OECD. The UNFCCC publishes climate finance data received officially from parties to the UNFCCC on an annual basis. Reporting countries provide the reasons for classifying the funds as grants or other forms (e.g., loans). The OECD’s Development Finance for Climate and Environment database includes climate grants data from donor and recipient economies. These datasets could, initially, be a useful source for recipient economies to track the climate-related grants provided to them by the reporting donor economies. However, data compilers in recipient economies are also encouraged to compile their own data on climate finance grants which could be cross-checked with the international databases that are typically based on data from donor countries. Furthermore, reporting is based on national definitions (with parties providing the underlying assumptions, definitions, and methodologies); as such, the data may not be comparable across countries.

## C. USING EXTERNAL SECTOR STATISTICS TO UNDERSTAND CLIMATE CHANGE-RELATED RISKS AND OPPORTUNITIES

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**A10.18** Climate change is a global phenomenon affecting not only the natural environment but also posing increasingly significant risks to the financial system and the economy as a whole. These risks could emerge from exposure of the financial sector and their investments to physical risks from climate change-related events such as floods, droughts, etc., or exposure to transition risks, which refers to the implications associated with shifting to a low-carbon economy (e.g., sudden changes in policy that may result in stranded assets). For example, more stringent environmental legislation may result in increased credit risk or large changes in asset values. Higher environmental standards may have implications (though not necessarily negative) for the operational costs of doing business of nonfinancial

corporations: on the one hand, energy prices may rise, potentially up to the point where certain assets may become stranded (assets that are prematurely written down, devalued, or converted to liabilities). However, on the other hand, new opportunities may occur, or more efficient production methods can be used.

**A10.19** Also, technological innovations or changes in consumer or investor preferences may impact the business of various economic actors as well as financial institutions. Such physical and transition risks are not limited to individual (financial) companies but may affect entire industries and geographical regions and countries. Hence, climate change may have important implications for financial and systemic stability which may be curbed by the actions of the policy makers. To that end, it is important to quantify risks related to climate change in support of policy making. In that context, there is increasing interest in measuring physical and transitional risks. Risks are inherently forward looking and as such may not fit in the international macroeconomic statistical standards, including external sector statistics; however, international macroeconomic statistical standards can provide useful information that can inform decisions taking into account climate change-related risks.

**A10.20** Despite the global nature of the risks posed by climate change, the extent of their implications would differ across locations, sectors, and entities. Therefore, granular information on cross-border flows of investments and trade are becoming increasingly important to measure the potential effects of climate change-related risks on different economies, sectors, and entities. This section focuses on these cross-border aspects of climate change and identifies the types of data that can be important for understanding the relationship between climate change and the economy.

**A10.21** This section presents some initial considerations on the types of data that could be compiled at the national level to support users in understanding climate change in the context of external sector statistics (other than those mentioned in Section B above). This includes useful information that could be made available by isolating certain BOP/IIP components or by introducing more granularity within a BOP/IIP component. In addition, other future areas of work are presented.

**A10.22** The data items presented in this section should be considered as indicative items that could help further inspire national compilers in support of their respective data users. It is not intended to introduce a data framework for climate change-related data compilation or dissemination for external sector statistics, but rather to provide some initial considerations on the types of data that could be relevant for policy makers. In addition, these items could potentially be useful in combination with other information on environmental risk exposures (e.g., environmental risk exposures of economic activities or climate risk profiles of individual countries). While a wide range of indicators may be useful to explore risks from a cross-border perspective, the presented items are those initially considered by the external

accounts community as the most feasible to compile in the short term as additional details and breakdowns of existing BOP and IIP items.

## 1. DIRECT INVESTMENT BY INDUSTRIAL SECTORS

**A10.23** Breaking down direct investment by economic activity would be useful to assess the industrial sector specific climate change-related risks that resident nonfinancial corporations are directly exposed to through their direct investment in specific sectors. For example, direct investment in sectors such as agriculture or real estate would be more exposed to physical risks related to climate change while others in carbon-intensive sectors would be relatively more exposed to transition risks. Financial corporations would also be subject to both kinds of risks, mainly indirectly through the lending portfolios of their subsidiaries abroad. Obviously, such information on the breakdown of direct investment by economic activity needs to be complemented with information on the exposures of sectors to environmental risks using tools such as ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure).

**A10.24** *BPM7* includes among the standard items, sectoral classification of direct investment data by institutional sectors similar to the rest of the functional categories (i.e., central bank, deposit-taking corporations except the central bank, general government, other financial corporations, nonfinancial corporations, and households and NPISHs). While this would be a useful start in the context of climate change-related risk, compilers could usefully aim for further granularity of sectors such as a more granular breakdown of nonfinancial corporations aligning with other statistics (e.g., with the International Standard Industrial Classification (ISIC)).<sup>4</sup> Compilers are also encouraged to go beyond the existing classifications to capture additional aspects of climate change considering the limitations of existing classifications.

## 2. PHYSICAL LOCATION OF INVESTMENTS (DIRECT INVESTMENT BY COUNTERPART ECONOMY)

**A10.25** Direct investment in certain host economies may be more exposed to physical risks or transition risks related to climate change than in others, depending on the geographical location or policy developments. In addition, greater exposure to climate change-related physical and transition risks could affect the direct investment received. To that end, counterpart economy data for direct investment, in combination with information on the risk

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<sup>4</sup> ISIC classification has some limitations for its use for climate change purposes (e.g., the energy sector does not differentiate between electricity generated from renewable resources and from coal).



exposures of the location,<sup>5</sup> would provide insights into risk exposures of both the direct investor and investee countries. While the ideal information would be direct investment by ultimate counterparty, immediate counterparty data would be more readily available and still useful. Data may be compiled and published both at a bilateral level but also, for example, as a weighted average across countries. National (and supra-national) level data would be particularly useful for transition risks, since policies supporting the transition are likely to be enacted at the national (supra-national) level.

**A10.26** A refinement of data by counterpart economy on the exact (near) physical location of direct investment would shed more light into, particularly, physical risks to which a country's cross-border investments would be exposed. Such calculations are ideally made at a more detailed geographical level in combination with other statistics on investments at various levels of aggregation (such as city or postal code area) due to regional variation in climate change risks within countries. Nevertheless, national data would still be relevant, as the macro stability implications may still extend to the national level, as mentioned above. Importantly, data sources on physical risks by such detailed geographical area are readily available for use,<sup>6</sup> and their use in combination with existing data collections on investments at various levels of aggregation (country, city) are being explored to develop indicators of physical risks. Having said that, explicit data on physical structures (e.g., buildings, structures) and how these are financed may not be readily available and would require some sophisticated modeling. Efforts at the national level to develop detailed geographical data for direct investment (e.g., at a city level) by utilizing existing data collection frameworks together with other statistics would be encouraged.<sup>7</sup>

### 3. TRADE IN GOODS RELATED TO THE TRANSITION TO A LOW-CARBON ECONOMY

**A10.27** Trade statistics could provide important insights into the analysis of movement of environmental risks across the supply chain and into the supply chains associated with products aimed at greening production systems or at mitigating risks. To that end, information on trade in “environmental goods” or more specifically trade in “low carbon technology (LCT) products” could be useful. Environmental goods is a broader concept which includes products related to environmental protection and resource management. The System of Environmental Economic Accounting Central Framework (SEEA CF) provides

<sup>5</sup> The Intergovernmental Panel on Climate Change, the Climate Risk Institute, and the World Bank's country profiles could be useful resources for information on regional/national climate change risk profiles.

<sup>6</sup> Examples include the data published by the World Resources Institute or the EU Risk Data Hub.

<sup>7</sup> Compilers may want to look into the potential for investments in nature-based solutions as these could support the climate change mitigation and adaptation efforts.

guidance on the accounting for environmental expenditures and goods and services under its environmental activity accounts, and relevant trade statistics should seek alignment with the SEEA CF, including any further improvements to it.

**A10.28** Compiling consistent data on trade in environmental goods or LCTs would help users, including policy makers. These data may be estimated top-down using models, but ideally, compilers could use a bottom-up approach to produce more detailed results from granular, economy-level information, which over time may become increasingly comparable across countries as methodologies and data sources converge. To measure trade in LCT products, a list of commodities to be included needs to be identified. There is no internationally agreed-upon list for environmental goods or LCTs, though several lists have been developed to meet different policy needs, including by the IMF.<sup>8</sup> Further work is needed to avoid complications in the interpretation of analytical results based on different lists of LCT products.

**A10.29** National compilers could subsequently derive additional analytical indicators by using the data in trade in environmental or LCT products and combining them with other trade related data. These include import and exports of LCT or environmental products, trade balance in LCT or environmental products, total trade in LCT or environmental products, and comparative advantage in LCT or environmental products, including by partner economy.

#### 4. TRADE IN SERVICES RELATED TO THE ENVIRONMENT AND CLIMATE CHANGE

**A10.30** Another example of useful information that could support users of climate change data could be the services component environmental, agricultural, and mining services. Environmental services consist of waste treatment and depollution services, including materials recovery (recycling) services, sewerage, sewage treatment and septic tank cleaning services, waste collection and disposal, remediation, sanitation, and other environmental protection services (see paragraph 11.122). They also include treatment of air pollution, carbon capture, and storage services that are not classified under any other specific category. The SEEA CF also provides guidance on the treatment of waste under environmental accounts which needs to be taken into consideration when compiling granular

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<sup>8</sup> The IMF defines LCT products as those that produce less pollution—especially of carbon dioxide and other greenhouse gases—over their lifetime than their traditional counterparts and will play a vital role in the transition to a low-carbon economy. Rapid diffusion of LCTs is considered to be critical for accelerating climate change mitigation (IMF, *Data for a Greener World*), while trade is a key transmission channel in the development, production, and adoption of low-carbon technologies (Cirera and Maloney, 2017). See IMF Book, *Data for a Greener World: A Guide for Practitioners and Policymakers*, Chapter 9, for a discussion on LCT products and environmental goods.

data on waste treatment and depollution services. Compiling granular data on these relevant subcomponents of environmental services could be useful for the users of climate change data.

## 5. TRANSACTIONS IN EMISSIONS PERMITS

**A10.31** Separate reporting of cross-border transactions in emissions permits could also inform data users. Emissions permits are recorded as other accounts receivable/payable under financial assets and liabilities (see paragraph 5.84). For countries where cross-border transactions of emissions permits are significant, compilers could consider compiling information on transactions in emissions permits separately. Emissions permits are identified as a separate “of which” item in Annex 14.

## 6. TRANSACTIONS RELATED TO CLIMATE-INDUCED NATURAL DISASTERS

**A10.32** Disaggregated data on transfers and direct investment in response to specific climate-induced disasters (e.g., reconstruction after a hurricane, or remittances to climate induced migrants) may be feasible to compile and would be useful to assess how direct investment and transfers are contributing to financing the climate change adaptation. Such information would help with the assessment of transition risks.

## D. FUTURE WORK

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**A10.33** As the policy work on environmental change is evolving rapidly, compilers are encouraged to also consider how external sector statistics could support emerging areas of interest. Such future work could include:

**A10.34** Information on the lenders: Exposure of the sources of financing (e.g., energy exporting jurisdictions, flood prone jurisdictions) to climate change-related physical or transition risks may affect the funding levels of financial and nonfinancial institutions.

**A10.35** Financial derivatives: Financial derivatives are an important tool for managing risks. Therefore, institutions' holding of financial derivatives related to sustainable investments or climate change-related risks, including across borders, would help to inform how they hedge against such risks. Weather-related financial derivatives are being developed to deal with weather-related events. Derivatives tied to specific commodities, such as oil, specific agricultural commodities, or tons of CO<sub>2</sub> emissions, could also be of interest.

**A10.36** Information on total insurance claims (including reinsurance which is used as a risk transfer mechanism), including those resulting from climate change-related natural hazards, could also be compiled. Nonlife insurance claims are normally classified as current transfers

(see paragraph 14.34). For exceptionally large claims, such as those following a major catastrophe or disaster at national level, some part of the claims may be recorded as capital transfers rather than as normal current transfers. Compilation of data on the insurance claims resulting from climate change-related natural hazards could be useful for the users of climate change data.

**A10.37** More generally, looking at further disaggregating some of the external accounts data from a climate change perspective has been put on the joint post-2025 *SNA/BPM7* research agenda (see Annex 15).

## Annex 11. Data by Partner Economy

### A. INTRODUCTION

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**A11.1** The primary presentation of external accounts shows positions and transactions with all nonresidents as a total, but data on positions and transactions with nonresidents broken down into individual partner economies or groups of economies are of considerable interest. (The possible split of data by partner institutional sector is discussed in Chapter 4). Data may be provided for the BOP or IIP as a whole, or for particular components, such as goods, services, direct investment, or portfolio investment. For example, partner data are an essential element of the IMF's Coordinated Portfolio Investment Survey and Coordinated Direct Investment Survey as well as the BIS's international banking statistics. The availability of partner data supports bilateral comparisons, which can aid *economic analysis and can also assist in identifying data problems*.

**A11.2** Partner data are often prepared for groups of economies or a mix of groupings and major individual partner economies. (Because partner economies are often grouped into regions, the data are sometimes called regional statements). It is desirable to follow standard lists of economies and regions, such as those of the United Nations or IMF. The partner data published may be aggregated to groups of economies because of confidentiality and to avoid categories with minimal values. In addition to economies and regions, categories for international organizations as counterparties are needed. Partner data are also necessary to consolidate data from member states into data for a currency union or economic union. Additional information on partner data for currency unions and economic unions is dealt with in paragraphs A3.21–A3.28.

**A11.3** The basic principle for data by partner economy is based on the economy of residence of the counterparty to the transaction or financial position. For current and capital account transactions, the partner economy attribution is based on the “transactor approach” (i.e., transactions are allocated to the economy of residence of the nonresident with whom the transaction is made). For BOP transactions in financial instruments, while the basic principle for partner economy attribution is based on the transactor approach, the use of the debtor-creditor approach (i.e., cross-border transactions in financial assets are allocated to the economy of the residence of the debtor and liabilities are allocated to the economy of

the residence of the creditor) is possible but should be clearly specified when presenting the data to users.<sup>1</sup>

**A11.4** The same principles for determining residence, as discussed in paragraphs 4.10–4.15 and Section J.2 of Chapter 4, are applicable, but they are often more difficult to apply because the information is not known to the resident counterparty. In a number of cases listed in paragraphs A11.5–A11.7, the main potential source of information may fall short of the preferred basis. In each case, such divergences should be noted by compilers and their significance assessed to determine whether adjustments are needed. The BOP statement as a whole is conceptually balanced because each transaction involves two equal flows; however, bilateral BOP may not balance (even in theory) (see paragraph A3.77).

## 1. AGENTS

**A11.5** An agent is a party who acts on behalf of or as a representative for another party. Transactions arranged by an agent on behalf of a principal should be attributed to the principal, not to the agent. For example, if an agent arranges tickets of an airline resident in another economy for a fee, the transactions and positions related to those tickets are attributed to the airline. However, the fee payable to the agent is recorded as nonfinancial intermediation service and attributed to the economy of the agent. See paragraph 11.112 for details on the nonfinancial intermediation services.

## 2. NOMINEE ACCOUNTS AND CUSTODIANS

**A11.6** Nominees are a legal device for holding assets for confidentiality or convenience reasons. Custodians are financial institutions or specialized units responsible for the safekeeping, administration, and management of assets, such as securities. They provide a broader range of services, including settlement, record-keeping, and transaction processing for the assets. The assets held in nominee accounts should be attributed to the economic (beneficial) owner, not the nominee. However, for issuers of securities, it may be difficult to identify whether nominees hold assets in their own right or as nominees. Furthermore, if the assets are held by a nominee, it is recognized that it may be difficult to identify the economic owner, especially when nonresident nominee accounts and custodians are used. For example, if a resident of Country A holds securities issued by a resident of Country B and uses a nominee account in Country C, and the securities are kept in custody in Country C, the custodian in Country C may not be aware that the ultimate owner is in Country A.

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<sup>1</sup> On many occasions (e.g., investment income), both approaches—the transactor and debtor-creditor approaches—will typically yield the same result.

### 3. QUASI-CORPORATIONS

**A11.7** When an actual entity is split into separate institutional units (such as for joint administration zones, branches, notional resident units, and multiterritory enterprises, as noted in paragraphs 4.198 and 4.51–4.69), they should be split consistently in partner data for statistics in the economy of the counterparties.

## B. COMPILATION OF CROSS-BORDER TRANSACTIONS AND POSITIONS DATA BY PARTNER ECONOMY

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**A11.8** This section will cover the compilation of data by partner economy for specific BOP components (e.g., goods, services, direct investment) and financial instruments, and associated issues.

### 1. GOODS AND SERVICES

**A11.9** Statistics on trade by partner economy provide insights into global economic trends, regional trade patterns, interdependencies, and potential areas for policy development or investment. Trade by partner economy further provides a firm basis for bilateral and multilateral trade negotiations. Mirror data can be used by compilers and analysts to complete gaps in existing data and for measurement of bilateral asymmetries.<sup>2</sup> Goods trade by partner economy can be available to a high level of detail from the source data. Services trade by partner economy may be available from compilation sources, such as through an international transactions reporting system (ITRS) system, or collected at company level through dedicated questionnaires on international trade in services.

#### **Goods**

**A11.10** The goods account is typically derived from IMTS source data. In this context, IMTS recommends that for imports the country of origin is recorded (and that the country of consignment (see paragraph A11.16) is recorded alongside country of origin), while for exports, the country of last known destination is recorded. In addition to the potential issues associated with using country of origin and country of last known destination, which will be discussed in subsequent paragraphs, compilers should also be mindful of national practices, such as instances where goods are reported on a country of consignment basis.

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<sup>2</sup> Bilateral trade asymmetries at a detailed or aggregate level are discrepancies in reported statistics occurring when the value of exports of one economy to a second economy do not match the corresponding imports of the second economy from the first economy. Bilateral asymmetries in goods and in services are discussed in, *IMTS: Concepts and definitions*, and the *Manual on Statistics of International Trade in Services*, respectively,

**A11.11** The country of origin of goods reflects the economy of production or manufacture of the goods. The IMTS determines the origin as the place of last substantial transformation. The *IMTS Compilers Manual (2010)*, following the Revised Kyoto Convention, helps identifying operations that would and those that would not constitute substantial transformation.

**A11.12** The country of last known destination is the last country to which goods are to be delivered, irrespective of whether they have been initially dispatched to an intermediate country and whether or not, on their way to that last country, they are subject to any commercial transactions or other operations that change their legal status, such as a change of ownership.

**A11.13** There are cases when the partner country in the external sector statistics is not the same as the country of origin. Suppose goods were produced in country A, sold and shipped to Country B, and afterwards resold and dispatched to Country C. Country C, if recording country of origin, will indicate that goods were imported from Country A. In the BOP statistics these goods should be shown as imports from Country B as there is a change of ownership of goods between Countries B and C.

**A11.14** The same issue theoretically exists for exports recorded by country of last-known destination. However, using the same example as in paragraph A11.13 the exporter in Country A may not know the actual final destination and may be more likely to record Country B as the country of last known destination (which would be the same partner attribution in the BOP statistics).

**A11.15** There are other types of partner economy attribution for imports and exports that are used for compiling IMTS. A well-known type is the country of consignment. Country of consignment has symmetric treatment for imports and exports. The country of consignment refers to, for imports, the country from which goods are dispatched to the reporting country, and for exports, the country to which goods are dispatched from the reporting country, without any commercial transactions or operations in intermediate countries that alter the legal status of the goods.

**A11.16** The concept of country of consignment is a partner attribution which is often used in IMTS that approximates the change of ownership principle in the BOP statistics. This is because if a change of ownership of goods between residents of different economies takes place and the goods are shipped between their respective economies, it is unlikely that any commercial transaction in an intermediate economy would occur that could alter the legal status of the goods.

**A11.17** Compilers of BOP statistics that use IMTS as source data are therefore recommended to use country of consignment from the customs-based data whenever these



data are available. For imports, these data may be available as a secondary partner of attribution (as recommended in the *IMTS: Concepts and Definitions*). For exports, if country of consignment is not available then country of last known destination serves as a practical alternative (see paragraph A11.14).

**A11.18** There are, however, cases where goods may be dispatched directly between two economies, with a change in legal status happening in both economies (that is, satisfying the country of consignment conditions) but where no transaction takes place between the two economies. A well-known example is the case of a merchant resident in a third economy who buys goods from a first economy and sells those goods to a second economy (see Box A11.1). This illustrates one of the limitations of using the IMTS for the allocation of partner economy in the goods account.

**A11.19** More generally, if there is a movement of goods between economies that is not matched with a change of ownership between those economies, or, if there is a change of ownership between economies that is not matched with a movement of goods between those economies, then the partner economy from the IMTS data will not be recorded correctly for BOP statistics purposes. As seen in Chapter 10, these situations occur within global distribution and manufacturing arrangements.

**A11.20** The focus of the discussion of global distribution and manufacturing arrangements in Chapter 10 is on adjustments that need to be made to the source data to record total goods on a BOP basis. This section considers partner economy attribution issues that arise in these arrangements. While the partner economy attribution is often straightforward when a change of ownership is identified, it may differ from the records maintained in the IMTS under these circumstances. Box A11.1 below illustrates the issues that may arise under a merchanting arrangement.

**A11.21** A more complex situation arises for compilers in a nonmerchant economy when dealing with inverse merchanting. In this scenario, a resident unit sells goods to a nonresident merchant, which should be recorded as exports in the BOP. Subsequently, another resident unit purchases these goods from the merchant, and this transaction should be recorded as imports in the BOP. The movement of goods occurs solely between resident units and will not be captured in the IMTS. Compilers need to record both an export and an import of the same goods when identified and significant.

**Box A11.1. Partner Economy Attribution: Merchanting**

A merchant resident in economy A acquires goods from a producer resident in Economy B for 10. The goods are sold to a resident in Economy C for 17, without the goods passing through Economy A. The table illustrates the flows of goods in the BOP.

Reporting Economy	Partner	Exports	Imports
Economy A	Economy B	-10	
Economy A	Economy C	17	
Economy B	Economy A	10	
Economy C	Economy A		17
<b>Global trade in goods</b>		<b>17</b>	<b>17</b>

These flows would differ in each case from the IMTS.

In the BOP, Economy A records -10 exports (under goods acquired under merchanting) with Economy B, whereas Economy B records +10 exports with Economy A. This situation highlights a conceptual asymmetry between exports from Economy B and imports to Economy A, which arises from the treatment of merchanting in the economy of the merchant. Nevertheless, it is important to note that there is no asymmetry in the net trade or the balance of the goods account between the two economies.

**A11.22** In a goods for processing arrangement, the processor does not take ownership of the goods. So, goods that enter and leave the economy of the processor that are owned by the principal would not be shown in the goods account of the processor. However, these goods would be recorded in the IMTS.

**A11.23** Furthermore, the material inputs, in a goods for processing arrangement, may be purchased by the principal from a third economy or from the economy of the processor without entering or leaving the economy of the principal. When the goods are finished, they may be sold by the principal to the economy of the processor or to a third economy without entering the economy of the principal (see Figure 10.1). In all these cases, the partner economy attribution would refer to the change of ownership and would differ for all economies involved from what is recorded in the IMTS source statistics. In the scenario illustrated in Figure 10.1, the dashed lines represent physical flows of goods and would be recorded in the IMTS and the solid lines show BOP transactions. In the BOP, Economy C should record exports of goods vis-à-vis Economy A and not vis-à-vis Economy B as would be recorded in IMTS; Economy B should not record any exports and imports of goods, but

only show services exports vis-à-vis economy A; and Economy D should record imports of goods vis-à-vis economy A and not vis-à-vis C as would be recorded in the IMTS.

**A11.24** Under factoryless goods production, the contractor sells finished goods to the principal and the principal may sell those goods to the economy of the contractor or a third economy without the goods passing through the economy of the principal. As discussed in Chapter 10, this is not treated as merchanting because the principal is considered a manufacturer and not a distributor. In the BOP statistics, the contractor should record exports to the principal and the final buyer should record imports from the principal (with corresponding transactions shown for the economy of the principal) even though the goods are dispatched directly from the contractor to the final buyer.

**A11.25** A similar situation to inverse merchanting (see paragraph A11.21) can arise with factoryless goods production where the contractor and the final buyer are both resident in the same economy. The economy of the contractor/final buyer should record exports and subsequent imports of the finished goods with the economy of the principal (with corresponding transactions shown for the economy of the principal). The movement of goods would be between residents of the same economy and would not be captured in the IMTS of either economy.

## **Services**

**A11.26** Trade in goods generally benefits from extensive information in customs data, which provides details by product and by partner country as well as other variables. On the other hand, services trade statistics often depend on information obtained from surveys (often of samples of the population) and various estimation techniques. Consequently, many countries still do not report bilateral trade statistics for services, further complicating the analysis of service trade flows.

**A11.27** Chapter 11 offers detailed guidance on the classification and reporting of services within the BOP framework. It provides a clear overview of the various services categories, including transport, travel, computer and information services, financial services, and technical and other business services. Although the partner economies involved in trade in services is implied in the services account, the standard components are restricted to the services categories (without specifying partner economy). This manual nevertheless strongly recommends that statistics on international trade in services be collected and compiled on an individual trading partner basis. This recommendation is particularly important because, unlike trade in goods, the services account of the BOP is the principal source of information available to users on trade in services.

**A11.28** It is recognized that compiling statistics by service category and by trading partner can be complex and challenging. It is resource-intensive; there may be incomplete

information; survey design can be difficult; and there is a need to employ sampling and estimation techniques that are not generally used in other parts of the external accounts. The level of detail may introduce confidentiality issues. This *Manual* recommends that compilers share practices and, at least, give priority to deriving data on trade in services by services category (see Chapter 11 and Annex 14) and for the main trading partners of their economies.

**A11.29** Because most services are traded at the same time as their production, the concept of partner economy of service provision is usually straightforward. Several unavoidable and complex challenges however persist. These include the following.

- The allocation of imports related to transport and insurance services, resulting from the CIF to FOB adjustment, may not accurately reflect the actual services provided to the reporting economy. This discrepancy arises because some transport and insurance costs to be recorded as costs to the importing economy may pertain to payments made by the exporting economy (see also Box 11.1).
- This *Manual* recommends separating package tours into distinct components, including transport, accommodation, and other services, as well as the services provided by the tour operator and the fees and commissions of the travel agency (see Box 11.2). Estimating the partner economy of the separate components can be challenging due to limitations in source data, such as tourism surveys or payment records.
- Fees charged by service providers to investment funds are considered to be directly provided from the original professional providers to the shareholders of those funds (see paragraphs 11.81 and 12.59). For compilers of these services (from the point of view of the shareholder or the service provider), information regarding the partner economy may not be readily accessible, especially for investment funds not based in the compiling economy.
- Digital intermediation fees may arise when transactions occur between residents of the same or different economies (See paragraphs 16.40–16.42. Correctly attributing these fees to the appropriate economy requires an understanding of the payment arrangements between the parties involved, as well as knowledge of the economy where the intermediation platform is located.
- In the case of crypto assets without a corresponding liability designed to act as a general medium of exchange, partner economy attribution of implicit fee (i.e., newly released crypto assets) receivable by the miners for validating transactions in these assets is challenging. The implicit fee is assumed to be collectively consumed by the existing holders of crypto assets, which is difficult to implement in practice since

identifying these holders is not straight forward. On the other hand, the explicit fee in crypto assets is payable by the party initiating the transaction and can be identified with some effort. See Box 11.5 for a discussion on the recording of validation services of crypto asset transactions.

- With regards to lending/borrowing of crypto assets through decentralized platforms, it may be challenging to identify the counterparty to the receipt and payment of interest.
- Other services categories that are derived from an implicit measurement or conceptual models present challenges in estimation and accurate assignment to partner economies. Implicit financial services on loans and deposits, financial brokerage, and life insurance services are examples where the services recorded in the BOP do not fully capture actual services that are rendered and paid for explicitly between the two economies.

**A11.30** Compilers should remain cognizant of these and other challenges arising from conceptual complexities and compilation difficulties, and they should strive to implement best practices to assign partner economy of trade in services effectively.

## 2. REMITTANCES<sup>3</sup>

**A11.31** Remittances are often closely related to migration between two economies, and therefore, remittance flows by partner economies are analytically useful. Remittances data by partners do not need to include all partner economies. Instead, data by partner economies should focus on major remittance corridors—that is, pairs of economies with large flows. For most economies, a small number of corridors are likely to cover most remittance flows. Remittance flows to and from major partner economies in BOP data may be provided on a supplementary basis, especially for major corridors.

**A11.32** Compiling remittances data by partner economies may often require estimations even if aggregate data are available from direct measurement. This is the case because data obtained from an international transactions reporting system or direct reporting by money transfer operators often may not identify the partner economy correctly, but instead show flows with an international settlement center. It is important that compilers adjust these data adequately, such as by basing their estimations of bilateral flows partly on demographic

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<sup>3</sup> Discussion on remittances in this sub-section refers to “personal transfers” and not to the broader concept of “personal remittances” (see Table A4.1, for the definitions of remittances).

indicators. Many countries and regions compile statistics on migration<sup>4</sup> and employment, and these statistics may be used by BOP compilers to help attribute remittances by country.

### 3. FINANCIAL INSTRUMENTS

**A11.33** Partner data on asset positions are classified to the partner economy according to the residence of the issuer, not other factors such as the place of issue, the residence of a guarantor, or the currency of issue. Similarly, partner data on liability positions are classified according to the residence of the holders. In practice, identification of counterparty for securities positions, income, and transactions is difficult for various reasons, including that (a) the issuer is not always aware of current holders of securities, (b) transactors in securities markets may not be aware of the identity of the counterparty, and (c) security holders may be unaware that income on securities positions may be payable by a financial intermediary that created a “short” or reverse position in the security rather than by the issuer of the security.

**A11.34** Classification of BOP transactions in financial instruments by partner raises some issues in addition to those for the IIP, in terms of data availability and user interest. These issues arise when an existing instrument is sold by a holder to another party. Such transactions involve only an exchange of assets, in contrast to the initial issue of a new instrument, which involves the creation of a new liability. This situation applies not only to securities, but also to other instruments that are traded, such as loans, deposits, banknotes, and coin.

**A11.35** For BOP transactions, the partner attribution could be made on the basis of the parties to the transaction (namely, the buyer and the seller, the so-called transactor approach), or for assets owned, the residence of the issuer (the so-called debtor-creditor approach). In these cases, it is acceptable to adopt a convention for partner attribution of assets owned based on the residence of either the counterparty to the transaction or the issuer. On practical grounds, the information available does not always permit identification of the two parties to the transaction. As noted in paragraph 19.30, both the debtor-creditor and transactor bases could be of analytical interest. (See also paragraphs 3.23–3.25.)

#### **Securities**

**A11.36** The partner attribution of a liability position or issue of a liability is made on the basis of the residence of the issuer. In cases in which a security is issued in a market other than where the issuer is resident, there is a need for particular attention.

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<sup>4</sup> For example, see the *Annual Report on Migration and Asylum 2023* from the European Migration Network.

**A11.37** The coding systems used by the securities industry to identify securities can help in some cases to ensure consistency of geographic attribution of securities by compilers across economies. For example, for equity/debt securities the first two digits of International Securities Identification Number (ISIN) can sometimes be used to identify the country of the issuer. However, this cannot be generalized to all equity/debt securities. Compilers should exercise caution when securities are issued in foreign markets using depository receipts (DRs). In such cases, use of the ISIN codes may lead to an inaccurate geographical attribution, because the country code is that of the organization that issued the DR rather than that of the one that issued the underlying security (see paragraphs A11.44-A11.45 for additional details on DRs). For debt securities, the ISIN code does not identify the residence of the issuer, but rather it identifies the depository (i.e., the national numbering agency). Further, securities issued by international organizations (IOs) (e.g., securities of the World Bank) may be assigned a code based on the currency of denomination (when issued as foreign bonds on a particular market, like US for “Yankee” bonds, JP for “Samurai” bonds etc.). Therefore, compilers need to apply caution in identifying the country of the issuer using ISIN codes. Finally, Eurobonds are issued with ISIN beginning with XS and in such cases the residence of issuer cannot be linked to ISIN. For additional details, see paragraph 3.13 and 4.57, *Coordinated Portfolio Investment Survey Guide, third edition (CPIS Guide)*.

### ***Stripped Securities***

**A11.38** Stripped securities (or strips) may be treated as the liability of the original issuer if there is no new security, or of the party creating the stripped securities if a new security is created (as discussed in paragraph 5.57). If strips have been issued by an entity in its own name, then the residence of the issuer is that of the entity that issued the strips, and the issuing entity should report its holdings of the existing securities issued by nonresidents. If strips have been created from a nonresident security and remain the direct obligation of the original issuer, then the residence of the issuer remains the same as for the original security.

**A11.39** The potential for double counting arises when the strips have replaced the original security, even though the latter has not been redeemed. Effectively, the original security is “dormant” in the settlement or clearing house, until it is reconstituted or redeemed.

### ***Securities Repurchase Agreements***

**A11.40** The treatment of securities under reverse transactions, such as repurchase agreements, is discussed in paragraphs 5.59–5.61 and A7.49-A7.51. Under that treatment, securities under reverse transactions are regarded as still being owned by the security-providing party, because there is no change of economic ownership.

**A11.41** As noted in paragraph 7.29, short positions occur when a security subject to a repurchase agreement is sold outright by the security-receiving party. The party with the

short position records a negative value for the holding of the asset. While recording of negative positions helps in avoiding double counting at the global level, there might be consistency issues when looking at the allocation by partner economy. The examples in Table A11.1 illustrate how double counting of debt securities assets/liabilities can occur in certain scenarios involving the on-selling of securities under a repurchase agreement.

**A11.42** Compilers that collect data from custodians will need to ensure that resident custodians can separately identify securities held under repo or reverse repo agreements when reporting clients' holdings. An additional avenue to ensure consistency across borders in the recording of repos is for national compilers to consult directly with their counterparts in the appropriate foreign economy(ies)—where the issuer(s) of the securities is (are) resident—to assess whether both economies are treating repos in a consistent manner.

**A11.43** Furthermore, it is especially important to maintain consistency within an economy regarding the treatment of repos of nonresident-issued securities. This ensures that the overall position of that economy vis-a-vis the issuing economy is accurately represented. If some respondents report on one basis (as collateralized loans or deposits) and others on another basis (as transactions in securities), this could result in a substantial over- or underestimation of the claims on the issuing economy.

### ***Depository Receipts***

**A11.44** Depository receipts are securities that represent ownership of securities held by a depository (see paragraph 5.25 for further information). The economy of issue of the underlying securities is different from the economy in which the depository receipts are issued. Depository receipts allow investors to acquire an interest in companies in other economies while still using the payment and settlement systems and registration procedures of another economy. Depository receipts should be recorded in a way that “looks through” the depository that issues the receipts; that is, the holder of the receipts should be considered to have a claim on the issuer of the underlying security (equity or debt security), not that of the issuer of the depository receipt. The issuer of the receipt does not record the underlying security or the receipt on its balance sheet. For instance, American depository receipts (ADR) are liabilities of non-U.S. institutional units whose securities underlie the ADR, not of the U.S. financial institutions issuing the ADR.

**A11.45** Additionally, identifying partner economy could be challenging for the economy issuing the underlying securities of DRs, when holders of DRs are non-residents of the economy issuing the DRs. For example, a depository in economy A issues a DR for an underlying security issued by a resident of economy B and an investor in economy C holds the DR. The compiler of economy B who obtains information of holders from resident custodians may have a difficulty to identify the holder in economy C by looking through the depository in economy A.



### ***Gold Bullion Included in Monetary Gold***

**A11.46** Gold bullion that has no counterpart liability is shown as unallocated in position data on assets by counterpart. For partner data on transactions, if a convention based on issuer is adopted, the transaction can be assigned to an unallocated or residual partner economy.

### ***Special Drawing Rights***

**A11.47** These instruments are discussed in paragraphs 5.37–5.38. SDRs are based on a cooperative arrangement among the members of the SDR Department and other participants. The membership (SDR Department participants) incurs the asset and liability positions unto itself. Given that claims on and liabilities to members in the SDR system are attributed on a cooperative basis, an unallocated or residual partner category is used as the counterparty to SDR holdings and SDR allocations.

### ***Financial Derivatives***

**A11.48** Recognizing the difficulties in measuring transactions and positions of financial derivatives on a gross basis, *BPM7* allows reporting net figures (assets less liabilities), under assets, by convention. In the absence of reliable data on gross basis for assets and liabilities of financial derivatives, identifying specific partner countries could be challenging. It may depend on secondary sources, estimates, and detailed reports from relevant institutions, etc.

## **4. DIRECT INVESTMENT**

**A11.49** For direct investment, there can be chains of voting power, such as when a direct investor in Economy A has a subsidiary in Economy B, which in turn has a subsidiary in Economy C. In this case, for the direct investment in Economy C:

- (a) the economy of **immediate** ownership is Economy B; and
- (b) the **ultimate** investing economy is Economy A.

**A11.50** As a basic principle, direct investment transactions and positions by partner economy should be reported according to the immediate host or investing economy, based on the direct relationships between the parties rather than based on the residence of the ultimate partner economies or transactors. The partner allocation is based on the economy of the debtor (for transactions in securities, this is the economy of the issuer) rather than that

of the counterpart transactor, if different.<sup>5</sup> However, a resident and a nonresident must engage in a transaction with one another for the transaction to be included in the BOP.

**A11.51** Supplementary data on direct investment positions may be prepared according to ultimate source and host economy (destination). The *OECD Benchmark Definition of Foreign Direct Investment*, fifth edition (*BD5*), provides further information for the identification of ultimate source. When direct investment is channeled through intermediate entities, such as holding companies or SPEs, there may be particular interest in supplementary data, such as the following:

- (a) in original source economies, data on the basis of the **ultimate host economy**;
- (b) in final recipient economies, data on the basis of the **ultimate investing economy** or **ultimate controlling parent**; and
- (c) in intermediate economies, data with **pass-through funds** excluded (see paragraph 6.32).

**A11.52** *Annex 6. Selected Issues on Direct Investment* provides additional details on these supplementary items. In the case of round tripping, as discussed in paragraph 6.47, the ultimate investing economy and ultimate host economy are the same.

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<sup>5</sup> *BD5* recommends the use of the debtor/creditor principle for the compilation of direct investment transactions and positions by partner economy. The *Coordinated Direct Investment Survey Guide 2015 (CDIS Guide 2015)* and the *BD5* provide recommendations for compiling FDI data on a directional basis by partner economies. The main reasons for bilateral asymmetries of CDIS data reported by economies identified in the *CDIS Guide 2015* Box 6.5 are equally relevant for discussion in this section.

**Table A11.1. Examples on the Recording of Short-Positions<sup>6</sup>**

**Example 1:** A and C are residents of Economy X. Nonresident Economy Y issued securities--owned by A. B is nonresident.

	A resident of Economy X			B nonresident			C resident of Economy X	
	Assets	Liabilities		Assets	Liabilities		Assets	Liabilities
1) A owns a nonresident Economy Y-issued debt security								
PI/debt securities	100							
2) B receives the security under a repo transaction with A (let's assume that the cash provided is 95, classified as RA by both countries)-the transaction is recorded as a loan:								
Ol/loans		95		95				
RA/currency and deposits	95			-95				
3) B sells the security <b>outright</b> to C:								
PI/debt securities				-100			100	
RA/currency and deposits				100			-100	
	195	95		0			0	
<b>Net position</b>	100						0	

Net position for Economy X shows no double counting. At global level, no double counting of debt securities observed. However, external assets in debt securities for Economy X (A+C) are double counted (100+100).

**Example 2:** A and C are nonresidents. B is resident of Economy X. A owns a security issued by X.

	A nonresident			B and D are residents of Economy X			C nonresident	
	Assets	Liabilities		Assets	Liabilities		Assets	Liabilities
1) A owns a debt security issued by D, a resident of economy X								

<sup>6</sup> These examples are based on Table A2.1, *EDS Guide 2013*.

PI/debt securities	100				100		
2) B receives the security issued by another resident D, provided under a repo transaction with A (let's assume that the cash provided is 95)-the transaction is recorded as a loan and the security does not change ownership:							
OI/loans		95		95			
RA/currency and deposits	95			-95			
3) B sells the security <b><u>outright to nonresident C:</u></b>							
PI/debt securities					100 <sup>1</sup>	100	
RA/currency and deposits				100		-100	
	195	95		95	195	0	
Net position	100				100		

OI: Other Investment; PI: Portfolio Investment; RA: Reserve Assets

**1:** Sale of domestic securities is seen as increasing Economy X's liability (i.e., as reported in CPIS by economy where C resides).

Net position for Economy X shows no double counting. However, at global level, double counting of debt securities observed (PI assets: 200 and PI liabilities 200) implying that external liabilities in debt securities for Economy X are double counted as assets of A and C (100+100).

# Annex 12. Links Between External Accounts and Other Main Sets of Macroeconomic Statistics

## A. INTRODUCTION

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### References:

- 2025 SNA, Chapter 33, Transactions and Positions between Residents and Nonresidents.
- IMF and others, *External Debt Statistics 2014: Guide for Compilers and Users*, Appendix IV, External Debt Statistics, International Investment Position (IIP) and National Accounts.
- *BPM6 Compilation Guide 2014*, Appendix 6, Linkages with Other Macroeconomic Datasets.
- *GFSM 2014*, Appendix 7: Linkages between GFS and Balance of Payments and the International Investment Position.
- *MFSMCG 2016*, Appendix I, Section IV. Linkages between Monetary Statistics and External Sector Statistics.

**A12.1** The external accounts are closely linked with other macroeconomic statistics. This annex provides an overview of the main statistical links between the external accounts and the national accounts, government finance statistics (GFS), monetary statistics, and external debt statistics (EDS). These sets of statistics build on harmonized macroeconomic statistical standards, and the differences mainly relate to presentational issues.

**A12.2** The external accounts use an underlying accounting system consistent with other macroeconomic statistics. The concept of residence is consistently applied in the external accounts and other macroeconomic datasets. The institutional sectors, transactions, other changes in financial assets and liabilities, and stocks or positions are broadly aligned. Accrual basis of recording transactions and use of exchange values, or (observed) market prices, as the valuation principle are commonly applied. In the national accounts, the rest of the world accounts are presented from the point of view of the nonresident units, whereas the external accounts and EDS are shown from the point of view of resident units. GFS and monetary statistics cover both domestic and external transactions and positions of the financial sector and the general government and/or public sector, respectively. The cross-

border transactions and positions in GFS and monetary statistics can be separately identified and mapped to the external accounts.

**A12.3** In general, the classification system in the external accounts is broadly harmonized with other macroeconomic datasets. The coverage and terminology of major aggregates have been fully harmonized. However, there is a major presentational difference in that the external accounts use functional categories as the primary level of classification for investment income, the financial account, other flows, and the IIP, whereas the other macroeconomic datasets use other transaction and asset categories. Nonetheless, the transaction, financial instrument, and institutional sector detail in the external accounts allows the data to be comparable across macroeconomic datasets. Differences in classification or presentation of the external accounts with other macroeconomic datasets, where applicable, are discussed in the specific sections describing the linkages of each dataset with the external accounts.

**A12.4** This annex shows firstly an overview of the main linkages of the BOP with the other main macroeconomic accounts—the national accounts, GFS (fiscal accounts), and monetary statistics. This is followed by detailed descriptions of the linkages of the external accounts (including the BOP) with each of the main macroeconomic datasets, national accounts, GFS, monetary statistics, and EDS.

## **B. OVERVIEW OF MAJOR LINKAGES OF BALANCE OF PAYMENTS WITH OTHER MACROECONOMIC ACCOUNTS**

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**A12.5** Using a schematic diagram, Figure A12.1 depicts an overview of the broad linkages of the BOP with other macroeconomic statistics (national accounts, GFS, and monetary statistics).

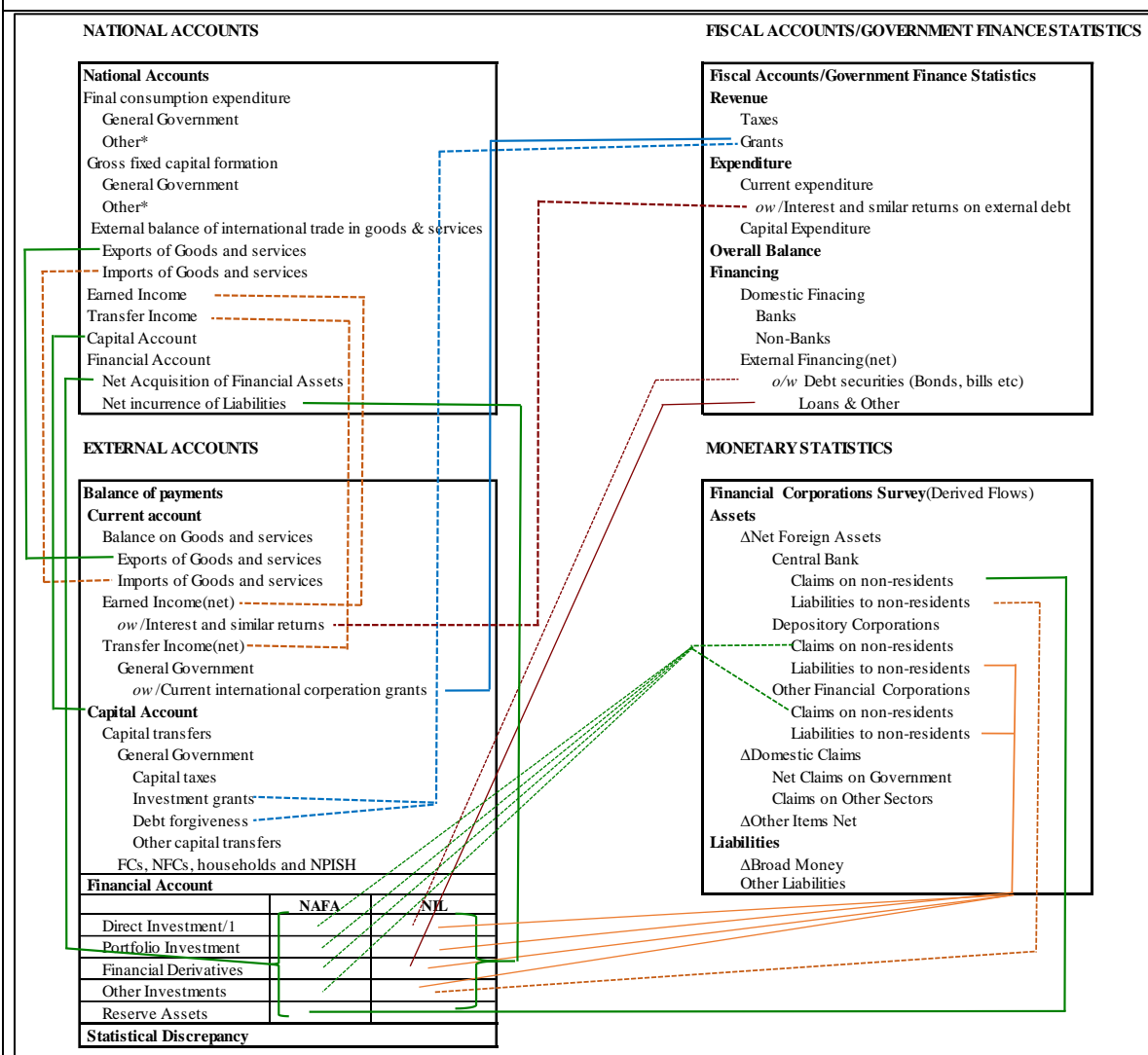
### **1. NATIONAL ACCOUNTS**

**A12.6** The major components of the national accounts related to the BOP include external balance of international trade in goods and services, earned income, transfer income, the capital account, and the financial account. The rest of the world (ROW) sections for each of these accounts correspond to what is recorded in the BOP. In principle, exports and imports of goods and services in the national accounts should correspond to the exports and imports of goods and services recorded in the BOP. The detailed linkages of the national accounts with the external accounts are presented in Section C.

## 2. GOVERNMENT FINANCE STATISTICS

**A12.7** The major components in the GFS (fiscal accounts), which correspond to some of the major transactions in the BOP, include grants, interest and similar returns expense on government external debt (recorded in the earned income account in the BOP), and external financing of government and debt service (recorded in the financial account). Grants include current international cooperation, which are recorded in the transfer income account, and investment grants, which are recorded in capital account of the BOP. Debt forgiveness for government, as recorded in the capital account of the BOP, corresponds to the capital grants or capital transfers not elsewhere classified in the fiscal accounts. The detailed linkages of the fiscal accounts with the BOP and the IIP are outlined in Section D.

**Figure A12.1. Overview of the Major Linkages of Balance of Payments with Other Macroeconomic Accounts**



\*Other includes households, central bank, and nonprofit institutions serving households.

NAFA – Net acquisition of financial assets, NIL – Net incurrence of liabilities, Δ – Change.

FCs – financial corporations, NFCs – nonfinancial corporations, NPISH – nonprofit institutions serving households

1/This figure includes broad linkages of monetary statistics to external sector accounts by functional categories such as direct investment. However, additional information is required on investment relationships to aid classification (e.g., the shareholding structure).



### 3. MONETARY STATISTICS

**A12.8** Monetary statistics have multiple linkages with BOP statistics. The major interconnections relate to cross-border transactions for the central bank, deposit-taking corporations, and other financial corporations. These range from transactions in reserve assets (associated with the change in official reserve assets of the central bank) to changes in external assets and liabilities of deposit-taking corporations and other financial corporations. The detailed linkages of monetary statistics with both the BOP and the IIP, including the financial instruments, and challenges in direct mapping are provided in Section E.

## C. LINKAGES OF EXTERNAL ACCOUNTS WITH NATIONAL ACCOUNTS

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**A12.9** The external accounts are closely interrelated with the national accounts. Relevant transactions in the current and accumulation accounts of the national accounts correspond to those reported in the external accounts. The positions in the balance sheet of the national accounts for the rest of the world correspond to the positions in the IIP.

### 1. LINKAGES OF THE NATIONAL ACCOUNTS' FLOW ACCOUNTS WITH THE BALANCE OF PAYMENTS

**A12.10** The national accounts' flow accounts measure the value of output and income, transactions in assets, liabilities, and net worth of an economy over a period of time. In the BOP, the current account comprises the goods and services account, the earned income account, and the transfer income account, while in the national accounts (in addition to the current account components distinguished in the BOP), the current account includes the production account and the use of income account. Further, the earned income account in the national accounts is split into the generation of earned income account and the allocation of earned income account. Unlike the case in the national accounts, the capital account is not an accumulation account in the external accounts. Entries in the rest of the world account in the national accounts almost fully correspond to the relevant entries in the BOP (Table A12.1).

#### ***Current Account***

**A12.11** The national accounts' current account components that correspond to the BOP include the exports and imports of goods and services recorded in the goods and services account; and remuneration of employees, taxes on production and imports, subsidies, interest and similar returns, income on equity, investment income disbursements, and rent

recorded in the earned income account. Components of the transfer income of the BOP reflected in the national accounts include current taxes on income, wealth, etc., social contributions less service charges, social benefits, nonlife insurance premiums less service charges, nonlife insurance claims, current international cooperation, and miscellaneous current transfers (which include personal transfers).

**A12.12** The product classification in the national accounts, the Central Product Classification (CPC), differs from the BOP for transactor-based services (travel, construction, and government goods and services n.i.e.). Unlike the national accounts, these service items in the BOP include some goods items. However, supplementary data included in the Extended Balance of Payments Services (EBOPS) allow for greater alignment with product level data in the national accounts. Nonetheless, the total imports of goods and services and the total exports of goods and services in both the BOP and the national accounts are consistent.

**Table A12.1. Linkages of Balance of Payments with National Accounts**

Table A12.1. Linkages of Balance of Payments with National Accounts												
National Accounts				Balance of Payments								
Current account	DE <sup>1</sup>	ROW	GS <sup>1</sup>	CR/REV	DR/EXP	Current account						
External balance of international trade in goods and services						Balance on goods and services						
Exports of goods and services		*		*		Exports of goods and services						
Imports of goods and services		*			*	Imports of goods and services						
Production account												
Earned Income account												
Generation of earned income						Earned Income						
Allocation of earned income												
Remuneration of employees		*		*	*	Remuneration of employees						
Taxes on production and imports		*										
Subsidies		*										
Property income												
Investment income		*		*	*	Investment Income		DI	PI	F D	OI RA	
Interest and similar returns		*		*	*	Interest and similar returns		*	*		*	*
Income on equity		*		*	*	Income on equity		*				
		*		*	*	Income on equity and investment fund shares/units			*		*	*

Investment income disbursements				*	*	Investment income attributable to policy Holders in insurance, standardized guarantees and pensions <sup>2</sup>					*	
						Other earned income						
Rent		*		*	*	Rent						
				*	*	Taxes on production and imports						
				*	*	Subsidies						
<b>Transfer income account</b>						<b>Transfer Income</b>						
				*	*	General Government						
Current taxes on income, wealth, etc.		*		*	*	<i>Current taxes on income, wealth, etc.</i>						
Social contributions less service charges		*		*	*	<i>Social contributions less service charges</i>						
Social benefits		*		*	*	<i>Social benefits</i>						
Other current transfers		*		*	*							
Nonlife insurance premiums less service charges		*		*	*	<i>Nonlife insurance premiums less service charges</i>						
Nonlife insurance claims		*		*	*	<i>Nonlife insurance claims</i>						
Current transfers within general government												
Current international cooperation		*		*	*	<i>Current international cooperation</i>						
Miscellaneous current transfers		*		*	*	<i>Miscellaneous current transfers</i>						
						Financial corporations, nonfinancial corporations, households, and NPISH						
<i>o/w Personal transfers</i>		*		*	*	<i>o/w Personal transfers</i>						
<b>Use of disposable income account</b>												
Household final consumption expenditure												
Central bank final consumption expenditure												
General government final consumption expenditure												
NPISH consumption expenditure												
<i>Adjustment for the change in pension and nonpension entitlements</i>		*		*	*	<i>Adjustment for the change in pension and nonpension entitlements</i>						
<b>Accumulation accounts</b>	Changes in A&L and net worth											
<b>Capital account</b>	DE	ROW	GS	CR/REV	DR/EXP	<b>Capital account</b>						
<i>Saving</i>		*										
Acquisitions less disposals of produced nonfinancial assets (including natural resources) <sup>4</sup>												

Acquisitions less disposals of nonproduced nonfinancial assets (excluding natural resources)		*		*	*										
Acquisitions less disposals of natural resources <sup>5</sup>		*				Acquisitions ( <i>debits/expenditures</i> )/ disposals ( <i>credits/revenues</i> ) of nonproduced nonfinancial assets <sup>6</sup>									
Capital transfers receivable/payable		*		*	*	Capital transfers									
Capital taxes		*		*	*	Capital taxes									
Investment grants		*		*	*	Investment grants									
Debt forgiveness				*	*	Debt forgiveness									
Other capital transfers				*	*	Other capital transfers									
<b>Net lending (+)/net borrowing (-)</b>		*		*	*	<b>Net lending (+)/net borrowing (-)</b>									
<b>Financial account</b>						<b>Financial account</b>									
<b>Net lending (+)/net borrowing (-)</b>						<b>Net lending (+)/net borrowing (-)</b>	DI <sup>3</sup>	PI	F D	OI	RA				
Monetary gold and SDRs		*		*	*	Monetary gold and SDRs				*	*				
Currency and deposits		*		*	*	Currency and deposits	*			*	*				
Debt securities		*		*	*	Debt securities	*	*				*	*		
Loans		*		*	*	Loans	*			*	*				
Equity		*		*	*	Equity	*	*		*	*				
Investment fund shares/units		*		*	*	Investment fund shares/units		*		*	*				
Insurance, pension, and standardized guarantee schemes		*		*	*	Insurance, pension, and standardized guarantee schemes	*			*	*				
Financial derivatives and employee stock options		*		*	*	Financial derivatives and employee stock options			*		*				
Trade credit and advances		*		*	*	Trade credit and advances	*			*	*				
Emission permits and other accounts receivable/payable n.e.c		*		*	*	Other accounts receivable/payable	*			*	*				

CR/REV: Credit/revenue, DR/EXP: Debit/expenditure, DE: Domestic economy, ROW: Rest of the world, GS: Goods and services account, DI: Direct investment, PI: Portfolio investment, FD: Financial derivatives (other than reserves) and employee stock options, OI: Other investment, RA: Reserve assets, A&L: Assets and liabilities.

\* Cells with corresponding entries in the BOP and national accounts.

<sup>1</sup> There are contra entries to the ROW account, which are not included in the DE and GS columns in this table.

<sup>2</sup> Investment income attributable to insurance policyholders, where the parties are in a direct investment relationship, is relatively uncommon, and the *Manual* recommends including it under interest and similar returns.

<sup>3</sup> All the itemized debt instruments in DI are consolidated into “debt instruments.”

<sup>4</sup> This category is broken down into (i) gross fixed capital formation; (ii) depreciation (-); (iii) changes in inventories; and (iv) acquisitions less disposals of valuables.

<sup>5</sup> This category is broken down into (i) gross fixed capital formation; (ii) depreciation (-); (iii) changes in inventories; and (iv) acquisitions less disposal of nonproduced natural resources

<sup>6</sup> This category is broken down into natural resources, contracts, leases, and licenses, marketing assets, crypto assets without a corresponding liability designed to act as a medium of exchange

**A12.13** Interest and similar returns is measured on exactly the same basis in both the balance of payments and the national accounts. However, the presentations differ. In order to reconcile investment income in the balance of payments and in the national accounts, subcomponents below the level of the functional categories of investment income need to be used. For example, the figures for interest and similar returns expenditure to and from the rest of the world as shown in the national accounts are the sum of payments under each functional category heading, as reflected in the right-side headings in table A12.1.

### ***Capital Account***

**A12.14** The accumulation accounts in the national accounts comprise the capital account, the financial account, and the other changes in financial assets and liabilities account. The elements of the capital account in the national accounts that correspond to BOP transactions include acquisitions less disposals of nonproduced nonfinancial assets (excluding natural resources), acquisitions less disposals of nonproduced natural resources, and capital transfers receivable/payable from the rest of the world or payable to the rest of the world (Table A12.1). Capital transfers receivable/payable recorded in the capital accounts of both the national accounts and the BOP include capital taxes, investment grants, debt forgiveness, and other capital transfers.

### ***Financial Account***

**A12.15** In the national accounts, financial account transactions (comprising the financial assets and liabilities) are classified by financial instrument and institutional sector. In the BOP, however, the financial account is presented by functional categories as the primary level of classification and further disaggregated by instrument and institutional sector, which makes it possible to link them to the corresponding components in the national accounts (Table A12.1).

## **2. LINKAGES OF THE NATIONAL ACCOUNTS BALANCE SHEET WITH THE INTERNATIONAL INVESTMENT POSITION**

**A12.16** The balance sheet in the national accounts measures the positions of assets, both nonfinancial and financial, and liabilities for each institutional sector so as to derive the net worth of the economy. The part of the national balance sheet that represents the cross-border component (rest of the world)—that is, the positions of financial claims (financial assets) and liabilities where one party is nonresident—and gold bullion held as reserves correspond to the IIP. Table A12.2 gives a comparative overview of the linkages of the national accounts balance sheet with the IIP. For financial assets and liabilities in the balance sheet of the national accounts, Table A12.2 presents an additional breakdown of the financial instruments by functional category to align with the IIP.

Table A12.2. Linkages of National Accounts Balance Sheet with the International Investment Position															
Balance Sheets		NA						International Investment Position							
	DE		ROW		G&S										
	A	L	A	L	A	L	A	L							
Nonfinancial Assets															
Financial Assets and Liabilities			*	*			*	*	Financial Assets and Liabilities	DI	PI	FD	OI	RA	
Monetary gold and SDRs			*	*			*	*	Monetary gold and SDRs				*	*	
Currency and deposits			*	*			*	*	Currency and deposits	*			*	*	
Debt securities			*	*			*	*	Debt securities	*	*			*	
Loans			*	*			*	*	Loans	*			*	*	
Equity			*	*			*	*	Equity	*	*		*	*	
Investment fund shares/units			*	*			*	*	Investment fund shares/units		*		*	*	
Insurance, pension, and standardized guarantee schemes			*	*			*	*	Insurance, pension, and standardized guarantee schemes	*			*		
Financial derivatives and employee stock options			*	*			*	*	Financial derivatives and employee stock options			*		*	
Trade credit and advances			*	*			*	*	Trade credit and advances	*			*		
Emission permits and other accounts receivable/payable n.e.c.			*	*			*	*	Other accounts receivable/payable	*			*		
Total Assets and Liabilities									Total Assets and Liabilities						

DE: Domestic economy, ROW: Rest of the world, G&S: Goods and services account.

There are contra entries to the ROW account, which are not included in the DE column in this table.

## D. LINKAGES OF EXTERNAL ACCOUNTS WITH GOVERNMENT FINANCE STATISTICS

**A12.17** The linkages of GFS with the external accounts are depicted in Figure A12.2. The GFS framework comprises (i) the statement of operations, which records the results of all transactions during an accounting period; (ii) the statement of other economic flows, which summarizes changes in assets, liabilities, and net worth that have not been generated by transactions; and (iii) the balance sheet, which shows positions of financial and nonfinancial assets, positions of liabilities, and net worth. The GFS can be compiled for the general

government and/or public sector (that consists of all general government units and public corporations within an economic territory).

**Figure A12.2. Relationship Between Government Finance Statistics and External Accounts**

Flows				Positions	Flows				Positions
Transactions + Other flows					Transactions + Other flows				
Government Finance Statistics					External Accounts				
Statement of Operations					Balance of payments			Transac	
Transactions Affecting Net Worth		Transac			Current Account				
Revenue					Goods				
Taxes					Services				
Social contributions		*			O/w Government goods and services, nie		*		
Grants					Earned income				
O/W from foreign governments & International Organisations					Remuneration of Employees		*		
Current		*			Investment Income				
Capital		*			Income on equity (DI)		*		
O/W Debt Forgiveness		*			Income on equity and investment fund shares (PI, CI)		*		
Other revenue					Investment income attributable to policyholders in insurance, pensions and standardized Guarantee schemes (OI)		*		
O/W Debt Forgiveness		*			Interest and similar returns (DI, PI, OI)		*		
Expense					Other Earned Income		*		
Remuneration of employees		*			Rent		*		
Use of goods and services		*			Taxes on production and on imports		*		
Depreciation					Subsidies		*		
Interest and similar returns		*			Transfer income				
O/W to non-residents		*			General government				
Subsidies					Current taxes on income, wealth, etc.		*		
Grants					Social contributions less service charges		*		
O/W To foreign governments & International Organisations					Social benefits		*		
Current		*			Nonlife insurance premiums less service charge		*		
Capital		*			Nonlife insurance claims		*		
O/W Debt Forgiveness		*			Current international cooperation		*		
Social benefits		*			Miscellaneous current transfers of general government				
Other expense					Financial corporations, nonfinancial corporations, households, and NPISH				
O/W Debt Forgiveness		*							
NOB/GOB Net/gross operating balance (1-2)/1					Capital account			Transac	
Transactions in nonfinancial assets:		Transac	Other Economic	Closing	Acquisitions (debts/expenditures)/ disposals (credits/revenues) of nonproduced non-financial assets/s		*		
		tions	Flows	Balance	Capital transfers				
				Sheet	General government		*		
Net/gross investment in nonfinancial assets/2					Capital taxes		*		
Fixed assets					Investment grants		*		
Inventories					Debt forgiveness		*		
Valuables					Other capital transfers		*		
Nonproduced assets		*			Financial corporations, nonfinancial corporations, households, and NPISHs				
Expenditure									
NLB Net Lending (+)/borrowing (-)									
					Financial Account		NAFA/ NIL	Other changes in FAL	IIP Closing Position
Transactions in financial assets & Liabilities		Transac	Other Economic	Closing	Direct Investment		*	*	*
		tions	Flows	Balance	Portfolio Investment		*	*	*
				Sheet	Other Investments		*	*	*
Net acquisition of financial assets					Financial derivatives		*	*	*
Domestic/3					Reserve Assets				
External/3		*	*	*	Statistical Discrepancy				
Net incurrence of liabilities									
Domestic/3									
External/3		*	*	*					

NAFA: Net acquisition of financial assets, NIL: Net incurrence of liabilities, FAL: Foreign assets and liabilities.

NAFA: Net acquisition of financial assets, NIL: Net incurrence of liabilities, FAL: Foreign assets and liabilities.

<sup>1/</sup> The net operating balance equals revenue minus expense. The gross operating balance equals revenue minus expense other than depreciation.

<sup>2/</sup> The net investment in nonfinancial assets equals acquisitions minus disposals minus depreciation. The gross investment in nonfinancial assets equals acquisitions minus disposals.

<sup>3/</sup> Classified by instrument and/or sector of the counterparty.

<sup>4/</sup> The direct investment related interest and similar returns includes investment income attributable to insurance policyholders.

<sup>5/</sup> This category is broken down into natural resources, contracts, leases, and licenses, marketing assets, crypto assets without a corresponding liability designed as a medium of exchange

## 1. THE STATEMENT OF OPERATIONS

**A12.18** The statement of operations is a summary of transactions of the general government and/or public sector in a given accounting period and has three main categories: (i) transactions affecting net worth (revenue and expense); (ii) transactions in nonfinancial assets (net acquisition of nonfinancial assets); and (iii) transactions in financial assets and liabilities (the net acquisition of financial assets and the net incurrence of liabilities). The statement of operations has similarities with transactions presented in the current, capital, and financial accounts of the BOP (Figure A12.2).

### *Transactions Affecting Net Worth*

#### **Revenue**

**A12.19** Revenue is classified in four broad categories in GFS: (i) taxes; (ii) social contributions; (iii) grants; and (iv) other revenue.

**A12.20** In the GFS, taxes are classified in six major categories, namely (i) taxes on income, profits, and capital gains; (ii) taxes on payroll and workforce; (iii) taxes on property; (iv) taxes on goods and services; (v) taxes on international trade and transactions; and (vi) other taxes. However, only taxes levied on nonresidents are included in the BOP. Specifically, the major categories of taxes recorded in the BOP include taxes on production and on imports (paragraphs 12.91–12.94) recorded in the earned income account, taxes on income, wealth, etc. (paragraphs 13.28–13.31) recorded in the transfer income account, and capital taxes (paragraph 14.28) recorded in the capital account.

**A12.21** Social contributions receivable from nonresidents by the general government sector are included in the transfer income account in the BOP.

**A12.22** Grants (current or capital) are defined as transfers receivable by the general government from other resident or nonresident government units or international organizations that do not meet the definition of a tax, subsidy, or social contributions in GFS. Current grants receivable from foreign general governments and international organizations are often the most important linkage between the GFS and the BOP. They are recorded in



the transfer income account of the BOP under current international cooperation. Capital grants in cash or in kind to finance all or part of the cost of acquiring fixed assets receivable by government from foreign general governments and international organizations correspond to investment grants that are recorded in the capital account of the BOP under capital transfers. Debt forgiveness receivable by general government units from foreign governments or international organizations is recorded in the GFS as revenue in capital grants. A corresponding reduction in the appropriate external debt instrument is recorded. In the BOP, debt forgiveness is recorded as a capital transfer in the capital account from the creditor economy to the debtor economy, offset by a reduction in the liability of the debtor (reduction in the asset of the creditor) under the appropriate debt instrument in the financial account.

**A12.23** Other revenue in GFS consists of (i) property income; (ii) sales of goods and services; (iii) fines, penalties, and forfeits; (iv) transfers not elsewhere classified; and (v) premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes.

**A12.24** Property income consists of investment income and rent, of which the portion receivable from nonresidents is recorded in the earned income account of the BOP. GFS does not present a functional classification of investment income as in the external accounts but classifies the income into interest and similar returns, dividends, withdrawals from income of quasicorporations, property income from investment income disbursements (i.e., property income attributed to insurance policyholders and holders of investment fund shares/units), and reinvested earnings on direct investment.

**A12.25** In GFS, sales of goods and services are classified in four broad categories: (i) sales by market establishments, (ii) administrative fees charged for services, (iii) incidental sales by nonmarket establishments, and (iv) imputed sales of goods and services (that is, remuneration of employees in kind). Although these sales are not classified by product in GFS, sales to nonresidents are reflected in the relevant categories of the goods and services accounts of the BOP.

**A12.26** Fines and penalties imposed on nonresidents and premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes receivable from nonresidents are reported in the transfer income account of the BOP. Current or capital transfers not elsewhere classified are reflected in the transfer income account and the capital account of the BOP, respectively.

**A12.27** Debt forgiveness receivable by general government units from nonresidents other than foreign governments or international organizations is recorded under other revenue as capital transfers not elsewhere classified in GFS and as capital transfers in the capital account of the BOP.

## Expense

**A12.28** Expense in GFS is classified in eight broad categories: (i) remuneration of employees, (ii) use of goods and services, (iii) depreciation, (iv) interest and similar returns, (v) subsidies, (vi) grants, (vii) social benefits, and (viii) other expense. Depreciation is not applicable to the BOP.

**A12.29** Remuneration of employees, interest and similar returns, and subsidies payable to nonresidents are recorded in the earned income account while social benefits are recorded in the transfer income account of the BOP.

**A12.30** Use of goods and services in GFS consists of the value of goods and services used for the production of market and nonmarket goods and services. Acquisitions of these goods and services from nonresidents are reflected in the goods and services accounts of the BOP.

**A12.31** Government expenses in the form of current grants to nonresidents are recorded in the transfer income account while capital grants, including debt forgiveness,<sup>1</sup> assumption, and other debt reorganization, are recorded in the capital account in the BOP.

**A12.32** Other expense comprises property expense other than interest and similar returns; transfers not elsewhere classified; and premium, fees, and claims related to nonlife insurance and standardized guarantee scheme. Property expense other than interest and similar returns, including rent, and premium, fees, and claims related to nonlife insurance and standardized guarantee schemes payable to nonresidents, are recorded in the earned income account of the BOP. Government transactions with nonresidents related to current and capital transfers not elsewhere classified are recorded in the transfer income account and the capital account of the BOP, respectively.

## ***Transactions in Nonfinancial Assets***

**A12.33** In GFS, transactions in nonfinancial assets include all categories of produced and nonproduced assets. Gross acquisitions and disposals of nonproduced nonfinancial assets are shown in GFS, and those transactions with nonresidents are recorded in the capital account of the BOP. Transactions in produced nonfinancial assets are included in the respective BOP categories—for example, goods are recorded in the goods account.

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<sup>1</sup> In GFS, if the counterpart is a foreign government or international organization, then they are recorded under capital grant expense. However, if the counterpart is a nonresident corporation, then it is recorded under other expense.

### ***Transactions in Financial Assets and Liabilities***

**A12.34** The transactions in external financial assets and liabilities for the government and/or public sector correspond to the transactions recorded in the financial account of the BOP. In GFS, net acquisition of financial assets and net incurrence of liabilities are classified by instrument and residence of the counterparty (domestic or external). However, unlike the external accounts, GFS does not present these transactions by functional category. External financing of the fiscal deficit by government is reflected in the increase in liabilities, while an increase in government holdings of external assets is reflected on the rise in financial assets.

## **2. THE STATEMENT OF OTHER ECONOMIC FLOWS**

**A12.35** Other economic flows are changes in the volume or value of assets or liabilities that do not result from transactions. In GFS, they are classified into holding gains and losses and other changes in the volume of assets for each asset/liability category. Other economic flows in the external financial assets and liabilities are reflected in the accumulation accounts of the integrated IIP under the other changes in financial assets and liabilities account that consists of revaluations (due to exchange rate changes or other price changes), and other changes in volume (due, for example, to cancellations and write-offs of debt and reclassifications).

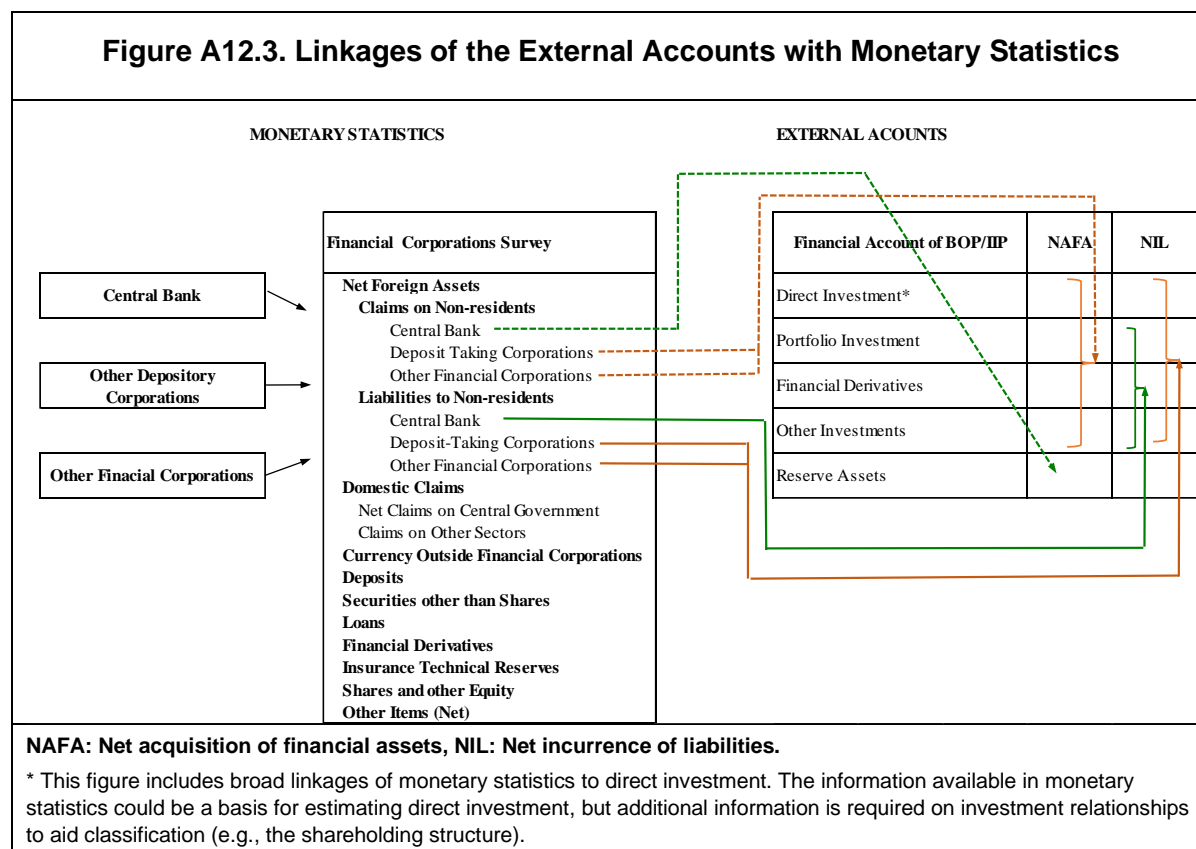
## **3. THE BALANCE SHEET**

**A12.36** The balance sheet in GFS covers financial assets and liabilities as well as nonfinancial assets. Financial assets and liabilities in GFS are classified by instrument and residence of the counterparty. In the IIP, financial assets and liabilities are classified by functional category, instrument, institutional sector, and maturity. However, nonfinancial assets are not included in both the financial account of the BOP and the IIP.

## **E. LINKAGES OF THE EXTERNAL ACCOUNTS WITH MONETARY STATISTICS**

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**A12.37** Monetary statistics are broadly consistent with the external accounts. Monetary statistics focus on the compilation and reporting of balance sheet data (end-of-period positions) for the central bank, other depository corporations, and other financial corporations (Figure A12.3). However, coverage of monetary statistics may differ from one economy to another.



**A12.38** The definition and delineation of resident and nonresident entities, time of recording of transactions and other flows, financial asset and liability valuation, and data aggregation and consolidation are broadly consistent between MFS and external accounts. However, there are some differences in sectoring of the institutional units and in the classification of the various categories of financial assets and liabilities.

**A12.39** In monetary statistics methodology, all financial corporations that issue liabilities included in broad money are designated as depository corporations. These include the central bank subsector, the other depository corporations (ODCs) subsector, which includes deposit-taking corporations and money market funds (MMFs). In the external accounts, MMFs are not grouped with deposit-taking corporations but are consolidated with other financial corporations. However, MMFs are separately identified as supplementary information in the BOP. Therefore, separate identification of data on MMFs is required to match the recording in the BOP and IIP. Further, the institutional coverage of the ODCs subsector in monetary statistics may differ, as some institutions considered deposit-taking institutions in the BOP and IIP may not be included in ODCs in MFS, if they do not issue liabilities included in broad money. For instance, offshore banks that do not accept deposits

from resident money holding<sup>2</sup> sectors, are classified as other financial corporations in monetary statistics while in the external accounts they are considered deposit-taking institutions.

**A12.40** The major categories for financial assets and liabilities in monetary statistics follow the external accounts' financial instruments classification. The differences in the classification of financial assets in monetary statistics and the external accounts are as follows:

**A12.41** *Classification by Maturity:* In the external accounts, most of debt instruments are divided into separate categories for short-term instruments (original maturity of one year or less) and long-term instruments (original maturity of more than one year). The standard components in monetary statistics do not include loans and debt securities classified by maturity, but such short-term instruments (original maturity of one year or less) are separately identified in memorandum items with currency and counterparty breakdown, allowing users to derive long-term loans and debt securities.

**A12.42** *Classification by Currency of Denomination:* The *Monetary and Financial Statistics Manual and Compilation Guide* requires a breakdown of all instruments, financial assets and liabilities, except equity liabilities, into domestic currency and foreign currency. However, in the external accounts, only selected tables comprising positions of external financial assets and liabilities are compiled by currency of denomination.

**A12.43** *Valuation:* The valuation principles and other accounting rules in monetary statistics are broadly consistent with the external accounts. However, a major exception for monetary statistics is the valuation of equity on the liability side of the sectoral balance sheets of financial corporations. For monetary statistics, liabilities in the form of equity are measured at book value. In the external accounts, equity securities (for both assets and liabilities) should be valued at the market or fair value. Liabilities to nonresidents in the form of equity are not separately identified in monetary statistics on-balance sheet. However, a memorandum item is recommended with the market or fair value of equity by counterparty sector.

**A12.44** *Functional Categories:* In general, monetary statistics do not use functional categories used in the external accounts to classify financial assets and liabilities. This can pose compilation challenges where monetary statistics are used to estimate external accounts data. Refer to *BPM6 Compilation Guide* Tables A6.3 and A6.4 for a reconciliation of the IIP with the ODCs' and the central bank's balance sheet items, respectively.

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<sup>2</sup> In monetary statistics, money holding sectors refer to all other sectors excluding money issuing sectors (i.e., all sectors except the central bank, other depository corporations, central government, and nonresidents).

## F. LINKAGES OF INTERNATIONAL INVESTMENT POSITION WITH EXTERNAL DEBT STATISTICS

**A12.45** The IIP and external debt statistics are closely related despite differences regarding the presentation of the data. Provided that debt securities are valued at market value, the gross external debt position, as presented in the *EDS Guide*, equals the debt liabilities in the IIP statement. The gross external debt position equals total IIP liabilities excluding all equity (equity and investment fund shares/units, and other equity and equity in international organizations) and financial derivatives and employee stock options.

**A12.46** Table A12.5 gives a summary of the IIP that facilitates the identification of debt liabilities covered, and the corresponding items in the gross external debt position. The columns show the breakdown of the IIP by institutional sector, and the assets and liabilities by functional category are shown in the rows, with debt instruments separately identified in the liabilities section of the table (shaded area in the table do not constitute external debt liabilities). The last column identifies the debt item as shown in the gross external debt position.

**Table A12.3. International Investment Position and External Debt Statistics**

	International Investment Position	Central bank	Deposit-taking corporations, except the central bank	General government	Other financial corporations	Nonfinancial corporations	Households and NPISHs	EDS Corresponding item
<b>A</b>	<b>Assets</b>							
	<b>By Functional Category</b>							
	Direct investment							
	Portfolio investment							
	Financial derivatives and employee stock options							
	Other investment							
	Reserve assets							
	<b>Total Assets</b>							
<b>B</b>	<b>Liabilities</b>							
	<b>By Functional Category and Instrument</b>							
	Direct investment							

	Equity and investment fund shares/units							
	Debt instruments/1							DI: Intercompany lending
	Portfolio investment							
	Equity and investment fund shares/units							
	Debt instruments/1							Debt securities
	Financial derivatives and employee stock options							
	Other investments							
	Other equity							
	Debt instruments							
	SDRs		n.a.		n.a.	n.a.	n.a.	SDR (allocations)
	Currency and deposits							Currency and deposits
	Loans							Loans
	Insurance, pension, and standardized guarantee schemes							Other debt liabilities
	Trade credit and advances							Trade credit and advances
	Other accounts receivable/payable							Other debt liabilities
	<b>Total Liabilities</b>							
	<b>Of which: Total debt instruments</b>							<b>Gross external debt position</b>
<b>A-B</b>	<b>Net IIP</b>							
<sup>1</sup> Debt instruments classified as direct investment are not broken down by type of instrument in the IIP standard components. However, debt securities are separately identified as a supplementary item. NPISH: Nonprofit institutions serving households. Note: Shaded areas are not external debt liabilities and are beyond the scope of external debt statistics, the rest constitute external debt liabilities. n.a.: Not applicable								

**A12.47** In the IIP, positions of financial assets and liabilities should, in general, be valued at market value. Whereas the basic valuation method for debt securities is the market value, the nominal value is encouraged as a supplementary item. The *EDS Guide* recommends that debt instruments be valued at the reference date at nominal value, and for debt securities, at market value as well. The primary valuation for positions of nonnegotiable instruments (which include loans, currency and deposits, trade credit and advances, and other accounts receivable/payable) is nominal value in both datasets—IIP and external debt statistics. Therefore, data consistency between debt instruments (liabilities) recorded in the IIP and in the gross external debt position can be ensured.

## Annex 13. Changes from *BPM6*

A detailed list of individual changes, including the key changes introduced in this edition of the *Manual*, is provided below. The main themes behind the changes in *BPM7* are discussed in paragraphs 1.35–1.39. Terms and definitions have been updated throughout the *Manual* to align with the *Common Glossary of Terms and Definitions in Macroeconomic Statistics*.

### A. KEY CHANGES INTRODUCED

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The overall framework remains largely unchanged in *BPM7* in comparison with *BPM6*. The most important changes from *BPM6* are as follows:

- The stock/flow reconciliation—also known as the integrated IIP—is central to the *Manual* and other changes in financial assets and liabilities are included in the standard components of *BPM7* broken down into other changes in volume, exchange rate changes, and other price changes.;
- For both current and capital accounts, the terms “credits/revenues” and “debits/expenditures” replace “credits” and “debits”, respectively;
- The term “statistical discrepancy” replaces “net errors and omissions”;
- A standard statistical definition of net international reserves (NIR) is introduced;
- Guidance on the typology and classification of crypto assets is provided. Crypto assets without a corresponding liability designed to act as a medium of exchange (e.g., Bitcoin) are treated as nonproduced nonfinancial assets and recorded in a separate category in the capital account; those with a corresponding liability are treated as financial assets;
- An internationally agreed definition and typology of SPEs is introduced;
- The direct investment presentation in the standard components is broken down by instruments/sectors, replacing the presentation based on the relationship between the investor and the entity receiving the investment in *BPM6* (i.e., the building blocks for the directional principle);
- For measuring the equity of unlisted corporations at market-equivalent prices, only three valuation methods are recommended: own funds at book value; recent transaction price; and market capitalization (or price-to-book value);



- Additional first-level standard service categories are introduced for improving the correspondence between the BOP services classification and the Central Product Classification (CPC); and
- More disaggregated institutional sector breakdowns are introduced, including a separate identification of a) nonfinancial corporations; and b) households and nonprofit institutions serving households.

## B. CHANGES BY CHAPTERS

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### CHAPTER 1. INTRODUCTION

The title of the *Manual* is changed to ***Integrated Balance of Payments and International Investment Position Manual, seventh edition*** (paragraph 1.1).

The new *BPM7* (common with *2025 SNA*) chapters on globalization, digitalization, Islamic finance, informal activities, and communicating and disseminating macroeconomic statistics are briefly introduced (paragraphs 1.13 and 1.15). For the first time, the *Manual* and the *SNA* update processes were fully coordinated with joint task teams and decision-making arrangements. Seven chapters are prepared as common chapters for the *Manual* and the *2025 SNA*, and a Common Glossary of Terms and Definitions in Macroeconomic Statistics was developed to ensure consistency across statistical domains (paragraph 1.32).

External sector sustainability; globalization; financial innovation and digitalization; and sustainable finance and climate change are highlighted as the four major update themes (paragraphs 1.35–1.39).

A joint post-*2025 SNA/BPM7* research agenda for future work is identified (paragraph 1.41 and Annex 15).

### CHAPTER 2. OVERVIEW OF THE INTEGRATED FRAMEWORK

The concept of accumulation accounts is elaborated to ensure consistency with the *SNA* terminology (paragraphs 2.2 and 2.20).

For external accounts, the scope of accumulation accounts is limited to the financial account and the other changes in financial assets and liabilities account that explain the changes between the values in the opening and closing positions of the IIP. Taken as a whole, the combination of the opening IIP, accumulation accounts, and the closing IIP is referred to as the integrated IIP (paragraphs 2.6 and 2.10).

A shorter version of the integrated IIP statement (Table 2.1) is presented in this chapter (see Table 7.1 for a complete version).

For both current and capital accounts, the terms “credits/revenues” and “debits/expenditures” replace “credits” and “debits”, respectively (Box 2.1).

The term “statistical discrepancy” replaces “net errors and omissions” (paragraph 2.25).

With regards to the linkages and consistency with other macroeconomic datasets, linkages between external debt statistics (EDS) and relevant items in IIP liabilities is explained—a table on corresponding items between EDS and IIP is introduced (paragraph 2.37 and Table 2.2).

### CHAPTER 3. FLOW, STOCKS, AND ACCOUNTING RULES

This chapter is presented as a common chapter with Chapter 4 of the 2025 SNA for ensuring complete consistency of the core concepts relating to flows, stocks, and accounting rules. Therefore, the discussion of some topics has been reorganized and/or expanded compared to Chapter 3, *BPM6*.

With regards to partitioning transactions, unbundling package tours offered by tour operators into various service components is provided as an additional example (paragraph 3.45 and Box 11.2).

Crypto assets without a corresponding liability designed to act as a general medium of exchange, or designed to act as a medium of exchange within a platform or network, are treated as nonproduced nonfinancial assets (see paragraph 14.19). However, when these crypto assets are brought into circulation in exchange for production activities (e.g., proof-of-work, proof-of-stake, etc.), the emergence of the newly circulated crypto assets are not to be recorded as other changes in the volume of assets. Instead, the payments for the validation services are typically recorded, by convention, as cross-border transactions in crypto assets payable by the owners of the existing crypto assets to the producer of the services, with the new crypto assets, diluting the value of existing crypto assets (paragraph 3.71).

Regarding concessional lending, it is noted that examples include the lending by governments at concessional interest rates and provision of loans at reduced interest rates by employers to their employees. In the external accounts, adjustments for concessional lending are restricted to the latter; the provision of adjusted information on concessional lending by governments and international organizations is encouraged as supplementary items (paragraphs 3.117 and 14.41).

In relation to the valuation of exports and imports, it is generally acknowledged that a valuation at the observed exchange values, which is closely aligned to the invoice values, is the conceptually preferred method. Subject to further testing of the implementation in practice, it is intended to be introduced as the basic principle for valuing exports and imports in the next version of the *Manual* (paragraphs 3.136 and 10.32)

Some compulsory transfers, such as fines, penalties, and property forfeitures, are determined at a specific time. These transfers are recorded at the time the issuing unit has an unconditional claim on the funds. If a fine or penalty is subject to further appeal, an unconditional claim only exists once the appeal has been resolved (paragraphs 3.161 and 13.18).

## CHAPTER 4. INSTITUTIONAL UNITS AND SECTORS, ECONOMIC TERRITORY, AND RESIDENCE

This chapter is presented as a common chapter with Chapter 5 of the 2025 SNA for ensuring complete consistency of the core concepts relating to institutional units and sectors, economic territory, and residence. Therefore, the discussion of some topics has been reorganized and/or expanded compared to Chapter 4, *BPM6*.

The digitalization of economic activities (e.g., financial/nonfinancial services) has a significant impact on the way in which these activities are performed. Apart from the emergence of new products, such as digital platforms, cloud computing, etc., this phenomenon does not affect the classification of economic activities into institutional (sub)sectors and industries. Relevant units should continue to be classified in line with their economic objectives, functions, and behavior. The same holds for the classification of units involved in economic activities arising from technological innovations in the financial corporations sector, often referred to as fintech (paragraphs 4.21 and 4.124).

A decision tree for allocation of units to institutional sectors—including an additional supplementary breakdown of nonfinancial and financial corporations based on control—is introduced (Figure 4.1).

For the purpose of reporting external accounts data, more disaggregated institutional sector breakdowns are introduced. Domestic and foreign controlled corporations may be identified separately on a supplementary basis (paragraph 4.40 and Table 4.2).

An internationally agreed definition of SPEs is introduced (paragraph 4.77). Further guidance on SPEs, including their typology and a decision tree to identify resident SPEs, is provided in Chapter 15 (see Table 15.1 and Figure 15.1).

Funds which own, and rent out, dwellings and/or commercial property, are classified as providers of rental and other types of real estate services, and not as providers of

financial services. As providers of nonfinancial services, they are classified in the nonfinancial corporations sector, and not as financial corporations (paragraph 4.139).

The investment funds who directly invest in other nonfinancial assets, such as crypto assets without a corresponding liability designed to act as a general medium of exchange, gold and other valuable metals, or high-end wines and whiskies, are classified as non-MMF investment funds (paragraph 4.140).

Crypto exchanges/trading/lending platforms may facilitate transactions in different types of crypto assets including those with and without corresponding liabilities. These units are classified as financial auxiliaries if their principal activity involves facilitating transactions in crypto assets with a corresponding liability. Otherwise, they are included in the nonfinancial corporations' sector (paragraph 4.147).

## CHAPTER 5. CLASSIFICATIONS OF FINANCIAL ASSETS AND LIABILITIES

“Claims” are replaced with “financial claims” (paragraph 5.6).

The definition of “liability” is introduced (paragraph 5.7).

Financial claims include financial instruments linked to the price of commodities or other nonfinancial assets to the extent that they give rise to an economic asset with a counterpart liability (paragraph 5.10).

Crypto assets with a corresponding liability are included in financial assets (paragraph 5.11).

Crypto assets without a corresponding liability designed to act as a general medium of exchange or as medium of exchange within a platform are treated as nonproduced nonfinancial assets (paragraphs 5.17 and 14.19).

Ownership of equity in legal entities may also take the form of equity crypto assets, which are similar to standard equity albeit relying on cryptography for being created, allocated, transferred, and managed (paragraph 5.23).

“Other equity” is renamed to “other equity and equity in international organizations” (paragraph 5.26).

Subscription rights are classified as equity (paragraph 5.29).

An explanation on domestic arrangements for holding SDRs is added (paragraph 5.39).

Digitally issued currency is to be recorded as currency (paragraph 5.40).

Crypto assets with a corresponding liability designed to act a general medium of exchange that are not issued or authorized by the monetary authorities or government are included under currency and deposits (paragraph 5.43).

Electronic money that is a liability of deposit-taking corporation is to be recorded as transferable deposits (paragraph 5.46).

Interbank positions are to be classified in the relevant instrument categories. When there is uncertainty between a loan and a deposit, interbank positions are to be recorded under deposits (paragraph 5.47).

The treatment of margins for financial derivatives and other cash collateral is clarified (paragraphs 5.48, 5.83, and 5.106).

Crypto assets with a corresponding liability designed to act a medium of exchange within a platform and utility tokens that provide the holders future access to goods or services are treated as debt securities. Debt tokens (i.e., debt instruments, such as corporate bonds, relying on cryptography) are also classified as debt securities (paragraph 5.51).

The treatment of factoring is clarified (paragraph 5.69).

Hybrid insurance products are to be recorded as life or nonlife insurance depending on which features are predominant (paragraph 5.74).

Pension entitlements also arise from autonomous employer-independent pension schemes or funds if accumulated contributions are set aside for retirement income and are subject to regulations or supervision in line with or similar to employer-related pension schemes or funds (paragraph 5.75).

Pension entitlements of pension schemes where a government or another public unit is the employer are to be recorded as financial assets or liabilities if the pension entitlements can be regarded as part of the condition of employment and the employment contract underlying the scheme limits retrospective adjustments of the amount payable (paragraph 5.76).

Transactions of provisions for calls under standardized guarantee schemes recorded in the financial account include unearned fees and claims not yet settled, similar to transactions of reserves for nonlife insurance (paragraph 5.79).

Payments for emissions permits are recorded as prepaid taxes on production, with taxes recorded at the time of surrender, at issuance prices. As such, they are recorded in other accounts receivable/payable (paragraph 5.84).

Pool allocated gold accounts are to be recorded in the same way as allocated gold accounts (paragraph 5.87).

Financial derivatives also include derivative crypto assets (i.e., derivative contracts that rely on cryptography and that can be exchanged peer-to-peer even if the underlying asset is not a crypto asset) (paragraph 5.91).

Gold swaps and off-market central bank swap arrangements, as well as subscription rights are not to be recorded as financial derivatives (paragraph 5.94).

The treatment of option-type contracts is further elaborated (paragraph 5.95).

The treatment of option-type contracts is clarified against that of forward-type contracts with an explanation of credit default swaps (paragraph 5.96).

The treatment of warrants is further elaborated (paragraph 5.98).

The treatment of a delivery of notional value of foreign currency financial derivatives is elaborated (paragraph 5.104).

Three supplementary classifications of financial derivatives are explained (paragraph 5.109).

The classification of financial derivatives by market risk category is further elaborated (paragraph 5.110).

Supplementary recording of debt liabilities on a remaining maturity basis is elaborated with currency composition data being encouraged (paragraph 5.104).

How to calculate the remaining maturity of financial instruments is further elaborated (paragraph 5.116).

The currency composition of forward-type contracts in Table A14-I is presented as a memorandum item, while that for option-type contracts in Table A14-II is presented as a supplementary item (paragraphs 5.122 and 5.123).

References to the London interbank offered rate are replaced with the Secured Overnight Financing Rate (paragraph 5.126).

## **CHAPTER 6. FUNCTIONAL CATEGORIES IN EXTERNAL ACCOUNTS**

Investments in investment funds shares are always considered as portfolio investment (when the shares are negotiable) or other investment (when the shares are nonnegotiable) or reserve assets, if they meet all reserve assets criteria (paragraph 6.24).

For direct investment standard components, presentation by instruments (equity and debt instruments) and by sectors replaces the presentation based on the relationship between the investor and the entity receiving the investment (direct investor in direct investment enterprises, reverse investment, and between fellow enterprises). Further, the presentations based on the relationship between the investor and the entity receiving the investment and of reinvestment of earnings are moved to memorandum items (paragraphs 6.36–6.38).

For financial derivatives, presentation by market risk categories, by instrument, and by trading venue and clearing status on a supplementary basis is recommended (paragraphs 5.109 and 6.63).

Definition of greenfield direct investment and extension of capacity provided with further details including the guidance on collection of supplementary data in Annex 6 (paragraph 6.54).

In the case of notional cash pooling arrangements, debt instruments associated with such arrangements (e.g., deposits and loans) are recorded as other investment. (paragraphs 6.55, 6.67, and Annex 6).

Monetary gold includes the gold bullion held in pool allocated gold accounts (paragraphs 5.87 and 6.84).

Securities that have been transferred under repurchase agreements, or similar agreements by the monetary authorities for cash collateral and are not readily available for meeting BOP financing needs are to be excluded from reserve assets and reclassified as portfolio investment assets. Along the same lines, allocated and unallocated gold accounts held by monetary authorities with nonresidents out on swap in exchange of cash are to be excluded from reserve assets and either demonetized (gold bullion) or reclassified as other investment, currency and deposits, assets (unallocated gold accounts) (paragraphs 6.92 and 6.87).

Under the “other financial claims” category of reserve assets, examples of IMF Trust Accounts such as the Poverty Reduction and Growth Trust (PRGT) and the Resilience and Sustainability Trust (RST) are mentioned (paragraph 6.96). See Annex 9 “Positions and Transactions with IMF” for additional details.

The recording of central bank swap arrangements is further clarified. Off-market central bank currency swap arrangements should be recorded as an exchange of deposits with maintenance of value. However, if the central banks conduct the transaction as a standard (market priced) currency swap, then it is recommended that the swap be recorded as an exchange of deposits with the simultaneous creation of a financial derivative, namely a forward contract (paragraphs 6.107.109).

A standard statistical definition of net international reserves (NIR) based on the conceptual framework of *BPM7*, and the *International Reserves and Foreign Currency Liquidity Guidelines for a Data Template (IRFCL Template)* is introduced. NIR are defined as reserve assets (RA) minus predetermined short-term net foreign currency drains (FCD) (Box 6.6).

## CHAPTER 7. BALANCE SHEET: INTERNATIONAL INVESTMENT POSITION

The integrated IIP is included in the standard components of *BPM7* as presented in Annex 14. Separate reporting of data on a) debt cancellation and write-offs; and b) reclassifications under other changes in volume is encouraged (i.e., they will be part of supplementary items) as indicated in Table 7.1.

Direct investment standard components are presented by instruments (equity and debt instruments) and resident institutional sectors. Presentation based on the relationship between the investor and the entity receiving the investment is included under memorandum items (paragraph 7.14).

Three preferred methods for measuring the equity of unlisted corporations at market-equivalent prices are prescribed: a) own funds at book value (OFBV); b) recent transaction price; and c) market capitalization or price-to-book value (P/B) (paragraph 7.16).

Guidance on the treatment of negative equity positions is provided (Box 7.1).

Equity in quasi-corporations; and unlisted portfolio investment equity securities without an observable market price should be valued using the above preferred methods (paragraphs 7.25 and 7.31).

While the basic valuation method for debt securities component of intercompany lending is market value, it could be compiled at nominal value as a supplementary item in cases where the economy is significantly impacted by direct investment (paragraph 7.26).

The treatment of short positions is explained consistent with Annex 7. Negative positions offset the double recording of security holdings by both the economic (original) owner and the final owner (the party who bought the borrowed security) and helps present consistent debtor-creditor relationship at a global level (paragraph 7.30).

It is recommended to compile a table on reconciliation between nominal and market valuation of debt securities liabilities as part of the “Additional Analytical Position Data” in Annex 14 on the lines of *External Debt Statistics 2013: Guide for Compilers and Users* (paragraph 7.32).

Further explanation on the valuation of credit default swaps is provided (paragraph 7.37).



In the case of loans with concessional interest rates, the positions are valued at nominal value based on the contractual interest rate, similar to any other loans (paragraph 7.47).

While the basic valuation principle for positions in loans is nominal value, when there is evidence of loan deterioration due to publicly known events (e.g., in the context of bank recovery operations), a value reset—even beyond the cases of bankruptcy and liquidation, or court decisions—is recommended (paragraph 7.49).

Annex 7.1 of *BPM6* is moved to the new *Annex 9 Positions and Transactions with IMF*.

## CHAPTER 8. FINANCIAL ACCOUNT

The concept of superdividends no longer applies to direct investment in the standard presentation because any distributions out of distributable income from the current period and accumulated reinvested earnings from previous periods are treated as dividends. However, distributions beyond that (e.g., those funded from sales of assets) would not be included in dividends and should be recorded as withdrawals of equity (paragraph 8.17).

It is encouraged that mergers and acquisitions be differentiated from greenfield investment and extension of capacity (paragraph 8.19).

A part of the description of corporate inversions is moved to Annex 6 (paragraph 8.20).

When an entity resident in one economy borrows on behalf of the government of another economy, and the borrowing is for fiscal purposes, the imputations are extended to reflect the underlying financial instruments and nature of transactions (paragraph 8.22).

The concept of superdividends applies to portfolio investment, and they are recorded as withdrawal of equity (paragraph 8.26).

Recording of financial derivatives transactions on a net basis is acceptable where separate data on transactions in assets and liabilities are not available (paragraph 8.32).

The surrender of a nonlife insurance policy by mutual agreement between a policyholder and nonlife insurer is treated as a transaction (paragraph 8.45).

Transactions involving unallocated gold accounts are recorded in the financial account under reserve assets only if they occur between two monetary authorities or between a monetary authority and an international financial organization. Otherwise, they are classified as currency and deposits (paragraph 8.55).

## CHAPTER 9. OTHER CHANGES IN FINANCIAL ASSETS AND LIABILITIES ACCOUNT

Revaluations and other changes in volume are part of the standard presentation of the external accounts (paragraph 9.5).

When it is not practical to separate exchange rate changes from other price changes for financial derivatives, all revaluation effects are recorded as other price changes (paragraph 9.13).

The types of other flows should not be tracked through ownership chains. For instance, uncompensated asset seizures should always be recorded via other price changes (as opposed to other changes in volume) for entities that are only indirectly impacted through their ownership of entities that have had their assets seized (paragraph 9.14).

When there are differences between transaction prices and the values recorded in the IIP for other types of instruments than loans, compilers should use all the information available to improve the quality of the estimated positions when they become aware that they are under or over-estimated (paragraph 9.14).

Debt may be written off for statistical purposes by compilers from both debtor and creditor economies to account for public announcements where nominal valuation clearly provides unrealistic values for loans (paragraph 9.22).

The difference in treatment of provisions in the external accounts compared to financial accounting and monetary and financial statistics is described (paragraph 9.22).

If a financial claim can no longer be collected because of bankruptcy or other factors and there is collateral, only the part of the claim that is not covered by the collateral should be recorded as other changes in volume. The remaining part should be treated as a repayment of the original instrument with a corresponding transaction that would account for the creditor taking economic ownership of the collateral (paragraph 9.22).

New subsections on the treatment of assets declared under tax amnesty (paragraph 9.26) and catastrophic losses (paragraph 9.26) are included.

If corporations change sector, the change in the sector classification of the owner of financial assets and liabilities is treated as a reclassification (paragraph 9.40).

## CHAPTER 10. GOODS ACCOUNT

Chapter 10 covers the goods account, with the services account moved to a new chapter, Chapter 11. *BPM6* Table 10.1 is modified to present an overview of the goods account only (services are presented in Table 11.1). New supplementary items are included

in Table 10.1 to separately present goods traded within global manufacturing arrangements, including when such goods are traded via merchanting.

The description of e-commerce is updated to “digital trade” with references to Chapter 16 and Annex 5 (paragraph 10.8).

It is noted that IMTS recommends items for inclusion and for exclusion that are closely aligned to BOP (paragraph 10.11).

The informal economy is introduced with reference to Chapter 18.

The exception for FOB-type valuation on merchanted goods stated in *BPM6* is generalized to all cases where the change of ownership differs from the country of dispatch or arrival of the goods, in which cases transaction values are used (paragraph 10.xx).

Although the FOB-type valuation is recommended in this version of the *Manual*, the valuation at the observed transaction value, which is closely aligned to the invoice value, is conceptually preferred and may be introduced as the standard in the future versions of the *Manual* (paragraph 10.32).

The rationale for recording merchanting as net exports is added (paragraph 10.45).

The concept of inverse merchanting is explained (paragraph 10.46).

Box 10.1 provides numerical examples of merchanting and re-exports.

A new section (Section D) on global manufacturing arrangements is introduced. It distinguishes between different types of arrangements including processing and merchanting (which were covered in *BPM6*) and factoryless goods production (which was not mentioned in *BPM6*). The section discusses and illustrates global manufacturing arrangements with diagrams and discusses their treatment and adjustments that need to be made to the underlying source data. A tree diagram to identify when trade transactions are traditional merchandise trade, re-exports, or within merchanting, processing or FGP arrangements is presented (Figure 10.3). Finished goods that are purchased by the factoryless goods producer from the contractor and sold to residents of a third economy, or to residents of the economy of the contractor, without the goods passing through the economy of the factoryless goods producer, are recorded in the economy of the factoryless goods producer as imports and exports of general merchandise (and not as merchanting as would be implied under *BPM6*), see paragraph 10.69(b). The principal in a global manufacturing arrangement may sell material inputs to the contractor/processor via merchanting. Merchanting is recorded on a net basis as opposed to gross recording for these transactions (paragraph 10.71).

Box 10.2 presents numerical examples of a processing arrangement, an FGP arrangement, as well as merchanting within an FGP arrangement.

Additional recommended breakdowns of trade in goods are mentioned, including trade in goods by currency and by characteristics of the trading enterprise (see Chapter 15 and Annex 5, for more information).

Table 10.2, reconciling merchandise trade data and total goods on a BOP basis, is modified with some lines deleted that are already included in IMTS and some additional lines and groupings of types of adjustment added.

## CHAPTER 11. SERVICES ACCOUNT

Facilitating the exchange of nonproduced nonfinancial assets is included within the scope of services definition (paragraph 11.1)

The scope of the services account includes 17 main standard service categories—five additional first-level standard service categories compared to *BPM6*. Description of certain services items has been slightly updated to reflect the changes resulting from CPC version 3.0 (Table 11.1).

The telecommunication, computer, and information services category from *BPM6* is split into two standard, first-level categories: (i) Telecommunication services; and (ii) Computer and information services (Table 11.1 and paragraphs 11.101–11.106).

The other business services category from *BPM6* is split into five standard, first-level categories: (i) research and development services; (ii) professional and management consulting services; (iii) nonfinancial intermediation services; (iv) operating leasing services; and (v) technical, environmental, and other business services (Table 11.1 and paragraphs 11.107–11.123).

Supplementary presentations of a) services exports/imports by characteristics of the trading enterprises (STEC); and b) the services account classified by currency are recommended (paragraph 11.9, Chapter 15, and Annex 5).

Freight services provided by nonresident carriers within the domestic economy and vice versa are included under freight services (paragraph 11.24). Also included in this service are rentals, charters, or operating leases of commercial vehicles with crew (paragraph 11.25).

The services of freight forwarders are included under other transport services (paragraph 11.28).

Goods and services provided free to nonresidents by government and NPISHs of the economy they are visiting known as social transfers in kind (e.g., free health services received by a foreign tourist from a hospital within general government, free educational services received by a foreign student from a university within general government) are included under travel (paragraph 11.34).

Regarding package tours, they should not be treated as a new product, but should be unbundled in order to record the transactions by different services providers that can be residents or nonresidents, and that contribute to the package tour separately. A definition of a package tour is also provided (Box 11.2).

For health-related travel, it is noted that the scope of “medical reasons” follows the definition of “health and medical care” from the *International Recommendations for Tourism Statistics 2008 (IRTS 2008)*. (paragraph 11.42 (a)).

The travel expenses of companions of patients, education-related travelers, and those traveling on short-term work or other business are included under “personal travel” (paragraph 11.42 (c)).

Financial services provided by fintech are classified in financial services without introducing new services categories. On the same lines, insurance services through fintech are covered under insurance and pension services (paragraphs 11.69-11.70).

The fees related to financial digital platforms that intermediate funding or payment transactions, fees associated with credit cards, and factoring are included under financial services (paragraph 11.70).

Regarding factoring, the discount at which a factor buys trade accounts receivable from a supplier may consist of three elements: (i) fees; (ii) interest; and (iii) compensation for possible credit defaults; and from a conceptual perspective, the services provided by the factor is represented by fees only (paragraph 11.75).

Regarding margins on buying and selling transactions, while no changes are made to the underlying concept presented in the *BPM6*, a brief mention of the practical challenges in compiling this item is included (paragraph 11.78).

The term “implicit financial services on loans and deposits” replaces “financial intermediation services indirectly measured or FISIM” (paragraph 11.82–11.94).

It is noted that the implicit financial services on loans and deposits should be positive irrespective of whether interest rates are either positive or negative. Reviewing the reference rates to be used with a view to avoid negative implicit financial services is recommended (paragraph 11.91-11.92).

A definition of intellectual property products is introduced (paragraph 11.95). In addition, the scope of “charges for the use of intellectual property n.i.e.” is clarified with updates to Table 10.4, *BPM6* (now Table 11.3).

The expanded scope of computer services includes cloud computing services; services of artificial intelligence systems, and miners/validators of crypto assets transactions; staking, cloud, and pooled mining of crypto assets; software applications facilitating online meetings and video conferencing, etc. (paragraph 11.102).

Validation of crypto asset transactions and the related recording in the BOP is explained (Box 11.5).

The scope of information services is updated to include compilation of information content produced by accessing and observing phenomena; services of chatbots that provide summarized information or translation for the questions of clients on a wide range of topics, etc. (paragraph 11.106).

The services of content creators that receive remuneration from the advertisers (via platform) should be recorded as supply of advertisement services (paragraph 11.110).

The term “nonfinancial intermediation services” replaces “trade-related services” and is defined as fees or commissions related to transactions in goods, services, and nonproduced nonfinancial assets payable to merchants, commodity brokers, dealers, auctioneers, commission agents as well as nonfinancial digital intermediation platforms (paragraph 11.112).

Within captive leasing arrangements, SPEs can be lessors and provide operating leasing services to their parent (paragraph 11.117).

The treatment of wet and dry leasing is clarified (paragraph 11.118).

Under technical, environmental, and other business services, reference to “services merchanting” is removed.

Services provided by fee-based digital platforms that facilitate interactions between users, other than transactions in goods and services or financial transactions are included under other personal, cultural, and recreational services (paragraph 11.134).

With regards to government licenses, permits, and so forth, the guidance is updated. If a payment for a license is compulsory and the license is not transferable, then the payment is generally considered a tax. However, under limited scenarios, such as when it can be demonstrated that the payment is required and a service commensurate to the payment is consumed by the individual, the payment should be recorded as a sale of a service (paragraph 11.146).

## CHAPTER 12. EARNED INCOME ACCOUNT

The term “earned income” replaces the term “primary income; the term “remuneration of employees” replaces the term “compensation of employees”; the term “interest and similar returns” replaces the term “interest”, although much of the chapter retains the term “interest” for actual interest flows.

A paragraph on remote work and possible remuneration of employees is introduced (paragraph 12.18).

Concessional lending in the situation of an employer-employee relationship is recorded as a continuous stream of remuneration payments (paragraph 12.23).

Dividends and withdrawals from income of quasi-corporations paid to direct investors include any distributions from the current period’s ordinary earnings or accumulated reserves from ordinary earnings in previous periods, but exclude payments from funds realized by the sale of assets (paragraph 12.27).

The term superdividend applies to all equity investment other than direct investment. Superdividends are defined as large and irregular payments made by corporations to their shareholders or owners that are funded from accumulated reserves or sales of assets other than cash. They are not treated as dividends, but as withdrawals of equity (paragraph 12.35).

Large and irregular payments made from accumulated reserves of ordinary earnings in previous periods to direct investors is introduced as a supplementary sub-item of dividends in the external accounts (paragraph 12.36).

The reduction in equity arising from the disposal or sale of assets (including from liquidating assets) may be displayed as supplementary information “of which, from sales of assets” in the financial account (paragraph 12.39).

Reinvested earnings on direct investment consist of the direct investors’ proportion of distributable income of a direct investment enterprise, less amounts declared for dividend distribution to direct investors, or less withdrawals from income of quasi-corporations by the direct investors. (paragraph 12.50). This replaces the previous description of reinvested earnings as the direct investor’s share of retained earnings of the direct investment enterprise.

While reinvested earnings on portfolio investment are not recorded in the external accounts, supplementary information on this item is encouraged. It is also noted that the current treatment of retained earnings for direct investment may be expanded to portfolio investment in future versions of the *Manual* (paragraph 12.49).

Fines and penalties may impact the calculation of retained earnings depending on the characteristics of the fine or penalty, including if it is considered extraordinary (paragraph 12.54).

Treatment of indirect fees of collective investment funds is clarified as being borne by the unitholders. To retain a net saving of zero, an imputed dividend is shown. A new box is shown to illustrate this treatment numerically (Box 12.2).

Interest is expanded to include also similar returns such as those that may arise in the case of Islamic finance (paragraph 12.48).

Manufactured interest and dividends are recorded as negative credits/revenues for a security taker who has on-sold the securities (paragraph 12.69).

Negative interest payable on financial instruments is recorded as a negative debit/expenditure, and vice versa (paragraph 12.71).

A new box illustrates the calculation of interest on bonds at a premium and at a discount. The treatment of securities under a reverse transaction and when there is on-selling is clarified (Box 12.5).

Rent includes payments to households giving explicit consent to monitor their behavioral patterns in the form of observable phenomena and fees paid between sporting clubs for so-called loan agreements on players (paragraph 12.86).

There are cases where an asset is split between two units, and a notional unit would need to be created if there is not already a resident institutional unit. However, notional units are never created in the case of nonresident fishing operators (paragraph 12.87).

Taxes on products and production may include payments of stability fees levied by governments on financial institutions to assist ailing financial institutions (paragraph 12.91).

Direct investment income is no longer broken down according to the types of direct investment relationships—direct investor in direct investment enterprises, reverse investment, and between fellow enterprises (paragraph 12.118).

## CHAPTER 13. TRANSFER INCOME ACCOUNT

The term “transfer income” replaces the term “secondary income.”

Under a tax amnesty, tax revenue should be recorded when the tax obligation is established. If a judgment or ruling is subject to further appeal, then the time of recording is when the appeal is resolved (paragraph 13.18).



The recording of licenses and permits to engage in certain activities is clarified as being usually recorded as a tax (paragraph 13.28).

Employer-independent schemes with a strong resemblance to employment-related social insurance schemes are considered to be social insurance schemes (paragraph 13.30).

Payments of premiums to, and claims from, hybrid insurance are recorded in the transfer income account only if the hybrid insurance scheme is recorded as a nonlife insurance product in the accounts (paragraph 13.44).

The list of transactions considered to be capital transfers are expanded to include nonrecurrent payments in compensation for accumulated losses or extensive damages; these are not listed explicitly in *BPM6*. Fines and penalties established in contracts of mergers and acquisitions are to be treated as an update of the market price and not a transfer (paragraph 13.57).

Nonrefundable contributions under citizenship-by-investment programs are recorded as current transfers, unless they are intended for capital investment projects (paragraph 13.60).

## CHAPTER 14. CAPITAL ACCOUNT

Table 14.1, overview of the capital account, includes crypto assets without a corresponding liability designed to act as a medium of exchange.

The section on natural resources notes that where permission is granted to exploit a natural to the extent that both the user and the legal owner are entitled to future economic benefits, the asset may be split between the owner and the permission holder (paragraph 14.9).

Contracts, leases, and licenses include nonfungible tokens that confer limited rights to the owner (paragraph 14.16).

The section on emission permits is removed as emission permits are now recorded as financial assets.

Crypto assets without a corresponding liability designed to act as a medium of exchange are recorded within a separate category in the capital account. As crypto assets are still relatively new, the classification is on the research agenda (paragraph 14.19).

Only insurance claims that are made following a major catastrophe or disaster at national level would be classified as capital transfers (paragraph 14.34).

Major compensation payments that are intended to recover losses over a multi-year period or to replace a financial or nonfinancial asset are included in capital transfers (paragraph 14.37).

No adjustment is made in the core external accounts for recording a transfer element in concessional lending. However, the transfer element at inception can be shown as supplementary data (paragraph 14.41).

Nonrefundable contributions under citizenship-by-investment schemes are recorded as capital transfers if they are intended for capital investment projects (paragraph 14.44).

## CHAPTER 15. GLOBALIZATION

This is a new common chapter with Chapter 23 of the *2025 SNA*, and for the most part, the text is identical in both the *Manual* and the *2025 SNA*. This chapter includes sections covering global production; multinational enterprise (MNE) groups including the role of SPEs within MNE groups and their typology; measurement challenges; macroeconomic indicators and supplementary information to monitor the impact of globalization; and analytical tools. This chapter also includes a description of statistics on the Activities of Multinational Enterprises (AMNE statistics), which were previously described in a separate appendix (*BPM6* Appendix 4).

## CHAPTER 16. DIGITALIZATION

This is a new common chapter with Chapter 22 of the *2025 SNA*, and for the most part, the text is identical in both the *Manual* and the *2025 SNA*. This chapter includes the sections on digital transactions, industries, and products (with subsections on cloud computing, data and databases, artificial intelligence, and nonfungible tokens); types of digital platforms with detailed discussion on nonfinancial digital intermediation platforms, and free online platforms and free digital products; digitalization and the financial system with discussion on new financial services and means of payment enabled by digitalization, financial digital platforms, and digital representation of value—providing the typology and classification of crypto assets including a decision tree for classifying fungible digital assets.

## CHAPTER 17. ISLAMIC FINANCE

This is a new common chapter with Chapter 26 of the *2025 SNA*, and for the most part, the text is identical in both the *Manual* and the *2025 SNA*. This chapter provides complete and consistent guidance to properly account for Islamic finance and insurance in the external accounts. It mainly discusses the concepts of Islamic financial institutions and their sectoring; measuring the output of Islamic financial institutions including Islamic insurance; investment income on Islamic financial instruments; classification of Islamic

financial instruments in the accumulation accounts and balance sheet; and economic ownership of nonfinancial assets under Islamic financial arrangements.

## CHAPTER 18. INFORMAL ECONOMY

This is a new common chapter with Chapter 39 of the 2025 SNA, and for the most part, the text is identical in both the *Manual* and the 2025 SNA. This chapter discusses the framework for the informal economy, highlighting its role in providing employment and income, particularly in developing countries. It emphasizes the challenges of measuring informal activities and the need for consistent data to inform policies. The chapter outlines informal productive activities, distinguishing them from formal sectors and emphasizing their implications for inequality and poverty. It also addresses informal cross-border flows, including trade in goods and services, informal employment, and remittances. The chapter recommends improved statistical frameworks to capture informal economy dynamics.

## CHAPTER 19. SELECTED ISSUES IN INTEGRATED BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION ANALYSIS

The title of the chapter is changed to Selected Issues in *Integrated Balance of Payments and International Investment Position Analysis*.

The chapter includes new sections on the nexus between the current account and integrated IIP (paragraphs 19.15–19.19), IIP and risk measurement (paragraphs 19.73–19.83), the valuation paradox in the IIP (paragraphs 19.84–19.85), and calculating and using rates of return (paragraphs 19.86–19.92).

The references in the section *Further Information* have been updated.

## CHAPTER 20. COMMUNICATING AND DISSEMINATING MACROECONOMIC STATISTICS

This is a new common chapter with Chapter 21 of the 2025 SNA, and for the most part, the text is identical in both the *Manual* and the 2025 SNA. This chapter covers dissemination strategy and communication policy; communication with users; communication with suppliers; statistical confidentiality; taxonomies and metadata; a framework for measuring alignment with the macroeconomic statistical standards; and use of more understandable terminology for users. Significant progress has been made in harmonizing and improving the terminology used across the macroeconomic statistical standards. Table A13.1 shows changes in the names of the main accounts within the *Manual*, while Table A13.2 presents changes to specific terms.

<b>Table A13.1. Changes to the Names of the Main External Accounts</b>		
<b><i>BPM6</i> Terminology</b>	<b><i>BPM7</i> Terminology (Individual Economic Account)</b>	<b>Economic Accounts Groups</b>
Goods and services account	Goods account / services account	Current account
Primary income account	Earned income account	
Secondary income account	Transfer income account	
Capital account	No change	Capital account
Financial account	No change	Accumulation accounts
Other changes in financial assets and liabilities account	No change	
International investment position	No change	Balance sheets

<b>Table A13.2. Changes to Specific Terms</b>	
<b><i>BPM6</i> Terminology</b>	<b><i>BPM7</i> Terminology</b>
Compensation of employees	Remuneration of employees
Credit	Credit/revenue
Debit	Debit/expenditure
Financial intermediation services indirectly measured (FISIM)	Implicit financial services on loans and deposits
International accounts	External accounts
Net errors and omissions	Statistical discrepancy
Net fees	Fees less service charges
Net guarantees	Guarantees less service charges

Net nonlife insurance premiums	Nonlife insurance premiums less service charges
Net reinsurance premiums	Reinsurance premiums less service charges
Net social contributions	Social contributions less service charges
Primary income	Earned income
Resource lease	Natural resource lease
Secondary income	Transfer income
Trade margin	Distribution margin
Trade-related services	Nonfinancial intermediation services

## Annex 14. Standard Components and Selected Other Items

**A14.1** An overview of the external accounts is shown in Figure A14.1. *BPM7* codes are shown before the name of items in Section A, Balance of Payments. *BPM7* codes related to exceptional financing have an “EF” prefix. Codes used in the 2025 *SNA* are shown, where applicable, in brackets after the items: B—balancing items, P—products, D—distributive transactions, F—financial transactions, AF—financial positions, NF—transactions in nonfinancial assets (for the capital account), and X/S—supplementary items. For details on *SNA* codes, including the numbering, see 2025 *SNA*, Annex 2, The Classification Hierarchies of the *SNA* and Associated Codes. Suffixes are added to *SNA* codes for the external accounts functional categories: D—direct investment, P—portfolio investment, F—financial derivatives (other than reserves) and employee stock options, O—other investment, and R—reserve assets.

**A14.2** Standard items for the external accounts are shown in non-italicized text in the table in Section A. Memorandum items are clearly marked as such, and an “M” suffix is added at the end of the relevant *BPM7* codes. *Supplementary items are shown in italics*. Headings and aggregates are shown in bold type. As mentioned in paragraph 1.17, standard items consist of standard components and memorandum items.

- a) Standard components are items that are fully part of the framework and contribute to the totals and balancing items.
- b) Memorandum items are additional items of special analytical interest, which are added to the presentation, but do not impact the totals and balancing items derived from the macroeconomic system.

In addition,

- c) Supplementary items are outside the standard presentation and are compiled based on the specific circumstances of the economy, taking into account the interests of policymakers and analysts as well as resource costs.

Figure A14.1. Overview of the External Accounts: Integrated Balance of Payments and International Investment Position								
Integrated IIP		Balance of payments (transactions)						
		Current account						
		Capital account						
	Beginning-of-period position	Financial account						End-of-period position
			Revaluations			Other changes in volume		
			Total	Exchange rate changes	Other price changes	Total	<i>Of which: Cancellations and write-offs of debt</i>	
	Statistical discrepancy							

## A. BALANCE OF PAYMENTS

Balance of payments	Credits/ revenues	Debits/ expenditures
<b>1. Current account</b>		
Current account balance (+ surplus; – deficit) (B12)		
<b>1.A Goods and services (P6/P7)</b>		
Balance on goods and services (+ surplus; – deficit) (B11)		
<b>1.A.a Goods (P61/P71)</b>		
Balance on trade in goods (+ surplus; – deficit)		
1.A.a.1 General merchandise on a BOP basis		
<i>Of which: 1.A.a.1.1 Re-exports</i>		n.a.
<i>Of which: 1.A.a.1.2 Goods traded within a global manufacturing arrangement (e.g., factoryless goods production) (see paragraph 10.78)</i>		
1.A.a.2 Net exports of goods under merchanting		n.a.
1.A.a.2.1 Goods acquired under merchanting (negative credits/revenues)		n.a.
1.A.a.2.2 Goods sold under merchanting		n.a.
1.A.a.3 Nonmonetary gold		
<b>1.A.b Services (P62/P72)</b>		
Balance on trade in services (+ surplus; – deficit)		
1.A.b.1 Manufacturing services on physical inputs owned by others		
<i>1.A.b.1.1 Goods for processing in reporting economy—Goods returned (credits/revenues), Goods received (debits/expenditures) (see paragraph 11.14)</i>		
<i>1.A.b.1.2 Goods for processing abroad—Goods sent (credits/revenues), Goods returned (debits/expenditures) (see paragraph 11.14)</i>		
1.A.b.2 Maintenance and repair services n.i.e.		
1.A.b.3 Transport <sup>1</sup>		



## 1.A.b.3.1 Sea transport

## 1.A.b.3.1.1 Passenger

*Of which: 1.A.b.3.1.1.1 Payable by border, seasonal,  
and other short-term workers*

## 1.A.b.3.1.2 Freight

## 1.A.b.3.1.3 Other

## 1.A.b.3. 2 Air transport

## 1.A.b.3.2.1 Passenger

*Of which: 1.A.b.3.2.1.1 Payable by border, seasonal,  
and other short-term workers*

## 1.A.b.3.2.2 Freight

## 1.A.b.3.2.3 Other

## 1.A.b.3.3 Other modes of transport

## 1.A.b.3.3.1 Passenger

*Of which: 1.A.b.3.3.1.1 Payable by border, seasonal,  
and other short-term workers*

## 1.A.b.3.3.2 Freight

## 1.A.b.3.3.3 Other

## 1.A.b.3.4 Postal and courier services

*For all modes of transport<sup>2</sup>*

## 1.A.b.3.0.1 Passenger

*Of which: 1.A.b.3.0.1.1 Payable by border, seasonal,  
and other short-term workers*

## 1.A.b.3.0.2 Freight

## 1.A.b.3.0.3 Other

## 1.A.b.4 Travel

## 1.A.b.4.1 Business

*1.A.b.4.1.1 Acquisition of goods and services by border,  
seasonal, and other short-term workers*

## 1.A.b.4.1.2 Other

## 1.A.b.4.2 Personal

*1.A.b.4.2.1 Health-related**1.A.b.4.2.2 Education-related**1.A.b.4.2.3 Other**For both business and personal travel**1.A.b.4.0.1 Goods**1.A.b.4.0.2 Services**1.A.b.4.0.2.1 Local transport services**1.A.b.4.0.2.2 Accommodation services**1.A.b.4.0.2.3 Food-serving services**1.A.b.4.0.2.4 Health services**1.A.b.4.0.2.5 Education services**1.A.b.4.0.2.6 Cultural, recreational, and other personal services**1.A.b.4.0.2.7 Other services*

## 1.A.b.5 Construction

*1.A.b.5.1 Construction abroad<sup>3</sup>**1.A.b.5.2 Construction in the reporting economy<sup>3</sup>*1.A.b.6 Insurance and pension services<sup>1</sup>*1.A.b.6.1 Direct insurance**1.A.b.6.2 Reinsurance**1.A.b.6.3 Auxiliary insurance services**1.A.b.6.4 Pension and standardized guarantee services*

## 1.A.b.7 Financial services

*Of which: 1.A.b.7.1 Implicit financial services on loans and deposits*1.A.b.8 Charges for the use of intellectual property n.i.e.<sup>1</sup>

## 1.A.b.9 Telecommunications services

1.A.b.10 Computer and information services<sup>1</sup>*1.A.b.10.1 Computer services**1.A.b.10.2 Information services*1.A.b.11 Research and development services<sup>1</sup>1.A.b.12 Professional and management consulting services<sup>1</sup>

## 1.A.b.13 Nonfinancial intermediation services

## 1.A.b.14 Operating leasing services

1.A.b.15 Technical, environmental, and other business services<sup>1</sup>1.A.b.16 Personal, cultural, and recreational services<sup>1</sup>*1.A.b.16.1 Audiovisual and related services**1.A.b.16.2 Other personal, cultural, and recreational services*1.A.b.17 Government goods and services n.i.e.<sup>1</sup>*1.A.b.0.1 Tourism-related services in travel and passenger transport***1.B Earned income**

Balance on earned income (+ surplus; – deficit)

## 1.B.1 Remuneration of employees (D1)

## 1.B.2 Investment income (D41)

## 1.B.2.1 Direct investment (D41D)

## 1.B.2.1.1 Income on equity (D412D)

1.B.2.1.1.1 Dividends and withdrawals from income  
of quasi-corporations (D4121D+D4122D)*Of which 1.B.2.1.1.1.1 Large and irregular  
payments funded from accumulated reserves*

## 1.B.2.1.1.2 Reinvested earnings (D4123)

## 1.B.2.1.2 Interest and similar returns (D411D)

## 1.B.2.2 Portfolio investment (D41P)

1.B.2.2.1 Income on equity and investment fund  
shares/units

1.B.2.2.1.0.1 Reinvested earnings on equity excluding investment fund shares/units (D4124XP)	
1.B.2.2.1.1 Dividends on equity excluding investment fund shares/units (D4121P)	
1.B.2.2.1.2 Investment income attributable to investment fund shareholders (D4134P)	
1.B.2.2.1.2.1 Dividends	
Of which: 1.B.2.2.1.2.1.1 Imputed dividends (see paragraph 12.59)	
1.B.2.2.1.2.2 Reinvested earnings	
1.B.2.2.2 Interest and similar returns (D411P)	
1.B.2.2.2.1 Short-term	
1.B.2.2.2.2 Long-term	
1.B.2.3 Other investment (D41O)	
1.B.2.3.1 Income on equity and investment fund shares/units (D412O+D4134O)	
1.B.2.3.2 Interest and similar returns (D411O)	
1.B.2.3.2M Memorandum: Actual interest (before accounting for implicit financial services on loans and deposits) (see Box 11.4)	
1.B.2.3.3 Investment income attributable to policyholders in insurance, pension, and standardized guarantee schemes	
1.B.2.4 Reserve assets (D41R) <sup>4</sup>	n.a.
1.B.2.4.1 Income on equity and investment fund shares/units (D412R+D4134R) <sup>4</sup>	n.a.
1.B.2.4.2 Interest and similar returns (D411R) <sup>4</sup>	n.a.
1.B.2.4.2M Memorandum: Actual interest (before accounting for implicit financial services on loans and deposits) <sup>4</sup> (see Box 11.4)	n.a.
1.B.3 Other earned income	
1.B.3.1 Taxes on production and on imports (D2)	

## 1.B.3.2 Subsidies (D3)

## 1.B.3.3 Rent (D42)

Balance on goods, services, and earned income (+ surplus; – deficit)

**1.C Transfer income**

Balance on transfer income (+ surplus; – deficit)

## 1.C.1 General government

## 1.C.1.1 Current taxes on income, wealth, etc. (D5)

n.a.

Of which: 1.C.1.1.1 Payable by border, seasonal, and other short-term workers

n.a.

## 1.C.1.2 Social contributions less service charges (D61)

n.a.

Of which: 1.C.1.2.1 Payable by border, seasonal, and other short-term workers

n.a.

## 1.C.1.3 Social benefits (D62+D63)

n.a.

## 1.C.1.4 Nonlife insurance premiums less service charges (D71)

## 1.C.1.5 Nonlife insurance claims (D72)

## 1.C.1.6 Current international cooperation (D74)

## 1.C.1.7 Miscellaneous current transfers of general government (D75)

Of which: 1.C.1.5.1 Current transfers to NPISHs (D751)

## 1.C.2 Financial corporations, nonfinancial corporations, households, and NPISHs

## 1.C.2.1 Personal transfers (Current transfers between resident and nonresident households)

Of which: 1.C.2.1.1 Workers' remittances

## 1.C.2.2 Other current transfers

## 1.C.2.0.1 Current taxes on income, wealth, etc. (D5)

n.a.

## 1.C.2.0.2 Social contributions less service charges (D61)

## 1.C.2.0.3 Social benefits (D62+D63)

## 1.C.2.0.4 Nonlife insurance premiums less service charges (D71)

*1.C.2.0.5 Nonlife insurance claims (D72)*

*1.C.2.0.6 Current international cooperation (D74)*

*1.C.2.0.7 Miscellaneous current transfers (D75)*

*Of which: 1.C.2.0.7.1 Current transfers to NPISHs (D751)*

*1.C.3 Adjustment for the change in pension and nonpension entitlements (D8)*

## **2 Capital account**

Capital account balance (+ surplus; – deficit)

2.1 Acquisitions (debits/expenditures)/disposals (credits/revenues) of nonproduced nonfinancial assets (NF2+NF3)

2.1.1 Natural resources (NF3)

2.1.2 Contracts, leases, and licenses (NF21)

2.1.3 Marketing assets (NF23)

2.1.4 Crypto assets without a corresponding liability designed to act as a medium of exchange (NF22)

2.2 Capital transfers (D9)

2.2.1 General government

2.2.1.1 Capital taxes (D91)

2.2.1.2 Investment grants (D92)

2.2.1.3 Debt forgiveness (D93)

2.2.1.4 Other capital transfers (D99)

*Of which: 2.2.1.4.1 Nonlife insurance claims*

2.2.2 Financial corporations, nonfinancial corporations, households, and NPISHs

2.2.2.1 Capital taxes (D91)

n.a.

2.2.2.2 Investment grants (D92)

2.2.2.3 Debt forgiveness (D93)

2.2.2.4 Other capital transfers (D99)

*Of which: 2.2.2.4.1 Nonlife insurance claims*

Of which: 2.2.2.0.1 Between households		
Of which:		
for each item in capital transfers:		
Transfers to NPISHs		
Net lending (+) / net borrowing (–) (balance from current and capital accounts) (B9)		
Balance of payments	Net acquisition of financial assets	Net incurrence of liabilities
<b>3 Financial account</b>		
Net lending (+) / net borrowing (–) (from financial account) (B9)		
3.1 Direct investment		
3.1.1 Equity (F51D/AF51D)		
3.1.1.1 Central bank		n.a.
3.1.1.1.9 Monetary authorities (where relevant)		
3.1.1.2 Deposit-taking corporations, except the central bank		
Of which: 3.1.1.2.1 SPEs		
3.1.1.3 General government		n.a.
3.1.1.4 Other financial corporations		
3.1.1.4.1 Money market funds (MMFs)		n.a.
3.1.1.4.2 Non-MMF investment funds		n.a.
3.1.1.4.3 Insurance corporations		
3.1.1.4.4 Pension funds		
3.1.1.4.5 Other financial intermediaries, except insurance corporations and pension funds		
Of which: 3.1.1.4.5.1 Central clearing counterparties		
3.1.1.4.6 Captive financial institutions and money lenders, and financial auxiliaries		

*Of which: 3.1.1.4.0.1 SPEs*

3.1.1.5 Nonfinancial corporations

*Of which: 3.1.1.5.1 SPEs*

3.1.1.6 Households and nonprofit institutions serving households

n.a.

Of which: 3.1.1M Memorandum: Reinvestment of earnings (only for BOP)

3.1.2 Debt instruments

3.1.2.1 Central bank

*3.1.2.1.9 Monetary authorities (where relevant)*

3.1.2.2 Deposit-taking corporations, except the central bank

*Of which: 3.1.2.2.1 SPEs*

3.1.2.3 General government

3.1.2.4 Other financial corporations

*3.1.2.4.1 Money market funds (MMFs)*

*3.1.2.4.2 Non-MMF investment funds*

*3.1.2.4.3 Insurance corporations*

*3.1.2.4.4 Pension funds*

*3.1.2.4.5 Other financial intermediaries, except insurance corporations and pension funds*

*Of which: 3.1.2.4.5.1 Central clearing counterparties*

*3.1.2.4.6 Captive financial institutions and money lenders, and financial auxiliaries*

*Of which: 3.1.2.4.0.1 SPEs*

3.1.2.5 Nonfinancial corporations

*Of which: 3.1.2.5.1 SPEs*

3.1.2.6 Households and nonprofit institutions serving households



*Of which: 3.1.2.0 Debt securities (F3D/AF3D)*

3.1.0.1M Memorandum: Direct investor in direct investment enterprises

3.1.0.2M Memorandum: Direct investment enterprises in direct investor (reverse investment)

3.1.0.3M Memorandum: Between fellow enterprises

*3.1.0.3.1 if ultimate controlling parent is resident*

*3.1.0.3.2 if ultimate controlling parent is nonresident*

*3.1.0.3.3 if ultimate controlling parent is unknown*

## 3.2 Portfolio investment

3.2.1 Equity and investment fund shares/units (F5P/AF5P)

3.2.1.1 Central bank

*3.2.1.1.9 Monetary authorities (where relevant)*

3.2.1.2 Deposit-taking corporations, except the central bank

*Of which: 3.2.1.2.1 SPEs*

3.2.1.3 General government

3.2.1.4 Other financial corporations

*3.2.1.4.1 Money market funds (MMFs)*

*3.2.1.4.2 Non-MMF investment funds*

*3.2.1.4.3 Insurance corporations*

*3.2.1.4.4 Pension funds*

*3.2.1.4.5 Other financial intermediaries, except insurance corporations and pension funds*

*Of which: 3.2.1.4.5.1 Central clearing counterparties*

*3.2.1.4.6 Captive financial institutions and money lenders, and financial auxiliaries*

*Of which: 3.2.1.4.0.1 SPEs*

### 3.2.1.5 Nonfinancial corporations

*Of which: 3.2.1.5.1 SPEs*

### 3.2.1.6 Households and nonprofit institutions serving households

#### 3.2.1.0.1 Equity securities other than investment fund shares/units (F51P/AF51P)

##### 3.2.1.0.1.1 Listed (F511P/AF511P)

##### 3.2.1.0.1.2 Unlisted (F512P/AF512P)

#### 3.2.1.0.2 Investment fund shares/units (F52P/AF52P)

##### *Of which: 3.2.1.0.2.1 Reinvestment of earnings*

##### *Of which: 3.2.1.0.2.0.1 Money market fund shares/units (F521P/AF521P)*

### 3.2.2 Debt securities (F3P/AF3P)

#### 3.2.2.1 Central bank

##### 3.2.2.1.1 Short-term

##### 3.2.2.1.2 Long-term

#### 3.2.2.1.9 Monetary authorities (where relevant)

##### 3.2.1.1.9.1 Short-term

##### 3.2.1.1.9.2 Long-term

#### 3.2.2.2 Deposit-taking corporations, except the central bank

##### 3.2.2.2.1 Short-term

##### 3.2.2.2.2 Long-term

##### *Of which: 3.2.2.2.0.1 SPEs*

#### 3.2.2.3 General government

##### 3.2.2.3.1 Short-term

##### 3.2.2.3.2 Long-term

#### 3.2.2.4 Other financial corporations

- 3.2.2.4.0.1 Short-term
- 3.2.2.4.0.2 Long-term
- 3.2.2.4.1 *Money market funds (MMFs)*
  - 3.2.2.4.1.1 *Short-term*
  - 3.2.2.4.1.2 *Long-term*
- 3.2.2.4.2 *Non-MMF investment funds*
  - 3.2.2.4.2.1 *Short-term*
  - 3.2.2.4.2.2 *Long-term*
- 3.2.2.4.3 *Insurance corporations*
  - 3.2.2.4.3.1 *Short-term*
  - 3.2.2.4.3.2 *Long-term*
- 3.2.2.4.4 *Pension funds*
  - 3.2.2.4.4.1 *Short-term*
  - 3.2.2.4.4.2 *Long-term*
- 3.2.2.4.5 *Other financial intermediaries, except insurance corporations and pension funds*
  - 3.2.2.4.5.1 *Short-term*
  - 3.2.2.4.5.2 *Long-term*
    - Of which: 3.2.2.4.5.0.1 Central clearing counterparties*
- 3.2.2.4.6 *Captive financial institutions and money lenders, and financial auxiliaries*
  - 3.2.2.4.6.1 *Short-term*
  - 3.2.2.4.6.2 *Long-term*
    - Of which: 3.2.2.4.0.1 SPEs*
- 3.2.2.5 Nonfinancial corporations
  - 3.2.2.5.1 Short-term
  - 3.2.2.5.2 Long-term
    - Of which: 3.2.2.5.0.1 SPEs*

3.2.2.6 Households and nonprofit institutions serving households		
3.2.2.6.1 Short-term		
3.2.2.6.2 Long-term		
3.3 Financial derivatives (other than reserves) and employee stock options (F7F/AF7F) <sup>5</sup>	5	5
3.3.1 Central bank	5	5
3.3.1.9 Monetary authorities (where relevant)	5	5
3.3.2 Deposit-taking corporations, except the central bank	5	5
Of which: 3.3.2.1 SPEs		
3.3.3 General government		
3.3.4 Other financial corporations	5	5
3.3.4.1 Money market funds (MMFs)	5	5
3.3.4.2 Non-MMF investment funds	5	5
3.3.4.3 Insurance corporations	5	5
3.3.4.4 Pension funds	5	5
3.3.4.5 Other financial intermediaries, except insurance corporations and pension funds	5	5
Of which: 3.3.4.5.1 Central clearing counterparties	5	5
3.3.4.6 Captive financial institutions and money lenders, and financial auxiliaries	5	5
Of which: 3.3.4.0.1 SPEs	5	5
3.3.5 Nonfinancial corporations	5	5
Of which: 3.3.5.1 SPEs	5	5
3.3.6 Households and nonprofit institutions serving households	5	5
3.3.0.1 Financial derivatives (other than reserves) (F71F/AF71F)	5	5
By market risk category:		

3.3.0.1.1.1 Foreign exchange (F711F/AF711F)	5	5
3.3.0.1.1.2 Single-currency interest rate (F712F/AF712F)	5	5
3.3.0.1.1.3 Equity (F713F/AF713F)	5	5
3.3.0.1.1.4 Commodity (F714F/AF714F)	5	5
3.3.0.1.1.5 Credit (F715F/AF715F)	5	5
3.3.0.1.1.6 Other (F719F/AF719F)	5	5
<i>By instrument:</i>		
3.3.0.1.2.1 Options (AF711S11F)	5	5
3.3.0.1.2.2 Forwards and related instruments (other than futures and swaps) (AF711S12F)	5	5
3.3.0.1.2.3 Futures (AF711S13F)		
3.3.0.1.2.4 Swaps (AF711S14F)	5	5
3.3.0.1.2.5 Credit derivatives (AF711S15F)	5	5
3.3.0.1.2.6 Other and hybrid (AF711S19F)	5	5
<i>By trading venue and clearing status:</i>		
3.3.0.1.3.1 Exchange traded (AF711S21F)	5	5
3.3.0.1.3.2 Over the counter (OTC) (cleared) (AF711S22F)	5	5
3.3.0.1.3.3 OTC (not cleared) (AF711S23F)	5	5
3.3.0.2. Employee stock options (F72F/AF72F)	5	5
3.4 Other investment		
3.4.1 Other equity and equity in international organizations (F519O/AF519O)		
3.4.2 Currency and deposits (F2O/AF2O)		
3.4.2.1 Central bank		
3.4.2.1.1 Short-term		
3.4.2.1.2 Long-term		

*3.4.2.1.9 Monetary authorities (where relevant)**3.4.2.1.9.1 Short-term**3.4.2.1.9.2 Long-term**3.4.2.2 Deposit-taking corporations, except the central bank**Of which: 3.4.2.2.0.1 Interbank positions**Of which: 3.4.2.2.0.2 SPEs**3.4.2.2.1 Short-term**3.4.2.2.2 Long-term**3.4.2.3 General government**3.4.2.3.1 Short-term**3.4.2.3.2 Long-term**3.4.2.4 Other financial corporations**3.4.2.4.0.1 Short-term**3.4.2.4.0.2 Long-term**3.4.2.4.1 Money market funds (MMFs)**3.4.2.4.1.1 Short-term**3.4.2.4.1.2 Long-term**3.4.2.4.2 Non-MMF investment funds**3.4.2.4.2.1 Short-term**3.4.2.4.2.2 Long-term**3.4.2.4.3 Insurance corporations**3.4.2.4.3.1 Short-term**3.4.2.4.3.2 Long-term**3.4.2.4.4 Pension funds**3.4.2.4.4.1 Short-term**3.4.2.4.4.2 Long-term**3.4.2.4.5 Other financial intermediaries, except insurance corporations and pension funds*

3.4.2.4.5.1 *Short-term*

3.4.2.4.5.2 *Long-term*

*Of which: 3.4.2.4.5.0.1 Central clearing counterparties*

3.4.2.4.6 *Captive financial institutions and money lenders, and financial auxiliaries*

3.4.2.4.6.1 *Short-term*

3.4.2.4.6.2 *Long-term*

*Of which: 3.4.2.4.0.1 SPEs*

3.4.2.5 Nonfinancial corporations

3.4.2.5.1 *Short-term*

3.4.2.5.2 *Long-term*

*Of which: 3.4.2.5.0.1 SPEs*

3.4.2.6 Households and nonprofit institutions serving households

3.4.2.6.1 *Short-term*

3.4.2.6.2 *Long-term*

*Of which: 3.4.2.0.1 Crypto assets with a corresponding liability designed to act as a general medium of exchange that are not issued or authorized by monetary authorities or government (F220/AF220)*

3.4.3 Loans (F40/AF40)

3.4.3.1 Central bank

3.4.3.1.1 *Credit and loans with the IMF (other than reserves)*

3.4.3.1.2 *Other short-term*

3.4.3.1.3 *Other long-term*

3.4.3.1.9 *Monetary authorities (where relevant)*

*3.4.3.1.9.1 Credit and loans with the IMF (other than reserves)*

*3.4.3.1.9.2 Other short-term*

*3.4.3.1.9.3 Other long-term***3.4.3.2 Deposit-taking corporations, except the central bank****3.4.3.2.1 Short-term****3.4.3.2.2 Long-term***Of which: 3.4.3.2.0.1 SPEs***3.4.3.3 General government****3.4.3.3.1 Credit and loans with the IMF (other than reserves)****3.4.3.3.2 Other short-term****3.4.3.3.3 Other long-term****3.4.3.4 Other financial corporations****3.4.3.4.0.1 Short-term****3.4.3.4.0.2 Long-term****3.4.3.4.1 Money market funds (MMFs)***3.4.2.4.1.1 Short-term**3.4.2.4.1.2 Long-term***3.4.3.4.2 Non-MMF investment funds***3.4.3.4.2.1 Short-term**3.4.3.4.2.2 Long-term***3.4.3.4.3 Insurance corporations***3.4.3.4.3.1 Short-term**3.4.3.4.3.2 Long-term***3.4.3.4.4 Pension funds***3.4.3.4.4.1 Short-term**3.4.3.4.4.2 Long-term***3.4.3.4.5 Other financial intermediaries, except insurance corporations and pension funds***3.4.3.4.5.1 Short-term**3.4.3.4.5.2 Long-term*



*Of which: 3.4.3.4.5.0.1 Central clearing counterparties*

*3.4.3.4.6 Captive financial institutions and money lenders, and financial auxiliaries*

*3.4.3.4.6.1 Short-term*

*3.4.3.4.6.2 Long-term*

*Of which: 3.4.3.4.0.1 SPEs*

3.4.3.5 Nonfinancial corporations

3.4.3.5.1 Short-term

3.4.3.5.2 Long-term

*Of which: 3.4.3.5.0.1 SPEs*

3.4.3.6 Households and nonprofit institutions serving households

3.4.3.6.1 Short-term

3.4.3.6.2 Long-term

*Of which: 3.4.3.0.1 Repurchase agreements, securities lending with cash collateral, and margin lending*

3.4.4 Insurance, pension, and standardized guarantee schemes (F6O/AF6O)

3.4.4.1 Central bank

*3.4.4.1.9 Monetary authorities (where relevant)*

3.4.4.2 Deposit-taking corporations, except the central bank

*Of which: 3.4.4.2.1 SPEs*

3.4.4.3 General government

3.4.4.4 Other financial corporations

*3.4.4.4.1 Money market funds (MMFs)*

*3.4.4.4.2 Non-MMF investment funds*

*3.4.4.4.3 Insurance corporations*

*3.4.4.4.4 Pension funds*

*3.4.4.4.5 Other financial intermediaries, except insurance corporations and pension funds*

*Of which: 3.3.4.5.1 Central clearing counterparties*

*3.4.4.4.6 Captive financial institutions and money lenders, and financial auxiliaries*

*Of which: 3.4.4.4.0.1 SPEs*

*3.4.4.4.5 Nonfinancial corporations*

*Of which: 3.4.4.1.1 SPEs*

*3.4.4.4.6 Households and nonprofit institutions serving households*

*3.4.4.0.1 Nonlife insurance technical reserves (F61O/AF61O)*

*3.4.4.0.2 Life insurance and annuity entitlements (F62O/AF62O)*

*3.4.4.0.3 Pension entitlements (F63O/AF63O)*

*3.4.4.0.4 Claims of pension funds on pension sponsors (F64O/AF64O)*

*3.4.4.0.5 Entitlements to nonpension benefits (F65O/AF65O)*

*3.4.4.0.6 Provisions for calls under standardized guarantees (F66O/AF66O)*

*3.4.5 Trade credit and advances (F81O/AF81O)*

*3.4.5.1 Central bank*

*3.4.5.1.1 Short-term*

*3.4.5.1.2 Long-term*

*3.4.5.1.9 Monetary authorities (where relevant)*

*3.4.5.1.9.1 Short-term*

*3.4.5.1.9.2 Long-term*

*3.4.5.2 Deposit-taking corporations*

*3.4.5.2.1 Short-term*

*3.4.5.2.2 Long-term*

*Of which: 3.4.5.2.0.1 SPEs*

3.4.5.3 General government

3.4.5.3.1 Short-term

3.4.5.3.2 Long-term

3.4.5.4 Other financial corporations

3.4.5.4.0.1 Short-term

3.4.5.4.0.2 Long-term

3.4.5.4.1 Money market funds (MMFs)

3.4.5.4.1.1 Short-term

3.4.5.4.1.2 Long-term

3.4.5.4.2 Non-MMF investment funds

3.4.5.4.2.1 Short-term

3.4.5.4.2.2 Long-term

3.4.5.4.3 Insurance corporations

3.4.5.4.3.1 Short-term

3.4.5.4.3.2 Long-term

3.4.5.4.4 Pension funds

3.4.5.4.4.1 Short-term

3.4.5.4.4.2 Long-term

3.4.5.4.5 Other financial intermediaries, except insurance corporations and pension funds

3.4.5.4.5.1 Short-term

3.4.5.4.5.2 Long-term

*Of which: 3.4.5.4.5.0.1 Central clearing counterparties*

3.4.5.4.6 Captive financial institutions and money lenders, and financial auxiliaries

3.4.5.4.6.1 Short-term

3.4.5.4.6.2 Long-term

*Of which: 3.4.5.4.0.1 SPEs*

## 3.4.5.5 Nonfinancial corporations

## 3.4.5.5.1 Short-term

## 3.4.5.5.2 Long-term

*Of which: 3.4.5.5.0.1 SPEs*

## 3.4.5.6 Households and nonprofit institutions serving households

## 3.4.5.6.1 Short-term

## 3.4.5.6.2 Long-term

## 3.4.6 Other accounts receivable/payable

## 3.4.6.1 Central bank

## 3.4.6.1.1 Short-term

## 3.4.6.1.2 Long-term

*3.4.6.1.9 Monetary authorities (where relevant)**3.4.6.1.9.1 Short-term**3.4.6.1.9.2 Long-term*

## 3.4.6.2 Deposit-taking corporations, except the central bank

## 3.4.6.2.1 Short-term

## 3.4.6.2.2 Long-term

*Of which: 3.4.6.2.0.1 SPEs*

## 3.4.6.3 General government

## 3.4.6.3.1 Short-term

## 3.4.6.3.2 Long-term

## 3.4.6.4 Other financial corporations

## 3.4.6.4.0.1 Short-term

## 3.4.6.4.0.2 Long-term

*3.4.6.4.1 Money market funds (MMFs)**3.4.6.4.1.1 Short-term**3.4.6.4.1.2 Long-term*

3.4.6.4.2 *Non-MMF investment funds*3.4.6.4.2.1 *Short-term*3.4.6.4.2.2 *Long-term*3.4.6.4.3 *Insurance corporations*3.4.6.4.3.1 *Short-term*3.4.6.4.3.2 *Long-term*3.4.6.4.4 *Pension funds*3.4.6.4.4.1 *Short-term*3.4.6.4.4.2 *Long-term*3.4.6.4.5 *Other financial intermediaries, except insurance corporations and pension funds*3.4.6.4.5.1 *Short-term*3.4.6.4.5.2 *Long-term*

*Of which: 3.4.6.4.5.0.1 Central clearing counterparties*

3.4.6.4.6 *Captive financial institutions and money lenders, and financial auxiliaries*3.4.6.4.6.1 *Short-term*3.4.6.4.6.2 *Long-term*

*Of which: 3.4.6.4.0.1 SPEs*

3.4.6.5 *Nonfinancial corporations*3.4.6.5.1 *Short-term*3.4.6.5.2 *Long-term*

*Of which: 3.4.6.5.0.1 SPEs*

3.4.6.6 *Households and nonprofit institutions serving households*3.4.6.6.1 *Short-term*3.4.6.6.2 *Long-term*

*Of which: 3.4.6.0.1 Emissions permits (F82/AF82)*

3.4.7 *Special drawing rights (F12/AF12)*

n.a.

3.5 Reserve assets	n.a.
3.5.1 Monetary gold (F11/AF11)	n.a.
3.5.1.1 Gold bullion <sup>6</sup>	n.a.
3.5.1.2 Unallocated gold accounts <sup>6</sup>	n.a.
3.5.2 Special drawing rights (F12/AF12)	n.a.
3.5.3 Reserve position in the IMF	n.a.
3.5.4 Other reserve assets	n.a.
3.5.4.1 Currency and deposits	n.a.
3.5.4.1.1 Claims on monetary authorities	n.a.
3.5.4.1.2 Claims on other entities	n.a.
3.5.4.2 Securities	n.a.
3.5.4.2.1 Debt securities (F3R/AF3R)	n.a.
3.5.4.2.1.1 Short-term (F31R/AF31R)	n.a.
3.5.4.2.1.2 Long-term (F32R/AF32R)	n.a.
3.5.4.2.2 Equity and investment fund shares/units (F5R/AF5R)	n.a.
3.5.4.3 Financial derivatives (F7R/AF7R) <sup>7</sup>	n.a.
3.5.4.4 Other financial claims	n.a.
3 All assets/liabilities	
<i>Of which: (by instrument):</i>	
3.0.1 Equity and investment fund shares/units (F5/AF5)	
3.0.1.1 Equity (F51/AF51)	
3.0.1.2 Investment fund shares/units (F52/AF52)	
3.0.2 Debt instruments	
3.0.2.1 Special drawing rights (F12/AF12)	
3.0.2.2 Currency and deposits (F2/AF2)	
3.0.2.3 Debt securities (F3/AF3)	
3.0.2.4 Loans (F4/AF4)	

3.0.2.5 Insurance, pension, and standardized guarantee schemes (F6/AF6)		
3.0.2.6 Other accounts receivable/payable (F8/AF8)		
3.0.3 Other financial assets and liabilities		
3.0.3.1 Monetary gold (F11/AF11)		n.a.
3.0.3.2 Financial derivatives and ESOs (F7/AF7)		
	Credits/revenues	Debits/expen- ditures
Statistical discrepancy		
Memorandum Items—Exceptional Financing		
EF1. Current and/or capital transfers		
EF1.1 Debt forgiveness		
EF1.2 Other intergovernmental grants		
EF1.3 Grants received from IMF subsidy accounts		
EF2. Direct investment		
EF2.1 Equity investment associated with debt reduction		
EF2.2 Debt instruments		
EF3. Portfolio investment—liabilities <sup>8</sup>		
EF4. Other investment—liabilities <sup>8</sup>		
EF4.1 Drawings on new loans by authorities or by other sectors on behalf of authorities		
EF4.2 Rescheduling of existing debt		
EF5. Arrears <sup>8, 9</sup>		
EF5.1 Accumulation of arrears		
EF5.1.1 Principal on short-term debt		
EF5.1.2 Principal on long-term debt		
EF5.1.3 Original interest		
EF5.1.4 Penalty interest		

## EF5.2 Repayment of arrears

## EF5.2.1 Principal

## EF5.2.2 Interest

## EF5.3 Rescheduling of arrears

## EF5.3.1 Principal

## EF5.3.2 Interest

## EF5.4 Cancellation of arrears

## EF5.4.1 Principal

## EF5.4.2 Interest

Notes: The detailed breakdown of the financial account also applies to the integrated IIP shown in Section B. The code n.a. is used for not applicable, i.e., no entries in this cell.

<sup>1</sup> Further detail in EBOPS, see *MS/TS* Annex I, Extended Balance of Payments Services Classification.

<sup>2</sup> Standard components for those countries that are unable (for example, for reasons of confidentiality) to provide the full breakdown by mode of transport; otherwise, supplementary, but can be derived by summing the standard components for each mode of transport.

<sup>3</sup> Construction abroad—Construction (credits/revenues); Goods and services acquired (debits/expenditures). Construction in the reporting economy—Goods and services acquired (credits/revenues); Construction (debits/expenditures).

<sup>4</sup> If available for publication. If not available for publication, include in other investment-interest.

<sup>5</sup> Preferably assets and liabilities reported separately, but otherwise a net figure for assets less liabilities, included, by convention, under assets.

<sup>6</sup> If available for publication.

<sup>7</sup> Assets and liabilities combined and reported as a net figure for assets less liabilities, included under assets.

<sup>8</sup> Specify sector involved and standard component in which the item is included.

<sup>9</sup> Arrears related to exceptional financing. Not a transaction, but included in the “analytic” presentation (see paragraphs 19.23 and A1.21).

Short-term and long-term are defined on an original maturity basis in the standard components.

Additional items for BOP and integrated IIP:

*Direct Investment:*

*Direct investment by instrument, maturity, and institutional sector for reconciliation with national accounts, monetary and financial statistics, and government finance statistics (see Annex 12)*

*Direct investment in the reporting economy (inward direct investment) and direct investment abroad (outward direct investment) (see Box 6.4)*

*Intercompany lending by type and maturity (see paragraph 6.26)*

*Real estate investment (see paragraph 6.31)*

*Pass-through funds (see paragraphs 6.32–6.33)*



*Inward direct investment by the ultimate investing economy (see paragraphs 6.33 and A6.16–A6.18)*

*Outward direct investment by the ultimate host economy (see paragraphs 6.33 and A6.19–A6.21)*

*Round tripping (see paragraph 6.47)*

*Data by kind of economic activity (industry) and geography (see paragraph 6.51)*

*Data for SPEs (see paragraphs 4.77–4.80)*

*SPEs statistics on a nationality basis (see paragraph 15.51)*

*Data for the money-issuing sector, i.e., the central bank plus other deposit-taking corporations plus other institutions covered in the definition of broad money (e.g., money market funds in some cases; see paragraph 4.131)*

*Financial account items for public corporations (see Table 4.2)*

*Breakdown of financial and nonfinancial corporations by domestic and foreign control (see paragraphs 4.33)*

*Identification of nonprofit institutions within the corporate and government sectors (see paragraph 4.34)*

*Trade-related credit (see paragraph 5.82)*

*Debt instruments by type of interest rate (see paragraph 5.125)*

*Reserve assets held outside the central bank by institutional sector (see paragraph 6.71)*

*Reverse transactions (see paragraph A7.67).*

*“Of which” categories for fintech companies within the subsector classification and for fintech-related financial instruments (see paragraph 16.74)*

*“Of which” categories for ESG and green financial instruments (see Table A10.1)*

*Data by partner economy (see Annex 11)*

Additional items for BOP only:

*Highly mobile individuals (see paragraph 5.272)*

*Detail for investment income to match the IIP, to facilitate rate of return calculations (see paragraphs 7.13, 12.9, and 19.86)*

*Greenfield investment and extension of capacity (see paragraphs 6.54 and A6.43–A6.44)*

*Mergers and acquisitions (see paragraph 8.19)*

*Corporate inversions (see paragraphs 8.20 and A6.24–A6.26)*

*Gross flows for financial account items (see paragraph 8.9)*

*Reconciliation table between merchandise source data and goods on a balance of payments basis (see Table 10.2)*

*Subdivision of nonmonetary gold into gold held as a store of value and other (industrial) gold (see paragraph 10.55)*

*Material inputs acquired abroad via merchanting from third parties by the principal within a global manufacturing arrangement (see paragraph 10.79)*

*Material inputs sold via merchanting by the principal to a contractor abroad within a global manufacturing arrangement (see paragraph 10.79)*

*Digital trade (paragraphs A5.41–A5.50)*

*Trade by currency (paragraphs A5.27)*

*Gross insurance premiums earned and unadjusted insurance claims (see paragraph 11.62)*

*Travel packages (see Box 11.2)*

*Additional data on insurance and pension (paragraph 11.62 and A8.4)*

*“Of which” category for financial services enabled by fintech (see paragraph 11.70)*

*“Of which” category for reduction in equity arising from the disposal or sale of assets, including from liquidating assets (see paragraph 12.40)*

*Reinvested earnings for equity investment under other investment and reserve assets (see paragraph 12.49)*

*Accrued interest on nonperforming debt (see paragraph 12.68)*

*“Of which” category showing negative interest income separately (see paragraph 12.71)*

*Interest on debt securities calculated according to the market rates (see paragraphs 12.75–12.76)*

*Charges for the use of nonproduced nonfinancial assets other than natural capital (see paragraph 12.110)*

*Personal remittances (XD5452PR) (see Box 13.2(a))*

*Total remittances (XD5452TR) (see Box 13.2(b))*

*Total remittances and transfers to nonprofit institutions serving households (see Box 13.2(c))*

*Nonrefundable contributions under citizenship-by-investment type programs (see paragraphs 13.60 and 14.44)*

*Insurance claims included in other capital transfers (see paragraph 14.35)*

*Transfers implied by loans at concessional interest (see paragraphs 14.41 and A2.68–A2.70)*

*Household-to-household capital transfers (see paragraph 14.43)*

*Trade and investment income by enterprise characteristics (see paragraphs 15.47–15.49)*

*International cooperation grants to low-income countries to finance climate mitigation and adaptation (see paragraph A10.16)*

## B. INTEGRATED INTERNATIONAL INVESTMENT POSITION

Integrated international investment position	Beginning -of-period position		Accumulation accounts						End-of period position
		Financial account	Other changes in financial assets and liabilities account						
		Transactions in financial assets and liabilities	Revaluations			Other changes in volume			
			Total	Exchange rate changes	Other price changes	Total	<i>Of which: Cancellations and write-offs of debt</i>	<i>Of which: Reclassifications</i>	
Assets									
Direct investment									
Portfolio investment									
Financial derivatives (other than reserves) and ESOs							n.a.		
Other investment									
Reserve assets									
Liabilities									
Direct investment									
Portfolio investment									
Financial derivatives (other than reserves) and ESOs							n.a.		
Other investment									

Note: This table is expository. The “of which” items for cancellations and write-offs of debt and reclassifications are supplementary items and do not necessarily sum up to total other changes in volume. Other “which items” under other changes in volume could also be shown (e.g., uncompensated asset seizures). The detailed breakdown of the financial account shown in Section A, Balance of Payments, also applies to the integrated IIP as do the relevant additional items and notes listed below that table. The following are further additional items for the IIP:

*Reserve-related liabilities (see Table A14-IV below; includes memorandum and supplementary items)*

*Net international reserves (see Box 6.6)*

*Loans, deposits, and other accounts receivable/payable—measures of impairment (see paragraphs 7.50–7.61):*

*Fair value, nonperforming loans, loan loss (bad debt) provisions, arrears for assets; for each institutional sector and maturity*

*Loans at fair value as a memorandum item, if feasible. Nonperforming loans at nominal value as a supplementary item (or memorandum if fair value of loans is unavailable)*

*Currency composition of assets and liabilities and institutional sector:*

*See Table A14-I (memorandum) and Table A14-II (supplementary) below*

*Foreign currency assets of the monetary authorities:*

*Foreign currency deposits with deposit-taking corporations resident in the reporting economy at the disposal of the monetary authorities that can be readily mobilized to meet demand for foreign exchange (see paragraph 6.70)*

*External assets in the currency of a neighboring economy (see paragraph 6.78)*

*External assets of special purpose government funds not included in reserve assets (see paragraphs 6.98–6.103)*

*Pooled assets included in reserve assets (see paragraphs 6.104–6.106)*

*Pledged assets excluded from reserve assets (see paragraphs 6.114–6.116)*

*Debt securities at nominal values (see Table A14-V below and paragraph 7.32)*

*Remaining maturity split for debt liabilities (see Table A14-III below)*

*Contingent assets/liabilities (see paragraph 5.12)*

*Negative equity positions as “of which” items under equity assets and liabilities (see Box 7.1).*

## C. ADDITIONAL ANALYTICAL POSITION DATA

### 1. CURRENCY COMPOSITION

**Table A14-I. Currency Composition of Assets and Liabilities<sup>1</sup>**

Table A14-I-1a. Debt Claims on Nonresidents								
	Central bank	Deposit- taking corporations, except the central bank	General government	Other financial corporations	Nonfinancial corporations	Households and NPISHs	Inter- company lending <sup>5</sup>	Total
Total <sup>2</sup>								
Domestic currency								
Foreign currency								
U.S. dollar								
Euro								
Chinese renminbi								
Japanese yen								

Pound sterling
Other currencies
Unallocated <sup>3</sup>
<b>Of which one year or less<sup>4</sup></b>
Domestic currency
Foreign currency
U.S. dollar
Euro
Chinese renminbi
Japanese yen
Pound sterling
Other currencies
Unallocated <sup>3</sup>
<b>Reserve assets<sup>6</sup></b>
In SDR basket
Not in SDR basket

**Table A14-I-1b. Financial Derivative Positions with Nonresidents: To Receive Foreign Currency**  
**Foreign Currency Derivatives: Notional Value of Forward-Type Contracts with Nonresidents<sup>7</sup>**

	Central bank	Deposit- taking corporations, except the central bank	General government	Other financial corporations	Nonfinancial corporations	Households and NPISHs	Inter- company lending	Total
To receive foreign currency							n.a.	
U.S. dollar							n.a.	
Euro							n.a.	
Chinese renminbi							n.a.	
Japanese yen							n.a.	
Pound sterling							n.a.	
Other currencies							n.a.	
<sup>1</sup> Table A14-I is a memorandum item. <sup>2</sup> Excluding reserve assets. <sup>3</sup> See paragraph 5.121 on when currency data is shown as unallocated. <sup>4</sup> Original maturity. <sup>5</sup> Data on debt instruments from the direct investment category. Intercompany lending (as defined in paragraph 6.26) may be classified as long-term by convention when the maturity is unknown (see paragraph 5.115). Intercompany lending is excluded from data for the other sectors. <sup>6</sup> Total reserve assets. <sup>7</sup> Only the notional value of forward-type contracts that exchange foreign currency vis-à-vis domestic currency (e.g., foreign exchange forwards, foreign exchange swaps, and currency swaps) should be included. The notional value of nondeliverable forwards should also be included (supplementary information should be reported if it is significant). If the contract exchanges foreign currency with another foreign currency, both foreign currencies should be reported in Tables A14-I-1b and A14-I-2b. The notional value of option-type contracts should be included in Tables A14-II-1b and A14-II-2b.								

Table A14-I-2a. Debt Liabilities to Nonresidents

	Central bank	Deposit- taking corporations, except the central bank	General government	Other financial corporations	Nonfinancial corporations	Households and NPISHs	Inter- company lending <sup>2</sup>	Total
<b>Total</b>								
Domestic currency								
Foreign currency								
U.S. dollar								
Euro								
Chinese renminbi								
Japanese yen								
Pound sterling								
Other currencies								
Unallocated								
<b>Of which one year or less<sup>1</sup></b>								
Domestic currency								
Foreign currency								
U.S. dollar								
Euro								
Chinese renminbi								

Japanese  
yen

Pound  
sterling

Other  
currencies

Unallocated

**Table A14-I-2b. Financial Derivative Positions with Nonresidents: To Pay Foreign Currency  
Foreign Currency Derivatives: Notional Value of Forward-Type Contracts with Nonresidents**

	Central bank	Deposit- taking corporations, except the central bank	General government				Inter- company lending	Total
				Other financial corporations	Nonfinancial corporations	Households and NPISHs		
To pay foreign currency.							n.a.	
U.S. dollar							n.a.	
Euro							n.a.	
Chinese renminbi							n.a.	
Japanese yen							n.a.	
Pound sterling							n.a.	
Other currencies							n.a.	

<sup>1</sup> Original maturity.

<sup>2</sup> Data on debt instruments from the direct investment category. Intercompany lending (as defined in paragraph 6.26) may be classified as long-term by convention when the maturity is unknown (see paragraph 5.115). Intercompany lending is excluded from data for the other sectors.



Table A14-II. Currency Composition by Sector and Instrument<sup>1</sup>

Table A14-II-1a. Debt Claims on Nonresidents				
	Foreign currency	Domestic currency	Unallocated	Total
<b>LONG-TERM</b>				
<b>Central bank<sup>2</sup></b>				
Debt securities				
Currency and deposits				
Loans				
Trade credit and advances				
Other debt claims				
<b>Deposit-taking corporations, except the central bank</b>				
Debt securities				
Currency and deposits				
Loans				
Trade credit and advances				
Other debt claims				
<b>General government</b>				
Debt securities				
Currency and deposits				
Loans				
Trade credit and advances				
Other debt claims				

<b>Other financial corporations</b>				
Debt securities				
Currency and deposits				
Loans				
Trade credit and advances				
Other debt claims				
<b>Nonfinancial corporations</b>				
Debt securities				
Currency and deposits				
Loans				
Trade credit and advances				
Other debt claims				
<b>Households and NPISHs</b>				
Debt securities				
Currency and deposits				
Loans				
Trade credit and advances				
Other debt claims				
<b>SHORT-TERM</b>				
<b>Central bank<sup>2</sup></b>				
Debt securities				

Currency and deposits				
Loans				
Trade credit and advances				
Other debt claims				
<b>Deposit-taking corporations, except the central bank</b>				
Debt securities				
Currency and deposits				
Loans				
Trade credit and advances				
Other debt claims				
<b>General government</b>				
Debt securities				
Currency and deposits				
Loans				
Trade credit and advances				
Other debt claims				
<b>Other financial corporations</b>				
Debt securities				
Currency and deposits				
Loans				
Trade credit and advances				
Other debt claims				

<b>Nonfinancial corporations</b>				
Debt securities				
Currency and deposits				
Loans				
Trade credit and advances				
Other debt claims				
<b>Households and NPISHs</b>				
Debt securities				
Currency and deposits				
Loans				
Trade credit and advances				
Other debt claims				
<b>DIRECT INVESTMENT<sup>3</sup></b>				
<b>Intercompany lending</b>				
Debt claims on direct investors				
Debt claims on direct investment enterprises				
Debt claims on fellow enterprises				
<b>TOTAL</b>				
<sup>1</sup> Table A14-II is supplementary.				

<sup>2</sup> Excluding reserve assets.

<sup>3</sup> There is no original maturity breakdown for intercompany lending (as defined in paragraph 6.26) in this table. Intercompany lending is excluded from data for the other sectors.

<b>Table A14-II-1b. Financial Derivative Positions with Nonresidents: To Receive Foreign Currency</b> <b>Financial Derivatives: Notional Value of Foreign Currency and Foreign-Currency-Linked Contracts with Nonresidents</b>	
<b>To Receive Foreign Currency</b>	
<b>Central bank</b>	
	Forward-type contracts
	Option-type contracts
<b>Deposit-taking corporations, except the central bank</b>	
	Forward-type contracts
	Option-type contracts
<b>General government</b>	
	Forward-type contracts
	Option-type contracts
<b>Other financial corporations</b>	
	Forward-type contracts
	Option-type contracts
<b>Nonfinancial corporations</b>	
	Forward-type contracts
	Option-type contracts

<b>Households and NPISHs</b>
Forward-type contracts
Option-type contracts
<b>Total</b>
Forward-type contracts
Option-type contracts

Table A14-II-2a. Debt Liabilities to Nonresidents

	Foreign currency	Domestic currency	Unallocated	Total
<b>LONG-TERM</b>				
<b>Central bank</b>				
Debt securities				
Currency and deposits				
Loans				
Trade credit and advances				
Other debt liabilities				
<b>Deposit-taking corporations, except the central bank</b>				
Debt securities				
Currency and deposits				
Loans				
Trade credit and advances				
Other debt liabilities				

**General government**

Debt securities

Currency and deposits

Loans

Trade credit and advances

Other debt liabilities

**Other financial corporations**

Bond and notes

Currency and deposits

Loans

Trade credit and advances

Other debt liabilities

**Nonfinancial corporations**

Bond and notes

Currency and deposits

Loans

Trade credit and advances

Other debt liabilities

**Households and NPISHs**

Bond and notes

Currency and deposits

Loans

Trade credit and advances

Other debt liabilities

**SHORT-TERM****Central bank**

Debt securities

Currency and deposits

Loans

Trade credit and advances

Other debt liabilities

**Deposit-taking corporations, except the  
central bank**

Debt securities

Currency and deposits

Loans

Trade credit and advances

Other debt liabilities

**General government**

Debt securities

Currency and deposits

Loans

Trade credit and advances

Other debt liabilities

**Other financial corporations**

Debt securities

Currency and deposits

Loans

Trade credit and advances



Other debt liabilities

### **Nonfinancial corporations**

Debt securities

Currency and deposits

Loans

Trade credit and advances

Other debt liabilities

### **Households and NPISHs**

Debt securities

Currency and deposits

Loans

Trade credit and advances

Other debt liabilities

### **DIRECT INVESTMENT<sup>1</sup>**

#### **Intercompany lending**

Debt liabilities to direct investors

Debt liabilities to direct investment enterprises

Debt liabilities to fellow enterprises

### **TOTAL**

<sup>1</sup> There is no original maturity breakdown for intercompany lending (as defined in paragraph 6.26) in this table. Intercompany lending is excluded from data for the other sectors.

<b>Table A14-II-2b. Financial Derivative Positions with Nonresidents: To Pay Foreign Currency</b> <b>Financial Derivatives: Notional Value of Foreign-Currency and Foreign Currency-Linked Contracts with Nonresidents</b>	
To pay foreign currency	
<b>Central bank</b>	
Forward-type contracts	
Option-type contracts	
<b>Deposit-taking corporations, except the central bank</b>	
Forward-type contracts	
Option-type contracts	
<b>General government</b>	
Forward-type contracts	
Option-type contracts	
<b>Other financial corporations</b>	
Forward-type contracts	
Option-type contracts	
<b>Nonfinancial corporations</b>	
Forward-type contracts	
Option-type contracts	
<b>Households and NPISHs</b>	
Forward-type contracts	
Option-type contracts	

<b>Total</b>
<b>Forward-type contracts</b>
<b>Option-type contracts</b>

## 2. REMAINING MATURITY

<b>Table A14-III. Remaining Maturity of Debt Liabilities to Nonresidents<sup>1</sup></b> <b>Specific Financial Instruments: Remaining Maturity of One Year or Less of Long-Term Debt Instruments by Sector</b>						
	Central bank	Deposit- taking corporations, except the central bank	General government	Other financial corporations	Nonfinancial corporations	Households and NPISHs
Debt securities						
Currency and deposits						
Loans						
Trade credit and advances						
Other debt liabilities						
Total						
<sup>1</sup> Table A14-III is supplementary. See paragraph 5.115 for the definition of remaining maturity. Intercompany lending is excluded from the table.						

## 3. RESERVE-RELATED LIABILITIES

Table A14-IV. Reserve-Related Liabilities	
Reserve-Related Liabilities	
<b>Memorandum Items</b>	
Reserve-related liabilities (RRL) to nonresidents <sup>1</sup>	
2.2. Short-term	
2.2.1. Credit and loans from the IMF	
2.2.2. Debt securities	
2.2.3. Deposits	
2.2.4. Loans	
2.2.4.1. Repo loans <sup>2</sup>	
2.2.4.2. Other loans	
2.2.5. Other short-term foreign currency liabilities to nonresidents	
<b>Supplementary Items<sup>3</sup></b>	
1. Reserve assets (Section I.A of <i>Reserve Template</i> )	
2. Reserve-related liabilities (RRL) to nonresidents <sup>4</sup>	
2.1. Long-term	
2.1.1. Credit and loans from the IMF	
2.1.2. Debt securities	
2.1.3. Deposits	
2.1.4. Loans	
2.1.4.1. Repo loans <sup>5</sup>	
2.1.4.2. Other loans	
2.1.5. Other foreign currency liabilities to nonresidents	
2.1.5.1. SDR allocation	
2.1.5.2. Other long-term foreign currency liabilities	
2.2. Short-term	
2.2.1. Credit and loans from the IMF	

- 2.2.2. Debt securities
- 2.2.3. Deposits
- 2.2.4. Loans
  - 2.2.4.1. Repo loans<sup>5</sup>
  - 2.2.4.2. Other loans
- 2.2.5. Other foreign currency liabilities to nonresidents
  - 2.2.5.2. Other short-term foreign currency liabilities
- 3. Reserve assets (1.) less short-term RRL to nonresidents (2.2.)
- 4. Other foreign currency assets<sup>6</sup>
  - 4.1. Long-term
    - 4.2.1. Debt securities
    - 4.2.2. Deposits
    - 4.2.3. Loans
      - 4.2.3.1 Repo loans
      - 4.2.3.2. Other loans
    - 4.2.4. Other foreign currency assets
  - 4.2. Short-term
    - 4.2.1. Debt securities
    - 4.2.2. Deposits
    - 4.2.3. Loans
      - 4.2.3.1. Repo loans
      - 4.2.3.2. Other loans
    - 4.2.4. Other foreign currency assets<sup>7</sup>
- 5. Other foreign currency liabilities
  - 5.2.1. Long-term
    - 5.2.1.1. Debt securities
    - 5.2.1.2. Deposits
    - 5.2.1.3. Loans
      - 5.2.1.3.1. Repo loans

5.2.1.3.2. Other loans

5.2.1.4. Other foreign currency liabilities

5.2.2. Short-term

5.2.2.1. Debt securities

5.2.2.2. Deposits

5.2.2.3. Loans

5.2.2.3.1. Repo loans

5.2.2.3.2. Other loans

5.2.2.4. Other foreign currency liabilities

6. Foreign currency resources: 1 + 4

7. Foreign currency liabilities: 2 + 5

8. Net foreign currency resources: 6 – 7

<sup>1</sup> Data for RRL are to be presented on a remaining maturity basis.

<sup>2</sup> The inclusion of a repo loan within RRL depends on the treatment of repo transactions within reserves. If the security stays in reserve assets (only if the security is still readily available for balance of payments financing needs without repaying the cash), the repo loan is recorded as a liability within RRL. Otherwise, the repo loan is excluded from RRL.

<sup>3</sup> For comprehensiveness, this listing of supplementary items incorporates the memorandum items for short-term liabilities (2.2). See paragraph 6.122 for further information.

<sup>4</sup> Data for RRL, other foreign currency assets and liabilities are to be presented on a remaining maturity basis.

<sup>5</sup> The inclusion of a repo loan within RRL depends on the treatment of repo transactions within reserves. If the security stays in reserve assets (only if the security is still readily available for balance of payments financing needs without repaying the cash), the repo loan is recorded as a liability within RRL. If the security is reclassified to portfolio investment, the asset and the repo loan liability are included under other foreign currency asset and other foreign currency liabilities respectively.

<sup>6</sup> Other foreign currency assets and liabilities includes claims and liabilities of the monetary authorities and central government to both residents and nonresidents, other than those covered in reserve assets and RRL to nonresidents. This approach for other foreign currency assets and liabilities is consistent with the approach in Sections 1.B and 2 of the Reserves Template. To support reconciliation with government finance statistics, a subsector split between central government and the central bank could be included.

<sup>7</sup> This item would include any net financial derivative positions of the central government and of the monetary authorities not included in reserve assets nor RRL.

#### 4. DEBT SECURITIES: RECONCILIATION OF NOMINAL AND MARKET VALUE OF LIABILITIES

Table A14-V. Reconciliation of Nominal and Market Value of Debt Securities Liabilities <sup>1</sup>			
	Nominal value position at end of period	Difference with market value	Market value position at end of period
<b>Central bank</b>			
Short-term			
Long-term			
<b>Deposit-taking corporations, except the central bank</b>			
Short-term			
Long-term			
<b>General government</b>			
Short-term			
Long-term			
<b>Other financial corporations</b>			
Short-term			
Long-term			
<b>Nonfinancial corporations</b>			
Short-term			
Long-term			
<b>Households and NPISHs</b>			
Short-term			
Long-term			

**Intercompany lending<sup>2</sup>**

Short-term

Long-term

**Total**

Short-term

Long-term

<sup>1</sup> Table A14-V is supplementary and based on data on an original maturity basis.

<sup>2</sup> Intercompany lending (as described in paragraphs 6.26) may be classified as long-term by convention when the maturity is unknown (see paragraph 5.115). Intercompany lending is excluded from data for the other sectors.



## Annex 15. Research Agenda

A common research agenda was developed for the 2025 SNA and BPM7. Most of the issues are relevant to both standards, while some issues are only relevant to the 2025 SNA or BPM7.

### A. INTRODUCTION

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**A15.1** The external accounts are designed to give a realistic and compact view of the economy that is suitable for policy and analytical use. As the economy changes and policy and analytical needs evolve, the *Manual* must be reviewed to see if it is still relevant for these purposes. Examples of changes in economic conditions that trigger a reassessment of the adequacy of the external accounting framework are the rapid advances in digital technologies and global production arrangements, changes in financial markets, and the continuous need for new data to examine external sector sustainability.

**A15.2** It is unusual for economic perspectives to change quickly and dramatically as was the case with the global financial crisis that occurred in 2007-08. However, there are always some emerging features that may cause the external accounts community to reassess their current methodology. One example is the developments related to crypto assets, particularly the classification of crypto assets and related transactions. Developments relating to crypto assets without a corresponding liability designed to act as a medium of exchange will be monitored, and the recommendation to classify them as nonproduced nonfinancial assets will be reviewed if there are significant market, regulatory, and/or accounting changes that may justify updated guidance.

**A15.3** It is not possible to expect to capture all the issues that will arise even in the near future. The objective of this annex is to list those that have emerged in the course of the present update but where more extensive consideration is needed than was possible in the course of the update. Some may result not in changes to the *Manual* but simply greater clarification of some points. This list will be kept on the IMF's website and updated as new items emerge and those recommendations on existing items are agreed.

**A15.4** Priorities for resolving research issues will be guided by three key questions:

- a. How urgent and important is the topic to ensure that external accounts data continue to be relevant to the users?

- b. How widespread are the consequences of change and how complicated will implementation be?
- c. Is the topic completely new or has much of the preparation for considering the item been completed?

**A15.5** The process of selecting items for investigation is one that will involve widespread consultation and involvement of both compilers and users in the review process.

**A15.6** All updates of the *Manual*, including the 2025 update, have shown that it is very difficult to update only parts of the system because of the integrated nature of the accounting rules. The list of issues that follows is grouped broadly by subject area, but it should be recognized at the outset that each is likely to have consequences beyond the subject heading.

**A15.7** The topics identified to date have been grouped into five broad headings. These are:

- a. Basic accounting rules;
- b. The concept of income;
- c. Issues concerning financial instruments;
- d. Issues involving nonfinancial assets; and
- e. Emerging issues.

Each of these is the subject of one of the following sections.

## B. BASIC ACCOUNTING RULES

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### 1. VALUATION OF IMPORTS AND EXPORTS OF GOODS

**A15.8** Imports and exports of goods remain to be recorded in the *SNA* and *BPM* on a free on board (FOB) basis where goods are valued at the exporter's border—that is, including the cost of insurance and freight incurred up to the point of the goods leaving the economy of the exporter. Since this recording is not fully reconciled with the principle of valuing output at basic prices used for domestic transactions in the *SNA*, the 2025 *SNA* and *BPM7* recognize that, in principle, imports and exports should in future be valued using invoice values. Further research on the feasibility of implementing this principle is required.

## 2. ACCOUNTING FOR THE ECONOMIC ACTIVITIES OF NONRESIDENT UNITS MAKING USE OF QUOTA ESTABLISHED FOR FISHING IN A COUNTRY'S EXCLUSIVE ECONOMIC ZONE (EEZ)

**A15.9** Concerns about the recording of fishing rights of a nonresident operator in a country's Exclusive Economic Zone (EEZ) were raised in relation to the accounting for depletion in such cases. Even though the issue is not new in the *SNA*, the accounting for depletion as a cost of production highlights additional complications, amongst others for the recording in the BOP, where transactions in the capital account are restricted to capital transfers and acquisitions, less disposals, of nonproduced nonfinancial assets. While recording all these various transactions can be envisaged conceptually following standard *SNA* and *BPM* principles, there are likely many practical compilation issues to consider, if only because it may require the international exchange of data on the economic activities of the nonresident operators (unless the national statistical office would be able to collect data from the nonresident operator directly).

**A15.10** Alternative conceptual framings to describe the economic ownership of the fishery by a nonresident could be envisaged and a complete working through of the wider implications for any approach on balancing items, macroeconomic aggregates and related matters needs further investigation in the *SNA*, *BPM*, and *SEEA* context.

## 3. PENSION FUNDS AS POLICYHOLDERS OF LIFE INSURANCE POLICIES

**A15.11** In the current guidance, the policyholder of a life insurance policy is always an individual. However, it is argued that pension funds can also buy life insurance policies (other than group life schemes) for its members; they buy annuities from life insurance companies on behalf of the fund. In such cases, the pension funds could have claims on the technical reserves of life insurers, including related investment income.

**A15.12** It is not clear whether the pension fund is simply behaving on behalf of its policyholders, or if the pension fund's role is more than intermediation. This could also apply to other institutional investors. The resolution of this issue and its impact on the current guidance needs further investigation.

## 4. SECONDARY MARKETS FOR INSURANCE POLICIES AND LIFE SETTLEMENTS

**A15.13** Some insurance policyholders sell their existing insurance policies to third parties. The sale of an existing insurance policy to a third party for a one-time cash payment is called a life settlement. The payment is more than the surrender value but less than the benefit at the time of death. Typically, existing life insurance policies, such as whole life

insurance, variable life insurance and universal life insurance, are sold, but in some instances, existing term insurance policies can be sold as well. Life settlements essentially create a secondary market for life insurance policies. Also, by selling it, the insured person transfers every aspect of the life insurance policy to the new owner. This means the investor who takes over the policy inherits and becomes responsible for everything related to the policy, including the receipts of premiums along with the payments of benefits.

**A15.14** More research is needed on how to record the transactions and positions between the sellers of existing insurance policies and the third-party buyers of these policies. Additionally, guidance on how to sectorize these third-party buyers and how to calculate their output should be provided. This issue should be coordinated with the research on Issue 3 (pension funds as policy holders of life insurance policies).

## 5. THE TREATMENT OF CROSS-BORDER SOCIAL TRANSFERS IN KIND

**A15.15** In the *SNA* and *BPM*, social transfers in kind only take place between government units, NPISHs, and households. Paragraph 11.34 of *BPM7* says: “In addition, goods and services provided free to nonresidents by government and NPISHs of the economy they are visiting, known as social transfers in kind (e.g., free health services received by a foreign tourist from a hospital within general government) should be imputed and recorded under travel.” Paragraph 9.153 of the 2025 *SNA* explains that it is assumed that the amounts of social transfers in kind payable to the rest of the world are probably negligible and, in any case, can be assumed to be offset by similar benefits receivable from the rest of the world. In some cases, these assumptions may be inappropriate and an explicit way of recording these could be elaborated. Such an elaboration would have to consider the consequences of having a difference between total final consumption expenditure and total actual consumption. It could also result in two concepts of imports and exports (i.e., excluding and including social transfers in kind).

## 6. CALCULATION OF IMPLICIT FINANCIAL SERVICES ON LOANS AND DEPOSITS

**A15.16** The following topics on the recording of implicit financial services on loans and deposits require further investigation:

- a. Further develop the conceptual arguments to either include or exclude credit default risk (CDR) in the calculation of implicit financial services on loans and deposits and in the case of excluding CDR to develop methods and data that could support a possible exclusion of CDR in the future;
- b. Consider possible hybrid approaches to price and volume measurement;

- c. Further develop the ‘costs of funds’ approach to determine the reference rate, and further develop possible alternative approaches (vintage reference rate); and
- d. Consider the financial instruments and units scope of the implicit financial services on loans and deposits.

**A15.17** The recording of implicit financial services on loans and deposits, which are implicitly consumed by investment funds, but treated as being consumed by the holders of investment fund shares/units, may also need to be given further consideration.

## 7. STATISTICAL UNITS

**A15.18** The rapidly changing nature of production and in particular the ways in which enterprises produce goods and services cast a spotlight on the *SNA*’s preference to use the establishment as the preferred unit for compiling statistics on the production of goods and services, and in particular supply and use tables. There is a need for investigating this issue, to take stock of the current *SNA/BPM* recommendations on statistical units (including institutional units); and to reflect on whether the recommendations on statistical units need to be adjusted in the future. A clear view of what needs to be measured in the economy needs to be established in order to identify ways to improve the definitions, if necessary, thereby taking into consideration current country practices, regional accounts as well as productivity measurement.

## 8. THE INCLUSION OF INTERNATIONAL ORGANIZATIONS

**A15.19** In the *SNA* and *BPM*, international organizations are treated as units that are resident in an economic territory of their own, and not of the economy in which they are physically located (2025 *SNA* paragraphs 5.239–5.243 and *BPM7* paragraphs 4.184–4.188). It would in principle be possible to treat international organizations as a standard subset of the rest of the world sector and indeed to compile a full set of accounts for them.

**A15.20** International organizations, such as the IMF, the World Bank, and the United Nations, are public corporations (and, by implication, institutional units) which are, as a rule, nonresidents vis-à-vis countries, residing, as these institutions do, in the “international economic territory.” Like other corporations, they use inputs to produce services, which may have a directly measured component (a fee) and an indirectly measured one. They are jointly owned by the governments of their member countries under cooperative arrangements, such as the Charter of the United Nations, or the IMF Articles of Agreement. The characterization and compilation of their output, and the use of that output by their member countries, and the recording of the remuneration of the employees of these organizations require elaboration under the current *SNA/BPM* guidelines. In further

investigation, the cost-of-funds approach and valuation using the sum of costs method should be considered.

## 9. DISTORTED TRANSFER PRICING

**A15.21** The treatment of distorted transfer pricing—which can occur between affiliated enterprises (including fellow enterprises) when observed exchange values do not represent at arm’s length market prices—needs further investigation, including on how to account for sharing of intellectual property products (IPPs) and the practical aspects of making adjustments.

# C. THE CONCEPT OF INCOME

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## 1. CLARIFICATION OF THE INCOME CONCEPT

**A15.22** As discussed in paragraph 9.25 of the 2025 SNA, the concept of income in the SNA and BPM differs from the one generally understood in economics and business accounting. In particular, holding gains and losses are not considered part of income in the SNA and BPM. A thorough review of the concept of income in the SNA and BPM, including the implications for all income flows, would be beneficial.

## 2. REINVESTED EARNINGS

**A15.23** Reinvested earnings are recorded for direct investment equity in the integrated framework of the SNA/BPM, but only as supplementary items for other equity investments. Further investigation is required to test the practical feasibility of extending the treatment of reinvested earnings in the integrated framework of the SNA/BPM to all investments in equity, including portfolio investment equity and domestic equity relationships. It could also be investigated whether certain provisions can be excluded from reinvested earnings, such as mandatory, systemic provisions that are part of the core business, as is the case for banks.

## 3. TREATMENT OF RENT

**A15.24** The 2025 SNA and BPM7 broadened the definition of rent to cover all revenues and expenditures related to putting nonproduced nonfinancial assets (regardless of their life span) at the disposal of another institutional unit for use in production. This also includes revenues and expenditures related to obtaining observable phenomena. However, the current location of the recording of rent is still under discussion. Various options for recording the revenues and expenditures related to rent in the sequence of economic

accounts are still under investigation (i.e., allocation to the earned income account, generation of earned income account, or production account).

## D. ISSUES CONCERNING FINANCIAL INSTRUMENTS

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### 1. TRANSACTOR VS CREDITOR/DEBTOR APPROACH

**A15.25** The application of the transactor vs debtor-creditor approach to identifying the counterpart to transactions has been raised in the context of consistency between the *SNA* and *BPM*. The clarification of this issue has become particularly important in the context of from-whom-to-whom matrices, which have emerged as a key analytical element in macroeconomic analysis. While the 2025 *SNA* and *BPM7* continue to use the transactor approach as the fundamental principle in macroeconomic statistics, more research needs to be conducted to explore the options and to arrive at guidance that balances consistency, conceptual, and practical considerations for the application of the transactor versus the debtor-creditor approach.

### 2. LOYALTY PROGRAMS AND GIFT CARDS

**A15.26** Loyalty programs, sponsored by various businesses, offer rewards, discounts, and other special incentives as a way to attract and retain customers. They are designed to encourage repeat business, offering people a reward (in the form of miles or points) for store/brand loyalty (hence the name). Many businesses also sell gift cards, not only to encourage and build customer loyalty, but also to further market a brand to new potential clients. The growing variety and spread of loyalty programs and the growing size and variety of the gift card industry suggest there is a need to comprehensively assess how to classify them and record the corresponding flows and positions in macroeconomic statistics. Besides, many loyalty programs, especially frequent flyer and hotel reward programs, have a mixture of resident and nonresident members. Thus, there is a need to assess the cross-border implications of transactions in these rewards on macroeconomic statistics.

### 3. TREATMENT OF SECURITIES LENDING, GOLD LOANS, CRYPTO LENDING, AND SIMILAR TRANSACTIONS AS WELL AS THEIR RELATED REVENUES

**A15.27** To achieve a conceptually sound and practically feasible treatment, the recording of securities lending, gold loans, crypto lending, and similar transactions (including transactions in precious metals in general), as well as the related revenues, require further investigation. The research on this issue may also cover the recording of lent/borrowed assets in the balance sheets of institutional units involved depending on the agreed treatment of the related revenues and the classification of these units. Additionally, it may

also cover the treatment of onselling repoed/borrowed securities and gold, lent/borrowed crypto assets, etc., and the potential recording of negative asset positions of securities, gold, crypto assets without a corresponding liability designed to act as a medium of exchange (i.e., nonfinancial assets), etc. on the balance sheets. The treatment of cash collateral and other types of collateral and the recording of revenues from securities lending and gold loans should also be included in the research agenda to enable a holistic discussion on this type of revenue.

#### 4. VALUATION OF UNLISTED EQUITY

**A15.28** Valuation based on own funds at book value (OFBV) may result in an underestimation, because the value of some intangible assets, such as brands and customer lists, may either not be recognized in business accounting standards or be valued at historic cost. Moreover, divergent national business accounting practices may lead to significant bilateral asymmetries. In addition, real estate may be undervalued if conservative appraisal methods are recommended by business accounting standards. In addition, the treatment of provisions under the OFBV method needs more research, as the OFBV method values unlisted equity based on its value in the financial statements of the enterprise, which could be affected by the recognition of provisions. The development of an enhanced OFBV method that improves the valuation of intangible assets and of real estate would better align the valuation of unlisted equity with market values.

#### 5. RECORDING OF UNALLOCATED GOLD ACCOUNTS

**A15.29** Paragraph 12.65 of the 2025 SNA states that unallocated gold accounts should be classified as deposits on the liability side, while paragraph 12.45 says that unallocated gold accounts with nonresidents should be classified as monetary gold under reserve assets if they are under the control of the monetary authorities and meet the other criteria for reserve assets. A similar treatment is described in *BPM7*. An argument for treating such unallocated gold accounts held by monetary authorities as monetary gold is that they give title to claim delivery of gold and therefore would be similar to gold bullion in practice. Conversely, as mentioned in paragraph 6.84 of *BPM7*, accounts held by the monetary authorities that are only linked to the price of gold are classified as deposits. It should be noted that there is also an asymmetry for gold bullion held as reserve assets, which is only recorded as financial assets but not as liabilities, reflecting the fact that monetary gold is a special category.

**A15.30** The result of the inconsistent treatment of unallocated gold accounts means that the instrument classification of unallocated gold accounts as an asset depends on its functional classification. Further investigation is required to test the feasibility of always classifying unallocated gold accounts as deposits and also as reserve assets if held by monetary authorities, but without affecting their instrument classification as deposits.



## 6. NEGATIVE EQUITY POSITIONS

**A15.31** The 2025 SNA and BPM7 provide conceptual guidance on the treatment of negative equity positions by allowing for the recording of negative equity positions as the default option and only change negative positions to zero in specific cases where liability is strictly limited. Further investigation is required to obtain empirical evidence on both domestic and cross-border equity relationships beyond direct investment to determine the appropriate treatment.

## 7. DIRECT INVESTMENT STATISTICS BASED ON CONTROL (INSTEAD OF BOTH CONTROL AND INFLUENCE)

**A15.32** Further research is necessary to develop a set of direct investment statistics based on control relationships, rather than on both control and influence relationships. Such statistics would help with analysis of the role of direct investment in globalization given the more general emphasis put on control in the 2025 SNA and BPM7 (e.g., the recommendation to increase the granularity of the institutional sector accounts and external accounts by identifying foreign-controlled nonfinancial and financial corporations). Such statistics could also help with the reconciliation of direct investment statistics with activities of multinational enterprise (AMNE) statistics and foreign affiliates statistics (FATS).

## 8. PASS-THROUGH FUNDS

**A15.33** While the adoption of an internationally agreed definition and typology of SPEs assist compilers in their identification and promote cross-country comparability, it is important to monitor the evolution of these units given the changing nature of financing patterns of multinational enterprises (MNEs) and to update the definition and typology of SPEs if needed.

**A15.34** In addition to SPEs, MNEs also invest via their operational subsidiaries abroad. BPM7 and the fifth edition of the *OECD Benchmark Definition of Foreign Direct Investment* propose a method to identify funds passing through the enterprise from its other business based on the residency of the ultimate controlling parent (UCP). However, more research is needed. This research could focus on a few areas. First, the development of a decision tree to identify “near-SPEs”, which are entities that do not meet the definition of SPEs but that display SPE-like behaviour, such as serving as financial intermediators within the MNE group, would help compilers identify additional entities involved in pass-through activities. A second focus should be on methods to remove the “inflation” in direct investment statistics caused by pass-through funds. This includes the interpretation of the breakdown of outward positions by residency of the UCP.

**A15.35** Another possibility would be the development of the “ultimate directional principle” (UDP), which would net out all pass-through funding and enable the presentation of direct investment statistics on an ultimate counterparty basis. The calculation of direct investment according to the UDP begins by determining the direction of control/influence (inward or outward) in the direct investment relationship, but this direction is determined based on the residency of the ultimate controlling parent of the immediate direct investor rather than on the residency of the immediate direct investor. It also applies to all direct investment relationships and not just to fellow enterprises.

## 9. REAL ESTATE INVESTMENT FUNDS

**A15.36** Investment funds that own and rent out dwellings and/or commercial property are considered providers of rental and other types of real estate services in the SNA and BPM, rather than providing financial services. As providers of nonfinancial services, they are classified in the nonfinancial corporations sector, and not as financial corporations (i.e., non-MMF investment funds). On the other hand, investment funds that primarily invest in debt and equity instruments in companies that own and rent out dwellings and/or commercial property would qualify as non-MMF investment funds. This also holds for investment funds that directly invest in real estate in other economies, in which case the investments are recorded as investments in equity of notional nonresident units. This guidance regarding the classification has been questioned, and may need further consideration of all pros and cons of different ways of classifying this investment funds.

## 10. CORPORATE RESTRUCTURING

**A15.37** The 2025 SNA and BPM7 provide guidance on the statistical treatment of mergers and acquisitions, corporate inversions, migrations, and other types of corporate restructurings. However, additional guidance could be added to clarify the criteria for recording transactions or other changes in volume for assets and liabilities appearing and disappearing in such corporate restructurings, including harmonization of wording (also with the BD5) to ensure consistency across the macroeconomic statistical standards.

## 11. ULTIMATE HOST ECONOMY (BPM ONLY)

**A15.38** While BPM7 and the BD5 further developed the concept and methods to compile outward direct investment position statistics by the ultimate host economy (UHE), it is recognized that more research is needed. Therefore, these manuals encourage compilers to explore the different concepts of UHE, the different methods for reallocating positions from the immediate to ultimate host economies, and the different populations to be covered (e.g., all direct investors, only resident direct investors that are ultimate controlling parents, or excluding special purpose entities (SPEs)). Experience gained through this process could

inform future guidance on the compilation of outward direct investment position statistics by UHE.

## E. ISSUES INVOLVING NONFINANCIAL ASSETS

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### 1. MARKETING ASSETS

**A15.39** While developing the 2025 SNA and BPM7, it was agreed that marketing assets should in principle be recognized as produced assets, thus significantly extending the asset (and production) boundary of the integrated framework of the SNA. This recommendation was not endorsed by the 55<sup>th</sup> session of the United Nations Statistical Commission in 2024 which requested that further research should be carried out on measuring marketing assets before this recommendation can be incorporated in the standards.

### 2. RECORDING OF FLOWS INVOLVING THE HARVEST OF BIOLOGICAL RESOURCES BY UNITS OTHER THAN THE ECONOMIC OWNER OR WHERE THERE IS NO ECONOMIC OWNERSHIP

**A15.40** The issue of recording flows involving the harvest of biological resources by units other than the economic owner or where there is no economic ownership has been raised in the context of the treatment of household collection of firewood, household production of energy, and the recording of depletion for illegal fishing.

**A15.41** The underlying feature is that the economic unit undertaking the extraction of the resources (timber or fish are good examples, but it may apply more broadly to, for example, hunting, nonwood forest products, etc.) is different from the economic owner of the resource and/or there is no economic ownership of the resource.

**A15.42** There are a range of challenges that require further investigation to arrive at a full reconciliation between the entries in the production account, other current and accumulation accounts, and the balance sheets, in such a way that where there are future economic benefits accruing to the economic unit harvesting the resources (reflected in measures of output and use), changes in the balance sheets of the resources also need to be considered.

## F. EMERGING ISSUES

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### 1. EMISSIONS PERMITS

**A15.43** Further guidance is required on the treatment of emissions permits issued freely by governments, multi-country emissions permit schemes, and the typology of emissions permits. The guidance needs to balance additional flexibility for economies that have much more developed emissions trading schemes and limiting inconsistencies brought about by allowing different treatments which would introduce, among other issues, implications for the comparability of government debt. More importantly, the recording of emissions permits also needs to be reconsidered as emissions trading schemes evolve over time, including in new ways that further impact the proposed treatment emissions permits.

### 2. CLIMATE OFFSETS

**A15.44** There is currently no guidance on the treatment of climate offsets, despite being used significantly and issued by government and private sector. The treatment of these climate offsets requires further investigation.

### 3. CLASSIFICATION OF CRYPTO ASSETS WITHOUT A CORRESPONDING LIABILITY DESIGNED TO ACT AS A MEDIUM OF EXCHANGE

**A15.45** The national accounts and external accounts communities agreed to monitor developments relating to crypto assets without a corresponding liability designed to act as a medium of exchange, and to review the recommendation to classify them as nonproduced nonfinancial assets in case there are significant market, regulatory, and/or accounting changes that may justify updated guidance. The classification of crypto assets with a corresponding liability (e.g., ‘stablecoins’) could also be reviewed.

### 4. SUSTAINABILITY-RELATED DATA

**A15.46** Environment, Social, and Governance (ESG) and green financial instruments are reported separately as “of which” lines/supplementary items in the financial accounts and balance sheets in the *SNA* and *BPM*. Considering that the analysis continues to evolve, there may be scope to further develop the sustainability- and climate-related indicators and to add granularity. For example, the classification of ESG and green financial instruments should be monitored, and an internationally agreed classification of low-carbon technology products could be developed to analyse trends in global trade in these products, which is key for technology diffusion.

**A15.47** Work on various environmental related classifications, such as environmental taxes and environmental subsidies and a functional classification of environmental-purposed produced assets, are being undertaken in the context of the forthcoming update of *SEEA* and the G20 Data Gaps Initiative. The relevance of these classifications for a more granular presentation in the *SNA* needs to be investigated.

## 5. TREATMENT OF RADIO SPECTRA

**A15.48** There is an apparent inconsistency between the treatment of the radio spectra as outlined in paragraphs 27.51–27.54 of the *2025 SNA* and the general principles for rights to use a natural resource outlined in paragraphs 27.16–27.19, noting that the treatment of radio spectra was not an issue for consideration in the update of the *2008 SNA* and accordingly remains unchanged from the *2008 SNA*. It also showed not to be possible to fully address this issue in the remaining time for the finalization of the *2025 SNA*. Options would need to be properly considered. These may require changes to either the general principles, the treatment of the spectra, or both, and clearly any such changes would require extensive research and consultation.

# Glossary

Term (Alternative Term)	Definition
Account (Statement)	Systematic overview grouping together related transactions, other flows, or positions. The closing balancing item often represents important macroeconomic indicators, such as value added, earned income, disposable income, and (changes in) net worth.
Accrual basis of recording (Accrual accounting)	Recording of flows and changes in positions at the time economic value is created, transformed, exchanged, transferred, or extinguished (which is not necessarily when cash or its equivalent is received or paid).
Accumulation of economic assets accounts (Accumulation accounts)	Accounts which cover changes in assets and liabilities and changes in net worth (the difference for any institutional unit or group of units between its assets and liabilities). These accounts consist of the capital account, the financial account, the other changes in the volume of assets and liabilities account, and the revaluation account. In the external accounts, the scope of accumulation accounts is limited to the financial account, the other changes in the volume of assets and liabilities account, and the revaluation account as the IIP relates only to external financial assets and liabilities.
Acquisition approach	Approach for measuring interest that reflects market conditions and expectations at the time of acquisition of a debt instrument. Interest is determined using the remaining yield-to-maturity at the time the debt instrument is acquired. The effective interest rate will change only if the security is resold in the secondary market.
Adjustment for the change in pension and nonpension entitlements	Adjustment required to reconcile the treatment of pensions as current transfers (social contributions and social benefits) with the treatment of pension entitlements as financial assets. It may also include a similar adjustment for nonpension schemes. After the adjustment, the saving (SNA) and current account balance (BPM) are the same as what they would have been if social contributions and benefits related to pensions (and nonpensions) would have been considered as pure financial transactions, and not recorded as current transfers.
Affiliates (Affiliated entities)	Enterprises in an immediate or indirect direct investment relationship with each other or that have the same immediate or indirect direct investor. Affiliates of an enterprise thus consist of its immediate or indirect direct investor(s), its immediate or indirect direct investment enterprise(s), and its fellow enterprise(s).
Allocated gold accounts	Accounts that provide ownership of a specific piece of gold.

Term (Alternative Term)	Definition
American options	Option contracts where the buyer has the right to exercise the option at any time during the life of the contract.
Amortized value of a loan	Amount that reflects the process of gradual elimination of the liability by regular payments over a specified period of time. On the date of each scheduled payment, amortized value is the same as nominal value, but it may differ from the nominal value on other dates because nominal value includes interest that has accrued and not been paid.
Ancillary activity	Supporting activity undertaken within an enterprise in order to create the conditions within which the principal or secondary activities can be carried out.
Ancillary corporation	Wholly owned subsidiary whose productive activities are confined to providing services to the parent corporation or other affiliates owned by the same parent corporation.
Ancillary data	Data that is generated as an externality of production undertaken in order to create the conditions within which the principal or secondary activities can be carried out.
Antiques and other art objects	Antiques, and paintings, sculptures, etc. recognized as works of art, which are not held by enterprises for sale. Museum exhibits are in principle included.
Arrears	Amounts that are unpaid and past the due date for payment.
Artificial intelligence	Capabilities of a computer program, or system controlled by a computer program, of recognition, reasoning, communication, and prediction emulating human recognition, reasoning, and communication.
Artificial subsidiary	A unit wholly owned by the parent corporation and created to provide services to the parent corporation or other corporations in the same group, often in order to avoid taxes, to minimize liabilities in the event of bankruptcy or to secure other technical advantages under the tax or corporation legislation in force in a particular country.
Ask price (Offer price)	The lowest price at which a security or other asset is offered for sale, also known as the offer price.
Asset (Economic asset)	A store of value representing an economic benefit or series of economic benefits accruing to the economic owner by holding or using the item over a period of time. It is a means of carrying forward value from one accounting period to another.

Term (Alternative Term)	Definition
Asset boundary for fixed assets (excluding produced natural resources) (Fixed asset (excluding produced natural resources) boundary)	Boundary for the recognition of produced nonfinancial assets in the integrated framework of national accounts, consisting of goods and services that are used in production for more than one year.
Asset life (Service life)	Expected time over which an asset can be used in production or the expected time over which extraction from a natural resource can take place. Also known as service life or resource life.
Asset-backed securities	Debt securities created through securitization, whose payments of interest and principal are backed by payments on specified assets or income streams.
Asset-liability presentation	The approach used to present standard components related to direct investment where investments are organized according to whether they relate to an asset or liability. See <i>directional principle</i> for an alternative presentation of direct investment data.
Associates	Enterprises over which the direct investor is able to exercise a significant degree of influence but not control, mainly by owning 10 to 50 percent of voting power. Associates are a subset of affiliates and could also refer to domestic relationships.
Audiovisual and related services	Services related to the production of motion pictures (on film, videotape, disk or transmitted electronically, etc.), radio and television programs (live or on tape), and musical recordings.
Auxiliary insurance services	Services that are closely related to insurance and pension scheme operations. Included are agents' commissions, insurance brokering and agency services, insurance and pension consultancy services, evaluation and loss adjustment services, actuarial services, salvage administration services, and regulatory and monitoring services on indemnities and recovery services.
Balance of earned incomes	Total value of the earned incomes receivable by an institutional unit or sector less the total of the earned incomes payable.
Balance of payments	Statement that summarizes economic transactions between residents and nonresidents during a specific time period. It consists of three main accounts: (i) the current account (which includes the goods and services account, the earned income account, and the transfer income account), (ii) the capital account, and (iii) the financial account.



Term (Alternative Term)	Definition
Balance of the supply and use of products	Balance showing for any product, the sum of output at basic prices plus imports plus trade and transport margins plus taxes on products less subsidies on products; and the sum of intermediate use, final consumption, capital formation, all valued at purchasers' prices, plus exports.
Balance sheet	Statement drawn up at a particular point in time of the values of assets owned by an institutional unit or sector and of liabilities incurred by this institutional unit or sector. For the whole economy, the balance sheet shows what is often referred to as "national wealth"—the sum of nonfinancial assets and net claims on the rest of the world.
Balance sheet approach	Approach providing a systematic analytical framework for exploring how balance sheet weaknesses contribute to macro financial vulnerabilities across institutional sectors and the rest of the world, including the origin and propagation of modern-day financial crises.
Balancing item (Account balance)	An accounting construct obtained residually as the difference between the total value of the entries on one side of an account (credits, revenues, or changes in liabilities) and the total value of the entries on the other side (debits, expenditures, or changes in assets). It cannot be measured independently of the entries in the accounts.
Bank interest (Actual interest)	The actual interest that financial corporations charge for loans or provide for deposits, i.e., before accounting for implicit financial services on loans and deposits.
Banker's acceptances (Acceptances)	Negotiable orders (drafts or bills of exchange) to pay a specified amount of money on a future date, accepted and guaranteed by a financial corporation, in return for a fee.
Barter transaction (Barter)	Transaction where goods, services, or nonfinancial assets are exchanged for different goods, services, or nonfinancial assets without any accompanying monetary payment.
Base period	Reference period from which the weights are derived for the calculation of an index.
Basic price	Amount receivable by the producer from the purchaser for a unit of a good or service produced as output minus any tax payable, and plus any subsidy receivable, by the producer as a consequence of its production or sale. It excludes any transport charges invoiced separately by the producer.

Term (Alternative Term)	Definition
Bermuda options	Contracts where the buyer has the right to exercise the option at the date of expiration and on certain specified dates during the life of the contract.
Bid price	Highest price that a buyer is willing to pay for a security or another asset.
Bills (Bills of exchange)	Securities (usually short-term) that give holders the unconditional rights to receive stated fixed sums on a specified date.
Binomial-tree model	Options-pricing model in which it is assumed that, over any short period, a stock price will move to one of only two possible values.
Biological resources	Animal resources, and tree, crop and plant resources yielding both once-only and repeat products over which ownership rights are enforced.
Biological resources yielding once-only products	Animal resources, and tree, crop, and plant resources yielding once-only products over which ownership rights are enforced.
Biological resources yielding repeat products	Animal resources, and tree, crop and plant resources yielding repeat products over which ownership rights are enforced.
Black-Scholes options pricing model	Options-pricing model used to determine the fair price or theoretical value for a call or a put option based on volatility, type of option, underlying stock price, time, strike price and the risk-free rate.
Bonds and debentures	Debt securities that give the holders the unconditional right to fixed payments or contractually determined variable payments on a specified date or dates.
Book value	Valuation used in business accounts, generally referring to the value recorded in the enterprise's records. Book values may have different meanings because their values are influenced by the timing of acquisition, company takeovers, frequency of revaluations, and tax and other regulations, including national practices.
Branches of nonresident corporation	Resident unincorporated enterprises that fully belong to a nonresident unit, known as the parent, which undertakes production of goods and services on a significant scale. It is treated as a resident quasi-corporation in the territory where it is situated.
Broad money	Sum of all liquid financial instruments held by money-holding sectors that are widely accepted in an economy as a medium of exchange, plus those that can be converted into a medium of exchange at short notice at, or close to, their full nominal value.

Term (Alternative Term)	Definition
Budgetary central government	Part of the central government which encompasses the fundamental activities of the national executive, legislative, and judiciary powers.
Buildings other than dwellings	Whole buildings or parts of buildings not designated as dwellings (also known as residential buildings). Fixtures, facilities, and equipment that are integral parts of the structures are included.
Business travel	Goods and services acquired for personal use by persons whose primary purpose of travel is for business.
Capital account	Account which records acquisitions and disposals of nonfinancial assets as a result of transactions with other units, internal bookkeeping transactions linked to production (such as changes in inventories, depreciation and depletion) and the redistribution of wealth by means of capital transfers. In the context of the external accounts, the capital account 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.
Capital account balance	The difference between the sum of disposals of nonproduced nonfinancial assets and capital transfers receivable and the sum of acquisitions of nonproduced nonfinancial assets and capital transfers payable.
Capital levies	Taxes on the values of the assets or net worth owned by institutional units levied at irregular, and very infrequent, intervals of time.
Capital taxes	Taxes charged 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.
Capital transfers	Unrequited transfers, either in cash or in kind, linked to the acquisition, disposal or transfer of an asset (other than cash or inventories); or where a liability is forgiven or assumed; or where the transfers are intended to address accumulated losses incurred over a multi-year period.
Captive financial institutions	Institutional units providing financial services, where most of either their assets or liabilities are not transacted on open financial markets. They usually act as a financial agent for their affiliates, raising funds for lending to their affiliates or for purchase of their affiliates' assets.
Captive financial institutions and money lenders	Subsector of financial corporations; for more details, see the relevant components.

Term (Alternative Term)	Definition
Cash	Liquid financial instruments that are widely accepted in an economy as a medium of exchange.
Cash basis of recording (Cash accounting)	Recording of flows at the time the cash is received or disbursed.
Cash pooling arrangement	Financial arrangement where multiple bank accounts are consolidated into a single account, allowing efficient cash management, liquidity optimization, and centralized control over funds within an enterprise group.
Cash-equivalent instruments	Liquid financial instruments that can be converted into a medium of exchange at short notice at, or close to, their full nominal value.
Catastrophic losses	Losses which are the result of large scale, discrete and recognizable events that may destroy a significantly large number of assets within any of the asset categories.
Central bank	Financial institution (or institutions) that exercises control over key aspects of the financial system. Their principal functions generally include conducting monetary policy, including by issuing currency and regulating money supply and credit; managing international reserves and the payments system; promoting financial stability, including regulation and macroprudential supervision; and acting as banker to government.
Central bank digital currencies (CBDCs)	Digital version of the fiat currencies issued by central banks.
Central bank swap arrangements	Assets created under reciprocal facilities (swap arrangements) for the temporary exchange of deposits between the central banks of two economies. Within macroeconomic statistics, these are treated as an exchange of deposits and not as financial derivatives.
Central clearing counterparty	Financial institution principally providing the clearing and settlement of transactions in securities and derivatives. Clearing relates to identifying the obligations of both parties to the transaction, while settlement is the exchange of the securities or derivatives and the corresponding payment.
Central government	Part of general government that includes all administrative departments of the national executive, legislative, and judicial functions, other central agencies, and those nonmarket producers controlled by the central government, whose competence extends normally over the whole economic territory. All these resident units (with its territorial enclaves abroad) are included. Social security funds organized and managed by different levels of government are typically classified in a separate subsector of general government.

Term (Alternative Term)	Definition
Central Product Classification (CPC)	Alternatively, social security funds that are organized and managed by the central government could be included in the central government subsector.
Center of predominant economic interest	An institutional unit has a center of predominant economic interest in an economic territory when there exists, within the economic territory, some location, dwelling, place of production or other premises on which or from which the unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale. Actual or intended location for one year or more is used as an operational definition.
Certificates of deposit	Negotiable certificates issued by a bank acknowledging a deposit in that bank for a specified period of time at a specified interest rate. Certificates of deposits are generally classified as debt securities.
Chain indices	Index for a longer period of time, which is obtained by linking price (or volume) indices which use different base periods (usually linking indices with the previous period as the base period). In doing so, the short-term movements which are linked are calculated using weighting patterns which are most appropriate to the periods concerned.
Changes in classification (Reclassifications)	Changes in assets and liabilities resulting from changes in sector classification and structure (among which changes in assets and liabilities arising from units changing their economy of residence), and those resulting from changes in the classification of assets and liabilities.
Changes in inventories	Value of entries into inventories less the value of withdrawals and less the value of any recurrent losses of goods held in inventories during the accounting period.
Changes in net worth	Balance of changes in the value of stocks and positions on the balance sheet, due to (i) savings and capital transfers; (ii) nominal holding gains and losses; and (iii) other changes in the volume of assets and liabilities.
Charges for the use of intellectual property n.i.e.	Charges for licenses to use proprietary rights from research and development (such as patents, copyrights, industrial processes and designs, and trade secrets) as well as from marketing (such as

Term (Alternative Term)	Definition
	franchises, trademarks, and brand names); and charges for licenses to reproduce or distribute (or both) intellectual property embodied in produced originals or prototypes (such as copyrights on books and manuscripts, computer software, data and databases, cinematographic works, and sound recordings) and related rights (such as for live performances and television, cable, or satellite broadcast).
Claims of pension funds on pension sponsors	Claims of defined benefit pension funds on their sponsors to cover any shortfalls on the value of accumulated assets compared with the pension liabilities of the fund, which are also the pension entitlements of households. In the case of a surpluses, the claims are recorded as negative assets of the pension fund.
Clean price	Market price of a debt security excluding the accrued interest not yet payable between coupon dates.
Co-circulation	Use of a foreign currency as a generally accepted medium of exchange in the economic territory, in parallel with the domestic currency.
Collateralized debt obligations	Debt securities created through securitization, whose payments of interest and principal are dependent on payments of a pool of loan and bond instruments, either purchased in the secondary market or from the balance sheet of a commercial bank.
Collateralized mortgage obligations	Debt securities created through securitization, whose payments of interest and principal are dependent on payments of a pool of mortgage loans.
Commercial paper	Discounted and unsecured debt security issued by a corporation that promises to pay to the holder a certain amount on a stated maturity date.
Commitments basis of recording (Commitments-based accounting)	Recording of flows at the time when an institutional unit has committed itself to a transaction.
Compensation payments	Transfers paid by institutional units to other institutional units in compensation for injury to persons, damage to property or other losses (usually caused by the former) that are not settled as payments of nonlife insurance claims.
Compulsory transactions	Payments required by government, courts of law, or quasi-judicial processes which relate to activities, goods, or assets not owned by the government, courts, or quasi-judicial institutions.

Term (Alternative Term)	Definition
Computer services	Hardware- and software-related services.
Computer software, data and databases	Nonfinancial asset category, grouping together computer software, including artificial intelligence; and data and databases, that are used in production for more than one year.
Computer software, including artificial intelligence systems (Computer software)	Computer programs, program descriptions, and supporting materials for both systems and applications software that are expected to be used in production for more than one year. It also includes artificial intelligence systems.
Concessional loans	Loans intentionally provided at a contractual interest rate below market interest rates, for similar grace and repayment periods as equivalent market loans, with the purpose to convey a benefit, occurring in a noncommercial context.
Conduit	Unit that principally raises funds on open financial markets for passing on to other affiliated enterprises. Conduits are a subset of captive financial institutions.
Consolidated financial statements	Statements in which the assets, liabilities, net worth, revenue, expenses and cash flows of a controlling entity and its controlled entities are presented as those of a single economic entity.
Consolidation	Elimination of stocks and flows that occur between institutional units that are grouped together for statistical purposes and presented as if they constituted a single unit
Construction	Creation, renovation, repair, or extension of nonfinancial assets in the form of buildings, land improvements of an engineering nature, and other such engineering constructions as roads, bridges, dams, and so forth. It also includes related installation and assembly work; site preparation and general construction as well as specialized services such as painting, plumbing and demolition; and management of construction projects.
Constructive liabilities	Obligations established not by contract but by long and well-recognized custom that is not easily refuted. In these cases, the creditor has a valid expectation of payment, despite the lack of a legally binding contract. Generally, these obligations are not recognized as financial assets and liabilities.
Consumer durables	Goods acquired by households which are used for purposes of consumption repeatedly or continuously over a period of a year or more, like vehicles, furniture or electrical equipment. They are used for consumption (final consumption expenditure) and not for production (fixed assets).

Term (Alternative Term)	Definition
Consumer price index	Index of the prices of consumption goods and services, as compared to a certain reference period ( $t=100$ ).
Consumption good or service	A good or service that is used (without further transformation in production as defined in the integrated framework of the SNA) by households, government units, the central bank and nonprofit institutions serving households (NPISHs) for the direct satisfaction of individual needs (or wants) or for the collective needs of members of the community.
Consumption of goods and services	The act of completely using up the goods and services in a process of production or for the direct satisfaction of human needs or wants.
Contingent assets and liabilities	Possible obligations (and corresponding claims) whereby one party is obliged to provide payment to another unit only if certain specific conditions prevail. As they are not unconditional obligations, they are not recognized as financial assets or liabilities, with the exception of standardized guarantees. Contingent assets and liabilities can be explicit (based on legal obligations) or implicit (not based on legal obligations).
Contracts	Agreements between two or more parties that create enforceable rights and obligations.
Contracts, leases, and licenses	Nonproduced assets where one party to a contract, lease, or license is able legally and practically to realize the price difference between the market price for the use of an asset or the provision of a service, and the price specified in the contract, lease, or license. Nonfungible tokens that grant limited ownership rights are also included.
Control of a corporation	Ability to determine general corporate policy of a corporation, where general corporate policy is understood in a broad sense to mean the key financial and operating policies relating to the corporation's strategic objectives as a market producer. In practice, control is determined to exist if an investor has more than 50 percent of the voting power in an enterprise. The control may be direct (through ownership of voting power or other arrangements) or indirect (through ownership of enterprises that in turn have voting power). In the case of control by government, or another public unit, control can also be exercised in other ways than owning more than half of the voting power.
Control of a nonprofit institution	Ability to determine general policy or program of the nonprofit institution, where general policy or program is understood in a broad sense to refer to the constitution, articles of association, or other enabling instruments that dictate the parameters under which a



Term (Alternative Term)	Definition
	nonprofit institution may operate and the related financial risks to which it is exposed.
Corporate inversion	The corporate restructuring of a multinational enterprise group such that the original ultimate controlling parent company in one economy becomes a subsidiary of the new parent in another economy. In addition, ownership of a group of enterprises may be shifted to the new parent company.
Corporations	Institutional units, mainly consisting of independent legally constituted corporations and also cooperatives, limited liability partnerships, notional resident units, and quasi-corporations, whose principal activities are to produce goods or services for the market.
Cost, insurance, and freight (CIF) basis	Valuation basis where goods are valued at the importer's border—that is, including the cost of insurance and freight incurred up to the point of the goods entering the economy of the importer.
Costs of ownership transfer	Costs associated with acquiring and disposing of nonfinancial assets (other than inventories).
Coupon rate (Coupon)	The rate of interest payable by a debt security issuer to the holder on the security's face value.
Credit default swap	Financial derivative contract in which the seller compensates the buyer in the event of a default of the underlying instrument.
Credit derivatives	Financial derivatives whose primary purpose is to trade credit risk.
Credit risk	The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
Credit-linked notes	Debt securities backed by reference assets such as loans and bonds, with an embedded credit default swap allowing credit risk to be transferred from the issuer to investors.
Creditor approach	With respect to calculating the interest yield on debt securities, this approach is the perspective of the unit holding the security. Under this approach, the effective yield used to compute accrued interest on debt securities is recalculated in each period to reflect current market rates.
Credits/revenues	Transactions related to exports of goods and services, earned income receivable, transfer income receivable, and disposals of nonproduced nonfinancial assets.

Term (Alternative Term)	Definition
Cross-currency interest rate swaps	Contracts that involve an exchange of cash flows related to interest payments and an exchange of principal amounts at an agreed exchange rate at the end of the contract.
Crypto assets (fungible and nonfungible)	Digital representations of value that use cryptography and distributed ledger technology such as blockchains to enable parties to transact directly with each other without the need for a trusted intermediary. Two types of crypto assets are distinguished--fungible and nonfungible. Fungible crypto assets are divisible and not unique, and nonfungible crypto assets (most commonly known as nonfungible tokens or NFTs) are unique and nondivisible.
Crypto assets with a corresponding liability designed to act as a medium of exchange within a platform	Fungible crypto assets that act as a medium of exchange within a platform. They are classified as a separate subcategory under debt securities.
Crypto assets without a corresponding liability designed to act as a medium of exchange	Crypto assets for which there is no claim on the issuer. They may be designed to act as a general medium of exchange, or designed to act as medium of exchange within a platform only.
Currency	Notes and coins (including digital versions) that are of fixed nominal values and are issued or authorized by the central bank or government.
Currency board	Independent monetary authority that issues national currency that is fully backed by foreign exchange reserves.
Currency of denomination	The currency in which the value of flows and positions is fixed as specified in a contract between parties. It may be different from the currency of settlement.
Currency of settlement	The currency in which a payment is to be made. It may be different from the currency of denomination.
Currency options	Contracts that give the buyer the right (but not the obligation) to purchase or sell a currency at an agreed exchange rate at or by a specified date.
Currency union	A group of economies that adopts a common currency and has a central decision-making body (usually a currency union central bank) with the authority to issue the legal tender of the area and conduct a single monetary policy.
Currency union - centralized	Currency union that has a central bank owned by the governments of the member economies with the common currency issued by this central bank and central bank operations in each economy carried

Term (Alternative Term)	Definition
	out by branches or agencies of the currency union central bank. See also <i>currency union - decentralized</i> .
Currency union - decentralized	A group of economies with a currency union central bank and national central banks of the member economies with the former being owned by the latter. The monetary policy decisions are taken by the decision-making body of the currency union central bank, which also coordinates the implementation of the decisions, a primary responsibility of the national central banks. See also <i>currency union - centralized</i> .
Currency union central bank	Financial institution that acts as a central bank for the member countries of a currency union.
Current account	Account that covers the transactions in goods, services, earned income and transfer income between institutional units. In the external accounts, it relates to the relevant transactions between residents and nonresidents.
Current account balance (Current external balance)	Balance of current transactions (transactions in goods and services, earned income and transfer income) between residents and nonresidents. The term <i>current account balance</i> is used in the external accounts and is expressed from the perspective of resident units. The term <i>current external balance</i> is used in the national accounts and is expressed from the perspective of the nonresident units, and therefore with the opposite sign.
Current international cooperation	Current transfers in cash or in kind between the governments of different countries or between governments and international organizations.
Current replacement cost (Current cost accounting)	Valuation method also known as current cost accounting. This reflects the cost the unit would incur to acquire the assets and goods and services used in production at their actual or estimated current market prices at the time the production takes place.
Current taxes on capital	Taxes that are payable periodically, usually annually, on the property or net wealth of institutional units, excluding taxes on land or other assets owned or rented by enterprises and used by them for production since such taxes are treated as other taxes on production.
Current taxes on income, wealth, etc.	Taxes which mainly consist of taxes on the incomes of households or profits of corporations and of taxes on wealth that are payable regularly every tax period (as distinct from capital taxes levied infrequently). In the external accounts, current taxes on income, wealth, etc., consist mainly of taxes levied on the income earned by nonresidents from the provision of their labor or financial assets.

Term (Alternative Term)	Definition
Current transfers	Unrequited transactions between two parties where one party provides a good, service or cash to the other party, with no expectation of anything of economic value in exchange. Unlike capital transfers, they are not linked to the acquisition or disposal of an asset, either financial or nonfinancial (other than cash and inventories).
Current transfers within government	Current transfers between different government units, such as frequently occur between central and state or local government units, and between general government and social security funds
Customs union	A group of economies that share a common tariff (custom duties) vis-à-vis the nonmember economies while the movement of goods within the customs union tends to be duty free.
Data	Information content that is produced by accessing and observing phenomena, and recording and storing information elements from these phenomena in a digital format, which provide an economic benefit when used in productive activities. Data as an asset is data used in production for more than one year.
Data and databases	Electronic files of data, including the information content (i.e., the data themselves), organized in such a way as to permit resource-effective access and use of the data, either for own use in production for more than one year, or for sale as an item, or for sale by means of a license to access the information contained
Databases	Electronic files of data organized in such a way as to permit resource-effective access and use of the data, either for own use in production for more than one year, or for sale as an item, or for sale by means of a license to access the information contained.
Debits/expenditures	Transactions related to imports of goods and services, earned income payable, transfer income payable, and acquisitions of nonproduced nonfinancial assets.
Debt assumption	A trilateral agreement between a creditor, a former debtor, and a new debtor, under which the new debtor assumes the former debtor's outstanding liability to the creditor, and is liable for repayment of debt.
Debt conversion (swap)	An exchange of debt (typically at a discount) for a nondebt claim such as equity, or for counterpart funds that can be used to finance a particular project or policy.
Debt defeasance	Arrangement that allows a debtor (whose debts are in the form generally of debt securities and loans) to remove certain liabilities

Term (Alternative Term)	Definition
	from the balance sheet by pairing them, irrevocably, with assets of equal value to the liabilities.
Debt discount	Discount on the face value of a debt security (value below par). This occurs when market interest rates are higher than the debt security's coupon rate at the time of issuance.
Debt forgiveness (Debt cancellation by mutual agreement)	Voluntary cancellation of all or part of a debt obligation within a contractual agreement between a creditor and a debtor. In contrast to debt write-offs, debt forgiveness arises from an agreement between the parties to the debt with the intention to convey a benefit to the debtor, rather than unilateral recognition by the creditor for amounts that they no longer expect to collect.
Debt instruments	Financial instruments that require the payment of principal and/or interest at some point(s) in the future. Debt instruments consist of SDRs, currency and deposits, debt securities, loans, insurance technical reserves, pension and related entitlements, provision for calls under standardized guarantees, and other accounts receivable/payable. In the external accounts, trade credit and advances are in a separate category from other accounts receivable/payable and are also included in debt instruments.
Debt payments on behalf of others	Arrangement in which, rather than assuming the debt, a government may decide to repay a specific borrowing or make a specific payment on behalf of another institutional unit, without the guarantee being called or the debt being taken over.
Debt premium	Premium on the face value of a debt security (value above par). This occurs when market interest rates are lower than the debt security's coupon rate at the time of issuance.
Debt prepayments	Repurchases, or early payments, of debt at conditions that are agreed between the debtor and the creditor; that is, debt is extinguished in return for a cash payment agreed between the debtor and the creditor.
Debt refinancing	Arrangement that involves the replacement of an existing debt instrument or instruments, including any arrears, with a new debt instrument or instruments.
Debt reorganization (Debt restructuring)	Arrangement that involves both the creditor and the debtor (and sometimes third parties) in altering the terms established for servicing an existing debt.
Debt repudiation (Unilateral debt cancellation)	Unilateral cancellation of a financial claim by a debtor, which is not recognized in macroeconomic statistics.

Term (Alternative Term)	Definition
Debt rescheduling	Arrangement that involves the formal deferment of debt service payments and the application of new and generally extended maturities to the deferred amounts.
Debt securities	Negotiable instruments serving as evidence of a debt. They include bills, bonds, notes, negotiable certificates of deposit, commercial papers, debentures, asset-backed securities and similar instruments normally traded in financial markets.
Debtor approach	With respect to calculating the interest yield on debt securities, this approach follows the perspective of the unit issuing a security. Under this approach, interest is equal to the amounts the debtor will have to pay to their creditors over and above the repayment of the amounts advanced by the original creditors. Interest accrual on a debt instrument is determined for the entire life of the instrument by the conditions set at its inception.
Debtor-creditor basis (Debtor-creditor principle)	Approach used for the compilation of partner economy data where (changes in) assets are shown according to the residence of the debtor (or issuers of nondebt instruments), and (changes in) liabilities according to the residence of the creditor (or holders of nondebt instruments).
Decommissioning costs	Expenditures related to the disposal of an asset (e.g., the decommissioning of nuclear power stations, oil rigs, or the clean-up costs of landfill sites).
Deductible value added tax	Value added tax (VAT) payable on purchases of goods or services intended for intermediate consumption, gross fixed capital formation, or for resale that a producer is permitted to deduct from his own VAT liability to the government in respect of VAT invoiced to his customers.
Deep-discount bonds	Debt securities that have small or no coupon payments and are issued at a considerable discount to their face value.
Defined benefit pension schemes	Pension schemes where the benefits payable to an employee, or a self-employed person, on retirement are determined by an actuarial formula related to the participant's length of service and income, either alone or as a minimum amount payable.
Defined contribution pension schemes	Pension schemes where the benefits payable to an employee, or self-employed person, on retirement are defined exclusively in terms of the level of the funds built up from the contributions made over the working life and the increases in value that result from the investment of these funds by the manager of the scheme.

Term (Alternative Term)	Definition
Degradation	Changes in the capacity of environmental assets to deliver a broad range of ecosystem services and the extent to which this capacity may be reduced through the action of economic units, including households.
Depletion	In physical terms, the decrease in the quantity of the stock of a nonproduced natural resource over an accounting period that is due to the extraction of the natural resource by economic units occurring at a level greater than that of its growth. In monetary terms, it corresponds with the decline in future economic benefits, due to extraction in excess of its growth, that can be earned from a resource, the value of which is based on the physical flows of depletion using the price of the natural resource in situ.
Depository receipts	Financial instruments that allow a nonresident institutional unit to introduce its equity or debt into another market in a form more readily acceptable to the investors in that market. Depository receipts are classified according to the underlying financial instruments backing them.
Deposits	Nonnegotiable contracts that represent the placements of funds available for later withdrawal. They are claims on the central bank, other deposit-taking corporations, other financial corporations, and, in some cases, other institutional units.
Deposit-taking corporations except central bank	Institutional units principally engaged in financial intermediation, whose business is to receive deposits and/or close substitutes for deposits from institutional units, and, on their own account, to extend credit and/or to make investments in other financial instruments.
Depreciation	Decline, during the course of the accounting period, in the current value of the stock of fixed assets, including produced natural resources, owned and used by a producer as a result of physical deterioration, normal obsolescence, or normal accidental damage.
Depreciation profile	Profile for determining depreciation pattern of a nonfinancial asset used in production. One of the following two approaches is often applied: geometric depreciation profile based on the efficiency and rentals of a fixed asset declining at a constant geometric rate from period to period (preferred approach); and a straight-line depreciation profile based on a constant annual amount of depreciation over the life of the asset.
Digital assets (designed to act as a medium of exchange or financial instrument)	Digital representations of value recorded on a cryptographically secured distributed ledger or using a similar technology, or issued by a central bank as central bank digital currency.

Term (Alternative Term)	Definition
Digital platforms	Platforms that facilitate interactions via the internet between two or more distinct but interdependent sets of users (either firms or individuals). Four types of digital platforms are distinguished: i) nonfinancial digital intermediation platforms; ii) free digital platforms; iii) financial digital platforms; and iv) other fee-based digital platforms.
Direct insurance	Insurance where a policy is issued by an insurance corporation to another type of institutional unit, to be clearly distinguished from reinsurance. There are two main types of direct insurance: life insurance and nonlife insurance.
Direct investment (Foreign direct investment)	Category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Ownership of 10 percent or more of the voting power is evidence of a direct investment relationship.
Direct investment enterprise (Foreign direct investment enterprise)	An enterprise in one economy subject to control or a significant degree of influence by a direct investor that is resident in another economy. Ownership of 10 percent or more of the voting power is evidence of a direct investment relationship. An exception is made for investment funds, which cannot be direct investment enterprises as investments in negotiable investment funds shares/units are always treated as portfolio investment (when the shares are negotiable) or other investment (when the shares are nonnegotiable) or reserve assets, if they meet all reserve assets criteria.
Direct investment income (Foreign direct investment income)	Investment income arising from direct investment positions between resident and nonresident institutional units.
Direct investment relationship (Foreign direct investment relationship)	A direct investment relationship arises when an investor resident in one economy makes an investment that gives control or a significant degree of influence on the management of an enterprise that is resident in another economy. All enterprises that are under the control or influence of the same direct investor are considered to be in a direct investment relationship with each other. Ownership of 10 percent or more of the voting power is evidence of a direct investment relationship.
Direct investor (Foreign direct investor)	An entity or group of related entities that is able to exercise control or a significant degree of influence over another entity that is resident of a different economy. Ownership of 10 percent or more of the voting power is evidence of a direct investment relationship.



Term (Alternative Term)	Definition
Directional principle (Directional basis)	Presentation of direct investment data based on the direction of control or influence, specifically distinguishing between direct investment abroad (outward direct investment) and direct investment in the reporting economy (inward direct investment). Direct investment according to the directional principle relates to the treatment of reverse direct investment and fellow enterprises.
Dirty price	Market price of a debt security that includes interest that has accrued but is not yet payable due to coupon.
Discount rate	Rate used to determine the value of an asset, or liability, by discounting the future cash flows (receipts and/or payments).
Disposable income	Income available for final consumption expenditure or saving.
Disposable income adjusted for social transfers in kind (Adjusted disposable income)	Income available for actual final consumption or saving. It is equal to disposable income, plus social transfers in kind receivable and less social transfers in kind payable.
Distributable income of a corporation	Entrepreneurial income, plus all current transfers receivable, less all current transfers payable and less the adjustment for the change in pension and nonpension entitlements relating to the pension or other social insurance scheme of that corporation.
Distribution margin (Trade margin)	Difference between the actual (or imputed) price realised on a good purchased for resale and the price that would have to be paid by the distributor to replace the good at the time it is sold or otherwise disposed of.
Distributive transactions	Transactions covering how value added generated by production is distributed to labor, capital and government, and transactions involving the redistribution of income and wealth through taxes and other transfers.
Dividends	Earnings distributed to the owners of corporate equity for placing funds at the disposal of corporations.
Divisia money	Quantity index measuring the change of quantity of money between two time periods by assigning different weights to the growth rates of different money components, according to the usefulness of each component for transaction purposes.
Dollarization	Unilateral adoption of a foreign currency by third-party economies (e.g., U.S. dollar or some other foreign currency) as legal tender.
Domestic currency (Local currency)	Legal tender in the economy which is issued by the monetary authority for that economy. That is, either that of an individual

Term (Alternative Term)	Definition
	economy or, in a currency union, that of the common currency area to which the economy belongs.
Domestic economy (Total economy)	The entire set of resident institutional units.
Domestic enterprise group (Local enterprise group)	Parent corporation and the legal entities controlled by that parent which are resident in the reporting economy.
Due-for-payment basis of recording (Due-for-payment accounting)	Recording of flows at the time that the payments fall due or if a payment is made before it is due, when the cash payment is made.
Dwellings (Residential buildings)	Buildings, or designated parts of buildings, that are used entirely or primarily as residences, including any associated structures, such as garages, and all permanent fixtures customarily installed in residences.
Earned income	Incomes earned by institutional units as a consequence of their involvement in processes of production or ownership of assets that may be needed for purposes of production.
Earned income account	Account that records income flows earned by institutional units as a consequence of their involvement in processes of production or ownership of assets that may be needed for purposes of production.
Economic activities	Activities covering production and consumption of goods and services, distribution and redistribution of income, and accumulation of economic assets.
Economic appearance of assets	Appearance of assets which is neither due to transactions nor due to holding gains and losses (revaluations). Examples relate to the recognition of produced assets, not previously recognized as assets; discoveries of natural resources; changes in the quality of land; the recognition of goodwill in the purchase of a corporation; and the initiation of contracts, leases, and licenses.
Economic benefits	Gains arising from the economic activities of production, consumption or accumulation.
Economic capital	The stock of economic assets that are created through the direct involvement of economic units and which are under the control of an institutional unit, either individually or collectively.
Economic disappearance of assets and liabilities	Disappearance of assets and liabilities which is neither due to transactions nor due to holding gains and losses (revaluations). Examples relate to the cancellation of contracts, leases and licenses; and the unilateral cancellation or write-offs of debt.

Term (Alternative Term)	Definition
Economic owner	The institutional unit that is entitled to claim the economic benefits associated with the use of goods, services, natural resources, and financial assets in the course of an economic activity, and that is accepting the associated risks.
Economic territory	A geographic area under the effective economic control of a single government or a currency union or economic union. In its broadest sense, an economic territory can be any geographic area or jurisdiction for which statistics are required. For a country, it includes the land area, airspace, territorial waters, islands that belong to the territory and territorial enclaves in the rest of the world.
Economic union	A group of economies established by means of an intergovernmental legal agreement among sovereign countries or jurisdictions with the intention of fostering greater economic integration.
Economically significant prices	Prices that have a significant effect on the amounts that producers are willing to supply and on the amounts purchasers wish to buy.
Ecosystem assets	Contiguous spaces of a specific ecosystem type characterized by a distinct set of biotic and abiotic components and their interactions. Ecosystem assets are not explicitly recognized as economic assets in the integrated framework of national accounts.
Education-related travel	Tuition, food, accommodation, local transport, health services, etc. acquired by nonresident students.
Electric powered transport equipment	Transport equipment powered by electricity without the use or back-up of a fossil fuel powered motor.
Electronic money	Monetary value stored electronically, which represents a claim on the issuer. Electronic money must represent general purchasing power, i.e., it should be widely used as a medium of exchange.
Embedded derivatives	Financial instruments that contain a derivative feature, which is inseparable from the nonderivative host instrument.
Emission permits	Permits to emit harmful substances to the atmosphere, land, or water. They are recorded as financial assets (other accounts receivable/payable), with the taxes on production recorded at surrender, valued at issuance prices.
Emissions	Substances released to the environment by enterprises, households, government and other units a result of production, consumption and accumulation processes.

Term (Alternative Term)	Definition
Employee stock options	Options to buy the equity of a company at a discount to the market value, offered to employees of the company as a form of remuneration.
Employees	Persons who, by agreement, work for a resident institutional unit and receive remuneration for their labor. A resident institutional unit may employ both resident and nonresident persons.
Employers' social contributions	Actual and imputed social contributions payable by employers to social security funds and other social insurance schemes, to secure social benefits for their employees.
Encumbered assets	Assets that the holder is restricted or prevented from liquidating, selling, transferring, or assigning due to legal, regulatory, contractual, or other limitations.
Enterprise	An institutional unit engaged in the production of goods and/or services. The term enterprise may refer to a corporation, a quasi-corporation, a nonprofit institution (NPI), or an unincorporated enterprise.
Entertainment, literary, or artistic originals	Original films, series and other visual recordings, sound recordings, games, manuscripts, tapes, models, etc., on which entertainment, literary and artistic output, etc., are recorded or embodied.
Entitlement to future goods and services on an exclusive basis	Arrangements where one party, which has contracted to purchase goods or services at a fixed price at a time in the future, is able to transfer the obligation of the second party to the contract to a third party.
Entitlements to nonpension benefits (Entitlements to nonpension social insurance benefits)	Excess of net social contributions over social benefits, representing an increase in the liability of a nonpension related social insurance scheme towards the beneficiaries.
Entrepreneurial income	Income earned by corporations from the production of goods and services, plus property income receivable, minus property income payable (excluding dividends, withdrawals of income of quasi-corporations and reinvested earnings).
Environmental assets	Naturally occurring living and nonliving components of the Earth, together constituting the biophysical environment, which may provide benefits to humanity. In macroeconomic statistics, environmental assets are only recognized in as far they meet the asset boundary applied in the integrated framework of the SNA, by providing economic benefits to their owners, either individually or collectively.

Term (Alternative Term)	Definition
Environmental protection activities	Activities whose primary purpose is the prevention, reduction and elimination of pollution and other forms of degradation of the environment.
Environmental specific services	Environmental protection and resource management services produced by economic units for sale or own use.
Environmental subsidies	Subsidies intended to support activities that protect or restore the environment more generally, to enhance the capability of ecosystems, or to reduce the use and extraction of natural resources.
Environmental taxes	Taxes whose tax base is a physical unit (or a proxy of it) of something that has a proven, specific, negative impact on the environment.
Equity	All instruments and records acknowledging ownership rights and claims on the residual value of a corporation or quasi-corporation after the claims of all creditors have been met. Ownership of equity is usually evidenced by shares, stocks, participations, depository receipts or similar documents.
Equity and investment fund shares/shares	Residual claims on the assets of the institutional units that issued the relevant instruments.
ESG debt securities	Debt securities where the use of proceeds is restricted to financing or refinancing activities or projects that improve the condition of the environment or society or governance practices, or where the issuer agrees to achieve performance objectives that improve the condition of the environment or society or government practices. These include green debt securities, social debt securities, sustainability debt securities, sustainability-linked debt securities, and other ESG debt securities.
ESG equity	Equity investments by investors in institutional units in which 50 percent or more of the institutional unit's revenue comes from activities that improve the condition of the environment or society or governance practices.
ESG finance	Finance for activities or projects that sustain or improve the condition of the environment or society or governance practices.
ESG investment fund shares/units	Shares or units in investment funds investing in financial instruments, companies, projects, or other funds that intend to achieve performance objectives that improve the condition of the environment or society or governance practices.

Term (Alternative Term)	Definition
ESG loans	Loans in which 50 percent or more of the debtor's activities improve the condition of the environment or society or governance practices. In the case of business loans, the debtor's activities would be reflected in the business's revenue, while in the case of loans to households, they would depend on the use of the loan proceeds.
Establishment (Local kind-of-activity unit)	Enterprise, or part of an enterprise, that is situated in a single location and in which only a single productive activity is carried out or in which the principal productive activity accounts for most of the value added (also known as local kind-of-activity unit).
European options	Options where the buyer has the right to exercise the option only at the expiration of the contract.
Ex dividend	The point at which the shares no longer carry the right to the most recently declared dividend. Thus the dividend value becomes separated from the share price value and the share price falls to reflect the value of the dividend payout.
Exceptional financing	Grouping together financial arrangements made by the authorities (or by other sectors fostered by authorities) of an economy to meet balance of payments needs.
Exchange rate	Price of one country's currency in relation to another country's currency.
Exchange rate changes	All changes in value resulting from exposure to the effect of exchange rates. Part of revaluations along with other price changes.
Exchange values	Values at which goods, services, labor or assets are exchanged or else could be exchanged for cash. Exchange values, or market prices, are the basis for the valuation of transactions in macroeconomic statistics.
Excise duties (Excises)	Taxes levied as a product specific unit tax on a predefined limited range of goods.
Existing fixed assets	Nonfinancial assets whose value was included in the stock of fixed capital of at least one producer unit in the domestic economy at some earlier point in time.
Expenditures on goods and services	Values of the amounts that buyers pay, or agree to pay, to sellers in exchange for goods or services that sellers provide to them or to other institutional units designated by the buyers.

Term (Alternative Term)	Definition
Export subsidies	Subsidies on goods or services that are payable by government when the goods leave the economic territory or when the services are delivered to nonresident units.
Export taxes	Taxes on goods or services that become payable to government when the goods leave the economic territory or when the services are delivered to nonresidents.
Exports	Changes in the economic ownership of goods from residents of the compiling economy to nonresidents, as well as services provided by residents of the compiling economy to nonresidents.
Exports of goods	Changes in the economic ownership of goods from residents of the compiling economy to nonresidents, irrespective of physical movement of goods across national borders.
Exports of services	Services provided by residents of the compiling economy to nonresidents.
Extended Balance of Payments Services Classification (EBOPS)	Breakdown of the balance of payments trade in services items by more detailed types of services.
Extension of capacity	Capital injections that are used to expand the capacity of direct investment enterprises that have existed for three years or more.
External accounts	Summary overview of the economic relationships between residents of an economy and nonresidents. They comprise three interconnected elements: a) the international investment position; b) the balance of payments; and c) the other changes in financial assets and liabilities accounts.
External balance of international trade in goods and services	Difference between the exports and imports of goods and services.
External debt	Liabilities that require payment(s) of interest and/or principal by the debtor at some point(s) in the future and that are owed to nonresidents by residents of an economy.
External sector statistics	Datasets related to the external accounts, including the balance of payments, the integrated international investment position, external debt statistics, international reserves and foreign currency liquidity, the Coordinated Direct Investment Survey, the Coordinated Portfolio Investment Survey, etc.
Extrabudgetary units	General government units with individual budgets not fully covered by the main (or general) budget. These entities operate under the

Term (Alternative Term)	Definition
	authority or control of a central, state, or local government. Extrabudgetary entities may have their own revenue sources, which may be supplemented by grants (transfers) from the general budget or from other sources.
Face value	Valuation that reflects the undiscounted amount to be paid to the holder of a financial instrument at maturity, also known as “par value” or simply “par.”
Factoring	Transaction in which a financial corporation (factor, which can be a bank, a specialized factoring company or other financial organization) buys trade accounts receivable from a supplier of goods and services at a discount. Two basic types of factoring are differentiated: recourse and nonrecourse factoring. In nonrecourse factoring, the factor assumes the full risk of nonpayment by the debtors at maturity and therefore charges the supplier a higher percentage of the receivables (“discount”) than in recourse factoring where all or part of the risk is kept by the supplier (recourse factoring).
Factoryless goods producer	A principal that controls the production of a good by undertaking the entrepreneurial steps and providing the technical specifications required to produce the good, but that outsources all or most of the material transformation process required to produce the output.
Fair value	Valuation that reflects the market-equivalent value of an asset or liability. It is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.
Fellow enterprises	Enterprises under the control or influence, either directly or indirectly, of the same direct investor, but neither of the enterprises controls or influences the other enterprise.
Final consumption expenditure (Final consumption)	The amount of expenditure on consumption goods and services, whether individual or collective. Final consumption expenditure can be measured for households, general government, the central bank and nonprofit institutions serving households (NPISHs).
Finance lease (Financial lease)	Contract between a lessor and a lessee, under which the lessor, as legal owner of an asset, substantially conveys the risks and rewards of ownership of the asset to the lessee. The lessee, therefore, becomes the economic owner of the asset. A finance lease involves imputing a loan.



Term (Alternative Term)	Definition
Financial account	Account which records all transactions in financial assets and liabilities. In the external accounts, only transactions between residents and nonresidents are included.
Financial account balance	The difference between the net acquisition of financial assets and the net incurrence of liabilities resulting from transactions between residents and nonresidents.
Financial assets	Financial claims and gold bullion held by monetary authorities as a reserve asset.
Financial auxiliaries	Financial corporations principally engaged in activities associated with transactions in financial assets and liabilities or with providing the regulatory context for these transactions but that do not involve the auxiliary taking ownership of the financial assets and liabilities being transacted.
Financial claims	Financial instruments that give rise to an economic asset that has a counterpart liability, including shares and other equity in corporations.
Financial corporations (Financial institutions)	Institutional units whose principal activity is the production of financial services.
Financial derivatives	Negotiable financial instruments linked to another specific financial instrument, indicator, or commodity, through which specific risks (e.g., interest rate risk, foreign exchange risk, equity and commodity price risk, credit risk) can be traded in their own right in financial markets.
Financial instruments	The full range of financial contracts made between institutional units. They may be recorded on the balance sheet or off the balance sheet (e.g., constructive and contingent assets and liabilities).
Financial intermediaries	Financial corporations that incur liabilities on their own account for the purpose of acquiring financial assets by engaging in financial transactions on the market.
Financial intermediation	Productive activity in which an institutional unit incurs liabilities on its own account for the purpose of acquiring financial assets by engaging in financial transactions on the market.
Financial services	Services related to financial intermediation, financial risk management, liquidity transformation, or auxiliary financial activities. It also includes insurance and pension scheme services.

Term (Alternative Term)	Definition
Financial services (excluding insurance and pensions)	Services related to financial intermediation, financial risk management, liquidity transformation, or auxiliary financial activities, excluding insurance and pension scheme services.
Financial transactions	Net acquisition of financial assets or the net incurrence of liabilities, for each type of financial instrument.
Fines and penalties	Compulsory payments imposed on institutional units by courts of law or quasi-judicial bodies.
Finished goods	Goods produced as outputs that their producer does not intend to process further before supplying them to other units.
Fintech	Technology-enabled innovation in financial services that could result in new business models, applications, processes, or products with an associated material effect on the provision of financial services.
Fiscal monopolies	Public corporations, public quasi-corporations or government-owned unincorporated enterprises that have been granted a legal monopoly over the production or distribution of a particular kind of good or service in order to raise revenue and not in order to further the interests of public economic or social policy.
Fiscal policy	Use of the level and composition of the general government and public sectors' spending and revenue (related accumulation of government assets and liabilities) to achieve such goals as the stabilization of the economy, the reallocation of resources, and the redistribution of income.
Fixed assets	Produced assets that are used repeatedly or continuously in production processes for more than one year.
Fixed assets (excluding produced natural resources)	Produced assets that are used repeatedly or continuously in production processes for more than one year. Produced natural resources are excluded and grouped together with other natural resources.
Fixed-rate debt instruments	Debt instruments that are not variable-rate debt instruments (see also <i>variable-rate debt instruments</i> ).
Flows (Economic flows)	Transactions and other flows reflecting the creation, transformation, exchange, transfer, or extinction of economic value; they typically involve changes in the volume, composition, or value of an institutional unit's assets, liabilities, and net worth.
Foreign currency	Any currency other than the domestic currency.

Term (Alternative Term)	Definition
Foreign currency forwards	Contracts where two counterparties agree to transact in foreign currencies at an agreed exchange rate in a specified amount at an agreed future date.
Foreign currency swaps (Currency swaps)	Arrangements that involve the spot sale/purchase of currencies with a simultaneous forward purchase/sale of the same currencies.
Foreign-controlled corporation	Corporation that is controlled by a nonresident unit and produces goods and/or services for the market.
Forward contracts (Forwards)	Unconditional contracts by which two counterparties agree to buy or sell a specified quantity of an underlying item (financial or nonfinancial) at an agreed-upon contract price (the strike price) on a specified date. Forward contracts are traded over-the-counter.
Forward price	Price at which the underlying asset will be exchanged in a forward contract.
Forward rate agreements	Arrangements in which two parties agree on an interest rate to be paid, at a specified settlement date, on a notional amount of principal that is never exchanged.
Forward-type contracts	Forwards, futures, and swaps.
Framework for Direct Investment Relationships	A generalized methodology for identifying and determining the extent and type of direct investment relationships.
Free on board (FOB) basis	Valuation basis where goods are valued at the exporter's border—that is, including the cost of insurance and freight incurred up to the point of the goods leaving the economy of the exporter.
Freight services	Services related to transport of objects other than people.
From-whom-to-whom framework	A matrix-type presentation in which the counterparts of a certain nonfinancial or financial transaction are cross-classified, or the creditors of a certain financial asset position are cross-classified with the debtors of the relevant position.
Full-time equivalent labor input	Number of full-time equivalent jobs, defined as total hours actually worked by all employed persons divided by the average number of hours actually worked in full-time jobs.
Functional categories in the external accounts	Primary classification used for each of financial transactions, positions, and income in the external accounts. Five functional categories of investment are distinguished in the external accounts: (a) direct investment; (b) portfolio investment; (c) financial derivatives (other than reserves) and employee stock options; (d) other investment; and (e) reserve assets. The functional categories

Term (Alternative Term)	Definition
	are designed to facilitate analysis by distinguishing categories that exhibit different economic motivations and patterns of behavior.
Futures	Forward-type contracts traded on organized exchanges, typically settled by the payment of cash rather than the delivery of the underlying asset, and are valued and traded separately from the underlying item.
General government	Legal entities established by political processes that have legislative, judicial or executive authority over other institutional units within a given area, principally engaged in nonmarket production intended for individual and collective consumption and in the redistribution of income and wealth by transfers, which is financed mainly by compulsory payments made by units belonging to other sectors. The general government sector consists of such institutional units at central, state, and local level together with social security funds and nonmarket producers controlled by them.
General merchandise on a balance of payments basis (General merchandise trade)	Goods whose economic ownership is changed between a resident and a nonresident and that are not included in the following specific categories: goods under merchanting, nonmonetary gold, and parts of travel, construction, and government goods and services n.i.e.
Gold bullion	Coins, ingots or bars with a purity of at least 995 parts per 1,000, including such gold held in allocated gold accounts. If held by a monetary authority as a reserve asset, gold bullion is treated, by convention, as a financial asset with no corresponding liability.
Gold swaps	Arrangements that involve the exchange of gold for foreign exchange with an agreement that the transaction be reversed at an agreed future date at an agreed gold price.
Goods	Physical, produced objects, over which ownership rights can be established and whose ownership can be transferred from one institutional unit to another by engaging in transactions on markets.
Goods and services account	Account that records the total domestic output and imports of goods and services supplied as resources to the economy (including the value of taxes less subsidies on products not already included in the valuation of output) and the use of the same goods and services as intermediate consumption, final consumption, capital formation and exports. In the external accounts, the goods and services account only includes exports and imports of goods and services between residents and nonresidents.
Goods for resale	Goods acquired by enterprises such as wholesalers or retailers for the purpose of reselling or transferring them to other units without any further processing.

Term (Alternative Term)	Definition
Goods on consignment	Goods intended for sale, which are dispatched before they are sold.
Goodwill (Purchased goodwill)	The difference between the value paid for an enterprise as a going concern and the sum of its assets less the sum of its nonequity liabilities, where each item has been separately identified and valued.
Government goods and services n.i.e.	The sum of (a) goods and services supplied by and to enclaves, such as embassies, military bases, and international organizations; (b) goods and services acquired from the host economy by diplomats, consular staff, and military personnel located abroad and their dependents; and (c) services supplied by and to governments and not included in other categories of services
Government units	Unique kinds of legal entities established by political processes that have legislative, judicial, or executive authority over other institutional units within a given area.
Green debt securities	Debt securities where the use of proceeds is restricted to financing or refinancing activities or projects that improve the condition of the environment.
Green equity	Equity investments by investors in institutional units in which 50 percent or more of the institutional unit's revenue comes from activities improve the condition of the environment.
Green finance	Finance for activities or projects that sustain or improve the condition of the environment.
Green investment fund shares/units	Shares or units in investment funds investing in financial instruments, companies, projects or other funds that intend to achieve performance objectives that improve the condition of the environment.
Green loans	Loans in which 50 percent or more of the debtor's activities improve the condition of the environment. In the case of business loans, the debtor's activities would be reflected in the business's revenue, while in the case of loans to households, they would depend on the use of the loan proceeds.
Greenfield investment	Investments in direct investment enterprises established within the last three years.
Gross and net	The term "net" has two key uses. The first being the terms "gross" and "net" in conjunction with the balancing items for each account by institutional sector and the whole economy. In each case, the difference is depreciation and depletion of natural resources. Thus gross value added, gross domestic product, gross disposable

Term (Alternative Term)	Definition
	income, etc. each have a net equivalent. The second being the recording of financial transactions in the financial account. Transactions can be recorded on a “gross” or “net” basis. For example, the financial account is recorded on a net basis, as acquisitions less disposals of the relevant assets and liabilities.
Gross capital formation	Acquisitions less disposals of produced assets for purposes of fixed capital formation, inventories, or valuables.
Gross domestic product	Total income earned through the production of goods and services in an economic territory during an accounting period. It can be measured in three different ways: using either the expenditure approach, the income approach, or the production approach; see the relevant terms.
Gross domestic product - expenditure approach (Gross domestic expenditure)	The sum of expenditure on final consumption plus gross capital formation plus exports less imports.
Gross domestic product - income approach (Gross domestic income)	Total income earned through the production of goods and services in the economy, consisting of remuneration of employees plus gross operating surplus plus gross mixed incomes plus taxes less subsidies on both production and imports
Gross domestic product - production approach (Gross domestic production)	The value of total output less total intermediate consumption plus any taxes less subsidies on products not already included in the value of output.
Gross fixed capital formation	Acquisitions less disposals of fixed assets during the accounting period, including certain specified expenditures on services that add to the value of nonproduced assets.
Gross national income	Total income earned by all residents within an economic territory during an accounting period. It is equal to gross domestic product plus earned income receivable from abroad minus earned income payable abroad.
Gross recording	Recording of aggregations or combinations in which all elementary items are shown for their full values. See also <i>gross and net</i> .
Gross value added at basic prices	Valuation of gross value added during an accounting period, which reflects the price of products receivable by the producer exclusive of taxes payable on products and inclusive of subsidies receivable on products, less intermediate consumption valued at purchasers' prices.
Gross valued added at producers' price	Valuation of gross value added during an accounting period, which reflects the price of products receivable by the producer inclusive of

Term (Alternative Term)	Definition
	taxes on products except deductible value added tax and exclusive of subsidies on products, less intermediate consumption valued at purchasers' prices.
Guarantees	Arrangements whereby the guarantor has an obligation to pay a third-party beneficiary when another institutional unit fails to perform certain contractual obligations.
Hajj funds	Market enterprises that undertake, as a significant part of its activities, the management of long-term savings open to individuals intending to undertake the Hajj pilgrimage in compliance with Shari'ah principles.
Harmonized system	A six-digit code system used to classify products for customs purposes.
Head office	Institutional unit that oversees and manages other units of the company or enterprise; undertakes the strategic or organizational planning and decision-making role of the company or enterprise; exercises operational control and manages the day-to-day operations of their related units.
Health-related travel	Medical services, other health care, food, accommodation, local transport, etc. acquired by those traveling for medical reasons.
Hedge funds	Lightly regulated or unregulated investment funds and various types of money managers, including commodity trading advisers. They have the following characteristics: follow a relatively broad range of investment strategies that are not subject to borrowing and leverage restrictions; often have a different regulatory mandate than "institutional investors"; typically cater to high net worth individuals or institutions; and often hold long and short positions in various markets, asset classes, and instruments, with frequent use of derivatives for speculative purposes.
Historic replacement cost (Historic cost accounting)	Valuation method also known as historic cost accounting. This reflects the costs the unit has incurred at the time of acquiring the assets and goods and services used in production.
Holding company	Institutional unit that holds the assets (owning controlling-levels of equity) of a group of subsidiary corporations and whose principal activity is owning the group. Holding companies do not provide any other service to the enterprises in which the equity is held, i.e. they do not administer or manage other units.
Holding gains and losses – nominal (Revaluations)	Changes in the monetary value of an asset or liability due to changes in the level of prices. In the external accounts, revaluations are restricted to those relating to financial assets and liabilities.

Term (Alternative Term)	Definition
Holding gains and losses - realized	The amount of holding gains (losses) that has been realized as a consequence of the relevant assets being sold, redeemed, used or otherwise disposed of, or liabilities being repaid.
Holding gains and losses - unrealized	The amount by which the value of assets or liabilities increases (decreases), without being realized through sale, redemption, use, disposal, or repayment.
Homogeneous production unit	Notional production unit carrying out a single productive activity identified by its inputs, process of production and its outputs.
Horizontal double-entry bookkeeping	Principle to ensure the consistency of total payments and total receipts for each transaction category. It means that if unit A pays something to unit B, the accounts of both A and B show the transaction for the same amount.
Hours worked	The number of hours actually worked as an employee or self-employed person, to produce output recorded within the production boundary applied in the integrated framework of the SNA.
Household	A single person or a group of persons who share the same living accommodation, who pool some, or all, of their income and wealth and who consume certain types of goods and services collectively, mainly housing and food.
Households	All resident households, including institutional households made up of persons staying in hospitals, retirement homes, convents, prisons, etc. Unincorporated enterprises owned by households are treated as an integral part of households, unless these enterprises are distinguished as separate institutional unit (i.e., quasi-corporations).
Human capital	The knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being.
Illegal transactions	Transactions which are forbidden by law. They only include actions in which the institutional units involved enter by mutual agreement. Otherwise, they are not recorded as transactions but as other flows.
IMF quota subscription	Refers to the financial contribution made by a member country to the IMF as a part of its membership in the organization. It consists of two components. i) foreign exchange component (25 percent) which a member is required to pay in SDRs or in foreign currencies acceptable to the IMF; and ii) domestic currency component (75 percent) which is payable in the member's own currency at a designated depository, normally the member's central bank.



Term (Alternative Term)	Definition
Immediate direct investment relationship	Relationship that arises when a direct investor directly owns equity that entitles it to 10 percent or more of the voting power in the direct investment enterprise.
Immediate investor	The first nonresident investor for direct investment.
Impairment	A loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.
Implicit financial services on loans and deposits	Financial intermediation services which are implicitly charged in the form of either the difference between a reference rate and the interest rate actually paid to depositors, or the difference between the interest rate charged to borrowers and a reference rate. Implicit financial services on loans and deposits were formerly known as financial intermediation services indirectly measured (FISIM).
Import duties	Customs duties or other import charges that are payable on goods of a particular type when entering the economic territory.
Import subsidies	Subsidies that are receivable on goods when entering the economic territory, or on services being delivered to resident institutional units.
Imports	Changes in the economic ownership of goods from nonresidents to residents of the compiling economy, as well as services provided by nonresidents to residents of the compiling economy.
Imports of goods	Changes in the economic ownership of goods from nonresidents to residents of the compiling economy, irrespective of physical movement of goods across national borders.
Imports of services	Services provided by nonresidents to residents of the compiling economy.
Imputation	Construction of entries in the accounts when no separate monetary transactions are identified by the parties involved but where economic flows are recognized.
In kind	Exchange of resources in a form other than monetary funds, for example in the form of goods, services or interest forgone.
Income on equity	Sum of dividends paid to owners of corporate equity, withdrawals from the income of quasi-corporations and reinvested earnings on foreign direct investment.

Term (Alternative Term)	Definition
Indexation of interest and principal	Index linking the amount of future cash flows of interest payments and/or principal repayments on the securities to a variable such as a general price index (e.g., consumer price index), a specific price index (e.g., the price of a commodity) or some other index.
Index-linked securities (Indexed financial instruments)	Financial instruments for which either the coupon payments (interest) or the principal or both are linked to another item such as a price index, an interest rate or the price of a commodity.
Indirect direct investment relationship	Relationship that arises through the ownership of voting power in one direct investment enterprise that owns voting power in another enterprise or enterprises, that is, an entity is able to exercise indirect control or influence through a chain of direct investment relationships.
Industry	Group of establishments engaged in the same, or similar, kinds of production activity. Importantly, it is not reserved to market producers; it can also refer to nonmarket producers.
Informal economy	All informal productive activities of persons or economic units, whether or not they are carried out for pay or profit. The scope of informal productive activities includes activities within the general production boundary; this includes informal household own-use production of goods and services, informal sector production, and the labor inputs that are used to undertake these types of production, as well as informal labor inputs in the formal sector.
Informal sector	Household unincorporated market enterprises and the associated labor input that are not formally recognized by government authorities because they are not registered for tax or similar purposes.
Information services	News agency services such as the provision of news, photographs, and feature articles to the media.
Information, computer and telecommunications (ICT) equipment	Devices using electronic controls and also the electronic components forming part of these devices.
Institutional sector	Group of similar kinds of institutional units according to their principal functions, behavior, and objectives.
Institutional unit	An economic unit that is capable, in its own right, of owning assets, typically able to incur liabilities, and engaging in economic activities and in transactions with other units.
Insurance and pension services	Services related to providing life insurance and annuities, nonlife insurance, reinsurance, pensions, standardized guarantees and

Term (Alternative Term)	Definition
	auxiliary services to insurance, pension schemes, and standardized guarantee schemes.
Insurance corporations	Incorporated, mutual and other units whose principal function is to provide individual coverage in case of life, accident, sickness, fire, or other risks to individual institutional units or groups of institutional units, or to provide reinsurance services to other insurance corporations.
Insurance, pension and standardized guarantee schemes	Financial asset category, grouping together nonlife insurance technical reserves; life insurance and annuity entitlements; pension entitlements; claims of pension funds on pension sponsor; entitlements to nonpension benefits, and provisions for calls under standardized guarantees.
Integrated international investment position	Reconciliation of the opening and closing values of the international investment position through the financial account (flows arising from transactions) and the other changes in financial assets and liabilities account (valuations and other volume changes).
Intellectual property products	Assets resulting from research, development, investigation or innovation, leading to knowledge or the creation of artificial intelligence systems that the developers can market or use to their own economic benefit in production because use of the knowledge is restricted by means of legal or other protection.
Intercompany lending	Direct investment debt positions or flows between affiliated enterprises.
Interest and similar returns	Form of investment income or interest-like income that is receivable by the owners of certain kinds of financial assets, namely: deposits, debt securities, loans, and other accounts receivable, and some similar instruments in the case of Islamic finance, for putting the financial asset at the disposal of another institutional unit. Income on SDR holdings and allocations is also treated as interest and similar returns. By convention, lending fees on securities, gold loans, gold swaps, and crypto assets without a corresponding liability designed to act as a general medium of exchange are classified as interest and similar returns. In the external accounts, trade credit and advances are in a separate category from other accounts receivable/payable and are also included in the list of financial assets that may accrue interest and similar returns.
Interest rate	Amount charged, expressed as a percentage of the principal over a period of time, by the owners of certain kinds of financial assets for putting the financial assets at the disposal of another institutional unit.

Term (Alternative Term)	Definition
Interest rate options	Contracts that give the buyer the right (but not the obligation) to pay or receive an agreed interest rate on a predetermined principal on or before a specified date.
Interest rate swaps	Contracts that involve an exchange of cash flows related to interest payments, or receipts, on a notional amount of principal, which is never exchanged, in one currency over a period of time.
Intermediate consumption	Goods and services consumed as inputs by a process of production, excluding fixed assets whose consumption is recorded as depreciation.
International investment position	Statement that shows at a particular point in time the value and composition of financial assets of residents of an economy that are claims on nonresidents or are gold bullion held as reserve assets and of the liabilities of residents of an economy to nonresidents.
International organization	Organization whose members are either national states or other international organizations whose members are national states, and which is established by formal political agreements between its members that have the status of international treaties.
International Standard Industrial Classification of All Economic Activities (ISIC)	Classification based on the principal productive activity, used for classifying producers by economic activity.
Intersectoral consolidation	Consolidation of a particular grouping of units spanning several institutional sectors or sub-sectors to produce statistics for that particular grouping.
Intra-sectoral consolidation	Consolidation within a particular sector, or sub-sector, to produce statistics for that particular sector or sub-sector.
Inventories	Produced assets that consist of goods and services which came into existence in the current period or in an earlier period, and that are held for sale, use in production, or other use at a later date.
Inventories (excluding produced natural resources)	Produced assets that consist of goods and services which came into existence in the current period or in an earlier period, and that are held for sale, use in production, or other use at a later date. Work-in-progress related to biological resources is excluded, and grouped together with other natural resources.
Inverse merchanting	A special case of merchanting, occurring when both the unit that is selling to the nonresident merchant and the unit that is subsequently purchasing from the nonresident merchant are both resident in the same economy and the goods do not leave and re-enter the

Term (Alternative Term)	Definition
	economy of the units selling to and purchasing from the nonresident merchant.
Investment fund shares/units	Shares or units issued by investment funds, including money market funds and nonmoney market funds, that represent claims on part of the value of an established investment fund.
Investment funds	Collective investment undertakings through which investors pool funds for investment in financial or nonfinancial assets or both. Investment funds include money market funds (MMF) and non-MMF investment funds.
Investment grants	Capital transfers made by governments or international organizations to other institutional units to finance all or part of the costs of their acquiring nonfinancial assets.
Investment income	Income receivable by the owner of a financial asset in return for providing funds to another institutional unit.
Investment income attributable to insurance policyholders	Investment income receivable from the investment of insurance technical reserves, which is attributed to the policy holders.
Investment income attributable to investment fund share holders	Dividends and retained earnings of investment funds, which are attributable to the shareholders.
Investment income attributable to the surplus/shortfall in defined benefit pension funds	Investment income imputed on the claim of a pension fund towards its pension sponsor.
Investment income disbursements	The sum of investment income attributable to insurance policy holders, investment income payable on pension and nonpension entitlements, and investment income attributable to investment fund share-holders.
Investment income payable on pension and nonpension entitlements	Investment income received from the investment of assets accumulated for defined contribution schemes, and the unwinding of the discount of the entitlements for defined benefit schemes. The latter may also include some entitlements related to nonpension social insurance schemes.
Invoiced value added tax	Value added tax payable on the sales of a producer, shown separately on the invoice that the producer presents to the purchaser.
Inward direct investment (Direct investment in the reporting economy; Inward	All direct investment liabilities less assets between resident direct investment enterprises and their direct investors. It also covers all direct investment liabilities less assets between resident and

Term (Alternative Term)	Definition
foreign direct investment; Foreign direct Investment in the reporting economy)	nonresident fellow enterprises if the ultimate controlling parent is nonresident.
Islamic finance	The provision of financial services in accordance with Shariah principles.
Islamic financial institution	Financial institution that follows the principles of Shariah. Shariah, which denotes the Islamic law that governs the entire framework of activities in Islam, includes law regulating economic and financial activities in order to ensure fair transactions as well as social economic justice. Shariah prohibits financial transactions associated with interest for lending and borrowing, excessive uncertainty, speculation, or gambling; however, trading or transactions entailing a chance of gain or risk of loss are allowed.
Islamic window	That part of a conventional financial institution (which may be a branch or a dedicated unit of that institution) that provides both fund management (investment accounts) and financing and investment that are Shariah-compliant, with separate funds. It could also provide takaful or retakaful services.
Issue price	Price at which investors buy a debt security when first issued.
Jobs	Contracts between employees and resident institutional units to provide labor in return for remuneration for a defined period or until further notice. The concept of jobs also applies to self-employed persons.
Joint venture	Contractual agreement between two or more parties for the purpose of executing a business undertaking in which the parties agree to share in the profits and losses of the enterprise as well as the capital formation and contribution of operating inputs or costs. It is similar to a partnership but typically differs in that there is generally no intention of a continuing relationship beyond the original purpose.
Kind-of-activity unit	An enterprise, or a part of an enterprise, that engages in only one kind of productive activity or in which the principal productive activity accounts for most of the value added. A kind-of-activity unit must be more homogeneous with respect to output, cost structure, and technology of production than the enterprise as a whole.
Knowledge-capturing products	Products that concern the provision, storage, communication and dissemination of information, advice, and entertainment in such a way that the consuming unit can access the knowledge repeatedly.

Term (Alternative Term)	Definition
Labor force (Economically active population)	All resident persons who are actively prepared to make their labor available during any particular reference period for producing goods and services that are included within the production boundary applied in the integrated framework of the SNA.
Labor input	All persons, both employees and self-employed persons, engaged in some productive activity that falls within the production boundary of the integrated framework of the SNA and that is undertaken by a resident institutional unit.
Land	Ground, including the soil covering and any associated surface waters, over which ownership rights are enforced and from which economic benefits can be derived by their owners by holding or using them.
Land improvements	Major improvements in the quantity, quality or productivity of land or prevent its deterioration. Such improvements are recorded as capital formation and the additional value is shown as a separate asset within produced nonfinancial assets (excluding natural resources).
Laspeyres price (or volume) index	Index calculated as the weighted arithmetic average of price (or volume) relatives using the values (or volumes) of the earlier period as weights.
Lease	Agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time.
Legal entity (Social entity)	A unit whose existence is recognized by law or society independently of the persons, or other units, that may own or control it.
Legal obligations	Obligation derived from a contract (through its explicit or implicit terms), legislation, or another operation of law.
Legal owner	The institutional unit entitled in law and sustainable under the law to claim the economic benefits associated with goods, services, natural resources, financial assets or liabilities (which may be different from the economic owner).
Legally constituted corporations	Legal entities created for the purpose of producing goods or services for the market that may be a source of profit or other financial gain to its owner(s). They are collectively owned by shareholders who have the authority to appoint directors responsible for its general management.

Term (Alternative Term)	Definition
Liabilities (Financial liabilities)	Obligations where one unit (the debtor) is obliged, under specific circumstances, to provide funds or other resources to another unit (the creditor). These include shares and other equity in corporations.
Life insurance	Activity whereby a policyholder makes regular payments to an insurer in return for which the insurer guarantees to provide the policyholder (or in some cases another nominated person) with an agreed sum, or an annuity, at a given date or earlier if the policyholder dies beforehand. It excludes term life insurance.
Life insurance and annuity entitlements	Financial claims of policyholders against an institutional unit offering life insurance or providing annuities.
Limited liability entity	A legal entity where the owners' liability is limited to the amount of their investment in the company. This means that the personal assets of the owners are generally protected from the debts and obligations of the business.
Liquidating dividends	Dividends payable to shareholders as a result of an enterprise becoming bankrupt, after settling all other obligations.
Liquidity	Ability to sell assets quickly and in large volume without substantially affecting their price. In terms of financial instruments, liquidity generally refers to those assets that can be converted into a medium of exchange quickly without a significant loss in value.
Liquidity risk	Risk related to meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.
Listed shares (Quoted shares)	Equity securities listed on an exchange (also known as quoted shares).
Loans	Financial assets that are created when a creditor lends funds directly to a debtor and are evidenced by documents that are not negotiable.
Local government	Part of general government that includes all institutional units whose fiscal, legislative, and executive authority extends over the smallest geographical areas distinguished for administrative and political purposes, as well as those nonmarket producers controlled by local governments. Social security funds organized and managed by different levels of government are typically classified in a separate subsector of general government. Alternatively, social security funds that are organized and managed by the local governments could be included in the local governments subsector.
Local unit	An enterprise, or a part of an enterprise, that engages in productive activity at or from one location.



Term (Alternative Term)	Definition
Long-term maturity	Maturity of more than one year or with no stated maturity.
Machinery and equipment	Transport equipment, machinery for information, communication and telecommunications equipment, and other machinery and equipment used for production purposes.
Maintenance and repair services n.i.e.	Maintenance and repair work by residents on goods that are owned by nonresidents (and vice versa)
Manufacturing services on physical inputs owned by others	Services related to processing, assembly, labelling, packing and so forth undertaken by enterprises that do not own the goods concerned.
Margins	Collateral provided to cover potential obligations. The required provision of margin reflects counterparty risk and is standard in financial derivative markets, especially for futures and exchange-traded options.
Market output	Output intended for sale at economically significant prices.
Market prices (Market values)	Amounts of money that willing buyers pay to acquire something from willing sellers. Exchanges are made between independent parties and on the basis of commercial considerations only - sometimes called "at arm's length".
Market producers	Establishments, all or most of whose output is market output.
Market risk	Risk related to fluctuations in the value or the future cash flows of a financial instrument. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.
Marketable operating leases	Third-party property rights relating to leased fixed assets.
Market-equivalent prices (Market-equivalent values)	Valuation method to approximate market prices by using the prices of similar goods, services or assets adequately adjusted for differences in characteristics.
Marketing assets	Items such as brand names, mastheads, trademarks, logos, and domain names.
Materials and supplies	All products that a producer holds in inventory with the intention of using them as intermediate inputs into own production and not to resell them.
Maturity	Period at the end of which a financial instrument will cease to exist and the principal is repaid with interest.

Term (Alternative Term)	Definition
Means of payment	Refers to the instrument used to make the payment, such as cash, a check, debit/credit card, stablecoins, or crypto assets without corresponding liability (e.g., Bitcoins).
Medium of exchange	A means for acquiring goods, services, or assets without resorting to barter. Acting as a medium of exchange is one of the basic functions of money, which takes the form of various types of financial instruments.
Memorandum items	Additional items of special analytical interest, which are added to the presentation, but do not impact the totals and balancing items derived from the macro-economic system.
Merchanting	Purchase of goods by a resident (of the compiling economy) from a nonresident combined with the subsequent resale of the same goods to another nonresident without the goods being physically moved in and out of the compiling economy.
Merger	When two or more companies agree to combine into a single operation.
Metadata	Systematic, descriptive information about data content and organization, providing information on the concepts, sources and methods underlying the data and therefore help users to understand and assess the characteristics of the data.
Migrants' personal items	Personal property that accompanies people changing residence.
Military inventories	Inventories consisting of single-use items such as ammunition, missiles, rockets, bombs, etc., delivered by weapons or weapons systems.
Mineral and energy resources	Known deposits of oil resources, natural gas resources, coal and peat resources, nonmetallic minerals and metallic minerals located on or below the Earth's surface, and renewable energy resources (especially related to the capture of energy from wind, solar radiation, moving water, and geothermal sources), that are economically exploitable, given current technology and relative prices.
Mineral exploration and evaluation	Capitalized value of expenditures on exploration for mineral and energy deposits, and the subsequent evaluation of the discoveries.
Miscellaneous current transfers	Current transfers, in cash or in kind, other than current taxes on income, wealth, etc., social contributions less service charges and social benefits, nonlife insurance premiums less service charges and nonlife insurance claims, current transfers within general government and current international cooperation. In the external

Term (Alternative Term)	Definition
	accounts, miscellaneous current transfers include all current transfers, in cash or in kind, other than personal transfers, current taxes on income, wealth, etc.; social contributions less service charges and social benefits; nonlife insurance premiums less service charges and nonlife insurance claims; and current international cooperation.
Mixed Income	Income earned by an unincorporated enterprise from the use of the owner's labor and capital in the production of goods and services during an accounting period.
Monetary authorities	Authorities encompassing the central bank (which subsumes other institutional units included in the central bank subsector, such as the currency board) and certain operations usually attributed to the central bank but sometimes carried out by other government institutions or commercial banks, such as government-owned commercial banks. Such operations include the issuance of currency; maintenance and management of reserve assets, including those resulting from transactions with the IMF; and operation of exchange stabilization funds.
Monetary base	Central bank liabilities that support the expansion of credit and broad money.
Monetary gold	Gold to which the monetary authorities (or others who are subject to the effective control of the monetary authorities) have title and is held as a reserve asset. It comprises gold bullion (including gold held in allocated gold accounts) and unallocated gold accounts with nonresidents that give title to claim the delivery of gold.
Monetary presentation	Presentation showing the link between the balance of payments and monetary and financial statistics. It identifies the transactions of the deposit-taking corporations (plus money market funds, if their liabilities are included in the definition of broad money), which are equal to transactions in the foreign assets and liabilities of the same entities, as recorded in monetary and financial statistics.
Monetary transactions	Transactions in which one institutional unit makes a payment (receives a payment) or incurs a liability (acquires a financial asset) stated in units of currency.
Monetary union	A group of economies with the presence of a single monetary policy among them, established by an intergovernmental legal agreement.
Money aggregates	Measures of money supply in an economy that have progressively broader coverage of money components (M1, M2, M3, etc.).

Term (Alternative Term)	Definition
Money lenders	Persons or groups of persons who offer small personal loans using mostly own funds. Their assets or liabilities are not transacted in open financial markets.
Money market fund shares/units	Shares or units issued by money market funds that represent claims on part of the value of an established money market fund.
Money market funds	Collective investment schemes that raise funds by issuing shares or units to the public, and primarily investing in money market instruments, money market fund shares or units, transferable debt instruments with a residual maturity of not more than one year, bank deposits, and instruments that pursue a rate of return that approaches the interest rates of money market instruments.
Mudaraba	A partnership contract between the capital provider (rabb al-māl) and an entrepreneur (muḍārib) whereby the capital provider would contribute capital to an enterprise or activity that is to be managed by the entrepreneur. Profits generated by that enterprise or activity are shared in accordance with the percentage specified in the contract, while losses are to be borne solely by the capital provider unless the losses are due to misconduct, negligence, or breach of contracted terms.
Multiemployer social insurance scheme (Multi-employer scheme)	Social insurance schemes where the assets contributed by multiple employers are pooled together, to provide benefits to employees, on the basis that contribution and benefit levels are determined without regard to the identity of the employer.
Multinational enterprise	Legal entity that has at least one nonresident affiliate or branch, and exercises control over its affiliate(s) or branch(es) either directly—by having over 50 percent of the voting power in the unit—or by indirect transmission of control. The multinational enterprise is the ultimate controlling parent—the direct investor at the top of the control chain.
Multinational enterprise group (Global enterprise group)	The multinational enterprise and the set of units—regardless of their economies of residence—that are under the control of the same ultimate controlling parent.
Multi-territory enterprise	Enterprise that operates as a seamless operation over more than one economic territory. Although the enterprise has substantial activity in more than one economic territory, it is run as an indivisible operation with no separate accounts or decisions, so that separate branches cannot be identified. Such enterprises may have operations such as shipping lines, airlines, hydroelectric schemes on border rivers, pipelines, bridges, tunnels, and undersea cables.
Musharaka	Partnership contract in which the partners agree to contribute capital to an enterprise, whether existing or new. Profits generated by that

Term (Alternative Term)	Definition
	enterprise are shared in accordance with the percentage specified in the mushara contract, while losses are shared in proportion to each partner's share of capital
National disposable income	Total income available for final consumption expenditure or saving.
National net worth	Total value of nonfinancial assets of the residents of an economy plus the balance of financial assets and liabilities of the residents with the rest of the world.
National private corporation	Corporation that is neither controlled by a government unit, or another public unit, nor by a nonresident unit.
Natural capital	The combination of natural resources and ecosystem assets, of which the latter are not explicitly recognized as economic assets in the integrated framework of national accounts.
Natural resource leases	Contractual agreements whereby the legal owner of a natural resource makes it available to a lessee in return for a regular payment recorded as rent.
Natural resources	Assets that naturally occur, such as land, mineral and energy resources, water resources, and animal, tree, crop, and plant resources, that have an economic value and over which ownership may be enforced and transferred. Environmental assets over which ownership rights have not, or cannot, be enforced, such as high seas beyond national jurisdiction and most parts of the atmosphere, are excluded.
Negotiable instruments	Financial instruments whose legal ownership is readily capable of being transferred from one owner to another by delivery or endorsement. These are designed to be traded on an organized exchange or over the counter, although evidence of actual trading is not required for an instrument to be considered negotiable.
Net asset value	Valuation method for unlisted equity, by using total assets at current value less total liabilities (excluding equity) at market value.
Net capital formation	Gross capital formation, after deduction of depreciation.
Net debt	Amount of debt held by an institutional unit after subtracting the value of financial assets it holds corresponding to debt liabilities of other institutional units.
Net financial worth	Total value of financial assets less the total value of liabilities.
Net fixed capital formation	Gross fixed capital formation, after deduction of depreciation.

Term (Alternative Term)	Definition
Net international investment position	The value of financial assets of residents of an economy that are claims on nonresidents or are gold bullion held as reserve assets less the value of the liabilities of residents of an economy to nonresidents at a particular point in time.
Net international reserves	Reserve assets minus short-term net foreign currency drains.
Net lending / net borrowing	Net lending is defined as the difference between changes in net worth due to saving and capital transfers and net acquisitions of nonfinancial assets (acquisitions less disposals of nonfinancial assets, less depreciation and depletion). If the amount is negative, it represents net borrowing. In the external accounts, it represents the sum of the balances on the current and capital accounts. This is conceptually equal to the net balance of the financial account. If the balance is positive, it is called net lending, implying that in net terms, the economy supplies funds to the rest of the world. If the balance is negative, it is called net borrowing, implying that in net terms, the economy receives funds from the rest of the world.
Net realizable value	Estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.
Net recording	Recording which reflects aggregations or combinations for which the values of some elementary items are offset against the same items that have an opposite sign. See also <i>gross and net</i> .
Net recording of financial transactions	Recording of financial transactions is the recording of the acquisition of financial assets net of disposals and the incurrence of liabilities net of repayments.
Net worth	The value of an institutional unit's assets less the value of its outstanding liabilities (including shares and other equity).
Netting	Occurs in categories such as changes in inventories and increases in assets and liabilities to show the final effect of these types of flows at the end of the accounting period.
Nominal value	Outstanding amount the debtor owes to the creditor, which is composed of the outstanding principal amount including any accrued interest.
Nondeductible value added tax (VAT)	Value added tax (VAT) payable by a purchaser that is not deductible from his own VAT liability, if any.
Nonfinancial accounts	Total of accounts representing production, generation of earned income, distribution of earned and transfer income, use of income, and accumulation of capital via capital transfers and purchases, less

Term (Alternative Term)	Definition
	disposals, of nonfinancial assets. In the context of external accounts, nonfinancial accounts include the current and capital accounts.
Nonfinancial assets	Assets other than financial assets.
Nonfinancial corporations	Institutional units whose principal activity is the production of market goods or nonfinancial services.
Nonfinancial intermediation services	Fees or commissions related to transactions in goods, services, and nonproduced nonfinancial assets payable to merchants, commodity brokers, dealers, auctioneers, commission agents as well as nonfinancial digital intermediation platforms.
Nonfungible tokens (NFTs)	Digital records hosted on a blockchain that are associated with a digital or physical asset or product but that are distinct from that asset or product. These tokens may be treated as i) services if they convey no ownership rights and only allow for personal use of another asset or commodity; ii) nonproduced nonfinancial assets in cases that they grant limited ownership rights from which the owner can derive economic benefits; or iii) a digital recording of ownership similar to a property title, not a separate asset if they conveys full ownership rights.
Nonlife insurance	Insurance providing cover to the policyholder against loss or damage suffered as a result of accidents, sickness, fire, etc. It also includes term life insurance.
Nonlife insurance claims	The amounts payable in settlement of injuries or damages that result from an event covered by the nonlife insurance (or reinsurance) policy occurring in the period for which the policy is valid. In the case of major catastrophic events, some proportion of the claims may be recorded as capital transfers.
Nonlife insurance claims outstanding	Claims related to nonlife insurance (or reinsurance), which have not yet been reported, have been reported but not yet settled, or have been both reported and settled but not yet paid.
Nonlife insurance premium supplements (Nonlife insurance premiums - supplements)	Investment income earned from the investment of the (nonlife) insurance technical reserves, excluding any holding gains and losses. The amounts involved cover earnings foregone by the insurance policyholders by putting the funds at the disposal of the insurance corporation.
Nonlife insurance premiums - actual	Actual amount payable to the direct insurer or reinsurer to secure insurance cover for a specific event over a stated time period, as covered by a nonlife insurance (or reinsurance) policy.

Term (Alternative Term)	Definition
Nonlife insurance premiums - actual (earned) (Actual nonlife insurance premium earned)	The part of actual nonlife insurance premiums that relates to insurance cover provided in the accounting period.
Nonlife insurance premiums - actual (unearned) (Actual nonlife insurance premium unearned)	The part of actual nonlife insurance premiums that relates to insurance cover provided in the period past the accounting point.
Nonlife insurance premiums less service charges	The sum of actual nonlife insurance (or reinsurance) premiums payable by policyholders to obtain insurance cover during the accounting period (actual premiums earned) and the premium supplements payable out of the investment income attributed to insurance policyholders less the service charges payable to the insurance corporation.
Nonlife insurance technical reserves	Reserves related to nonlife insurance (and reinsurance) consisting of prepayments of nonlife insurance premiums less service charges and reserves to meet outstanding nonlife insurance claims
Nonmarket output	Goods and individual or collective services produced by government, the central bank, and nonprofit institutions serving households (NPISHs) that are supplied free, or at prices that are not economically significant, to other institutional units or the community as a whole.
Nonmarket producers	Establishments owned by government units, the central bank, or nonprofit institutions serving households (NPISHs) that supply goods or services free, or at prices that are not economically significant, to households or the community as a whole.
Nonmonetary gold	Gold bullion not held as reserve assets. It is a nonfinancial asset. In the national accounts, stocks and flows of nonmonetary gold are recorded in the capital account. In the external accounts, cross-border transactions are recorded in the goods account under nonmonetary gold while stocks are not recorded.
Nonmonetary transactions	Transactions that are not initially stated in units of currency.
Non-money market investment fund	Collective investment schemes that raise funds by issuing shares or units to the public, and investing, on their own account, predominantly in longer-term financial assets, such as equity shares, bonds, and mortgage loans, and nonfinancial assets.



Term (Alternative Term)	Definition
Non-money market investment fund shares/units	Shares or units issued by non-money market funds, that represent claims on part of the value of an established non-money market investment fund.
Nonobserved economy	Economic activity missing from statistical data collections and from administrative sources. Conceptually included are illegal activities where the parties are willing partners in an economic transaction; hidden and underground activities where the transactions themselves are not against the law, but are unreported to avoid official scrutiny; activities described as 'informal', and typically where no records are kept.
Nonparticipating preferred shares (Nonparticipating preferred stocks)	Shares or stocks that pay a fixed income but do not provide for participation in the distribution of the residual value of an incorporated enterprise on dissolution, and so are classified as debt securities.
Nonpension social benefits	Social benefits payable to individuals that are not pensions, but paid when the relevant individuals are, for example, temporarily unemployed, suffering from a medical condition, or suffering from an event that prevents them from working for a period.
Nonperforming loans	Loans for which payments of interest and/or principal are past due by 90 days or more; or interest payments equal to 90 days or more have been capitalized or delayed by agreement; or evidence exists to reclassify a loan as nonperforming even in the absence of a 90-day past due payment such as when the debtor files for bankruptcy.
Nonproduced nonfinancial assets (excluding nonproduced natural resources)	Nonfinancial assets that have come into existence in ways other than through processes of production, excluding nonproduced natural resources. They consist of contracts, leases, and licenses; crypto-assets without a corresponding liability, purchased goodwill, and marketing assets.
Nonprofit institutions	Legal or social entities created for the purpose of producing goods and services but whose status does not permit them to be a source of income, profit, or other financial gain for the units that establish, control, or finance them.
Nonprofit institutions serving households	Nonprofit institutions principally engaged in the production of nonmarket services, which are not controlled by government
Nonrenewable mineral and energy resources	Known deposits of nonrenewable oil resources, natural gas resources, coal and peat resources, nonmetallic minerals and metallic minerals located on or below the Earth's surface, that are

Term (Alternative Term)	Definition
	economically exploitable, given current technology and relative prices.
Notional resident units	Institutional units identified for statistical purposes to be the resident owner of immovable assets legally owned by nonresidents.
Notional value of a financial derivative	The amount underlying a financial derivative contract that is necessary for calculating payments or receipts on the contract, sometimes called notional amount or nominal amount of a financial derivative.
Observable phenomena related to data	A fact or situation whose characteristics or attributes may be recorded for the collection of data. Observable phenomena are by nature nonproduced, and are generally not part of the SNA asset boundary.
Off-market swaps	Swaps that have nonzero values at inception as a result of having prices not based on current market values, that is, “off-the-market.”
Offshore bank	A deposit-taking corporation established in jurisdictions that provide legal and fiscal advantages such as low or no taxation and less stringent regulations in terms of reserve requirements or foreign exchange restrictions. They engage exclusively (or almost exclusively) with nonresidents.
Offshore financial centers	Jurisdictions in which the majority of the financial transactions are conducted by resident financial corporations on behalf of clients who reside outside the offshore financial center.
On-balance sheet securitization	Debt securities backed by a future revenue stream generated by underlying assets. The latter assets remain on the balance sheet of the debt securities issuer (the original owner of the underlying assets), typically as a separate portfolio. There is no securitization unit involved.
One-off guarantees	Guarantees where the debt instrument is so particular that it is not possible to calculate the degree of risk associated with the debt with any degree of accuracy.
On-lending	Arrangement where an institutional unit A, borrowing from another institutional unit B, and then on-lending the proceeds from this borrowing to a third institutional unit C, where it is understood that unit A obtains an effective financial claim on unit C.
Operating lease (Operational lease)	Contract between a lessor and a lessee, under which the lessor charges a rental to the lessee for the use of a produced nonfinancial asset, and the lessor remains the legal and economic owner of the asset.

Term (Alternative Term)	Definition
Operating leasing services	Services associated with renting out produced assets under arrangements that provide use of a tangible asset to the lessee, but do not involve the transfer of the bulk of risks and rewards of ownership to the lessee.
Operating surplus	The income earned by resident corporations from the use of their capital in the production of goods and services during an accounting period.
Option-type contracts (Options)	Contracts that give the purchaser of the option the right, but not the obligation, to buy (a “call” option) or to sell (a “put” option) a particular financial or nonfinancial item at a predetermined price (the “strike” price) either within a given time span (American option) or on a given date (European option).
Original maturity	Period from the issue date of a financial instrument until the final contractually scheduled payment date.
Other accounts receivable/payable	Miscellaneous other items receivable or payable such as liabilities for taxes, emissions permits, cash collateral received by nondeposit-taking corporations (except those for reverse transactions), purchase and sale of securities, securities lending fees, gold loan fees, crypto lending fees, wages and salaries, dividends, and social contributions that have accrued but have not yet been paid. It also includes prepayments of those items.
Other buildings and structures	Nonresidential buildings, other structures, and land improvements.
Other business services	Distribution services related to water, steam, gas, and other petroleum products and air-conditioning supply, where these are identified separately from transmission services; placement of personnel, security, and investigative services; translation and interpretation; photographic services; publishing; building cleaning; and real estate services. Also included are forfeited down payments not able to be specified to any other service.
Other capital transfers	All capital transfers except capital taxes, investment grants, and debt forgiveness.
Other changes in assets and liabilities (Other flows; Other economic flows)	Changes in the value of assets and liabilities not due to transactions. They consist of other changes in the volume of assets and liabilities and revaluations. In the external accounts, the other changes in assets and liabilities are restricted to those relating to financial assets and liabilities.
Other changes in the volume of assets and liabilities	Changes in the value of assets and liabilities that are neither due to transactions nor due to holding gains and losses (valuations). They include, amongst others, economic appearance and

Term (Alternative Term)	Definition
	disappearance of nonproduced assets, catastrophic losses, cancellations and write-offs of debt, uncompensated seizures, reclassifications, and the changes in financial assets and liabilities arising from units changing their economy of residence. In the external accounts, the other changes in the volume of assets and liabilities are restricted to those relating to financial assets and liabilities.
Other current taxes	Current taxes on income, wealth, etc. excluding the taxes on income, profits, and capital gains.
Other current transfers	All current transfers other than current taxes on income, wealth, etc., social contributions and social benefits, and social transfers in kind. In the external accounts, all current transfers other than personal transfers are included in other current transfers.
Other deposits (Nontransferable deposits)	Claims other than transferable deposits, that are represented by evidence of deposit.
Other equity and equity in international organizations	All forms of equity other than listed and unlisted shares. In the case of equity in international organizations, it also includes nontradable shares.
Other ESG debt securities	All ESG debt securities other than social, green, sustainability, and sustainability-linked debt securities.
Other financial corporations	Corporations and quasi-corporations, except the central bank and other deposit-taking corporations, that are principally engaged in providing financial services to other institutional units. In monetary and financial statistics, other financial corporations are defined as financial corporations that do not issue liabilities included in broad money.
Other financial intermediaries except insurance corporations and pension funds	Institutional units principally engaged in providing financial services by incurring liabilities, in forms other than currency, deposits, or close substitutes for deposits, on their own account for the purpose of acquiring financial assets by engaging in financial transactions on the market, and that are not included in another subsector.
Other intellectual property products	Intellectual property products, which are not captured as research and development, mineral exploration and evaluation, computer software, data and databases, or entertainment, literary, and artistic originals.
Other investment	A residual category that includes flows and positions other than those included in direct investment, portfolio investment, financial derivatives and employee stock options, and reserve assets.

Term (Alternative Term)	Definition
Other machinery and equipment	Machinery and equipment, other than transport equipment and ICT-equipment
Other miscellaneous current transfers (Miscellaneous current transfers)	Fines and penalties, payments (after deduction of service charge and donations) and receipts related to lotteries and gambling, and payments for compensation
Other natural resources	Assets representing the effective economic ownership rights over the use of the spectrum, and other natural resources not elsewhere classified.
Other personal, cultural, and recreational services	Health services, education services and other services. This excludes the health and educational services included under travel.
Other price changes	All changes in value resulting from revaluations, except those due to exchange rate changes.
Other social insurance benefits (Other employment-related social insurance benefits)	Social benefits payable by social insurance schemes to households, requiring the participation, through the payment of social contributions, in a social insurance scheme other than a social security scheme.
Other structures	Structures other than buildings, including the cost of the streets, sewer, etc.
Other subsidies on production	Subsidies other than subsidies on products that resident enterprises may receive as a consequence of engaging in production.
Other subsidies on products	Subsidies on goods or services produced by resident enterprises, or on imports, that become payable as a result of the production, sale, transfer, leasing or delivery of those goods or services, or as a result of their use for own consumption or own capital formation.
Other taxes on production	Taxes on production other than taxes on products that enterprises incur as a result of engaging in production.
Other transport services	Services that are auxiliary to transport and not directly provided for the movement of goods and persons.
Other valuables	Valuables not elsewhere classified, such as collections and jewellery of significant value fashioned out of precious stones and metals.
Output	Goods and services produced by an establishment, excluding the value of any goods and services used in an activity for which the establishment does not assume the risk of using the products in production, and excluding the value of goods and services consumed by the same establishment except for goods and services

Term (Alternative Term)	Definition
	used for capital formation (fixed capital or changes in inventories) or own final consumption.
Output for own final use (Output from own account production)	Products produced that are retained by the producer for their own use as final consumption or capital formation.
Output of services from owner-occupied dwellings	Imputed transaction to reflect the estimated value of rental is that which a tenant would pay for the same accommodation.
Outward direct investment (Direct investment abroad; Outward foreign direct investment; Foreign direct investment abroad)	All direct investment assets less liabilities between resident direct investors and their direct investment enterprises. It also covers all direct investment assets less liabilities between resident and nonresident fellow enterprises if the ultimate controlling parent is resident.
Overnight deposits (Sweep accounts)	Deposits (or sweep accounts) involving funds that are moved back and forth overnight.
Own funds	The difference between total assets and total liabilities excluding shares and other equity.
Parent	Entity that controls an enterprise.
Partitioning	Splitting a transaction, that is a single transaction from the perspective of the parties involved, into two or more differently classified transactions.
Passenger services	Services related to the transport of people.
Pass-through funds (Funds in transit)	Funds passing through a direct investment enterprise resident in an economy to an affiliate in another economy, so that the funds do not stay in the economy of the first enterprise.
Past due	Failure of a counterparty to make a payment when that payment was contractually due.
Pension entitlements	Financial claims that both existing and future pensioners hold against either their employer, a fund designated by the employer to pay pensions earned as part of a compensation agreement between the employer and employee, or a specific collective fund established for self-employed persons.
Pension funds	Social insurance pension schemes that are institutional units separate from the units that create them.
Permits to undertake specific activities	Permits which are limited in number and so allow the holders to earn monopoly profits, where the monopoly profits do not come from the

Term (Alternative Term)	Definition
	use of an asset belonging to the permit-issuer, and which a permit holder is able both legally and practically to sell the permit to a third party.
Perpetuities	Refers to financial instruments which have no stated maturity, but offer a fixed-coupon payment at some periodic interval in perpetuity.
Personal remittances	The sum of all household-to-household transfers and the net earnings of nonresident workers in the economy of employment. In technical terms, personal remittances are defined as current and capital transfers in cash or in kind between resident households and nonresident households, plus remuneration of employees received by nonresident workers in the economy of employment, minus taxes and social contributions paid and transport and travel expenditures related to working abroad.
Personal transfers	Current transfers, in cash or in kind, made or received by resident households to or from nonresident households.
Personal travel	Goods and services acquired by persons going abroad for purposes other than business such as vacations, participation in recreational and cultural activities, visits with friends and relatives, pilgrimage, and education and health related purposes.
Personal, cultural, and recreational services	Audiovisual and related services; and other personal, cultural and recreational services.
Population	All persons who are resident in the economic territory at a given point in time.
Portfolio investment (Foreign portfolio investment)	Cross-border flows and positions involving debt or equity securities, other than those included in direct investment or reserve assets.
Portfolio investment income (Foreign portfolio investment income)	Flows of investment income between residents and nonresidents arising from positions in equity and debt securities other than those classified under direct investment or reserve assets.
Postal and courier services	Services related to pick-up, transport, and delivery of letters, newspapers, periodicals, brochures, other printed matter, parcels, and packages. It also includes post office counter services such as sales of stamps and money orders, poste restante services, telegram services, and mailbox rental services.
Precious metals and stones	Precious metals and stones not held by enterprises for sale or use as inputs to processes of production, nor held as monetary gold and not held as a financial asset in the form of unallocated precious metal accounts.

Term (Alternative Term)	Definition
Present value (Net present value)	Value of an asset determined by estimating the stream of economic benefits expected to be earned in the future and then discounting the future economic benefits back to the present accounting period.
Principal (original)	Amount borrowed and to be repaid excluding interest due or accrued.
Principal (outstanding)	The remaining liability of a debtor, established through the provision of economic value by a creditor, or the creation of debt liabilities through other means, which until extinguished may change in value over time.
Principal activity	The activity of (a part of) an enterprise whose value added exceeds that of any other activity carried out within the same unit.
Produced nonfinancial assets (excluding produced natural resources)	Nonfinancial assets that have come into existence as outputs from production processes that fall within the production boundary of the integrated framework of national accounts, excluding produced natural resources. They consist of fixed assets, inventories, and valuables.
Producer's price	Amount receivable by the producer from the purchaser for a unit of a good or service produced as output minus any VAT, or similar deductible tax, invoiced to the purchaser. It excludes any transport charges invoiced separately by the producer.
Production	Activity carried out under the responsibility, control, and management of an institutional unit, that uses inputs of labor, capital, and goods and services to produce outputs of goods and services.
Production boundary	Boundary of what constitutes production, including the production of goods and services supplied, or intended to be supplied, to units other than their producers; the own-account production of goods and knowledge-capturing products retained by their producers for their own final consumption or gross capital formation; the own-account production of housing services by owner occupiers; and the production of domestic and personal services by employing paid domestic staff.
Productivity	Measure of output, or value added, per unit of input.
Products	Goods and services (including knowledge-capturing products) that result from a process of production.
Professional and management consulting services	Legal services, accounting, management consulting, managerial services and public relations services; and advertising, market research and public opinion polling services.



Term (Alternative Term)	Definition
Promissory note	Unconditional promise to pay a certain sum on demand on a specified date.
Property income	Income receivable by the owner of a financial asset or the owner of a nonproduced natural resource or another nonproduced nonfinancial asset in return for providing funds to, or putting the nonfinancial assets at the disposal of, another institutional unit.
Provisions	Funds set aside by an economic unit to cover future liabilities of uncertain timing or amount, due to unexpected events, terminal costs, or default by customers. Provisions are not treated as liabilities in macroeconomic statistics (with the exception of those related to standardized guarantees), although they may be available as supplementary information. In monetary and financial statistics, provisions for losses on assets are presented as if these items are liabilities.
Provisions for calls under standardized guarantees	Prepayments of fees less service charges and provisions to meet the expected calls under outstanding standardized guarantees.
Provisions for loan losses (Loan loss provisions)	Allowances against bad or impaired loans, based on the lender's judgment as to the likelihood of losses.
Public corporations	Corporations, or quasi-corporations, with the production of market goods and services as their principal activity, who are controlled by a government unit, another public corporation or some combination of government units and public corporations, where control is defined as the ability to determine the general corporate policy of the corporation.
Public monuments	Buildings and other structures of particular historical, national, regional, local, religious or symbolic significance.
Public sector	Sector comprising of all general government units and public corporations within an economic territory.
Public-private partnerships	Long-term contracts between a private unit (usually a private enterprise but occasionally a private nonprofit institution) and a public unit for the provision of a public asset or set of assets and related services in which the private party acquires, builds, or refurbishes an asset, operates the asset for the contract period and bears significant risk and management responsibility.
Purchased goodwill and marketing assets	The sum of goodwill (i.e., the difference between the value paid for an enterprise as a going concern and the sum of its assets less the sum of its nonequity liabilities) and any separately identified

Term (Alternative Term)	Definition
	marketing assets (i.e., items such as brand names, mastheads, trademarks, logos, and domain names).
Purchasers' price	The amount payable by the purchaser, excluding any deductible VAT or similar deductible tax, in order to take delivery of a unit of a good or service at the time and place required by the purchaser. This price includes any transport charges paid separately by the purchaser to take delivery at the required time and place.
Purchasing power parity	The number of units of country B's currency that are needed in country B to purchase the same quantity of an individual good or service as one unit of country A's currency will purchase in country A.
Quadruple-entry accounting	Simultaneous application of vertical and horizontal double-entry method, where each transaction results in four entries in the system: two for the instruments and two for the counterparties involved in the transaction.
Quasi-corporations	Unincorporated enterprises that operate as if they were a unit separate from their owner(s). They are treated as if they are a corporation.
Quasi-fiscal operations	Government operations carried out by institutional units other than general government units.
Real gross domestic income	The purchasing power of the income earned by all institutional units in an economic territory from the use of their labor and capital in the production of goods and services during an accounting period.
Reappraisals	Changes in the measured stock of assets due to the use of updated information that permits a reassessment of the size or value of the stock.
Reassignment	Rearrangement of a transaction by a third party on behalf of others as taking place directly between the two principal parties involved.
Re-exports	Goods produced in other economies, and previously imported with a change of economic ownership, that are exported with no substantial transformation from the state in which they were previously imported.
Reference period	Period, usually a year, quarter or month, which is used as a reference for compiling certain time series. Price and volume indices, including time series of volume estimates, typically have a certain period in the past as a reference point.

Term (Alternative Term)	Definition
Reference rate for the calculation of implicit financial services on loans and deposits	Interest rate used for the calculation of implicit financial services on loans and deposits between borrowers and lenders. If the lender receives L interest, and the borrower pays B interest, and the reference rate is R, then the service charge to the lender is $R - L$ , and to the borrower $B - R$ .
Re-imports	Domestically produced goods imported in the same state as previously exported, without any substantial transformation occurring on the goods while they were outside the territory.
Reinsurance	Insurance between one insurance corporation and another with the aim to spread the insurance risk.
Reinvested earnings on foreign direct investment (Reinvested earnings on direct investment)	Foreign direct investor's proportion of distributable income of a direct investment enterprise, less amounts declared for dividend distribution to direct investors, or less withdrawals from income of quasi-corporations by the direct investors. Reinvested earnings are treated as being distributed and subsequently reinvested.
Reinvestment of earnings	The entry in the financial account corresponding to reinvested earnings in the earned income account.
Remaining maturity (Residual maturity)	Period from the reference date until the final contractually scheduled payment date. Also referred to as residual maturity.
Remuneration of employees	Total remuneration, in cash or in kind, payable by an enterprise to an employee in return for work done by the latter during the accounting period.
Renewable energy resources	Energy resources which comprise the cumulative quantities of kinetic, radiative, and thermal energy recoverable from moving water (hydro and ocean energy), moving air (wind energy), hot underground and surface rock and water (geothermal resources) and incident solar radiation (solar resources).
Rent	Income receivable by the owner of a nonproduced natural resource or another nonproduced nonfinancial asset (the lessor or landlord) for putting the asset at the disposal of another institutional unit (a lessee or tenant) for use in production.
Rental	Amount payable by the user of a fixed asset to its owner, under an operating lease or similar contract, for the right to use that asset in production for a specified period of time. In the balance of payments, rentals are classified under different service categories depending on the underlying asset type.

Term (Alternative Term)	Definition
Requited transactions (Exchange transactions)	Transactions in which one unit provides a good, service, asset, or labor to a second unit and receives a good, service, asset, or labor of equivalent value in return ("something for something"). This includes transactions where one unit compensates a second unit for the temporary use of an asset owned by the second unit.
Rerouting	Recording a transaction as taking place through channels that differ from the actual ones, or as taking place in an economic sense when no actual transactions take place.
Research and development	Value of creative work undertaken on a systematic basis to increase the stock of knowledge, including knowledge of humans, culture or society, and use of this stock of knowledge for the purpose of discovering or developing new products, including improved versions or qualities of existing products, or discovering or developing new or more efficient processes of production. This does not extend to including human capital as assets.
Research and development services	Services associated with basic research, applied research, and experimental development of new products and processes.
Reserve assets (International reserve assets; Gross international reserves)	External assets, including monetary gold, that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing). Reserve assets must be denominated and settled in foreign currency.
Reserve deposits	Deposits at the central bank that other deposit-taking corporations use to satisfy reserve requirements for eligible liabilities.
Reserve position in the International Monetary Fund	The sum of a member's reserve tranche position and any indebtedness of the IMF in the General Resources Account (GRA) that is readily available to the member to meet balance of payments financing needs.
Reserve tranche position in the International Monetary Fund	Includes a member's reserve tranche and any indebtedness of the IMF (under a borrowing agreement) in the General Resources Account (GRA) that is readily available to the member country.
Reserve-related liabilities	Foreign currency liabilities of the monetary authorities that can be considered as direct claims by nonresidents on the reserve assets of an economy.
Residence	The economic territory with which an institutional unit has the strongest connection, i.e., its center of predominant economic

Term (Alternative Term)	Definition
	interest.
Resident units	Units that meet the criteria of residence in an economic territory.
Residual value of a nonfinancial asset	Amount that a unit would obtain from the disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
Resource management activities	Activities whose primary purpose is preserving and maintaining the stock of natural resources and hence safeguarding against depletion.
Resource rent (Economic rent)	Surplus value accruing to the extractor of a natural resources, or a user of an asset more generally, calculated after all intermediate costs, labor costs and the costs of fixed capital used have been taken into account.
Rest of the world	All nonresident institutional units that enter into transactions with resident units or that have other economic links with resident units.
Restructuring agencies	Institutional units set up to sell corporations and other assets, and to reorganize companies. They may also be used for dealing with the defeasance of impaired assets or repayment of liabilities of insolvent entities, often in the context of a banking crisis.
Retained earnings of a corporation or quasi-corporation (Retained earnings)	Distributable income less the dividends payable or less the withdrawals from income of quasi-corporations, respectively.
Reverse investment (Reverse direct investment)	Direct investment resulting from a direct investment enterprise lending funds to or acquiring equity in its immediate or indirect direct investor, provided it does not own equity comprising 10 percent or more of the voting power in that direct investor.
Reverse repos	Repos viewed from the perspective of the securities taker (cash provider).
Reverse transactions	Contractual arrangements involving a change of legal ownership of securities, gold, or other assets (e.g., commodities) with a commitment to repurchase the same or similar securities, gold, or other assets, either on a specified date or with open maturity.
Round tripping	Channeling abroad by resident direct investors of local funds and the subsequent return of these funds to the local economy in the form of direct investment.

Term (Alternative Term)	Definition
Saving	Amount that represents the part of disposable income (adjusted for the change in pension entitlements) that is not spent on final consumption.
Seasonal adjustment	Method to remove seasonal and calendar effects from short term indicators.
Seasonality	Pattern repeating on a regular basis in the same period of each year.
Secondary activity	Activity carried out by (a part of) an enterprise in addition to the principal activity, and whose output, like that of the principal activity, must be suitable for delivery to other units.
Securities	Debt and equity instruments that have the characteristic feature of negotiability, i.e., their legal ownership is readily capable of being transferred from one unit to another unit by delivery or endorsement.
Securities lending	Contractual arrangement whereby a security holder transfers securities to another party (security taker), subject to the stipulation that the same or similar securities be returned on a specified date or on demand.
Securities repurchase agreement (Repo)	Contractual arrangements involving the sale of securities for cash, at a specified price, with a commitment to repurchase the same or similar securities at a fixed price either on a specified future date or with an “open” maturity.
Securitization	Creation and issuance of debt securities for which coupon or principal payments (or both) are backed by specified financial assets, nonfinancial assets or future income streams.
Securitization vehicle	Financial corporation that specializes in issuing securities backed by specified financial assets, nonfinancial assets or future income streams.
Security tokens	Crypto assets that represent debt or equity claims on the issuer or derivative contracts that can be exchanged peer-to-peer even if the underlying asset is not a crypto asset.
Self-employed persons	Persons who are the sole or joint owners of the unincorporated enterprises in which they work, excluding those unincorporated enterprises that are classified as quasicorporations.
Services	Results from a production activity that changes the conditions of the consuming units, or facilitates the exchange of products, nonproduced nonfinancial assets or financial assets. Services are not generally separate items over which ownership rights can be

Term (Alternative Term)	Definition
	established and cannot generally be separated from their production.
Shares	Negotiable financial instruments representing claims on the residual value of a corporation after the claims of all creditors have been met.
Shariah	The practical divine law deduced from its legitimate sources: the Qur'ān, Sunnah, consensus (ijmā'), analogy (qiyās), and other approved sources of the Shariah.
Short position	Position when an institutional unit sells securities for which it is not the economic owner.
Short-term maturity (Short-term)	Maturity of one year or less or payable on demand.
Short-term net foreign currency drains	Foreign currency obligations (foreign currency outflows net of inflows) scheduled to come due during the 12 months ahead.
Shuttle trade	Transactions involving the purchase of goods in an economy by travelers (nonresidents) who then transport these goods back to their economy of residence where they are to be sold; goods purchased by travelers in their home country for resale abroad; and goods purchased by travelers abroad in one economy and sold abroad in a second economy.
Significant influence (Significant degree of influence)	Power to participate in the financial and operating policy decisions of a unit but not control those policies. Significant influence may be gained by an ownership interest, statute or agreement. In the case of foreign direct investment, a direct investor is considered to have a significant degree of influence if it owns between 10 and 50 percent of the voting power in a direct investment enterprise.
SNA interest (Pure interest)	The pure interest that financial corporations charge for loans or provide for deposits, i.e., after accounting for implicit financial services on loans and deposits.
Social assistance	Arrangement organized by government units or nonprofit institutions serving households to provide current transfers that meet the same needs as social insurance schemes, but without any requirement to participate in a social insurance scheme through the payment of contributions.
Social assistance benefits in cash	Social benefits payable in cash by government units or nonprofit institutions serving households (NPISHs) to households, to meet the same needs as social insurance benefits, but without any requirement to participate in a social insurance scheme through the payments of social contributions.

Term (Alternative Term)	Definition
Social benefits	Current transfers receivable by households intended to provide for the needs that arise from certain events or circumstances, for example, sickness, unemployment, retirement, housing, education, or family circumstances.
Social benefits other than social transfers in kind	Social benefits other than goods and services provided by government or nonprofit institutions serving households either free or at prices that are not economically significant. They consist of social security benefits in cash, other social insurance benefits, and social assistance benefits in cash.
Social capital	The social norms, shared values, and institutional arrangements that foster co-operation within or among groups.
Social contributions (Social insurance contributions)	Actual and imputed contributions payable to social insurance schemes in order for a designated beneficiary to be entitled to receive the social benefits covered by the scheme.
Social contributions less service charges (Social insurance contributions less service charges)	Actual and imputed contributions payable to social insurance schemes to make provision for social benefits to be paid, less any fees charged by the administrators of the schemes.
Social debt securities	Debt securities where the use of proceeds is restricted to financing or refinancing activities or projects that improve the condition of society.
Social insurance benefits	Social benefits payable because the beneficiary participates in a social insurance scheme and the social risk insured against has occurred. They consist of social security benefits in cash and other social insurance benefits.
Social insurance schemes (Social insurance)	Schemes where a third party, usually an employer or the government, encourages or obliges designated groups of individuals to participate in a scheme to provide for the needs that arise from certain events or circumstances, for example, sickness, unemployment, retirement, housing, education or family circumstances. Included are both social security schemes (which cover the entire community or large sections of it and are imposed, controlled, and financed by government) as well as other employment-related schemes.
Social protection	All interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of social risks or needs provided that there is neither a simultaneous reciprocal nor an individual arrangement involved. The risks and needs are sickness/ health care, disability, old age, survivors, family/



Term (Alternative Term)	Definition
	children, unemployment, housing and social exclusion not elsewhere classified.
Social risks	Events or circumstances that relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and may adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.
Social security benefits in cash	Social benefits payable in cash by social security funds to households, requiring the participation in a social insurance scheme through the payment of social contributions.
Social security contributions	Amounts payable to a social security scheme in order for a designated beneficiary to be entitled to receive the social benefits covered by the scheme.
Social security funds	A particular kind of government unit that is devoted to the operation of one or more social security schemes.
Social security schemes (Social security)	Social insurance schemes covering the community as a whole, or large sections of the community, and are imposed and controlled by government units.
Social transfers in kind	Goods and services provided to households by government and NPISHs either free or at prices that are not economically significant.
Sovereign wealth funds	Units created and owned by the general government for macroeconomic purposes, hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies which include investing in foreign financial assets. The funds are commonly established out of balance of payments current account surpluses, official foreign currency operations, the proceeds of privatizations, fiscal surpluses, and/or receipts resulting from commodity exports.
Special Drawing Rights	Reserve assets created by the International Monetary Fund and allocated to its members to supplement existing reserve assets.
Special purpose entity	A formally registered and/or incorporated legal entity recognized as an institutional unit and resident in an economy, with no or little employment up to maximum of five employees, no or little physical presence, and no or little physical production in the host economy. SPEs are directly or indirectly controlled by nonresidents. SPEs are established to obtain specific advantages provided by the host jurisdiction with an objective to (i) grant its owner(s) access to capital markets or sophisticated financial services; and/or (ii) isolate owner(s) from financial risks; and/or (iii) reduce regulatory and tax

Term (Alternative Term)	Definition
	burden; and/or (iv) safeguard confidentiality of their transactions and owner(s). SPEs transact almost entirely with nonresidents and a large part of their financial balance sheet typically consists of cross-border claims and liabilities.
Spot exchange rate	The current exchange rate at which one currency can be exchanged for another currency.
Spot price	The current price in the marketplace at which a given asset—such as a security, commodity, or currency—can be bought or sold for immediate delivery.
Stablecoins	A crypto asset that aims to maintain a stable value relative to a specified asset, or a pool or basket of assets.
Standard component	items that are fully part of the framework and contribute to the totals and balancing items.
Standardized guarantees	Guarantees that are not provided by means of a financial derivative (such as credit default swaps) but for which the probability of default can be well established. Standardized guarantees are issued in large numbers, usually for fairly small amounts, along identical lines.
State government	Part of general government that includes all institutional units exercising some of the functions of government at a level below that of central government and above that of the governmental institutional units existing at a local level. They are institutional units whose fiscal, legislative and executive authority extends only over the individual “states” into which the country as a whole may be divided, as well as those nonmarket producers controlled by state governments. States may be described by different names in different countries and the subsector may consist of state, provincial, or regional governments. Social security funds organized and managed by different levels of government are typically classified in a separate subsector of general government. Alternatively, social security funds that are organized and managed by the state governments could be included in the state governments subsector.
Statistical discrepancy	Statistical imbalances stemming from imperfections in source data and compilation. In the balance of payments, it is used to show the difference between net lending/net borrowing derived from the financial account and net lending/net borrowing from the current and capital accounts.
Stocks (Positions)	Levels of financial/nonfinancial assets or liabilities at a point in time. In the case of financial assets/liabilities, usually the term “positions” is used while for levels of nonfinancial assets, the term “stocks” is often applied.

Term (Alternative Term)	Definition
Stripped securities (Strips)	Securities that have been transformed from a principal amount with coupon payments into a series of zero-coupon bonds, with a range of maturities matching the coupon payment date(s) and the redemption date of the principal amount(s).
Subscription rights	Rights for corporate shareholders to participate in the acquisition of shares newly issued by the corporation.
Subsidiary	Direct investment enterprise over which the direct investor is able to exercise control. It could also refer to domestic relationships.
Subsidies	Current unrequited payments that government units, including nonresident government units, make to enterprises on the basis of the levels of their production activities or the quantities or values of the goods or services that they produce, sell, export or import.
Subsidies on products	Subsidies payable per unit of a good or service.
Sukuk	Investment certificates issued by Islamic financial institutions to obtain funding. Sukuk (plural of sakk, known as Islamic bonds) are certificates, with each sakk representing a proportional undivided ownership right in tangible and intangible assets, monetary assets, usufruct, services, debts or a pool of predominantly tangible assets, or a business venture (such as mudaraba or musharaka). These assets, which must be clearly identifiable, may be in a specific project or investment activity in accordance with Shariah rules and principles.
Super dividends	Large and irregular payments made by corporations to their shareholders or owners that are funded from accumulated reserves or sales of assets other than cash. If the distributable income is positive, the difference between the payment and the distributable income of the relevant accounting period is recorded as a super dividend under withdrawal of equity. The remainder of the payment (equal to the distributable income) is recorded as a dividend. If the distributable income is negative, the entire dividend payout is recorded as a super dividend under withdrawal of equity. The concept of super dividends does not apply to foreign direct investment where distributions from accumulated reserves are also treated as dividends. However, in the case of foreign direct investment, any additional distributions, e.g., from sales of assets, are recorded as withdrawal of equity.
Supplementary items	Items outside the standard presentation and compiled based on the specific circumstances of the economy, taking into account the interests of policymakers and analysts as well as resource costs.

Term (Alternative Term)	Definition
Supply table	Table showing the supply of goods and services by product, and by domestic producing industry and imports. The supply table at purchasers' prices consists of a domestic output matrix at basic prices with rows corresponding to products and columns corresponding to industries (matching the body of the use table) and additional columns for imports and valuation adjustments necessary to have total supply of each product valued at purchasers' prices.
Sustainability debt securities	Debt securities where the use of proceeds is restricted to financing or refinancing activities or projects that improve the condition of the environment and society.
Sustainability-linked debt securities	Debt securities in which certain characteristics, such as the associated cash flows, are linked to achieving performance objectives that improve the condition of the environment and/or society.
Swaps (Swap contracts)	Contractual arrangements where the counterparties exchange financial instruments or cash flows based on the reference prices of the underlying items, in accordance with prearranged terms.
Synthetic securitization	Arrangement that involves transfer of the credit risk related to a pool of assets without transfer of the assets themselves, either through a securitization unit or through the direct issuing of debt securities by the original asset owner.
Takaful	Mutual guarantee in Islamic finance in return for the commitment to donate an amount in the form of a specified contribution to the participants' risk fund, whereby a group of participants agree among themselves to support one another jointly for the losses arising from specified risks.
Tax credits	Amounts that are subtracted directly from the tax liability due by the beneficiary household or corporation after the liability has been computed.
Taxes	Compulsory, unrequited payments, in cash or in kind, made by institutional units to government units.
Taxes and duties on imports excluding VAT	Taxes on goods and services (except VAT) that become payable at the moment when goods enter the economic territory or when services are delivered by nonresident producers to residents.
Taxes less subsidies on production	Taxes payable or subsidies receivable on goods or services produced as outputs and other taxes or subsidies on production, such as those payable on the labor, machinery, buildings, or other assets used in production.

Term (Alternative Term)	Definition
Taxes on capital transfers	Taxes on the values of assets transferred between institutional units. They consist mainly of inheritance taxes, or death duties, and gift taxes, including gifts inter vivos made between members of the same family to avoid, or minimize, the payment of inheritance taxes. They do not include taxes on sales of assets as these are not transfers.
Taxes on imports excluding VAT and import duties	Taxes (except VAT and import duties) that become payable when goods enter the economic territory or services are delivered by nonresident producers to residents.
Taxes on income	Taxes payable on incomes, profits, and capital gains.
Taxes on production and imports	Compulsory, unrequited payments levied by government in respect of production or import of goods and services.
Taxes on products	Taxes payable per unit of a good or service.
Taxes on products, excluding VAT, import and export taxes	Taxes on goods and services that become payable as a result of the production, sale, transfer, leasing or delivery of those goods or services, or as a result of their use for own consumption or own capital formation.
Technical, environmental, and other business services	Architectural, engineering, scientific, and other technical services; environmental, agricultural, and mining; and other business services.
Telecommunications services	Services related to the broadcast or transmission of sound, images, data, or other information by telephone, radio and television cable transmission, radio and television satellite, electronic mail, and so forth, including business network services, teleconferencing, and support services.
Term life insurance	In contrast to life insurance, term life insurance benefits are payable only on the death or incapacity of the insured within a specified time period; therefore, term life insurance is included in nonlife insurance.
Terminal costs	Costs incurred on the disposal of an asset or at the end of its service life. These cover, for example, de-installation and decommissioning costs (in case of oil rigs or nuclear power stations) or rehabilitation costs of land sites.
Terms of trade	Ratio of the price of exports to the price of imports.
Total gross debt (Total debt; Total debt liabilities)	The sum of all liabilities that are debt instruments.
Total remittances	The sum of personal remittances and cross-border social benefits.

Term (Alternative Term)	Definition
Trade credit and advances	Credit in the form of deferred payment extended directly by the sellers of goods and services to the purchasers; and advances for work that is in progress (or is yet to be undertaken), and prepayment by purchasers for goods and services not yet provided.
Transactions	Economic flows that are interactions between institutional units by mutual agreement or through the operation of the law, or actions within an institutional unit that are analytically useful to treat like transactions because the unit is operating in two different capacities.
Transactor principle	Principle whereby cross-border transactions are allocated to the economy of residence of the nonresident party to the transaction (the transactor).
Transactor-based components	Classification of services relating to the provider/acquirer rather than the product itself. Examples include travel, construction, and government goods and services not included elsewhere. Unlike other services components, transactor-based components encompass several product categories bundled together.
Transfer income account	Account that records the distribution of income between institutional units via current transfers. In the context of the external accounts, this account records current transfers between residents and nonresidents.
Transfer pricing	Valuation of transactions between affiliated enterprises.
Transferable deposits	Deposits that are exchangeable for currency (including their digital versions) on demand at par and without penalty or restriction; and directly usable for making payments by check, draft, giro order, direct debit or credit or other direct payment facility.
Transfers	Transactions in which one institutional unit provides a good, service or asset to another unit without receiving from the latter any good, service or asset in return as a direct counterpart.
Transit trade	Goods crossing a country on their way to final destination, which are generally excluded from foreign trade statistics, balance of payments and national accounts of the country in transit.
Transport	The process of carriage of people and objects from one location to another as well as related supporting and auxiliary services. This includes postal and courier services.
Transport equipment	Equipment for moving people and objects.
Travel	Goods and services for own use or to give away acquired from an economy by nonresidents during visits to that economy, or acquired

Term (Alternative Term)	Definition
	from other economies by residents during visits to these other economies.
Tri-party repos	Repos mediated by a third party, typically a custodian bank or central counterparty, to reduce counterparty risk for the lender.
True-sale securitization	Debt securities issued by a securitization unit where the underlying assets have been transferred from the original asset owner's (i.e., the originator's) balance sheet to that of the securitization unit.
Trust	Legal arrangement by which property is held in the name of one party or parties (the trustee) who is under a fiduciary obligation to hold assets for the benefit of another party or parties (the beneficiary or beneficiaries).
Ultimate controlling parent	Entity that ultimately controls an enterprise, identified by proceeding up the ownership chain from the enterprise through the controlling links (ownership of more than 50 percent of the voting power) until an individual, household, or company that is not controlled by another company is reached. If there is no company, individual, or household that controls the resident company, then the resident company may be considered to be its own ultimate controlling parent.
Ultimate host economy	The economy of the final destination for direct investment.
Ultimate investing economy	The economy in which the ultimate controlling parent is resident.
Unallocated gold accounts	Accounts that do not give the holder the title to physical gold, but provide a claim against the account operator to deliver gold.
Uncompensated seizures	Governments or other institutional units taking possession of assets of other institutional units without compensation, for reasons other than payment of taxes, fines, etc.
Unemployed persons (Unemployment)	Persons who are not employed but available for work and actively seeking work for pay or profit.
Unincorporated enterprise	Enterprise representing the production activity of a government unit, the central bank, nonprofit institution serving households (NPISH) or household that cannot be treated separately as the production activity of a quasi-corporation.
Unit of account	A standard for denominating the prices of goods and services, and the values of financial instruments and nonfinancial assets, thereby providing a means for comparisons of values and for preparation of financial accounts. Unit of account is one of the basic functions of money. For most of economies, the unit of account is the national

Term (Alternative Term)	Definition
	currency, and for others another currency (e.g., U.S. dollars) may be used. The accounts are compiled in the unit of account.
Unit value index	Index that measures the change in the average value of a basket of products or inputs that are not homogeneous and which may therefore be affected by changes in the mix of items as well as by changes in their prices.
Unlimited liability entity	A legal entity where the owners or partners are personally liable for all the debts and obligations of the business.
Unlisted shares (Unquoted shares)	Equity securities that are not listed on an exchange (also known as unquoted shares).
Unrequited transactions	Payments in cash or kind from one institutional unit to another with nothing in return.
Use of Fund credit	International Monetary Fund member's outstanding purchases of Fund resources through the General Resources Account, the counterparts of which are increases in the member's domestic currency liabilities to the Fund.
Use table	Table showing the use of goods and services by product type, and by type of use for both intermediate and final users. The use table at purchasers' prices covers all products consumed in an economy arranged in the form of a matrix with rows corresponding to the products valued at purchasers' prices, with columns corresponding to industries (matching the body of the supply table) and final uses, including an additional column for exports. Also shown is gross value added by industry.
Utility tokens	Fungible crypto assets that provide the holders future access to goods or services. They are classified as a separate subcategory under debt securities.
Valuables	Products of considerable value that are not used primarily for purposes of production or consumption but are held as a stores of value over time. Examples are precious metals and stones, antiques, paintings, sculptures, or other art objects.
Value added	Contribution to the economy by a producer or an industry or an institutional sector, which is estimated by the total value of output produced and deducting the total value of intermediate consumption of goods and services used to produce that output.
Value added type taxes (Value added tax (VAT))	Taxes on goods or services collected in stages by enterprises but that are ultimately charged in full to the final purchasers.



Term (Alternative Term)	Definition
Variable-rate debt instruments	Debt instruments for which interest is linked to a reference index (e.g., a specific interest rate index, the price of a specific commodity, or the price of a specific financial instrument) that normally changes over time in a continuous manner in response to market conditions. All other debt instruments should be classified as fixed-rate. An interest rate that is adjusted, but only at intervals of more than a year is considered to be fixed.
Vertical double-entry bookkeeping (Double-entry bookkeeping)	Principle whereby each transaction leads to at least two corresponding entries, usually referred to as a credit entry and a debit entry, in the books of the transactor. It is similar to the double-entry bookkeeping applied in business accounting.
Volume estimates	Time series of data on goods and services expressed in prices of a certain reference period, thus adjusted for changes in prices. As nowadays each year's values are typically deflated by a price index with a different base year, it is no longer strictly correct to describe the resulting time series in this way. More accurate terms are "chain volume series", "chain volume measures" or "chain volume indexes", if the series are expressed in index number form. If it is desirable to specify the reference year in the term, then "chain volume series in reference year [currency units]" may be used.
Volume index	Index showing the average of the proportionate changes in the quantities and qualities of a specified set of goods or services between two periods of time.
Wages and salaries	Remuneration of employees payable in cash and/or in kind, except for social contributions payable by employers.
Waqf funds	A religious/charitable endowment, with the donated assets held by a charitable trust.
Warrants	Tradable financial instruments which give the holder the right but not the obligation to buy from or sell to the issuer of the warrant a fixed amount of an underlying asset, such as shares or bonds. Although similar to other traded options, a distinguishing factor is that the exercise of the warrants can create new securities, thus diluting the capital of existing bond- or shareholders.
Water resources	Surface and groundwater resources used for extraction to the extent that their scarcity leads to the enforcement of ownership and/or use rights, market valuation, and some measure of economic control.
Weapons systems	Arms for military purposes meeting the asset boundary. They include vehicles and other equipment such as warships,

Term (Alternative Term)	Definition
	submarines, military aircraft, tanks, missile carriers and launchers, etc.
Withdrawals from income of quasi-corporations	Part of distributable income that the owner withdraws from the quasi-corporation.
Workers' remittances	Current cross-border transfers by migrants who are employed in new economies and considered residents there.
Work-in-progress (excluding produced natural resources)	Output that is not yet sufficiently processed to be in a state in which it is normally supplied to other institutional units. Work in progress related to biological resources is excluded, and grouped together with other natural resources.
Write-off	Unilateral cancellation of debt by the creditor on recognition that a financial claim can no longer be collected due to bankruptcy or other factors.
Written-down replacement cost	Current acquisition price of an equivalent new asset minus the accumulated depreciation, amortization or depletion.
Yield on a financial asset	Total return on a financial asset.
Zakah	Obligatory payment made under Shariah on certain kinds of property and used for charitable and religious purposes.
Zero-coupon bonds	Debt securities that have a single payment at maturity and no coupon payments.

# Index

[The index will be included in the final *BPM7*, which will also incorporate language edits and a foreword.]

