



Introduction

A. Purposes of the *Manual*

1.1 The sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6, the Manual)* serves as the standard framework for statistics on the transactions and positions 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 balance of payments and international investment position statistics;
- (b) To enhance international comparability of data through the promotion of guidelines adopted internationally;
- (c) To show the links of balance of payments and international investment position statistics to other macroeconomic statistics and promote consistency between different data sets; and
- (d) To provide a brief introduction to uses of data on balance of payments, other changes in financial assets and liabilities, and international investment position, as the international accounts of an economy.

1.3 Data collection and other compilation procedures and dissemination 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, and relative size, that need to be judged in each economy and that may explain departures from guidelines. The IMF's *Balance of Payments Compilation Guide* provides information on these issues.

1.4 The *Manual* provides a framework that is applicable for a range of economies, from the smallest and least developed economies to the more advanced and complex economies. As a result, it is recognized that some items

may not be relevant in all cases. 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 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 exchange controls exist, the relative importance of particular types of economic activities, and 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 2008 (2008 SNA)*, which was updated in parallel. Relevant elements of the *Monetary and Financial Statistics Manual 2000* and *Government Finance Statistics Manual 2001* will be revised to maintain their harmonization with the two updated manuals. Conceptual interlinkages mean that balance of payments and international investment position compilers should consult with other statisticians to ensure consistent definitions and provide data that can be reconciled where they overlap.

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*

1.8 The *Manual* has 14 chapters and 9 appendixes. 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 7–13), closing with a chapter on analysis of data. The *Manual* states general principles that are intended to be applicable in a wide range of circumstances. As well, it applies the principles to some specific topics that have been identified as needing additional guidance. Definitions are given throughout the text, shown in italics.

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 11, respectively. Linkages are emphasized by extensive cross-references. In addition, for direct investment, insurance, and financial leases, appendixes have been included to allow the reader to see the linkages among the different accounts for that topic.

I. 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 principles.
- (d) Chapters 4 deals with issues associated with units, sectors, and residence.
- (e) Chapter 5 deals with the classification of assets and liabilities.
- (f) Chapter 6 explains the functional categories.

2. Chapters for each account

1.11 Chapters 7–13 deal with the 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; in this edition, the international investment position appears first to reflect the increased emphasis on its compilation and analysis since the release of the fifth edition (*BPM5*) and to explain financial assets and liability positions before dealing with the investment income they generate.

1.12 Each chapter starts with a statement of general economic principles. A simplified table designed to give an overview of the account is also included in each chapter. The text provides general definitions of items in the account. Specific cases are given as examples of the application of the general definitions and to clear up ambiguities. A full understanding of each account also requires applying the wider principles that apply across several accounts, such as valuation, timing, residence, and classification, as covered in the introductory chapters.

3. Analysis

1.13 Chapter 14 provides an introduction to the analysis of data, with particular reference to macroeconomic relationships as a whole.

4. Appendixes

1.14 Appendixes provide more details on specific issues that go across several accounts, including changes from *BPM5*, currency unions, exceptional financing, debt reorganization, and a listing of standard components.

5. Standard components and memorandum items

1.15 A list of standard items for presenting and reporting the balance of payments and international investment position is given in Appendix 9. 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 part of the standard presentation, but are not used in deriving totals and balancing items.* 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 7.45–7.46.

In addition,

- (c) *Supplementary items are outside the standard presentation, but are compiled depending on circumstances in the particular economy, taking into account the interests of policymakers and analysts as well as resource costs (see the items in italics in Appendix 9).*

1.16 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 occasionally will 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. The standard items should nevertheless be reported to the IMF as completely and accurately as possible in accordance with the compilation framework. Compilers are in better positions than IMF staff to make estimates and adjustments for items that do not exactly correspond to the basic series of the compiling economy.

C. History of the *Manual*

1.17 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.

1.18 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 major objective of that first *Manual* was to provide a basis for regular, internationally standardized reporting to the IMF. The *Manual* was a continuation of work started by the League of Nations to develop guidelines for balance of payments 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*.

1.19 The first edition of the *Manual* consisted primarily of tables for reporting data and brief instructions for completing them. No general discussion of balance of payments concepts or compilation methods was included, so it can be said that the *Manual* grew out of the listing of standard components.

1.20 The second edition was published in 1950, greatly expanding the material describing the concepts of the system.

1.21 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 balance

of payments principles that could be used by countries to serve their own needs.

1.22 The fourth edition was published in 1977. It responded to the important changes in the way in which international transactions were carried out and to changes in the international financial system. Much fuller treatments of the underlying principles of residence, valuation, and other accounting principles were provided. The *Manual* also introduced flexibility in the use of the standard components to construct various balances, with no single presentation preferred.

1.23 The fifth edition was published in September 1993, following a long period of development that included expert group meetings convened by the IMF in 1987 and 1992 as well as two working parties covering the current and financial accounts. This edition was marked by harmonization with the *System of National Accounts 1993 (1993 SNA)*, which was developed at the same time. The decision to harmonize the guidelines was a result of increasing interest in linking different macroeconomic data sets and avoiding data inconsistencies. *BPM5* brought about a number of changes in definitions, terminology, and the structure of the accounts, including removing capital transfers and non-produced assets from the current account to a newly designated capital account, the renaming of the capital account as the financial account, and splitting services from primary income (which previously had been called factor services). Additionally, *BPM5* introduced microfoundations of units and sectors, consistent with the *SNA*, rather than treating the economy as a single unit. In addition, the *Manual* was extended beyond balance of payments statistics to include the international investment position.

1.24 The IMF subsequently published the *Monetary and Financial Statistics Manual 2000* and *Government Financial Statistics Manual 2001*. These manuals also brought about further harmonization of the statistical guidelines, reflecting increasing concerns about the ability to link different statistical data, minimizing data inconsistency, and enhancing analytical potential.

1.25 In 1992, the IMF established the IMF Committee on Balance of Payments Statistics (the Committee), as a continuing body for consultation with national compilers and international organizations. A procedure was established for partial revisions of statistical guidelines between major revisions, as was done in the late 1990s for financial derivatives and aspects of direct investment. (The procedures for partial revisions are set out in Section E.)

1.26 A number of related publications have been developed since the 1993 edition. *The Balance of Payments Compilation Guide* was published in 1995. The *Guide* complemented the *Manual* by providing practical advice on the collection and compilation of statistics. The *Balance of Payments Textbook* was released in 1996. It has a teaching orientation, for instance, giving numerical examples to illustrate general principles.

1.27 Some aspects of international accounts statistics with particular interest were covered in specialized guides. Those guides are *Coordinated Direct Investment Survey Guide* (2008), *Coordinated Portfolio Investment Survey Guide* (1996 and 2001), *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template* (2000), *Manual on Statistics of International Trade in Services* (2002), *External Debt Statistics: A Guide for Compilers and Users* (2003), *Bank for International Settlements Guide to the International Banking Statistics* (2003), *International Transactions in Remittances: Guide for Compilers and Users*, and the *OECD Benchmark Definition of Foreign Direct Investment* (2008).

D. The 2008 Revision

1.28 At its 2001 meeting, the Committee decided to initiate an update of the *Manual* by around 2008. It was considered that although the overall framework of the fifth edition did not need to change, a new *Manual* should incorporate the numerous elaborations and clarifications that had been identified since 1993. Also, the sixth edition should strengthen the theoretical foundations and linkages to other macroeconomic statistics.

1.29 The Committee also decided to conduct the update in parallel with the update of the *1993 SNA* and *OECD Benchmark Definition of Foreign Direct Investment*.

1.30 The IMF released, through the Committee, an *Annotated Outline* for the update of the *Manual* in April 2004. It included proposals and options for the style and content of the revised *Manual*. It was circulated to central banks and statistical agencies, as well as being made available on the Internet. Input was invited from compilers and others on a global basis. The Committee established technical expert groups to undertake detailed consideration of issues and make recommendations on currency unions, direct investment, reserves, and other issues, respectively. Draft versions of the *Manual* were published

on the IMF website in March 2007 and March 2008, with invitations for worldwide comment. In addition, other editions of selected chapters and the whole document were circulated to Committee members and other interested parties. A series of regional outreach seminars was conducted between January and September 2008 to explain the changes in the *Manual* and gain comments on the content. This process led to a revised version submitted to the Committee in November 2008.

1.31 Three major themes that have emerged from the revision are globalization, increasing elaboration of balance sheet issues, and financial innovation.

1.32 Globalization has brought several issues to greater prominence. An increasing number of individuals and companies have connections to two or more economies and economies increasingly enter into economic arrangements. In particular, there has been increasing interest in the residence concept and in information on migrant workers and their associated remittance flows. Additionally, globalized production processes have become more important, so treatments have been developed to provide a fuller and more coherent picture of outsourced physical processes (i.e., goods for processing) and sales and management of manufacturing that do not involve physical possession (i.e., merchanting). Guidance is provided on the residence and activities of special purpose entities and other legal structures that are used for holding assets and that have little or no physical presence. The results of work on international trade in services and remittances are included. Furthermore, for the first time, specific guidance on the treatment of currency unions is included.

1.33 The *Manual* reflects increased interest in **balance sheet** analysis for understanding international economic developments, particularly vulnerability and sustainability. Greater emphasis and elaboration of the financial instrument classification in the *SNA* and *Monetary and Financial Statistics Manual* are designed to facilitate linkages and consistency. The *Manual* provides considerably more detailed guidance on the international investment position. It also provides much greater discussion of revaluations and other volume changes and their impact on the values of assets and liabilities. The results of detailed work over the past decade on international investment position, direct investment, external debt, portfolio investment, financial derivatives, and reserve assets are incorporated into the new *Manual*. The move to an integrated view of transactions, other changes, and

positions has been recognized in the amended title as *Balance of Payments and International Investment Position Manual*, with the acronym *BPM6* used to highlight the historical evolution from previous editions of the *Manual*, which were known as *BPM5*, *BPM4*, and so on.

1.34 Financial innovation is the emergence and growth of new financial instruments and arrangements among institutional units. Examples of instruments covered include financial derivatives, securitization, index-linked securities, and gold accounts. An example of institutional arrangements are special purpose entities and complex, multieconomy corporate structures. Enhanced guidelines cover direct investment in cases of long and complex chains of ownership, revised in conjunction with the revised *OECD Benchmark Definition of Foreign Direct Investment*. Revised treatments of insurance and other financial services are adopted. The *Manual* also provides expanded treatment on the issues of loan impairments, debt reorganization, guarantees, and write-offs.

1.35 In addition, the *Manual* incorporates changes arising from other statistical manuals, particularly the *2008 SNA*. The harmonization with other macroeconomic statistics is strengthened in terms of presentation by more details on the underlying economic concepts and their associated links with the equivalent parts of the *SNA* and other manuals. Other changes were made in response to requests to provide clarification or further detail on particular topics.

1.36 The overall structure of the accounts and broad definitions are largely unchanged in this edition, so the changes are less structural than those made for the fifth edition. Rather, economic and financial developments and evolution of economic policy concerns are taken into account, and clarification and elaboration of these developments are provided. A list of changes made in this edition of the *Manual* is included as Appendix 8.

E. Revisions between Editions of the *Manual*

1.37 The IMF and the Committee have developed procedures for updating the *Manual* on an ongoing basis between major revisions. Under these procedures, updates can be divided into four types:

- (a) editorial amendments;
- (b) clarifications beyond dispute;
- (c) interpretations; and

(d) changes.

Each of these types of updates has a different set of steps that are to be followed in the consultation process.

1.38 Editorial amendments refer to wording errors, apparent contradictions, and, for non-English versions of the *Manual*, translation errors. These corrections affect neither concepts nor the structure of the system. IMF staff will draft these amendments, which will be brought to the Committee for advice. An errata sheet will then be produced, and the amendments will be publicized on the website.

1.39 A clarification beyond dispute arises when a new economic situation emerges or when a situation that was negligible when the *Manual* was produced has become considerably more important, but for which the appropriate treatment under existing standards is straightforward. IMF staff will draft these clarifications, based on existing recommendations, and after advice from the Committee, they will be publicized on the website and by other means.

1.40 An interpretation arises when an economic situation arises for which the treatment under the *Manual* may not be clear. Several solutions on how to treat the situation may be proposed, because it is possible to have different interpretations of the *Manual*. In this case, IMF staff, in consultation with the Committee, will draft preliminary text that will be sent to panels of experts, and to the InterSecretariat Working Group on National Accounts (ISWGNA) (if also relevant to the *SNA*). IMF staff will propose a final decision, in consultation with the Committee. Interpretations will be publicized on the website and by other means.

1.41 A change to the framework arises when an economic situation occurs in which it becomes apparent that the concepts and definitions of the framework are not relevant or are misleading and will require change. In such a situation, parts of the *Manual* may need to be substantially rewritten to reflect the needed changes. In such a case, IMF staff, in consultation with the Committee, will prepare proposals that will be disseminated widely to panels of experts, the ISWGNA (if also relevant to the *SNA*), and all IMF member countries. The Committee will advise how such changes should be incorporated into the framework, whether promulgated immediately through a booklet detailing the amendments to the *Manual* or by issuing a new *Manual*. Information will be produced and provided to all countries with changes also publicized on the IMF website and by other means.

1.42 The IMF website will provide a consolidated list of these decisions.

1.43 A research agenda has been identified for possible future work. It includes the following:

- (a) ultimate investing economy and ultimate host economy in direct investment (see paragraph 4.156);
- (b) whether direct investment relationships can be achieved other than by economic ownership of equity (e.g., through warrants or repos) (see paragraph 6.19);
- (c) pass-through funds (see paragraphs 6.33–6.34);
- (d) reverse transactions (including short positions and investment income that is receivable/payable while a security is on-lent) (see paragraphs 5.52–5.55, 7.28, 7.58–7.61, and 11.69);
- (e) extended use of fair values of loans (see paragraphs 7.48–7.49);
- (f) how the risk and maturity structure of the financial assets and liabilities should be taken into account in the reference rate for calculations of financial services indirectly measured (see paragraphs 10.126–10.136);
- (g) investment income, in particular the different treatments of retained income for different investment types and the borderline between dividends and withdrawal of equity (see Chapter 11, Primary Income Account);
- (h) debt concessionality, in particular whether the transfer element should be recognized and, if so, how it should be recorded (see paragraphs 12.51 and 13.33); and
- (i) emissions permits (see paragraph 13.14).