

REVISION OF THE

BALANCE OF

PAYMENTS

MANUAL, FIFTH EDITION

(ANNOTATED OUTLINE)



April 2004

**Statistics Department
INTERNATIONAL MONETARY FUND**

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Note for Reviewers

As new economic developments occur and needs in economic analysis change, international guidance for macroeconomic statistics also needs to evolve. The update of the fifth edition of the IMF's *Balance of Payments Manual (BPM5)* is being conducted in parallel with the review of the *System of National Accounts 1993*. The intention is to maintain the harmonization between balance of payments statistics and national accounts.

The Annotated Outline is designed to provide a framework for discussions on the updating of *BPM5*. It has benefited from the comments on a draft version made by members of the IMF Committee on Balance of Payments Statistics and international organizations. Versions in Arabic, Chinese, French, Russian, and Spanish will be released later as they become available.

The Annotated Outline is intended to note issues that have been identified in balance of payments and international investment position statistics and to point to possible solutions. It is being circulated to give compilers and users an opportunity to provide views on the content, structure, and detailed proposals. Their comments and suggestions are invited and will play an important part in the development of the revised manual, which—when drafted—will also be circulated for review and comment.

To assist reviewers, questions about key issues are included in the Annotated Outline. Reviewers are encouraged (but not required) to answer these specific questions, and comments certainly need not be limited to responses to these questions. It would be helpful for the review process, if the particular paragraph(s) of the Annotated Outline that comments refer to would be cited in comments.

Because the manual is designed to be a comprehensive theoretical framework, it deals with items that may be important for some countries but minor or impractical for some other countries. After the manual's expected completion in 2008, it is planned to revise the *Balance of Payments Compilation Guide*. Practical and compilation issues will be addressed in the compilation guide rather than in the manual.

Input on the Annotated Outline and content of the manual from interested parties is welcomed. Comments may be sent by July 15, 2004 by e-mail (bpm5update@imf.org), telephone (1 202 623-7930), fax (1 202 623-6033), or mail to:

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The update is being conducted through the IMF Committee on Balance of Payments Statistics and the technical expert groups it has created. Nonetheless, to ensure as wide a consultation as possible, proposals, discussion papers, and draft versions of the manual will be made available for public comment, primarily through the IMF website:

<http://www.imf.org/external/np/sta/bop/bopman5.htm>

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Chapter 1. Introduction

1.1 The introduction to this newest revision to the *Balance of Payments Manual* will announce the scope of the revised manual, the need for the revision, the changes in structure (changes in chapters 2-13 and appendices), guidance on use of the manual, updating of the manual, and metadata and dissemination standards. Also, each section of a chapter will conclude with a summary question in italics for discussion.

A. Title and Scope of Manual

1.2 Before this section addresses the scope of the manual, comments are provided here for discussion on options for a title. Specifically, it is proposed to use in this manual the expression “international accounts” or “external accounts” to cover the balance of payments and international investment position together with a reconciliation between them. Such a term is needed to avoid the lengthy “balance of payments and international investment position” and to emphasize that together they provide an integrated view, rather than two separate areas of data. The terminology “international accounts” was adopted in *BPM5* (see footnote 2 to para. 13 and para. 461) but was not used systematically.

1.3 Thus, the proposed options for the title for this manual are:

- *International Accounts Statistics Manual 200X*: Balance of Payments and International Investment Position Statistics (IASM 200X* for short);*
- *External Accounts Statistics Manual 200X*: Balance of Payments and International Investment Position Statistics (EASM 200X* for short);* or
- *Balance of Payments and International Investment Position Statistics 200X (BOPIIPSM 200X* for short).*

(* where 200X is the year of publication, probably 2008 or 2009)

The options for new titles are designed to emphasize that international accounts have evolved to cover transactions, rather than payments, and that they have fully integrated position statements. Nevertheless, it is considered desirable to maintain “balance of payments” in a subtitle to highlight the link to the previous manuals and to commonly used terminology. The adoption of the year of issue, rather than the number of edition, is in accord with practice for other recent statistical manuals (e.g., the *1993 SNA*, *ESA 95*, *GFSM 2001*).

[Question: What title should be proposed for the new manual?]

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1.4 This introductory chapter will go on to note that the development of international statistical standards seeks to provide a mix of detailed principles on identified issues and general concepts that can be applied to new situations. In response to changes in economic situations and user interests, and accumulation of experience by compilers, revised manuals are required from time to time.

1.5 The main objectives of the revised manual will be as stated in *BPM5*, para. 2, viz.:

- (a) to provide and explain concepts, definitions, classifications, and conventions; and
- (b) to facilitate the systematic collection, organization, and comparison of balance of payments and international investment position statistics.

In addition, the following objectives will also be stated:

- (c) to promote consistency and show the links of balance of payments and international investment position statistics with other macroeconomic statistics and international accounting standards;
- (d) to introduce various statistics on international transactions and positions that are extensions of the core framework but related to it, including references to specialized manuals on services, reserve assets, external debt, and portfolio investment; and
- (e) to provide a brief introduction to uses of international accounts data.

[Question: Should these objectives be amended? Should others be added?]

1.6 The manual is not intended to address compilation issues. This section of the introduction will note that the *Balance of Payments Compilation Guide* is a separate companion volume to this manual that will deal with compilation issues. A new edition of the *Compilation Guide* will be prepared after this manual is completed. (The title of the *Compilation Guide* would be revised in line with any changes to the title of this manual.) This manual will sometimes refer to compilation issues when they may be relevant to a decision about adoption of a concept.

1.7 It is also planned to produce an updated edition of the *Balance of Payments Textbook*, which is intended to provide more explanation and examples of the concepts in the revised manual, in a way targeted for training courses.

B. Need for a Revised Manual

1.8 It will be proposed that the overall structure of the international accounts will be essentially unchanged from that of *BPM5*. In contrast, when *BPM5* was introduced, the structure of accounts was changed significantly, owing to the elaboration of the international investment position and greater harmonization of concepts with other statistics. However, there have been developments in economic circumstances and economic policy. Specifically the factors that led to the decision to produce a new edition of the manual are the needs to:

- (a) take into account financial innovations that engender new types of financial assets and liabilities and increase growth in financial services;
- (b) clarify selected areas (e.g., scope of direct investment, services, the borderline between use of an asset and sale of an asset);
- (c) increase emphasis on the international investment position and show it fully interlinked with transactions and other flows;
- (d) demonstrate the integration between international accounts statistics and other macroeconomic statistics, taking into account changes made as part of the review of the *System of National Accounts 1993 (1993 SNA)* and the publication of the *Monetary and Financial Statistics Manual 2000 (MFSM)*;
- (e) take account of developments in international accounting standards;
- (f) give more details on the underlying economic concepts and their associated links with the equivalent parts of the updated *1993 SNA*;
- (g) take into account specialized manuals, emphasizing the consistency of basic concepts of the *Manual on Statistics on International Trade in Services, External Debt Statistics: Guide for Compilers and Users* (“the Debt Guide”), *Coordinated Portfolio Investment Survey Guide (CPISG2)*, *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template* (the “Reserves Template”), *Compilation Guide on Financial Soundness Indicators*, and *OECD Benchmark Definition of Foreign Direct Investment (Benchmark Definition of FDI)*;
- (h) introduce the idea of satellite accounts to allow alternative presentations that use the same underlying principles but with (i) additional detail, and/or (ii) some alternative concepts, including nonfinancial variables (such as numbers of visitors or migrants) so that this manual can be used as a starting point for other types of analysis, and so maintain a consistent base;
- (i) give background information on standards for data dissemination and frameworks for data quality assessment; and

INTRODUCTION

- (j) deal with the special issues surrounding economic and currency unions.

[Questions: (i) Are these objectives suitable? (ii) Are there any other objectives or examples that should be mentioned?]

1.9 This section will go on to note that changes in the treatment of financial derivatives and direct investment that were introduced as amendments to *BPM5* in 2000 and 2002 are incorporated in this edition.

1.10 This section will note the role of the IMF and the IMF Committee on Balance of Payments Statistics (BOPCOM) in development of the manual. It will explain that BOPCOM comprises national statistical experts and Fund staff, as well as staff of other international agencies. It has guided the production of the new manual by discussing relevant issues, reviewing problems, and providing clarifications.

1.11 This section will outline the process of its production, including extensive consultation with BOPCOM, expert groups, national compilers, and other users.

1.12 This chapter will briefly outline the history of the *Balance of Payments Manual*, noting editions released by the Fund in 1948, 1950, 1961, 1977, and 1993. It will make some general comments on evolution (e.g., shift from partial to full accrual, exchange orientation to general economic analysis, including international investment positions, harmonization with other datasets). It will highlight the importance of these manuals to the work of the Fund and economic analysis generally. (If long, the historical material could be shown as an appendix.)

C. Structure of the Manual

1.13 This section will state that the manual contains:

- (a) introductory chapters on concepts that underlie the whole of the international accounts (Chapters 2-5);
- (b) chapters that deal with a specific account, each account designed to show a separate economic process or phenomenon (Chapters 6-12);
- (c) uses of international accounts statistics (Chapter 13); and
- (d) appendices providing more detail on specific issues (including changes between *BPM5* and this manual, comparison with the *SNA*, and the listing of standard components).

1.14 This section will explain that the structure is designed to emphasize the general principles on which the accounts are based and the reason for the arrangement of the

accounts. The structure of chapters is broadly similar to *BPM5*, with the following main differences:

- (a) Classifications that are used in several accounts (including institutional sectors, financial instruments, functional categories, currency, and maturity) will be discussed in the introductory chapters, rather than under a particular account or an appendix. For example, it is considered beneficial to deal with functional categories together to highlight the borderline issues. In addition, it is recognized that the functional categories are classifications that apply across income, international investment position, other changes, and financial transactions.
- (b) To emphasize the role of the accounts and how each account represents a single economic process or phenomenon, each account will have its own chapter (Chapters 6-12).¹ In *BPM5*, some accounts were split over several chapters, and some chapters covered two accounts. To reflect the increasing orientation toward information on international investment position and to reflect better the place of the IIP in the system, the stocks, transactions, and other changes in financial assets and liabilities will appear before the other accounts. The proposed order of Chapters 6-12 is shown and related to the overall structure of the statistical system in Figure 2.1 in Chapter 2 Overview. It first shows the international investment position and the flows that give rise to it, followed by the current and capital accounts. An alternative option for the order of chapters would be to follow the *1993 SNA* order, that is, with the transactions accounts (goods and services, primary income, secondary income, capital, and financial accounts), followed by other flows, followed by the international investment position.

[Comment: Since the accounts and their interrelationships are unchanged, and few people read the manual from cover-to-cover, the order is symbolic. The proposed order is designed to highlight the central role of international investment position. This emphasis is a response to economic developments and trends in economic analysis over the past decade.]

[Question: Which chapter order is preferred?]

- (c) A chapter on uses of international accounts statistics will be included (Chapter 13 Uses).

1.15 This section will go on to note that the structure will inevitably involve cross-referencing and repetition, reflecting the integrated nature of the accounts. For example, aspects of a financial lease include services, interest, and loans. The general approach used

¹ “Account” is defined in the same way as the accounts in the *1993 SNA* and coincides with the second level of detail in the hierarchical classification used in the *BPM5* Standard Components (pp. 43–48).

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will be to handle these topics under one heading to reduce repetition but provide extensive cross-referencing. For some topics that affect several accounts, it is proposed to include appendices to bring together the different aspects, e.g., insurance.

1.16 This section will note that each chapter showing specific accounts will include a simplified table, showing the account, to assist in giving an overview of the process or phenomenon that it covers and its classification. However, these tables are intended for explanatory purposes. It will be noted that the standard and other presentations will be used for statistical dissemination. These tables will include numbers based on examples, in the interest of allowing readers to check interrelationships.

1.17 A proposed list of appendixes is shown at the end of this Annotated Outline. It includes a standard presentation.

1.18 Finally, this section will note that the manual will identify standard components for reporting to the Fund to facilitate international comparisons (listed in the proposed appendixes at the end of this Annotated Outline). As well, some compilers may wish to develop additional national presentations that take into account their own circumstances, for example by providing additional detail for significant components.

D. Guidance on Interpretation of the Manual

1.19 The approach of each chapter will be to:

- (a) start with a statement of general economic principles—designed to assist compilers in dealing with new or other uncovered situations; and
- (b) then, discuss specific cases as examples and to clear up ambiguity. (These are intended to apply general principles, not to contradict them.)

1.20 To begin, each chapter will set out concepts that serve to establish the comprehensive framework. However, it will not purport to take into account the conditions in each economy. Accordingly, while the items included are designed to constitute a comprehensive framework, they will include items that may be nonexistent or minor in particular economies. 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 identify other items of particular economic interest in their economy for which additional detail may be required by policymakers and analysts. The manual will note that comprehensive data systems should be set up to allow data to be presented as required.

1.21 Consequently, in implementing changes in the manual, compilers will be encouraged to assess the materiality and practicality of particular items in an account according to their own circumstances and further encouraged to revisit these decisions from time to time to see

if circumstances have changed. It will be emphasized that such decisions necessarily rely on the professionalism of the compiler.

[Questions: Should anything more be said on the balance between international standards and adaptation to particular circumstances? If so what?]

1.22 This section will go on to note that the manual distinguishes between:

- (a) standard components and memorandum items that are part of the standard components; and
- (b) supplementary items that are raised as options that may be considered when a particular issue is of interest to analysts and policymakers.

1.23 Data collection and other compilation procedures, including departures from standards, are not generally within the scope of a conceptual manual such as this one, because such decisions should take into account materiality and compilation issues that need to be judged in each territory. Nevertheless, in a few cases, where a problem is considered to be widespread and there is a desire that it should be handled consistently, the manual will propose alternative concepts that represent a compromise.

1.24 The intention is to reinforce harmonization with the revised version of the *1993 SNA*. It will be noted that there is no intention to differ from the revised *1993 SNA* unless specifically stated. (A list of any differences between this manual and the revised *1993 SNA* will be presented as an annex to this manual, and the datasets will be designed to be reconcilable.)

1.25 Finally, a note along the lines of *BPM5* para. 13 footnote 2, will be included concerning the purpose of the definitions and classifications of this manual in relation to the Fund's Articles of Agreement.

E. Updating the Manual

1.26 This section will note that the Fund and the IMF Committee on Balance of Payments Statistics (BOPCOM) have developed procedures for updating the manual, as stated in BOPCOM-01/33 paras. 10–15, and these procedures will be used on an ongoing basis. The procedures will be listed in an appendix. It will note that it is proposed that changes be made readily available to compilers and users, for example, by special supplements and by placing documents on the Fund website. Possible arrangements could be set out, such as a dedicated section of the Fund website for updates, maintaining an electronic version of the manual that incorporates revisions.

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F. Metadata and Data Dissemination Standards

1.27 This section will note that one of the most important statistical developments since 1993 has been the increased emphasis on publication of metadata (that is, information about data). The manual mainly deals with conceptual standards, but it will emphasize that preparation of metadata is essential to statistical compilation. Some examples will be given of issues that metadata should cover. Compilers will be urged to note explicitly cases when international standards have not been followed. An appendix outlining the main features of the Special Data Dissemination Standard (SDDS), General Data Dissemination System (GDDS), Data Quality Assessment Framework (DQAF), and a listing of the latest summary methodology prompt points will be proposed; however, it will be noted that they are likely to be subject to updating. (This topic could be dealt with in a box, as in Box 4.1 of the *Debt Guide*.)

[Questions: (i) Would it be helpful if guidance were provided on the compilation of metadata (e.g., along the lines of the prompt points used for preparation of summary methodologies in the context of the SDDS)? (ii) If so, should this be dealt with in this manual or in a companion document that could be placed on the web and updated more frequently?]

References

BPM5 ch 1

1993 SNA ch 1

GFSM 2001 ch 1

MFSM ch 1

IMF, *Updating BPM5: A Proposal on How to Proceed* (BOPCOM-01/33)

Changes from *BPM5*

Change proposed:

Revised title (three options given) (para.1.3).

The manual will be restructured, so that international investment position is given greater prominence and the classification issues are dealt with in preliminary chapters rather than in the course of several chapter dealing with the financial account (para. 1.14).

A distinction between memorandum and supplementary items will be introduced (para. 1.22).

Introducing the link to data dissemination standards and data quality assessments (para. 1.27).

Glossary

1993 System of National Accounts (1993 SNA)

Balance of payments statistics (in contrast to “balance of payments,” which can mean the monetary authorities’ reserves management function, as in “for balance of payments needs” in the *BPM5* definition of reserves)

Data Quality Assessment Framework (DQAF)

General Data Dissemination System (GDDS)

IMF Committee on Balance of Payments Statistics (BOPCOM)

International accounts

Materiality

Memorandum items

Metadata

Satellite accounts

Special Data Dissemination Standard (SDDS)

Standard presentation

Supplementary items