

CHAPTER 1. INTRODUCTION

A. Purpose of the *Guide*

1.1 The *Balance of Payments and International Investment Position Compilation Guide (Guide)* is a companion document to the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* published by the International Monetary Fund (IMF) in 2009. The *Guide* updates the *Balance of Payments Compilation Guide* released in 1995. The *BPM6* addresses important developments that have occurred in the international economy since the *BPM5*, including those that have emerged from globalization, increased elaboration of balance sheet issues, and changing patterns of financial intermediation. The purpose of the *Guide* is to show how the conceptual framework described in *BPM6* may be implemented in practice. Key elements of the framework are described in paragraphs 11-24 of this chapter. The *Guide* is not intended to be a “stand alone” manual; users of the *Guide* should be familiar with *BPM6*.

1.2 The important relationship between the *BPM6* and the *System of National Accounts 2008 (2008SNA)* is explained in detail in the *BPM6* and outlined in Appendix 6 of this *Guide*. The international accounts include the balance of payments, the IIP, and the other changes in financial assets and liabilities accounts. The balance of payments statement is equivalent to the rest of the world accounts of the SNA¹, and the IIP statement may be considered a component of the sectoral balance sheet accounts of the SNA. Therefore, in describing how the international accounts statements may be compiled, the *Guide* also illustrates how the rest of the world account of the SNA may be compiled.

1.3 The *Guide* was prepared to assist balance of payments and IIP compilers in understanding the various compilation methods employed throughout the world for the preparation of the international accounts. The *Guide* should be useful to national accounts compilers that prepare the rest of the world account by using the balance of payments statement or balance of payments data sources.

1.4 The *Guide* can be of interest to users of balance of payments and IIP statistics who wish to understand the nature and quality of data sources and methods underlying the international accounts and related national accounts tables. For instances when national concepts, sources, and methods are set out in published documents by national compilers, they can be compared with best practices provided in this *Guide*.

1.5 The preparation of the *Guide* included extensive consultation with international accounts compilers and other interested parties worldwide, including the IMF Committee on Balance of Payments Statistics.

¹ The SNA rest of the world accounts are presented from the point of view of the nonresident units, whereas the balance of payments presents the same transactions from the point of view of resident units.

B. Scope of the *Guide*

1.6 Preparation of the *Guide* included consideration of the main tasks that balance of payments and IIP compiler normally perform. While such tasks vary from country to country, the following list represents a fairly typical set:

- Extraction of data from collections (e.g., international merchandise trade statistics, migration statistics, and other official sources) over which the compiler may have some influence but not full control;
- Extraction of data from collections (such as reporting systems for foreign exchange and other international transactions and surveys of businesses) managed, either solely or jointly with other statistical compilers, by the balance of payments compiler;
- Compilation of the international accounts, including balance of payments, supplementary balance of payments series, and the IIP statement;
- International accounts data management, publication, dissemination, and communication with users;
- Evaluation and development of data sources and compilation methods as necessary;
- Assessment of data quality.

1.7 The *Guide* covers all the tasks or functions in the preceding list. For example, the *Guide* includes descriptions of data sources used by the balance of payments and IIP compiler. For sources that the compiler typically manage, a discussion of the design and management of data collection is also included.

1.8 Articulating balance of payments and IIP compilation methodology is difficult because countries have developed procedures independently, and each national methodology may be considered unique. Some patterns emerge, but different national experiences have created different approaches as to the most appropriate methodology. Consequently, it is not possible to present a single methodology suitable in all cases. Instead, the *Guide* outlines various options that may be available. In addition, for countries that have well-developed compilation systems, the *Guide* contains criteria against which these compilation systems may be compared and evaluated. For countries that may need to improve parts of their compilation systems, the *Guide* presents information on approaches used elsewhere. For countries that do not have well-developed systems, the *Guide* contains advice for compiling balance of payments and IIP items and a set of model collection forms that can be used as a starting point to develop a data collection system.

C. Organization of the *Guide*

1.9 The *Guide* has 17 chapters and eight appendices. Chapters 2 through 9 describe sources that can be used to compile balance of payments and IIP statistics. Chapters 10 through 16 deal with the compilation of specific components of balance of payments, IIP, and related statistics, including the recording of exceptional financing transactions in the

balance of payments. Chapter 17 discusses two aspects of data quality assessment; namely, accessibility and serviceability of these statistics.

1.10 The *Guide* includes eight appendices discussing complex methodological and compilation issues, as well as other issues that go across several accounts. A conversion matrix that matches the standard components of *BPM5* with the standard components of *BPM6* is presented in Appendix 1. The next three appendices discuss issues related to the compilation of estimates of insurance, pension and standardized guarantees schemes (Appendix 2), financial intermediation services indirectly measured—FISIM (Appendix 3), and foreign direct investment (Appendix 4). Methods for the compilation of balance of payments on a regional basis (by partner country or group of countries) are examined in Appendix 5. Appendix 6 presents the linkages of the international accounts to the national accounts, monetary and financial statistics, and government finance statistics, including a presentation in parallel of the recording of flows and positions in the SNA and the *BPM6*. Appendix 7 introduces the balance of payments coding system, and finally, a set of 23 model survey forms is presented in Appendix 8.

1.11 An element of repetition is present in the *Guide*. Some specific balance of payments and IIP components are described in different parts (e.g., direct investment is covered in Chapter 3, Specific Surveys for Balance of Payments and International Investment Position; Chapter 9, The International Investment Position; Chapter 10, The Financial Account; and Appendix 4, Foreign Direct Investment). The description of such specific components is done in the context of the respective chapter/appendix and ensures an adequate coverage of the subject.

D. Conceptual Framework

1.12 A brief outline of the conceptual framework underlying the international accounts must precede discussion of data sources and methods used to compile the balance of payments and IIP statements. The following outline provides a summary of the *BPM6*. For a more complete presentation, please consult the *BPM6*. In instances where the reader might consider that the conceptual advice in this *Guide* could be interpreted as deviating from *BPM6*, *BPM6* is to be used as the prime source of conceptual advice. The concepts of the international accounts are harmonized with the SNA, so they can be compared or aggregated with other macroeconomic statistics.

1.13 The international accounts for an economy summarize the economic relationships between residents of that economy and nonresidents and provide an integrated framework for the analysis of an economy's international economic relationships. They comprise the following statistical statements:

- The IIP—a statement that shows at a point in time (a) the value of financial assets of residents of an economy that are claims on nonresidents or are gold bullion held as reserve assets, and (b) the liabilities of residents of an economy to nonresidents;
- The balance of payments—a statement that summarizes economic transactions between residents and nonresidents during a specific time period; and

- The other changes in financial assets and liabilities accounts—a statement that shows other flows, such as valuation changes, that reconciles the balance of payments and IIP for a specific period, by showing changes due to economic events other than transactions between residents and nonresidents.

1.14 An economy consists of all the institutional units that are resident in a particular economic territory. The most commonly used concept of economic territory is the area under the effective economic control of a single government. For the purposes of global statistics and reporting to the IMF, it is important to have data on all areas under control of a particular government, including special zones, even if for some of the government's own purposes, those zones are excluded or shown separately. Economic entities who have closer associations with other economies are nonresidents.²

Flows and Positions

1.15 Flows refer to economic actions and effects of events within an accounting period, and positions refer to a level of assets or liabilities at a point in time. International flows are recorded in the accounts as transactions (balance of payments) and other flows (other changes in financial assets and liabilities account). Positions of external financial assets and liabilities are recorded in the IIP. Flows and positions are integrated so that all changes in positions between two points in time are fully explained by the recorded flows. Positions and flows of financial assets and liabilities are grouped according to the functional and instrument classifications of financial assets and liabilities. Nonfinancial transactions are generally grouped according to their nature and characteristics. Flows and positions are discussed in detail in *BPM6*, Chapter 3.

1.16 A *transaction* is an interaction between two institutional units that occurs by mutual agreement or through the operation of the law and involves an exchange of value or a transfer. The definition is extended to cover actions within an institutional unit that are analytically useful to treat and separately identify as transactions, often because the unit is operating in two different economies, such as where one part operates as a nonresident branch. The definition is also extended to cover unrequited transfers, by the identification of transfers as the corresponding flow to the economic value supplied. Transactions recorded in the international accounts are between two institutional units, one a resident of the compiling economy and the other a nonresident, and which represent a change of economic ownership between the units.

1.17 *Other flows* are changes in the volume, value, or classification of an asset or liability that do not result from a transaction between a resident and a nonresident. Other flows cover two broad types: (a) other changes in the volume of assets and liabilities, which reflect entrances of new assets into balance sheets and exits of existing assets and liabilities from balance sheets that are not caused by interactions by mutual agreement between institutional

² The concept of residency is fully discussed in Chapter 4 of the *BPM6*.

units (i.e., transactions); and (b) revaluations (holding gains and losses) on an asset or liability arising from exchange rate changes or from other changes in prices.

1.18 *Positions* refer to the level of financial assets or liabilities at a point in time and are recorded in the IIP. Positions at two points of time are connected with flows during the intervening period because changes in positions are caused by transactions and other flows.

Accounting System

1.19 The international accounts for an economy are to be compiled on a vertical double-entry bookkeeping basis from the perspective of the residents of that economy, set out in two columns.³ Because each transaction is either an exchange or a transfer, it requires two entries of equal value. Vertical double-entry bookkeeping ensures that the total of all credit and that of all debit entries for all transactions are equal. In the international accounts, the net IIP provides a measure of net financial claims with nonresidents plus gold bullion held as monetary gold.

1.20 In the current and capital accounts, a credit denotes entries from exports of goods and services, primary income receivable, transfers receivable, and disposals of nonproduced nonfinancial assets. A debit is used to record entries for imports of goods and services, primary income payable, transfers payable, and acquisitions of nonproduced nonfinancial assets. In the case of transactions in financial assets and liabilities, the use of the terms “net acquisition of financial assets” and “net incurrence of liabilities” highlights the impact of the financial account on the IIP. Financial account items are recorded on a net basis separately for each financial asset and liability (i.e., they reflect changes due to all credit and debit entries during an accounting period). A positive change indicates an increase in assets or liabilities and a negative change indicates a decrease in assets or liabilities.

1.21 The *BPM6* recommends the use of the accrual basis for determining the *time of recording* of flows. The accrual basis provides the most comprehensive information because all flows are recorded (including nonmonetary transactions, imputed transactions and other flows). The change of economic ownership is central in determining the time of recording on an accrual basis. A change in ownership from an economic point of view means that all risks, rewards, and responsibilities of ownership in practice are transferred.

1.22 An important issue for the balance of payments compiler is the conversion of transactions and positions data expressed in one currency to the currency (unit of account) in which the balance of payments accounts are compiled.⁴ The *BPM6* recommends that flows be converted at the rate prevailing when the flows take place and positions at the rate prevailing on the balance sheet date. The midpoint between the buying and selling rates

³ The accounting system underlying the international accounts, in addition to the vertical double-entry bookkeeping, derives from two other bookkeeping principles (a horizontal double-entry bookkeeping and quadruple-entry bookkeeping). These accounting principles are explained fully in Chapter 3 of the *BPM6*.

⁴ For some countries, the unit of account is the national currency and, for others another currency (e.g., United States dollars) may be used.

should be used at the time of transactions and at the close of business on the reference date for positions.

1.23 Although the balance of payments accounts are in principle balanced, imbalances result from imperfections in source data and compilation. This imbalance—known as net errors and omissions—is a usual feature of balance of payments data and should be identified separately in published data.

Classifications used in the international accounts statistics

1.24 The different accounts within the balance of payments are distinguished according to the nature of the economic resources provided and received. The current account shows transactions of goods, services, primary income, and secondary income between residents and nonresidents; the capital account shows credit and debit entries for nonproduced nonfinancial assets and capital transfers between residents and nonresidents; and the financial account shows net acquisition and disposal of financial assets and liabilities. The sum of the balances on the current and capital accounts represents the net lending (surplus) or net borrowing (deficit) by the economy with the rest of the world. This is conceptually equal to the net balance of the financial account. The financial account plus the other changes account explain the change in the IIP between the beginning- and end-of-periods.

1.25 Financial assets are residents' financial claims on nonresidents and gold bullion and financial liabilities are nonresidents' financial claims on residents. The major classifications of financial assets and liabilities in the financial account and in the IIP are:

- Functional type of investment (direct investment, portfolio investment, financial derivatives (other than reserves) and employee stock options, other investment, and reserve assets);
- Instrument of investment (equity and investment funds shares, debt instruments, and other financial assets and liabilities);
- Sector of the domestic transactor (central bank, general government, deposit-taking corporations, except the central bank, and other sectors—other sectors is further broken down between other financial corporations, nonfinancial corporations, households, and nonprofit institutions serving households (NPISHs)).

E. Data Sources Used to Compile International Accounts Statistics

1.26 Chapters 2 through 9 present and analyze the main data sources that may be used to compile balance of payments and IIP statements, ranging from enterprise surveys to the use of individual counterpart economy data available in international databases. Special features of these sources are noted. Enterprise surveys are treated in Chapters 2 (how to conduct a survey) and Chapter 3 (specific surveys for balance of payments and international investment position). The use of an international transactions reporting system (ITRS) and of the international merchandise trade statistics (ITS) are discussed in Chapter 4 and Chapter 5, respectively. Other official and administrative data sources (for the general government and central bank sectors and data gathered by government institutions as a by-product of carrying out their various functions) are discussed in Chapter 6. Data provided by the IMF and other

international organizations and international databases with individual counterpart economy data (such as the international banking statistics (IBS), coordinated direct investment survey (CDIS), and coordinated portfolio investment survey (CPIS)) are discussed in Chapter 7. Institutional arrangements, estimation techniques, and other issues that may affect the compilation of international accounts are discussed in Chapter 8. Data sources for developing an IIP statement, including deriving quarterly position data from quarterly transactions data, are discussed in Chapter 9.

F. Compiling and Disseminating International Accounts Statistics

1.27 Chapter 10 covers topics relevant to preparation of the financial account, including estimation techniques when relevant data are either untimely or unavailable. Chapters 11 through 15 focus on individual balance of payments categories: goods (Chapter 11), services (Chapter 12), primary income (Chapter 13), secondary income (Chapter 14), the capital account (Chapter 15), and exceptional financing (Chapter 16).

1.28 Chapter 17 focuses on two important aspects of the data quality assessment. Serviceability relates to the dissemination of data with an appropriate periodicity and timeliness, and consistent internally and with other macroeconomic datasets. Accessibility relates to the dissemination of data and metadata clearly, on an easily available and impartial basis, and with suitable support service for users.