

Goods and Services Account

A. Overview of the Goods and Services Account

References:

2008 SNA, Chapter 6, The Production Account.

United Nations, *International Merchandise Trade Statistics: Concepts and Definitions*.

United Nations and others, *Manual on Statistics of International Trade in Services*.

10.1 *The goods and services account shows transactions in items that are outcomes of production activities.*

10.2 The focus of this account is the point at which goods and services are exchanged between a resident and a nonresident. In contrast, the national accounts focus on other points, such as their production, consumption, or use in capital formation.

10.3 *Production is an activity in which an enterprise uses inputs (intermediate inputs, labor, produced and nonproduced assets) in order to transform them to an output that can be supplied to other units.¹* (In a few cases, the output is supplied to the unit itself.) The term “product” is used in the SNA to cover both goods and services.

10.4 The corresponding entries to goods and services flows may be in the financial, current, or capital accounts. For items paid for 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 not made at the time of change of ownership, 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. 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 and services. In the case of aid or gifts, the corresponding entries are under current or capital transfers.

10.5 Table 10.1 shows the broad structure of the goods and services account. There are balancing items for goods, services, and the total of goods and services.

Distinction between goods and services

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. The goods and services account can include transactions in products that were generated in previous periods (e.g., second-hand goods, software, research embodied in patents, and inventories) 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 *Goods are physical, produced items over which ownership rights can be established and whose economic ownership can be passed from one institutional unit to another by engaging in transactions.* They 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.

10.8 *Services are the result of a production activity that changes the conditions of the consuming units, or facilitates the exchange of products or financial assets. Services are not generally separate items over which ownership rights can be established and cannot generally be separated from their production.* However, as seen

¹Putting a produced asset at the disposal of another unit is also considered to be production. It is an operating leasing service (for tangible assets, see paragraphs 10.153–10.156) or a charge for the use of intellectual property (for intangible assets, see Table 10.4).

Table 10.1. Overview of the Goods and Services Account

	Exports (Credits)	Imports (Debits)
General merchandise on a balance of payments basis		
<i>Of which: Re-exports</i>		
Net exports of goods under merchanting		
<i>Goods acquired under merchanting (negative exports)</i>		n.a.
<i>Goods sold under merchanting (exports)</i>		n.a.
Nonmonetary gold		
Total goods		
Balance on trade in goods		
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.		
Telecommunications, computer, and information services		
Other business services		
Personal, cultural, and recreational services		
Government goods and services n.i.e.		
Total services		
Balance on trade in services		
Total goods and services		
Balance on goods and services		

Note: This table is expository; for Standard Components, see Appendix 9.

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. In the balance of payments goods and services account, the valuation of goods 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.

10.9 In practice, the distinction made between goods and services sometimes takes into account other considerations, such as data sources.

10.10 E-commerce is a method of ordering or delivering products at least partly by electronic means, such as through the Internet or other computer-mediated networks. In general, charges for electronically delivered products are usually included in services, whereas products supplied across the border are usually classified as goods (see Table 10.4 for further details). Shipping charges associated with e-commerce are allocated

in line with the FOB valuation principle. Financial services associated with e-commerce are included in financial services.

Transactions between affiliated enterprises

10.11 A high proportion of exchanges of goods and services are between affiliated enterprises. This situation gives rise to issues of treatment and valuation. For example, where a direct investor temporarily provides equipment to its direct investment enterprise, there may be an operating lease. Additional guidance on goods deliveries between affiliated enterprises is provided in paragraph 10.24. Management and ancillary services may also be provided, as discussed in paragraph 10.150. These cases may give rise to issues of valuation, as discussed in paragraphs 3.77–3.78 and 10.35. Consequential effects on income are discussed in paragraphs 11.101–11.102.

Price and volume data

10.12 Goods and services have price and volume dimensions, so it is useful for analysis and data validation to have volume and price data, as well as current price values.

B. Goods

References:

United Nations, *International Merchandise Trade Statistics: Concepts and Definitions*.

United Nations, *International Merchandise Trade Statistics: Compilers Manual*.

I. General merchandise

a. Introduction

10.13 *General merchandise on a balance of payments 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 10.41–10.49), nonmonetary gold (paragraphs 10.50–10.54), and parts of travel (paragraph 10.94), construction (10.101), and government goods and services n.i.e. (paragraph 10.173).*

10.14 International merchandise trade statistics (IMTS) are usually the main data source for general merchandise in the goods and services account. The international standards for merchandise trade data are set out in United Nations *IMTS: Concepts and Definitions*. These standards are closely linked to those in this *Manual*. In practice, 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, or combinations. Adjustments to source data may be needed to account for coverage, timing, valuation, and classification that do not meet balance of payments guidelines.

10.15 General merchandise is shown as a single item in the standard components. This *Manual* does not propose standards for breakdowns of goods, but encourages presentations according to the priorities of the compiling economy. 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*, and the *Central Product Classification (CPC)*.² In addition, or alternatively, cross-references could be made to additional details available in other publica-

tions, while noting coverage, timing, valuation, and classification differences.

10.16 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* 1998, paragraph 14). This basis differs from the change of ownership between residents and nonresidents required for balance of payments, so adjustments may be needed.

b. Items to be included in general merchandise

10.17 Because there is a change of ownership of goods between a resident and a nonresident, the following cases are included in the balance of payments definition of general merchandise:

- (a) Banknotes and coins not in current circulation and unissued securities. They are valued as commodities, rather than at face value. Banknotes and coins may be not 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, 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 10.74 and 10.159. Allowing water to flow when that flow is required by international law on river flows is not an international transaction;
- (c) Noncustomized packaged software (systems and applications), 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 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 10.143–10.144.³ (Noncustomized software is for general use, rather than being made to

²World Customs Organization, *Harmonized Commodity Description and Coding System*. United Nations, *Standard International Trade Classification*. United Nations, *Central Product Classification*.

³To 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.

order. For classification of customized software and other cases, see Table 10.4.);

- (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. Maintenance and repair costs of transport operators are transport services covered in paragraph 10.72. Fuel costs of small-scale transport operators are goods procured in port by carriers rather than travel (see paragraph 10.81);
- (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 5.56. 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 10.153–10.156.);
- (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 10.29 for further information on goods on consignment.);

- (h) Equipment that is sold 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;
- (i) Illegal goods;
- (j) Smuggled goods that are otherwise legal;
- (k) Gifts;
- (l) Parcel post where there is a change of ownership;
- (m) 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);
- (n) Livestock that changes ownership;
- (o) 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 international accounts. Expenditure by embassies, military bases, and so forth is included under government goods and services n.i.e. (see paragraph 10.175);
- (p) Goods where there is no associated payment, such as those financed by grants or loans;
- (q) Humanitarian aid in the form of goods;
- (r) Goods transferred to or from a buffer stock organization;
- (s) Goods acquired to be processed without passing through the territory of the owner (see paragraph 10.65) and goods sold after processing without passing through the territory of the owner (see paragraph 10.66); and
- (t) Any other goods where there is a change of ownership that was not identified from data sources.

10.18 When a customs 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 not recorded in customs data or travel. Cases that sometimes arise include shuttle trade (see paragraph 10.19); acquisition of ships, aircraft, and satellites; trade between free trade zones of an economy and residents of other economies; goods in bonded warehouses in economies that use the special trade system; and amounts below customs thresholds.

10.19 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.* It is sometimes also called informal cross-border trade. Because the intent of this travel 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 10.17(d), 10.72, and 10.81.)

10.20 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 international merchandise trade statistics, but care is needed to avoid double counting such goods by including them also under travel. (See paragraphs 10.86–10.90 for goods included in travel.)

10.21 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 international transaction

10.22 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 entity; 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 10.17(g). Identification of these movements may help identify associated items, such as repair, operating leases, storage services, exhibition charges, and competition winnings.);
- (f) Goods for assembly, packing, labeling, or processing by an entity that does not own the goods concerned. (Both inward and outward movements of such goods should be tracked, to assist in identifying associated charges for assembly, etc., to be recorded in manufacturing services on physical inputs owned by others, as discussed in paragraphs 10.62–10.71. 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.);

- (g) Goods acquired by a lessor under a financial lease. Financial leases are defined in paragraph 5.56. Although the lessor has legal title, it does not have economic ownership. (The goods are shown as being acquired by the lessee; see paragraph 10.17(f).);
- (h) 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 10.152. However, waste and scrap with positive values are included in general merchandise;
- (i) 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;
- (j) Samples of no commercial value;
- (k) Trade in goods between free trade zones and residents of the same economy; and
- (l) 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

10.23 The following items are excluded from general merchandise because they are included in other components of goods and services:

- (a) Goods acquired or sold by residents but that do not enter the economic territory are shown separately as goods under merchanting, as discussed in paragraphs 10.41–10.49;
- (b) Nonmonetary gold, as bullion and other forms, is shown as a separate item within goods, as discussed in paragraphs 10.50–10.54;
- (c) Goods that are included in travel, as discussed in paragraphs 10.89–10.91;
- (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 10.104;

- (e) Devices, such as disks, with stored computer software or data, that have been customized to order are included under computer services, as discussed in paragraph 10.143;
- (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 10.143 and 10.163, respectively. For related products included in goods, see paragraph 10.17(c).);
- (g) Licenses to reproduce or distribute (or both) audio and video that are conveyed by supply of the original recording are included under charges for the use of intellectual property n.i.e., as discussed in paragraph 10.137; 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. Deliveries between affiliated enterprises

10.24 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 10.22(f) covers the treatment of goods delivered for processing without a change of ownership.) 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 change of possession 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.

f. General and special trade

10.25 International merchandise trade statistics may be prepared on either a general or special trade basis:

- The general trade basis covers goods registered to enter the economic territory, including bonded warehouses and free trade zones. The general trade system is preferred in the United Nations *IMTS: Concepts and Definitions*. It is also preferable for international accounts statistics 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 bonded warehouses, export processing zones, and commercial free zones.

g. Time of recording

10.26 Transactions involving general merchandise should be recorded at the time of the change of ownership of the goods. Maximizing consistency in the time of recording between the exporter and importer, the change of ownership matches the time when the corresponding financial account entries are made (such as currency and deposits or trade credit). Goods are considered to change ownership when the parties enter the goods in their books as a real asset and make a corresponding change to their financial assets and liabilities.

10.27 *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 international accounts statistics 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

10.28 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 time of ownership change is as arranged between the parties; for example, it could be a progressive change in line with stage payments, or in full on delivery. 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. (If change of ownership differs from time of payment, accounts receivable/payable arise, as discussed in paragraph 5.71.)

Goods on consignment

10.29 *Goods on consignment are intended for sale, but their sale has not been arranged at the time they are dispatched.* 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 international accounts 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 international merchandise trade statistics. 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.

h. Valuation

10.30 The principle for valuation of general merchandise is the market value of goods at the point of uniform valuation. *The point of uniform valuation is at the customs frontier of the economy from which the goods are first exported, that is, free on board (FOB).* Market value is discussed in paragraphs 3.67–3.80.

10.31 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. An example is given in Box 10.2. Data from international transactions reporting systems and business surveys use transaction prices, and so have a variable mix of valuation bases.

10.32 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. There may be cases where the application of FOB-type values is problematic, such as for goods under merchanting, nonmonetary gold changing ownership without delivery, or goods processed and sold in the economy of processing, so a transaction value is used.)

10.33 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.

10.34 To convert imports from CIF to FOB valuation for international accounts purposes, the value

of freight 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.⁴ 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.

10.35 In some cases an estimate of a market-price equivalent price may need to be made. (See paragraphs 3.71–3.79 for more details.) For example, barter trade, aid goods, provision of goods and services between affiliated enterprises, under- or overinvoicing, goods on consignment or for auction, or where goods change ownership but a final price is determined later may 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.

10.36 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 3.73.

⁴However, 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.

i. Re-exports

10.37 *Re-exports are foreign goods (goods produced in other economies and previously imported) that are exported with no substantial transformation from the state in which they were previously imported.*⁵ The price of the re-exported good may differ 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 balance of payments statistics, a resident must acquire then 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 owner are included in goods under merchanting—see paragraph 10.41. Goods in transit are not recorded in imports or in re-exports—see also paragraph 10.22(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 balance of payments 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 10.22(i)).

10.38 In cases where the state of the imported goods is substantially transformed, which could be indicated by a change in HS code, 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 recommendations⁶ 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 10.62–10.70. Goods temporarily imported or re-exported without a change of ownership, such as for repair or operating lease, are not included, as discussed in paragraph 10.22(e).

10.39 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 do 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.

10.40 Re-imports are domestic 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. (In cases where there was no change of ownership, they are omitted from imports; e.g., goods for repair or goods sent for processing.)

2. Other goods

a. Goods under merchanting

10.41 *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 present in 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 10.37–10.38 can be used.)

10.42 Merchanting arrangements are used for wholesaling and retailing. They may also be used in commodity dealing and for the management and financing of global manufacturing processes. For example, an enterprise may contract the assembly of a good among one or more contractors, such that the goods are acquired by this enterprise and resold without passing through the territory of the owner.⁷ If the physical form of the goods is changed during the period the goods are owned, as a result of manufacturing services performed by other entities, then the goods transactions are recorded under general merchandise rather than merchanting. In other cases where the form of the goods does not change, the goods are included under merchanting, with the selling price reflecting minor processing costs as well as

⁵For treatment of re-exports in IMTS, see United Nations, *IMTS: Concepts and Definitions*, 1998, paragraphs 78 and 79.

⁶World Customs Organization, *International Convention on the Simplification and Harmonization of Customs Procedures (Revised Kyoto Convention)*.

⁷If there is no change of ownership of the goods, there is no merchanting transaction, but there may be manufacturing services on physical inputs owned by others for a fee, as discussed in paragraphs 10.62–10.64.

Box 10.1. Examples of Goods under Merchanting and Manufacturing Services on Physical Inputs Owned by Others (Processing Services)

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 B for 10. The resident of Economy A has them sent to Economy C, without the books passing through Economy A, for a resident of Economy C 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:

<i>Goods under merchanting (with Economy B)</i>	<i>–10 CR. (negative exports)</i>
<i>Goods under merchanting (with Economy D)</i>	<i>20 CR.</i>
Net exports of goods under merchanting	10 CR.
Manufacturing services on physical inputs owned by others (with Economy C)	3 DR.

(The counterpart entries in Economies B and D would appear as exports and imports, respectively, under general merchandise, because goods under merchanting is only used for the economy of the merchant.)

Example 2—Manufacturing services that change the condition of the goods

A resident of Economy A acquires oil from a resident of Economy B for 10. The oil is sent to Economy C, without passing through Economy A, for refining by a resident of Economy C, for a charge of 15; the oil continues to be owned by the resident of Economy A. The oil is then sold to a resident of Economy D for 30.

Since the goods are not in the same condition, the processing services treatment applies.

The goods and services account entries for Economy A would be:

General merchandise (with Economy B)	10 DR.
General merchandise (with Economy D)	30 CR.
Manufacturing services on physical inputs owned by others (with Economy C)	15 DR.

(See also paragraphs 10.62–10.71 on manufacturing services and related issues associated with processing.)

Economy B records goods exports to Economy A (10 CR.), Economy C records only manufacturing services exports A (not exports or imports of goods), and as noted above, Economy D records goods imports from Economy A (not goods imports from Economy C).

In both examples, Economy C may wish to identify the values of goods received and goods sent abroad as supplementary items.

wholesale margins. In cases where the merchant is the organizer of a global manufacturing process, the selling price may also cover elements such as providing planning, management, patents and other know-how, marketing, and financing. Particularly for high-technology goods, these nonphysical contributions may be large in relation to the value of materials and assembly.

10.43 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 international accounts statistics 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.

10.44 The treatment of merchanting is as follows:

- The acquisition of goods by merchants is shown under goods as a negative export of the economy of the merchant;
- The sale of goods 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) Merchanting entries are valued at transaction prices as agreed by the parties, not FOB.

(Box 10.1 contrasts the entries for goods under merchanting with those for goods under processing.)

10.45 Merchanting items appear only as exports in the accounts of the economy of the territory of the merchant. In the counterpart exporting and importing economies, export sales to merchants and import purchases from merchants are included under general merchandise.

10.46 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. In cases where the goods do not pass through the economy of the owner, but the physical form of the goods changes, because they are processed in another economy, international transactions are recorded under general merchandise, rather than merchanting. (The processing fee is recorded as a manufacturing service paid for by the owner, as discussed in paragraph 10.62.)

10.47 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.

10.48 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 entity 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 of the merchant. (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.)

10.49 Merchanting of nonmonetary gold is included under the nonmonetary gold item, discussed in paragraphs 10.50–10.54. This treatment means that the nonmonetary gold item is comprehensive and conceptually symmetric.

b. Nonmonetary gold

10.50 Nonmonetary gold covers all gold other than monetary gold. Monetary gold, as defined in paragraphs 5.74–5.75, 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.

10.51 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 9.18). For the same reason, allocated gold accounts are not treated as deposits. If an entity 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 5.76–5.77 on gold accounts and 9.18 on transactions in gold bullion.)

10.52 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 8.55. Otherwise, gold sales are recorded under nonmonetary gold.

10.53 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.

10.54 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.

3. Reconciliation between merchandise trade data and total goods on a balance of payments basis

10.55 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 balance of payments 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, timing, and so forth.

10.56 The table summarizes the steps taken in compilation. Some of the items are discussed in more detail in this chapter above. Annex E of *IMTS: Compilers Manual* lists differences between IMTS and *BPM5* standards. In addition to changes from *BPM5* in this *Manual*, other adjustments may arise if there are differences between IMTS and the national practices for coverage of international merchandise trade statistics.

C. Services

References:

United Nations and others, *Manual on Statistics of International Trade in Services*, especially Chapter III, Services Transactions Between Residents and Non-residents.

United Nations World Tourism Organization, *International Recommendations on Tourism Statistics and The Tourism Satellite Account: Recommended Methodological Framework*.

I. Concepts and coverage

10.57 Following the general principles in paragraph 3.47, the time of recording of service entries in the international 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).

10.58 Services provided by a consultant, independent contractor, or employment agency are distinguished from compensation of employees. Paragraphs 11.11–11.13 discuss the difference between an employee and a service provider.

10.59 Services that are “outsourced”—that is, where a company contracts another (specialist) company to provide services that were previously internal company functions, such as billing services or information “help” services—should be classified to the appropriate services item. 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 trade-related services, whereas call centers providing computer support are included in computing services.

10.60 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 2008 *SNA* and this *Manual*.⁸ *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 analysts. It describes and clarifies the four modes through which services can be supplied internationally. 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. It also further extends the meaning of trade in services to cover services delivered through locally established enterprises (see Appendix 4, Statistics on the Activities of Multina-

⁸Details and presentation may differ. *MSITS* will be updated to incorporate the 2008 changes in the *SNA* and this manual.

Table 10.2. Reconciliation between Merchandise Source Data and Total Goods on a Balance of Payments Basis

	Exports	Imports
Merchandise trade statistics as provided in source data		
Adjustments, as relevant¹		
For example (with paragraph reference):		
+ Goods procured in ports by carriers (10.17(d))		
+ Fish catch, minerals from the seabed and salvage sold from resident-operated vessels (10.17(e))		
+ Goods changing ownership entering/leaving territory illegally (10.17(i)/(j))		
+/- Goods lost or destroyed in transit (10.17(m))		
+ Goods acquired from other economies for processing abroad (10.65(b))	n.a.	
+ Goods sold abroad after processing in other economies (10.66(b))		n.a.
+/- Goods changing ownership in customs warehouses or other zones (10.25)		
– Migrants' personal effects (10.22(b))		
– Goods imported for construction projects by nonresident enterprises (10.22(d))		
– Goods for repair or storage without change of ownership (10.22(e))		
– Goods sent abroad or returned after processing without change of ownership (10.22(f))		
– Returned goods (10.22(i))		
+/- High-value capital goods, if delivery differs from change of ownership (10.28)		
– CIF/FOB adjustment (10.34)	n.a.	
+ Net exports of goods under merchandising (10.44(c))		n.a.
+ Nonmonetary gold (10.50)		
= Total goods on a balance of payments basis		

¹This list is not comprehensive, but indicative of commonly made adjustments. 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.

tional Enterprises). For more details, see *MSITS*, Chapter II, Conceptual Framework for the Development of Statistics on International Trade in Services.

2. Classification

10.61 An overview of the classification of services is shown in Table 10.1. 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; for example, if a bank provides pension fund services as a secondary activity, the service is classified as pension fund services. A reconciliation of 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 international accounts service item.

a. Manufacturing services on physical inputs owned by others

10.62 *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 owner. In these cases, the ownership of the goods does not change, so no general merchandise transaction is recorded between the processor and the owner.

10.63 Examples of processes that are often undertaken under arrangements for manufacturing services on physical inputs owned by others include 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).

10.64 Manufacturing services on physical inputs owned by others cover the transaction between the owner 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 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

Box 10.2. Recording of Global Manufacturing Arrangements

With the trend toward a more globalized economy, there has been growth in cross-border production arrangements. These arrangements involve different aspects of production processes being partly or wholly undertaken by affiliates or outsourced to unrelated entities.

There are several types of arrangements, such as:

- (a) Re-exports. Re-exports can be very significant in economies that are international centers for trading, transshipment, and processing that does not change the physical form of the goods (such as packing and labeling). (See paragraphs 10.37–10.39.)
- (b) Goods under merchanting. While sometimes used for simple wholesaling, merchanting also arises when parent companies acquire ownership of goods from their own manufacturing affiliates for resale to wholesaling affiliates or other customers, without taking possession. (See paragraphs 10.41–10.49.)
- (c) Manufacturing services on physical inputs owned by others and the associated movements of goods under these processing arrangements. (See paragraphs 10.62–10.71.)
- (d) Free trade and other special zones. (See paragraphs 4.4 and 4.8.)

For economies where some or all of these arrangements are significant, it may be useful to use supplementary presentations that bring these processes together and/or provide more detail, such as presenting gross flows by type of activity, in order to enhance knowledge of economic developments.

owner or not. (Box 10.1 contrasts the entries for goods under processing with those for goods under merchanting. Box 10.2 discusses different types of arrangements used for global manufacturing.)

Recording of related purchases and sales of goods

10.65 Purchases of materials by the owner (i.e., goods to be processed) may be obtained from residents of the same economy as the owner, 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 owner, 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 owner of the goods to be processed records imports of general merchandise. (See also paragraph 10.42 for circumstances in which the sale could be recorded under merchanting.)

10.66 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 owner, 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 owner of the goods under processing records the sale as exports of general merchandise. (The seller could report merchanting in the case of minor processing; see paragraph 10.42.)

Recording of related goods movements

10.67 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 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 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 providers of manufacturing services on goods processed in the compiling economy (with no change of ownership to the processor):
 - goods received for processing (goods received); and

- goods dispatched after processing (goods sent).

10.68 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 customer or supplier of manufacturing services, or from customs data:

- If the values are reported by the customers, coverage should be irrespective of whether the input goods were supplied by the owner from the owner'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 owner 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, such as if there are no duty concessions.

There may be interest in breaking down these values by product or product groups.

10.69 Transport costs may be incurred on movements on goods undergoing processing. How these transport services are recorded is determined from the following factors:

- for goods included in general merchandise (i.e., in the cases mentioned in paragraphs 10.65–10.66), general principles for FOB valuation apply, so that transport costs up to the customs frontier are treated as being payable by the exporter and transport costs after the frontier are treated as payable by the importer; and
- for goods not included in general merchandise (such as materials delivered from the owner to the processor with no change of ownership), transport 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.

Other issues related to processing

10.70 The value of manufacturing services on physical inputs owned by others is not necessarily the same as the difference between the value of goods sent for

processing and the value of goods after processing. Possible causes include holding gains or losses, the inclusion of overheads (such as financing, marketing, and know-how included in the finished good price), and measurement errors associated with the valuation of goods movements where there is no sale.

10.71 In contrast to manufacturing services on physical inputs owned by others, manufacturing of goods on own account means that the processor acquires ownership of the goods. When ownership is acquired from a nonresident, the gross values of the sale and purchase of these goods are included in general merchandise. Manufacturing on own account and manufacturing services on physical inputs owned by others are different arrangements for manufacturing, and it is desirable to show them separately because the role of the manufacturer in designing, marketing, and financing the goods is quite different. With globalization and outsourcing, it is becoming more common to have parts of a production process conducted in different economies. Showing these transactions on a change of ownership basis assists in identifying actual transactions and correctly attributing value added due to the owner for designing, marketing, financing, and so forth, rather than to the party that undertakes physical processes.

b. Maintenance and repair services n.i.e.

10.72 Maintenance and repair services n.i.e. cover maintenance and repair work by residents on goods that are owned by nonresidents (and vice versa). 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. Construction maintenance and repairs are excluded; they are included under construction. Maintenance and repairs of computers are included under computer services.

10.73 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 10.22, 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. 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. No distinction is made between those repairs included by the customer in intermediate consumption and those in capital formation.

c. Transport

10.74 *Transport is the process of carriage of people and objects from one location to another as well as related supporting and auxiliary services. Also included are 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.

In the standard components, transport is classified according to both dimensions. A breakdown of total transport services into freight transport, passenger transport, and other transport alone 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.

10.75 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. Any commissions payable by providers of transport services to an agent should be separately recorded, as described for travel in paragraph 10.98.

Passenger services

10.76 Passenger services cover the transport of people. The category covers all services provided in the international transport of nonresidents by resident carriers (credit) and that of residents by nonresident carriers (debit). Also included are passenger services performed within a territory by nonresident carriers. The valuation of passenger transport should include fees payable by the carriers to travel agencies and other providers of reservation services. 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.

10.77 Passenger services include fares and other expenditure related to the carriage of passengers. They

also include any taxes levied on passenger services, such as sales or value-added taxes. Passenger services include fares that are a part of package tours. 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).

Freight services

10.78 Freight services cover the transport of objects other than people. The treatment of freight services is a consequence of adopting FOB as the uniform valuation principle for goods. As discussed in paragraphs 10.31–10.34, FOB valuation is as 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.

10.79 When actual arrangements for paying freight costs differ from FOB terms of delivery, rerouting is needed, as defined in paragraph 3.16. 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 10.3. 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 10.3. 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 services 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 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).

- 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.
- 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 balance of payments statistics (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 balance of payments transaction. Conversely, if the freight provider is a resident of B, an international 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 international 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 re-routing 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.) 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. Financial leases of transport equipment are excluded from transport services (see paragraphs 5.56–5.59 and 10.17(f)).

Other transport services

10.80 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, salvage operations, and agents’ fees associated with passenger and freight transport (e.g., freight forwarding and brokerage services).

10.81 Some related activities are excluded from transport: freight insurance (included in insurance 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).

Postal and courier services

10.82 Postal and courier services cover the pick-up, transport, and delivery of letters, newspapers, periodicals, brochures, other printed matter, parcels, and

packages, including post office counter and mailbox rental services.

10.83 Postal services also include post office counter services, such as sales of stamps and money orders, poste restante services, telegram services, and so forth. Excluded 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 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.

10.84 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 other business services, other).

10.85 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 10.3. 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.

d. Travel

10.86 *Travel credits cover goods and services for own use or to give away acquired from an economy by nonresidents during visits to that economy. Travel debits 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 sup-

plied by the producer without charge are also included, such as tuition and board provided by a university.

10.87 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 10.95).

10.88 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.

10.89 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.⁹ 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.

10.90 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 electric 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 10.18.) 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 10.76).

⁹These 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.

Business travel

10.91 *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 (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 10.178); 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, conference, conventions, other meetings, or other business purposes on behalf of an enterprise resident in another economy.

10.92 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 which business travelers are reimbursed by employers) but not the sales or purchases that they may conclude on behalf of the enterprises they represent.

10.93 A supplementary item may be provided to show the total credits and debits for acquisition of goods and services by border, seasonal, and other short-term workers.

Personal travel

10.94 *Personal travel covers 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.* Where important, there may be supplementary items to break down personal travel into subcomponents:

- (a) health-related (e.g., medical services, other health care, food, accommodation, local transport, acquired by those traveling for medical reasons);
- (b) education-related (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.)

The residence of international patients and students is discussed in paragraphs 4.120–4.121. Health and educational services not included in travel are discussed in paragraph 10.167.

Other issues related to travel

10.95 A separate supplementary breakdown of travel may be provided according to product group, namely:

- (a) goods,
- (b) local transport services,
- (c) accommodation services,
- (d) food-serving services, and
- (e) other services.

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*¹⁰ and United Nations World Tourism Organization, *International Recommendations for Tourism Statistics*. 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.¹¹

10.96 Travel covers stays of any length provided there is no change of residence. (Principles for determining residence of households are shown in paragraphs 4.116–4.130.) 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.

10.97 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

¹⁰The 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.

¹¹This supplementary item includes all personal travel and that part of business travel that does not cover expenditure of border, seasonal, and other short-term workers, as well as passenger transport services.

Table 10.3. Treatment of Alternative Time-Share Arrangements

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 non-transferable right to use (does not amount to asset)	Prepayment of accommodation	Trade credit and advances	Accommodation services in travel

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), or produced on own account (as in some cases of notional units for ownership of real estate and time-share accommodation).

10.98 Travel services may be arranged through a travel agent, tour operator, time-share exchange agent, or other provider. In some of these cases, the agent may pay the travel providers an amount that deducts a margin or commission. If the agent is a resident of the same economy as the customer, then the margin or commission is a resident-to-resident transaction, and the net amount payable to service providers resident in other economies (after the margin or commission receivable by the agent is deducted) is included in travel. 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).

10.99 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 4.36) are shown in travel.

10.100 The term “time-share” covers a wide range of arrangements. They can be classified in the three categories, as described in Table 10.3:

- (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.

e. Construction

10.101 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.

10.102 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 are resident-to-resident transactions, and so should be excluded (see also paragraph 10.22). 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.

10.103 If the external operations of a construction enterprise are substantial enough, they constitute a branch resident in the economy of operations (see paragraphs 4.27–4.29). 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.

10.104 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

10.105 Construction abroad consists of:

- (a) construction work for nonresidents by enterprises resident in the compiling economy (credit), and
- (b) the goods and services acquired from the economy in which the construction activity is being undertaken by these enterprises (debit).

Construction in the compiling economy

10.106 Construction in the compiling economy consists of

- (a) construction work for residents of the compiling economy by nonresident construction enterprises (debit), and
- (b) the goods and services acquired in the compiling economy from resident enterprises by these nonresident construction enterprises (credit).

Valuation

10.107 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 gross fixed capital formation 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 10.177).

Existing buildings

10.108 As noted in paragraph 4.34, 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 occur for buildings in an area that is exchanged between economies (see paragraph 4.9). The change in ownership of the land component is shown in the capital account (see paragraph 13.10); 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.

f. Insurance and pension services

10.109 Insurance and pension services include services of providing life insurance and annuities, nonlife insurance, reinsurance, freight insurance, pensions, standardized guarantees, and auxiliary services to insurance, pension schemes, and standardized guarantee schemes. More information on insurance and pensions is provided in Appendix 6c.

10.110 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. Appendix 6c 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.

10.111 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:

$$\begin{aligned} & \text{Gross premiums earned;} \\ + & \text{Premium supplements;} \end{aligned}$$

- Claims payable plus adjustment for claims volatility, if necessary.

More elaboration is provided in Appendix 6c: nonlife insurance (paragraphs A6c.16–A6c.22), reinsurance (paragraph A6c.23), life insurance (paragraph A6c.31), and pension schemes (paragraph A6c.40).

10.112 The supplementary breakdown of insurance and pension services is between direct insurance, reinsurance, auxiliary insurance services, and pension and standardized guarantee services. In addition, data on gross premiums earned (see paragraph A6c.17) and unadjusted claims (claims payable before adjustments for claims volatility; see paragraphs A6c.21–A6c.22) may be provided as supplementary items, with separate details on nonlife, life, pension, and standardized guarantee components, as considered appropriate.

10.113 For exports of nonlife insurance services, the service charge can be estimated from total nonlife insurance output by multiplying the gross premiums earned from nonresidents by the ratio of service charge to gross premiums earned for all nonlife insurance operations. (This calculation is illustrated in Box 10.4, Example 2.) The same prorating technique can be used for life insurance, 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 10.111, so they take into account premium supplements and claims volatility. (See Box 10.4 for an example of calculations.)

10.114 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

Box 10.4. 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 Appendix 6c.)

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 $100 + 20 - 95$)
Primary Income	Income attributable to policyholders = 20
Current transfers	Net premiums receivable = 95 (premiums plus supplements less service = $100 + 20 - 25$)
	Claims payable = 95 (actual; equal to net premiums 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)

Example 2. For resident insurers with separate data on policyholders abroad for premiums only:

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 (= $80 / (200) * 50$)

Example 3. For nonresident insurers with resident policyholders:

Premiums from residents	40
Ratio of service charge to premiums (average from data on insurers abroad)	= 25 percent
Estimated insurance services from nonresidents	10 (= $40 * 0.25$)

types of nonlife insurance is dominated by relatively large, specialized companies;

- (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.

10.115 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.

10.116 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 3.16–3.17). 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.

10.117 Auxiliary insurance services consist of the provision of services that are closely related to insurance and pension fund 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.

g. Financial services

10.118 Financial services cover financial intermediary and auxiliary services, except insurance and pension fund 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 or bullion, financial asset management, monitoring services, liquidity provision services, risk assumption services other than insurance, merger and acquisition services, credit rating services, stock exchange services, and trust services.

10.119 Financial services 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 entities; or
- (d) margins between interest payable and the reference rate on loans and deposits (called financial intermediation service charges indirectly measured, abbreviated as FISIM).

For financial intermediaries, the balance between explicit and implicit charges may vary over time and from insti-

tution to institution, so data on both are needed to get a complete picture of their supply of services.

Explicit charges

10.120 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 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 FISIM.)

10.121 Explicit charges also include commissions and other fees related to letters of credit, bankers' acceptances, lines of credit, financial leasing, money transfer, and foreign exchange transactions. 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.¹² 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. 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 11.3(b)).

Margins on buying and selling transactions

10.122 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

¹²Financial 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.

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.

10.123 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.

Asset management costs taken out of income

10.124 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 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 entity 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 11.67–11.68).

10.125 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.

FISIM

10.126 Actual interest 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 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 FISIM in the cases of money lenders and loans made from banks' own funds.

10.127 By convention, these indirect 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 4.63). While loans by holding companies, special purpose entities, and other captive financial institutions to their affiliates are not normally expected to generate FISIM, they may do so if they charge a margin. Financial corporations may generate FISIM 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 FISIM on its loans to credit card customers.

10.128 The rate of FISIM 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 FISIM than small-scale ("retail") loans and deposits.

10.129 FISIM payable by each of the depositors and borrowers are calculated by using the concept of a "reference" rate of interest. The reference rate should contain no service element and reflect the risk and maturity structure of deposits and loans. The rate prevailing for interbank borrowing and lending may be a suitable choice as a reference rate. A single rate should be used for transactions in the domestic currency, whereas different rates should be applied for loans and deposits in other currencies. The reference rate will change over time with market conditions.

Box 10.5. Numerical Example of Calculation of FISIM

The data requirements for the calculation of FISIM are:

- (1) values of loans and deposits (available from the IIP);
- (2) the corresponding interest payable/receivable (available from the primary 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 receivable by financial corporations on loans = 70
partitioned into:

50 pure interest receivable (derived as 1000 at 5 percent)

20 FISIM 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 FISIM receivable (derived as 25 – 10)

Total FISIM receivable by financial corporations = 35 (20+15)

Notes:

The difference between interest receivable and payable is not the same as FISIM. 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 international interest payable and receivable is an unsuitable estimate of FISIM.) 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.

10.130 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-III of Appendix 9 can provide relevant information on calculation of FISIM for each major currency.)

10.131 FISIM 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 10.5 for a numerical example.)

10.132 Because a repo with supply of cash is treated as involving a loan or deposit, as stated in paragraphs 5.52–5.53, it may give rise to FISIM. Similarly, a financial lease is treated as giving rise to a loan (see paragraphs 5.56–5.58) so it may also give rise to FISIM 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 FISIM. 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 FISIM to be identified. See also paragraphs 11.74–11.75 on the effects of FISIM on interest.

10.133 Estimates of cross-border FISIM 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 FISIM is small, it can be measured with relatively simplified methods based on aggregated data.

10.134 Negative FISIM may occur in reality (e.g., when loans are at fixed interest rates and market rates rise). Negative FISIM 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 FISIM.

10.135 The identification of FISIM as the financial service implicitly included in interest requires corresponding adjustments to interest as recorded in the primary income account. Actual interest payable by borrowers is partitioned between a pure interest charge at the reference rate (in primary income) and FISIM (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 primary income accounts is shown after adjusting for FISIM—“pure interest”; also, there is a memorandum item for interest before adjusting for FISIM—“actual interest” (see paragraphs 11.74–11.75).

10.136 Financial services 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.

h. Charges for the use of intellectual property n.i.e.

10.137 Charges for the use of intellectual property n.i.e. include:

- (a) Charges for the use of proprietary rights (such as patents, trademarks, copyrights, industrial processes and designs including trade secrets, franchises). These rights can arise from research and development, as well as from marketing; 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, cinematographic works, and sound recordings) and related rights (such as for live performances and television, cable, or satellite broadcast).

(As shown in Table 10.4, some other kinds of intellectual property are included in other categories.)

10.138 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 10.4. In contrast to temporary rights to use, outright sales of patents, copyrights, and industrial processes and designs are included under research and development services (discussed in paragraph 10.147). Similarly, temporary rights for computer software and audiovisual originals are treated differently from outright sales (as shown in Table 10.4).

10.139 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 noncancelable 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.

10.140 Franchise fees, trademark revenue, payments for use of brand names, and so forth include aspects of property income (i.e., putting a nonfinancial non-produced 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

Table 10.4. Treatment of Intellectual Property

	Use of intellectual property		Sale/purchase of ownership rights ³
	charges for the use of intellectual property n.i.e.		capital account entry
Franchises and trademarks			
Outcomes of research and development	charges for the use of intellectual property n.i.e.		research and development services
Computer services; Audiovisual and related services:	License to use excluding reproduction and distribution¹	License to reproduce and/or distribute²	
(a) Customized all types	relevant service item ⁴		
(b) Noncustomized—downloaded or otherwise electronically delivered	relevant service item ⁴		
(c) Noncustomized—provided on physical media with periodic license fee	relevant service item ⁴	charges for the use of intellectual property n.i.e.	relevant service item ⁴
(d) Noncustomized—provided on physical media with right to perpetual use	goods		

¹Covers 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 and services items.

²Covers the case where authority to reproduce and/or distribute the intellectual property is delegated by its owner.

³Covers 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.

⁴The relevant service item is either computer services (see paragraph 10.143), or audiovisual and related services (see paragraphs 10.162–10.166), 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 in Table 10.4). 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).

values are to be classified as charges for the use of intellectual property. 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.

i. Telecommunications, computer, and information services

10.141 Computer and telecommunication services are defined in terms of the nature of the service, not the method of delivery.¹³ To illustrate, provision of business services, such as accounting services, is included under the appropriate heading under other business 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, etc., services).

¹³However, the mode of delivery is taken into account in some cases in the distinguishing between goods and services, as shown in Table 10.4.

Telecommunications services

10.142 Telecommunications services encompass the broadcast or transmission of sound, images, data, or other information by telephone, telex, telegram, radio and television cable transmission, radio and television satellite, electronic mail, facsimile, 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).

Computer services

10.143 Computer services consist of hardware- and software-related services and data-processing services. Table 10.4 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 storage device such as a disk or CD-ROM with a periodic license fee (noncustomized software on storage devices with licenses that convey perpetual use is included in goods; see paragraph 10.17(c) and Table 10.4);
- (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) data-processing and hosting services, such as data entry, tabulation, and processing on a time-sharing basis;
- (m) web page hosting services (i.e., the provision of server space on the Internet to host clients' web pages); and
- (n) provision of applications, hosting clients' applications, and computer facilities management.

10.144 Software includes general business productivity software, computer game software, and other applications. However, as shown in Table 10.4 and para-

graph 10.17(d), 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 software services follows the same principles as for other intellectual property, identified in paragraph 10.139.

10.145 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, are also excluded. Leasing of computers without an operator is included in operational leasing.

Information services

10.146 Information services include news agency services, such as the provision of news, photographs, and feature articles to the media. Other information provision services include database services—database conception, data storage, and the dissemination of data and databases (including directories and mailing lists), both online and through magnetic, optical, or printed media; and web search portals (search engine services that find Internet addresses for clients who input keyword queries). 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.

j. Other business services

Research and development services

10.147 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 physical sciences, social sciences, and humanities are covered, including the development of operating systems that represent technological advances. Also included is commercial research related to electronics, pharmaceuticals, and biotechnology.

10.148 The definition of research and development services used here and in the CPC is wider than the Frascati definition (which is used to define the scope

of capital formation in the 2008 SNA); 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 10.137–10.140.

Professional and management consulting services

10.149 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.

10.150 Services for the general management of a branch, subsidiary, or associate provided by a parent enterprise or other affiliated enterprise are included in other business services, often 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 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.

Technical, trade-related, and other business services

10.151 Technical, trade-related, and other business services include:

- (a) architectural, engineering, and other technical services;
- (b) waste treatment and depollution, agricultural, and mining services (discussed further in paragraph 10.152);
- (c) operating leasing services (discussed further in paragraphs 10.153–10.157);
- (d) trade-related services (discussed further in paragraph 10.158); and
- (e) other business services (discussed further in paragraph 10.159).

Waste treatment and depollution, agricultural, and mining services

10.152 Waste treatment and depollution services include waste collection and disposal, remediation, sanitation, and other environmental protection services. They also include environmental services, such as production of carbon offsets or carbon sequestration, that are not classified under any more specific category. Other technical services include agricultural, mining, and veterinary services.

Operating leasing

10.153 *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.¹⁴

10.154 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 rented 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.

10.155 An operating lease is distinguished from:

- (a) a financial lease, where the risks and rewards of ownership of the asset are transferred to the

¹⁴In contrast, rent is used to describe amounts payable under a resource lease covering natural resources, such as land, water, or mineral rights. Rent arising from such resource leases is included in the primary income account, as discussed in paragraphs 11.85–11.90.

lessee; with an operating lease, the lessor has the risks and benefits (see paragraphs 5.56–5.60 for definition and elaboration on financial leases);

- (b) a resource lease, where the asset provided is a natural resource, rather than a produced asset (see paragraphs 11.85–11.90 for a definition and elaboration on resource leases and rent); and
- (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 13.12 for elaboration on these leases.)

10.156 Operating leasing services cover leasing (rental) and charters, without crew, 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 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. 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).

10.157 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 natural resources are classified as primary income (such leases are called resource leases; see paragraph 11.85). 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 10.86–10.88).

Trade-related services

10.158 Trade-related services cover commissions on goods and service transactions payable to merchants, commodity brokers, dealers, auctioneers, and commission agents. For example, these services include the auctioneer's fee or agent's commission on sales of ships, aircraft, and other goods. 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 margins not included in the FOB price of the goods are included in trade-related services. Brokerage on financial instruments is excluded from trade-related services (included in financial services) as are transport-related charges, such as agency commissions (included in transport services).

Other business services

10.159 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 are forfeited down payments not able to be specified to any other service.

10.160 Business and other services, such as transport, construction, and computing, may be subcontracted. This arrangement may also be called "outsourcing." For example, a specialist service arranger may be paid to provide back-office functions for a customer, which the service arranger subcontracts to another contractor. Thus, subcontracting is similar in some ways to merchanting of goods, because the services are purchased and resold. However, for services, the degree of transformation involved may be harder to assess than for goods, such as in the case of bundling and managing the services of different contractors. "Service merchanting" of this kind is an important activity in some economies. 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; 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.) These services are classified to the appropriate specific service classification, such as transport, construction, computing, or other business services. (See also paragraph 10.75 for transport.) However, if the activity is significant for an economy, net data could be provided on a supplementary basis.

k. Personal, cultural, and recreational services

10.161 Personal, cultural, and recreational services consist of (a) audiovisual and related services and (b) other personal, cultural, and recreational services.

Audiovisual and related services

10.162 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 10.4 summarizes the treatment of intellectual property associated with audiovisual and related services, as well as other types of intellectual property.

10.163 Included are amounts receivable or payable for rentals of audiovisual and related products, and charges for access to 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 entity making payments, in which case the transactions are classified as compensation of employees).

10.164 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 CD-ROM, disk, paper, and so forth, 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 10.166 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 10.139.

10.165 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.

10.166 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

10.167 Other personal, cultural, and recreational services include health services, education services, and others, as discussed in the following paragraphs.

10.168 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 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 10.94). Veterinary services are included in other technical services (see paragraph 10.152).

10.169 Education services consist of services relating to education, such as correspondence courses and education via television or the Internet, 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 10.94).

10.170 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.

10.171 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.

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 12.25–12.26.

10.172 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 10.88) and excluded from this item.

I. Government goods and services n.i.e.

10.173 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.

Transactions of public corporations (defined in paragraph 4.108) 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

10.174 As government and international organization enclaves are not residents of the territory in which they are physically located (as discussed further in paragraph 4.5(e)), their transactions with residents of the territory of location are international 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 international accounts.

10.175 Government goods and services n.i.e. credits include the supply of goods and services to embassies, consulates, military units or bases, defense agencies, and other official entities (such as aid missions; government tourism, information, and trade promotion offices) of foreign governments located in the compiling economy.

10.176 Government goods and services n.i.e. debits 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.

10.177 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 10.108).

Goods and services acquired by staff employed in enclaves and their dependents

10.178 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 classed as nonresidents of the territory of their location, as discussed in paragraph 4.123.) 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 classed as residents of the territory of their location, as discussed in paragraphs 4.123–4.124.) The supply of goods and services to foreign diplomats and so forth located in the compiling economy is shown as credits, while the expenditure of the compiling economy's diplomats and so forth in the economy of their posting is shown as debits. (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 to the local economy.)

Other services supplied by and to governments

10.179 Services supplied by and to governments should be classified to specific services (business services, 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 10.108). 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 10.180–10.181) are also government services n.i.e. Box 10.6 covers issues associated with technical assistance.

Government licenses, permits, and so forth

10.180 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. If the issue of such licenses involves little or no work on the part of government, the licenses being granted automatically on payment, it is likely that they are simply a device to raise taxes, even though the

Box 10.6. Technical Assistance***Who provides technical assistance?***

Technical assistance is provided by the entity that employs the personnel delivering the services (technical assistance personnel), which could include a non-government entity. 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 an entity 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.

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, compensation of employees payable by the donor economy is recorded in the international accounts (paragraph 11.15).

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 12.47) is recorded in the international accounts, with the recipient government imputed as paying compensation 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 entity (see paragraphs 11.11–11.12) then payments to them are classified as payments for services, not the compensation of employees.

If the technical assistance activities in the recipient economy are such that a branch is recognized (paragraphs 4.26–4.28) and the technical assistance personnel are employed by the branch, payment of compensation by the donor economy is rerouted through the branch as equity.

government may provide some kind of certificate, or authorization, in return. However, if the government uses the issue of licenses to exercise some proper regulatory function, such as checking the competence or qualifications of the person concerned, checking the efficient and safe functioning of equipment, or carrying out some other form of control that it would otherwise not be obliged to do, the payments made should be treated as purchases of services from government rather than payments of taxes, unless the payments are clearly out of all proportion to the costs of providing the services.

10.181 The borderline between taxes and payments of charges for services rendered is not always clear-

cut in practice.¹⁵ By convention, amounts payable by households for licenses to own or use vehicles, boats, or aircraft and also licenses for recreational hunting, shooting, or fishing are treated as taxes, whereas amounts payable by households for all other kinds of licenses, permits, certificates, passports, and so forth, are treated as purchases of services. (For more details on taxes, see paragraph 12.30.)

¹⁵In 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 13.11–13.16).

Primary Income Account

A. Overview of the Primary Income Account

Reference:

2008 SNA, Chapter 7, The Distribution of Income Accounts.

11.1 *The primary income account shows primary income flows between resident and nonresident institutional units.* In the SNA, primary distribution of income is recorded in two accounts, namely, the generation of income account (which records primary income generated in the production process) and the allocation of primary income account (which records primary income allocated to institutional units for the provision of labor, financial assets, and natural resources). In the international accounts, all primary income flows relate to the allocation of primary income account.

11.2 The main components and structure of the account are shown in Table 11.1. Credit entries reflect primary income receivable by the compiling economy and debit entries reflect primary income payable by the compiling economy. The balance on primary income shows net primary income receivable by the compiling economy, which is defined as the total value of primary income receivable by the compiling economy less the total value of primary income payable.

11.3 *Primary income represents the return that accrues to institutional units for their contribution to the production process or for the provision of financial assets and renting natural resources to other institutional units.* Two types of primary income are distinguished:

- (a) Income associated with the production process. Compensation of employees is income for the contribution of labor inputs to the production process. Taxes and subsidies on products and production are also income related to production; and

- (b) Income associated with the ownership of financial and other nonproduced assets. *Property income is the return for providing financial assets and renting natural resources. Investment income is the return for providing financial assets; it consists of dividends and withdrawals from income of quasi-corporations, reinvested earnings, and interest.* 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.

11.4 Cross-border primary 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 primary income distributions result in the GNI for an economy. The difference between the GNI and GDP is equal to the difference of primary income receivable from nonresidents and primary income payable to nonresidents, often described as “net income from abroad.” When labor, financial resources, and natural resources owned by residents are put at the use of nonresidents, primary income is earned. When labor, financial resources, and natural resources are owned by nonresidents and are put at the use of residents, primary income is payable. GNI is larger (smaller) than GDP if more (less) income is generated from the provision of labor, financial resources, and natural resources owned by residents to nonresidents than the similar income payable to nonresidents.

11.5 Primary income should be distinguished from secondary income. Primary income captures returns for the provision of labor and financial assets and renting of natural resources. Secondary income

Table 11.1. Overview of the Primary Income Account

	Credits	Debits
Balance of goods and services		
Compensation of employees		
Investment income		
Direct investment		
Income on equity and investment fund shares		
Dividends and withdrawals from income of quasi-corporations		
Reinvested earnings		
Interest		
Portfolio investment		
Income on equity and investment fund shares		
Dividends on equity other than investment fund shares		
Investment income attributable to investment fund shareholders		
Dividends on investment fund shares		
Reinvested earnings on investment fund shares		
Interest		
Other investment		
Income on equity and investment fund shares		
Interest		
Investment income attributable to policyholders in insurance, standardized guarantees, and pension funds		
Reserve assets		
Income on equity and investment fund shares		
Interest		
Other primary income		
Rent		
Taxes on production and imports		
Subsidies		
Total primary income credits and debits		
Balance on primary income		
Balance on goods, services, and primary income		

Note: This table is expository; for Standard Components, see Appendix 9.

captures further redistribution of income through current transfers, such as by governments or charitable organizations. Secondary income is described in Chapter 12.

11.6 The structure of the primary income account is consistent with that of the corresponding financial flows and positions, thus facilitating the analysis of rates of return. (See Table 5.2 for classification of financial assets and liabilities and the corresponding type of income they generate.) For example, rent is shown separately so that it is not mixed with returns on financial assets. Investment income attributable to policyholders in insurance, standardized guarantees, and pension funds is also to be shown as a separate item, if relevant. Specific further groupings of primary income are discussed in the subsequent sections.

11.7 Section B of this chapter discusses the coverage, timing, and valuation issues for each type of primary income (compensation of employees, divi-

dends, reinvested earnings, interest, investment income attributable to policyholders in insurance, standardized guarantees, and pension funds, rent, and taxes and subsidies on products and production). 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 Primary Income

11.8 The international accounts distinguish the following types of primary income:

- (a) compensation of employees;
- (b) dividends;
- (c) reinvested earnings;
- (d) interest;

- (e) investment income attributable to policyholders in insurance, standardized guarantees, and pension funds;
- (f) rent; and
- (g) taxes and subsidies on products and production.

These income categories are described in paragraphs 11.10–11.94.

11.9 Table 11.1 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. 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. This section describes various types of investment income and other types of primary income. The next section includes a description of specific issues on investment income related to the functional categories of financial assets and liabilities.

I. Compensation of employees

11.10 *Compensation of employees presents remuneration in return for the labor input to the production process contributed by an individual in an employer-employee relationship with the enterprise.* In the international accounts, compensation 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, compensation of employees is the total remuneration, in cash or in kind, payable by resident enterprises to non-resident 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 E of Chapter 4, Economic Territory, Units, Institutional Sectors, and Residence.

11.11 Cross-border compensation 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 entity and an individual, normally entered into voluntarily by both parties, whereby the individual works for the entity 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 entity and a self-employed. 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.

11.12 When an individual performs work for an entity, it may not always be clear whether an employer-employee relationship exists between the individual and the entity. Provision of several types of services may pose such problems because entities may choose either to purchase a service from a self-employed worker or to hire an employee to perform the job. The status of the worker has important implications for the international accounts. If an employer-employee relationship exists between the worker and the producing entity, the payment constitutes compensation of employees. If an employer-employee relationship does not exist, the payment constitutes a purchase of services. (See Chapter 10, Goods and Services Account for specific categories of services.)

11.13 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.

11.14 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 Chapter 4, Economic Territory, Units, Institutional Sectors, and Residence; Section E, Residence, for the definition of residence), the compensation receivable by local (host country) staff of these institutional entities is classified as payable to resident entities by nonresident entities. Compensation receivable by employees from international organizations, which are extraterritorial entities, represents receipts from nonresident entities.

11.15 According to the residence principles for households as explained in paragraphs 4.116–4.130, 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 reside (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 reside. Although such employees continue to be legally employed and paid by the parent enterprise (which may be international organizations, foreign governments, or commercial enterprises), 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 entity that pays them.

11.16 Compensation 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 the accounts payable and the

economy of the employee must record an entry in the accounts receivable.

11.17 Compensation 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

11.18 Wages and salaries in cash consist of amounts payable in cash (or any other financial instruments used as means of payments) to employees in return for labor input rendered, before deducting withholding taxes and employees' contributions to social insurance schemes (which are shown in the secondary income account; see paragraph 12.35). 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 shown as acquisition by the employer of goods and services.

b. Wages and salaries in kind

11.19 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; 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. 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. To provide a consistent and economically meaningful way of recording benefits in kind, some "rerouting" may be involved (see paragraph 3.16 for an example of rerout-

ing). That is, although the benefits are purchased by the employer, the benefits are treated as if the employer paid the amount of the benefit to the employee who, in turn, acquired the item. The rerouting may affect the resident-to-nonresident nature of the transaction.

11.20 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 compensation 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. Sometimes, the options may cover the period before the granting date, which should also be taken into account in allocating the compensation of employees. The value of the ESO accumulates as compensation 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 compensation of employees, but are holding gains and losses (see paragraph 9.30). Transactions 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.

11.21 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 compensation 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' international 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 11.101–11.102).

c. Employers' social contributions

11.22 *Employers' social contributions are social contributions payable by employers to social security funds or other employment-related social insurance schemes to secure social benefits for their employees.* Social security schemes are operated by general government; other employer-related 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 employers' contributions or subsidies for 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. For defined contribution employer pension schemes, the actual amounts payable by employers are included in the compensation of employees. 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 de facto entitlements to the social benefits. (See paragraph 5.66 for the definition of pension entitlements.)

11.23 Employees who are employed outside their economy of residence may incur travel expenses (see paragraphs 10.91–10.93) and may be subject to the payment of income taxes (see paragraph 12.28). These flows should be recorded on a gross basis respectively as travel expenses and taxes on income; that is, they should not be deducted from compensation of employees.

2. Dividends and withdrawals from income of quasi-corporations

11.24 *Dividends are the distributed earnings allocated to the owners of 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.

11.25 The concept of dividends is linked to the instrument classification; namely, they are the return payable by corporations to their shareholders or owners.¹ 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 preference shares is treated as interest income, rather than dividend income, because such shares are classified as debt instruments.

¹Manufactured dividends are discussed in paragraph 11.69.

11.26 In addition to dividends from corporations, distributed income from 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 the same way. Withdrawals from income of quasi-corporations do not include withdrawals of funds realized by the sale or disposal of the quasi-corporation's assets (e.g., the sale of inventories, fixed assets, or land or other natural resources). Transmittal of funds resulting from such disposals of assets is recorded as a withdrawal from the equity of quasi-corporations in the financial account. Income from rent earned on land and buildings directly held by nonresidents is also classified under dividends and distributed incomes from a notional direct investment enterprise.

11.27 Exceptional payments by corporations (including quasi-corporations such as branches) to their shareholders that are made out of accumulated reserves or sales of assets should not be treated as dividends. Such exceptional payments, sometimes called superdividends, are treated as withdrawals of equity, and therefore recorded in the financial account (as noted in paragraph 8.23). The exceptional nature of the payments is normally determined as being disproportionately large relative to the recent level of dividends and earnings. Although dividends are notionally paid out of the current period's operating surplus, corporations often smooth the payments of dividends, sometimes paying out rather less than operating surplus but other times paying out a little more, especially when the operating surplus itself is very low. For practical reasons, no attempt is made to align dividend payments with earnings except when the dividends are disproportionately large. If the level of dividends declared is greatly in excess of previous dividends and trends in earnings, the excess should be excluded from dividends and shown as a withdrawal of equity (see paragraph 8.23).

11.28 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 income (in the primary income account), which is then immediately reinvested (in the financial account).

11.29 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 entity is the same before and after the issuance of bonus shares. (See also paragraph 8.33.)

11.30 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.

11.31 Dividends are recorded at the time the shares go ex-dividend (see paragraph 3.48 for recording of dividends). Withdrawals of income from 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.

11.32 Dividends and withdrawals by owners of quasi-corporations are also identified for equity in investment funds. Investment funds are usually portfolio investment, but they may also occur in other functional categories. For equity in investment funds and direct investment, the owners' earnings include both the distributed income and reinvested earnings.

3. Reinvested earnings

11.33 This section describes the treatment in the international accounts of reinvested earnings from equity participation. Reinvested earnings is associated with the concept of attributing retained earnings to their owners.

11.34 *Retained earnings of an enterprise shows the net earnings from production and primary and secondary income transactions before attributing reinvested earnings. It is equal to net operating surplus plus primary income, current transfers receivable, and change in pension entitlements, and minus primary income (excluding reinvested earnings payable to the enterprise's direct investors and owners of investment funds) and current transfers payable.* Retained earnings of investment funds and the part of the retained earnings

of direct investment enterprises that belongs to direct investors are treated as being distributed to the owners who then are deemed to reinvest back. The imputation of income to the owners of investment funds and direct investors is shown in the primary 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.

11.35 In macroeconomic statistics, corporations are defined as entities separate from their owners and able to take economic decisions (see paragraphs 4.13–4.15 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.² 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 entity 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 entities.

11.36 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 of its net earnings to its owners, in some cases, may be subject to the control and influence the owners have on corporate decisions. Attribution of cross-border income is particularly important for deriving consistent and comparable measures of national disposable income and national saving. Retained earnings of investment funds and the part of the retained earnings of direct investment enterprises belonging to direct investors are treated as being distributed to the owners and reinvested back by the owners in their enterprises.

²The 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. Investment income attributable to investment fund shareholders

11.37 Investment income attributable to the owners of investment fund shares (or units) includes dividends payable to them as well as retained earnings. 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, including real estate, or they may be limited to a small number of investors (see paragraphs 4.73–4.75 on investment funds as an institutional subsector). Each share represents a proportional equity in the investment portfolio managed by investment funds.

11.38 Earnings from investment funds can be viewed as being passed on to their shareholders (or unit-holders) 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 after deducting operating expenses. The net earnings of investment funds after deducting the operating expenses belong to shareholders. When only a part of the net earnings is distributed to shareholders as dividends, the retained earnings should be treated as if they were distributed to the 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.

11.39 Investment income attributable to owners of investment funds excludes holding gains and losses arising from investment by the funds. Holding gains and losses are recorded in the other changes in financial assets and liabilities account. (If dividends from an investment fund include distribution of amounts derived from holding gains, reinvested earnings may be negative.)

b. Reinvested earnings on direct investment

11.40 Investment income attributable to direct investors on their equity includes dividends, withdrawals from income of quasi-corporations, and reinvested earnings. The reinvested earnings are the direct investors’ share of the retained earnings of the direct investment enterprise. 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). 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 entity used solely for fiscal purposes, transactions are imputed between the government and the government-owned nonresident entity to reflect the fiscal activities of the government (see paragraphs 8.24–8.26). Therefore, such government-owned entities do not give rise to reinvested earnings.

11.41 The rationale behind the 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. Therefore, attributing the retained earnings of direct investment enterprises to their direct investors is needed for consistent and comparable measures of national income and national saving. However, because reinvested earnings are recorded only for equity in direct investment and investment funds, but not for other types of equity, it may be useful for some analysis to have measures of income and the current account with and without reinvested earnings.

11.42 Reinvested earnings represent the direct investors' proportion, in terms of equity held, of the earnings that foreign subsidiaries and associates do not distribute as dividends. The undistributed earnings of branches are also considered to be reinvested earnings.

11.43 Reinvested earnings of a direct investment enterprise are, therefore, the direct investor's share of the direct investment enterprise's retained earnings or net saving (before reinvested earnings payable are deemed distributed). Retained earnings or net saving (before reinvested earnings payable are deemed distributed) of an enterprise may be formally stated as:

Net operating surplus (operating revenue minus operating expenses)

- + Dividends receivable;
- + Interest receivable;
- + Rent receivable;
- + Enterprise's share of reinvested earnings of any direct investment enterprises;
- + Current transfers receivable;
- Dividends payable;
- Interest payable;
- Rent payable;
- Taxes and other current transfers payable.

(These items correspond exactly to *SNA* items; additional information on the treatment of particular items of revenue and expense can be found in the *2008 SNA*.) Reinvested earnings are recorded in the period in which the retained earnings accrue. See also Box 11.5 for an example of the calculation of reinvested earnings.

11.44 Reinvested earnings are measured on the basis of net saving before reinvested earnings are deemed distributed, and thus linked to the concept of operational earnings generated from production, lending and borrowing financial assets, and renting natural resources, and current transfers. 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 fixed 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, Other Changes in Financial Assets and Liabilities Account. 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.

11.45 Retained 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

Box 11.1. 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:

	Earnings from Own Operations	Reinvested Earnings:	
		Payable	Receivable
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 11.47.)
- No reinvested earnings are payable on the reverse investment equity of Enterprise C in Enterprise A. (See paragraph 11.99.)

owners. Furthermore, retained earnings should be calculated after any provision for consumption of fixed capital. Consumption of fixed capital 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 consumption of fixed capital, 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 consumption of fixed capital as the depreciation is usually based on historic cost or book values. If data based on historic cost or book values are used, they should be adjusted to current replacement cost basis for the purpose of calculating consumption of fixed capital.

11.46 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 net income in that period. If direct investment abroad generates negative earnings, the entry should be shown as a negative income receivable by the direct investor. Simi-

larly, the economy of the direct investment enterprise should record the losses as negative income payable.

11.47 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 retained 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 11.1.

4. Interest

Reference:

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.