Chapter 2. Overview of International Accounts

A. General Principles

2.1   This chapter's first section will briefly state the purpose of international accounts and their relationship to other datasets. The scope of international accounts will be explained, as per *BPM5* paras.13–14, as well as the terms "balance of payments" and "international investment position" but highlighting their integration. The international accounts will be defined as a framework for the analysis of an economy's international economic relationships. The importance of the international accounts will be briefly explained, such as relevance to assessing international economic performance, exchange rate policy, reserves management, external vulnerability, and monetary policy. (There will be a detailed study of uses of international accounts in Chapter 13.) In addition, since international accounts are embedded in the *1993 SNA*, international economic relations can be linked to other economic datasets so as to examine interrelationships.

2.2   While the concepts and structure of the international accounts are embedded in the *1993 SNA*, the focus on particular aspects in this manual means that they have some presentational and classificatory differences from the *1993 SNA*. In particular, emphasis is given to the functional classification (direct investment, reserves, etc.). Also, the manual deals with some issues specific to or highlighted in international accounts, such as special purpose vehicles created in other jurisdictions and mobile production. Furthermore, international accounts often use different data sources.

B. Structure of the International Accounts

2.3   This section will show the sequence of accounts to give an overview, emphasizing the different economic processes and phenomena shown in each part of the accounts, and highlighting the linkages between the different accounts. Only the major aggregates will be shown in this chapter; more detailed components will appear in the relevant chapters; a full listing of standard components will appear as an appendix. An introduction to the analytic framework will be given, dealing with the kinds of material on the overview of the accounting structure in *BPM5* paras. 34–56 and on the analytic framework in *GFSM 2001* Chapter 4 and *MFSM* Chapter VIII.

2.4   The manual will give two introductory presentations of the structure of the international accounts, showing the basic concepts common to the *SNA* and international accounts:

(a)   Setting out a sample table of the major aggregates of international accounts (along the lines of *GFSM 2001* pp. 38, 46 and *1993 SNA* Tables 2.3 or 2.8; with the same structure as Standard Components tables in *BPM5*, but shorter so as to give an overview on one page or a two-page spread. The use of a numerical example, as in the *1993 SNA*, is planned in order to help to clarify concepts, inter-relationships, and identification of netting, zero cells, etc. A comprehensive presentation with all the standard components will be included as an appendix.)

(b)   Broad overview of the sequence of national accounts with a view to showing the connection to the international accounts (along the lines of *GFSM 2001* pp. 36-37; *MFSM* Box 8.1, or *BPM5* pages 14-19). This will highlight different economic processes or phenomena shown in each of the flow accounts:

- production of goods and services;
- income (primary distribution of income);
- current transfers (distribution of secondary income);
- accumulation of nonproduced nonfinancial assets;
- accumulation of financial assets and liabilities; and
- other changes (revaluation, reclassification, write-offs, etc.);

which lead to:

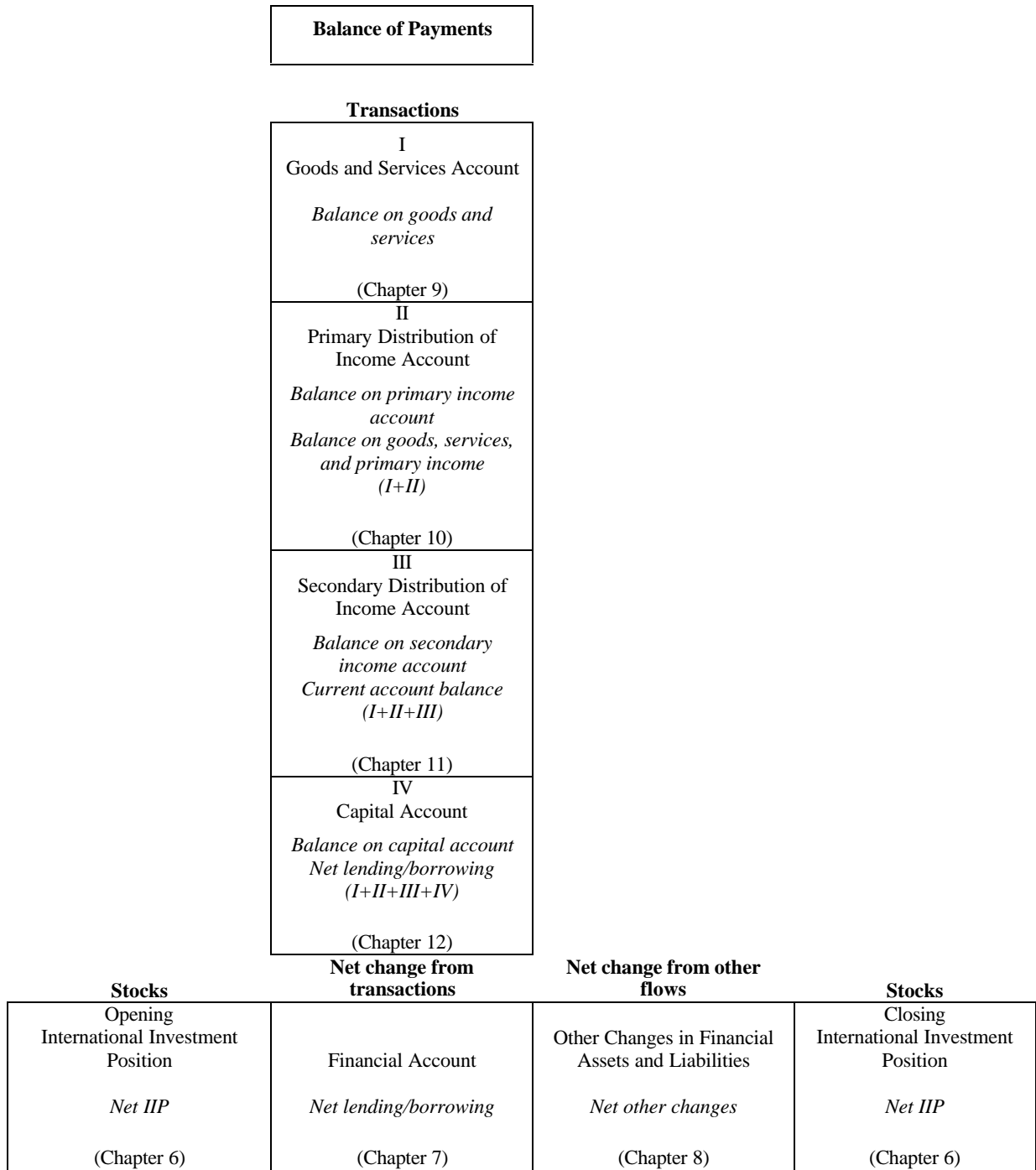- position statements of assets and liabilities.

This structure is also the basis of the *1993 SNA*, so its use underlies the harmonization of international accounts and other statistics.

2.5   This section will also point out the possibility of doing alternative presentations, for example, an analytic presentation (to be shown in Chapter 13 Uses) of the basic items, rearranged to emphasize international liquidity aspects of the balance of payments.

2.6   The following table shows the accounts, their balancing items, their linkages, and the corresponding chapter of the manual.

OVERVIEW OF INTERNATIONAL ACCOUNTS

Figure 2.1 —Overview of Accounts, their Balancing Items, and Corresponding Chapters of the Manual

	Balance of Payments		

Transactions

I
Goods and Services Account
Balance on goods and services
(Chapter 9)
II
Primary Distribution of Income Account
Balance on primary income account
Balance on goods, services, and primary income (I+II)
(Chapter 10)
III
Secondary Distribution of Income Account
Balance on secondary income account
Current account balance (I+II+III)
(Chapter 11)
IV
Capital Account
Balance on capital account
Net lending/borrowing (I+II+III+IV)
(Chapter 12)

Stocks	**Net change from transactions**	**Net change from other flows**	**Stocks**
Opening International Investment Position	Financial Account	Other Changes in Financial Assets and Liabilities	Closing International Investment Position
Net IIP	*Net lending/borrowing*	*Net other changes*	*Net IIP*
(Chapter 6)	(Chapter 7)	(Chapter 8)	(Chapter 6)

2.7   These accounts will be defined briefly and linked to the subsequent specific chapters on each. Possible groupings of accounts will be noted:

- the accounts in Chapters 6-8 make up the international investment position and associated reconciliation of opening and closing values;
- the accounts in Chapters 9-11 make up the current account;
- the accounts in Chapters 7 and 9-12 make up the balance payments; and
- the accounts in Chapters 7, 8, and 12 make up the accumulation accounts.

(Note: The order of chapters was discussed and a question asked in Chapter 1 Introduction.)

2.8   This section will point out that the balance of payments uses a double-entry system, where two simultaneous entries of equal value are recorded for transactions, from the resident's viewpoint. This accounting system will be contrasted with the *1993 SNA* that also covers the entries for the counterpart unit involved in the flows (quadruple-entry system). It will also be noted that international accounts do not cover the production or use of income, because these are domestic processes that do not involve nonresidents. International accounts data have the same scope as the *1993 SNA* rest of the world sector, that is, transactions and positions between residents and nonresidents, but from the opposite perspective. The reason is the *1993 SNA* rest of world sector is expressed from the point of view of the nonresident units while the international accounts are expressed from the point of view of the resident units.

2.9   The section will go on to discuss the components of the current account and the meaning of the current account as a whole (as in *BPM5* Chapter IX);

2.10   The text will explain in more detail the relationships between the following:

(a)   the closing balance sheet and the opening balance sheet, financial transactions, and other flows;

(b)   the current, capital, and financial accounts (i.e., the balance of payments), showing transactions;

(c)   the balance on the current and capital accounts and the balance on the financial account;

(d)   the financial account of the international accounts and domestic financial accounts;

(e)   the international investment position and national balance sheets;

(f)   financial assets and liabilities and their corresponding income (the link between each financial instrument and its corresponding income is shown in Chapter 5

Classifications). The other changes in financial assets and liabilities account shows the nonincome aspects of the return on financial assets and liabilities; and

(g)   current, capital, and financial account balances and saving and net lending in national accounts data.

2.11   This section will emphasize (as in *BPT* Chapter III) that each account is designed to show an economic process, function, or phenomenon that has economic meaning in its own right. Also, the account describes that process or phenomenon—the account is not just used to derive a balancing item.

C.   Net Errors and Omissions

2.12   The causes and presentation of net errors and omissions will be discussed.

2.13   It will be stated that net errors and omissions are caused by imperfect source data, collection, and processing and are a usual feature of international accounts and other statistics. It will be stated that they should be dealt with transparently by dissemination to users.

2.14   It will be stated that the size and trends of net errors and omissions may help identify data problems and should be investigated in the light of an assessment of coverage, reporting problems, etc. In particular, they should not be included indistinguishably in other items. It will be noted that while net errors and omissions can help point to errors, it is an incomplete measure because errors in opposite directions are netted out. It will be noted that patterns in net errors and omissions provide useful information, for example, a consistent sign indicates a bias in one or more components, while a volatile pattern may suggest possible timing problems. While it is not possible to give guidelines on an acceptable size of net errors and omissions, it should be assessed by compilers in relation to other items, such as GDP, positions data, and gross flows (where possible).

2.15   This section will recommend that a net errors and omissions item be shown explicitly. Alternatives include placing net errors and omissions at the end of the financial account (to stress that the item has not been observed but derived residually), between the capital account and the financial account (to make it more evident that errors may occur in any part of the balance of payments and that it is equal to the difference between sum of the current and capital accounts and the financial account), or before the presentation of reserve assets in the financial account (as in the "analytic" presentation).

> *[Question: Should a particular place be specified? If so, which location is preferred?]*

D.   Time Series

2.16   The section will go on to note that while the bulk of the manual will deal with borderline and classification issues, with presentations focusing on relationships between series, some of the manual will deal with time series analysis. The need to support time series analysis has implications for good practice in compilation of international accounts, such as:

(a)   consistency over time in concepts and compilation to avoid "breaks" and "steps" caused by compilers;

(b)   location of revisions, depending on whether these are changes to source data, statistical technique, or concept;

(c)   predictability and transparency of revisions; and

(d)   consistency of available annual, quarterly, and monthly data.

2.17   It will be noted that the tables included in the manual have been designed to highlight classifications and interrelationships, whereas tabulations for users have been designed generally to show time series.

2.18   Seasonal adjustment of monthly and quarterly data will be mentioned as a potentially useful presentation of time series data for both analysis and compilation. It will be noted that the financial account, international investment position, and other items are often not suitable for seasonal adjustment, because of the high degree of irregularity.

2.19   The *Quarterly National Accounts Manual* will be referred to as a source of further information on time series insofar as many of the issues associated with monthly and quarterly international accounts statistics overlap.

2.20   An important aspect of assisting in the interpretation of time series is the pattern of revisions. Some articles on revision practices and studies could be cited.

E.   Satellite Accounts and Other Alternative Presentations

2.21   While this manual will show a standard presentation, the manual will recognize the fact that no single framework can meet all the different analytical interests. Thus, this section will introduce the satellite accounts approach, as introduced in the *1993 SNA* paras. 2.245–249 to deal with this situation. For example, satellite accounts use the basic framework as a starting point but with concepts and definitions that differ from existing accounts; add detail or other information about a particular aspect of the economy to that in existing accounts; and rearrange information differently, to meet particular needs. Such

presentations would be based on the circumstances in each economy and not be part of international requirements. Use of the basic framework for the satellite data increases the ability to relate the topic to other aspects of the economy and maintaining international comparability. The extensions to the basic framework allow other analytical needs to be met. The *Debt Guide*, the *Reserves Template*, and *CPISG2* are important examples of the satellite approach of expanded data linked to core international accounts principles.

2.22   Illustrations of possible other satellite accounts and other alternative presentations include the following:

(a)   Additional related information. For example:

   i.   The *Debt Guide* uses the basic international accounts framework but supplemented by other data, e.g., forward payments schedules.

   ii.   The *Reserves Template* adds supplementary information such as contingencies and forward foreign currency commitments.

   iii.   Resident-to-resident transactions and positions that are connected to the international accounts could be shown, e.g., local sales, value added, employment, and assets of direct investment enterprises.

   iv.   Ownership-based version of the current account, as in Foreign Affiliates Trade Statistics, could be shown.

   v.   A presentation of exceptional financing included in *BPM5* deals with management of balance of payments crises by separating exceptional financing items from various parts of the accounts.

   vi.   Monetary presentation of the balance of payments could be made.

   vii.   Individual functional categories, for example, direct investment positions, financial transactions, as well as goods, services, and income flows between related entities could be presented together.

   viii.   Activities of particular importance in an economy (for example, oil, shipping, real estate ownership, tourism, students, and patients) can have data on the goods, services, income, and financial entries brought together. It may also be useful to link these to domestic activities.

   ix.   It could be useful to analyze the operations of special purpose entities. It may also be helpful to show them separately so that they can be excluded from other entities.

(b)   It would be possible to show alternative valuations—for example, both nominal and market values (see the *Debt Guide* in the case of debt securities), or alternative measures of interest on debt securities.

(c)   Alternative approaches to residence:

    i.   Nonpermanent workers. A satellite presentation could bring together aspects of services, compensation of employees, workers' remittances, and migrants' transfers that are affected by nonpermanent workers. Individuals with different durations of presence in the economy could be shown (discussed further in Chapter 4 Economic Territory, Units, Institutional Sectors, and Residence).

    ii.   Ultimate beneficial owner/ultimate destination (discussed further in Chapter 4 Economic Territory, Units, Institutional Sectors, and Residence) or round tripping (discussed in Chapter 5 Classifications).

(d)   Other alternative concepts, for example involving interest, maturity, currency of denomination, and for selected partners.

2.23   It will be emphasized that satellite accounts and other alternative presentations are not mandatory or intended to replace standard presentations. It will be recognized that it is burdensome to maintain parallel systems, so the capacity to implement such presentations is constrained. Rather, this chapter would provide a brief survey of developments of interest to users and compilers.

OVERVIEW OF INTERNATIONAL ACCOUNTS

References

BPM5:
Overview of accounting structure paras. 34–56
Presentation paras. 139–145, 149–181, 461–477
Net errors and omissions paras. 146–148

BPT Chapter III

1993 SNA:
Overview Chapter II
Satellite Accounts Chapter XXI

Quarterly National Accounts Manual paras. 1.13-1.23, Chapter XI

MMFS paras. 411-437

GFSM 2001 Ch 4, Appendix III

Changes from *BPM5*

(a)   *Changes proposed:*

Time series issues will be discussed explicitly (paras. 2.17–2.20).

Explicit recognition will be given to the satellite account approach (para. 2.21).

(b)   *Changes raised as an option:*

There could be an explicit treatment for net errors and omissions (para 2.15).

Glossary

Capital transfers
Current account
Current transfers
Financial transactions
Goods and services
Income, primary and secondary, disposable
Net errors and omissions
Nominal value (contrasted with book and face values)
Production
Satellite account
Time series
Seasonal adjustment