

Compiling Balance of Payments and IIP by Partner Economy

Introduction

A5.1 The body of the *Guide* is concerned with the compilation of global balance of payments statistics—that is, economic transactions of an economy in respect of all other economies. Similar statistics can be compiled on a regional basis to show an economy’s transactions with residents of a selected foreign economy (e.g., main trade partners) or group of economies. In the *Guide*, these economies are referred to as partner economies, and this appendix examines methods by which the compiler may compile balance of payments statements by partner economy.

Economy Classification

A5.2 Compilation of balance of payments statistics on a regional basis provides many analytical and compilation benefits. Partner economy statistics provide information that enables users to develop greater insight into balance of payments aggregates. Governments use partner economy statistics as a basis for policy formulation and bilateral negotiations. Use of partner economy statistics facilitates bilateral reconciliations and, therefore, enhances the quality of balance of payments statistics.

A5.3 In compiling partner economy statistics, the compiler must decide on the principle of classification and the list of economies or economy groupings to be shown.

A5.4 The principle of classification used in balance of payments regional statistics is based on change of ownership. Application of this concept to regional balance of payments statistics means that, for transactions in goods, the economy classification should be based on the economies of residence of the former owners of imports and of the new owners of exports; for transactions in services, on the economy of residence of the provider and the recipient of the ser-

vice; for income, on the economy of residence of the company earning or paying the income; and for transfers, on the economy to which the offset transaction is recorded. For the IIP, liabilities should be classified by the economy of residence of the holder of the claim; and assets should be classified by the economy of the issuer of the liability.

A5.5 The *BPM6* indicates that for financial transactions in many cases the transactor principle is applied (*BPM6*, paragraph 4.148) (noting that the *BPM5* allowed the use of either the transactor principle or the debtor/creditor principle) partly because it may represent the only information available.¹ Under the transactor principle, transactions are classified by the economy of the nonresident counterparty to the transaction. However, as noted earlier, acquisition of securities should be recorded according to the issuer of the liability.

A5.6 Table A5.1 shows the treatment of a secondary market transaction in a security under the transactor principle. In the example it is assumed that a resident of economy B has issued a security that is initially held by a resident of economy A. The resident of economy A sells the security to a resident of economy C.

A5.7 In data sources available to the compiler, the classification by economy may not be based on a strict change-of-ownership concept. For example, transactions in goods may be classified by economy of origin or consumption. The balance of payments compiler may wish to publish supplementary statistics based on alternative classifications. For example, publication of information on securities classified on both a transactor principle basis and on a debtor/creditor principle basis could help an analyst gain a better understanding of international capital markets and the impact of these markets on the balance of payments.

¹The compiler should make the economy attribution clear for users.

Table A5.1 Treatment of Transactions and Other Changes in Securities under the Transactor Principle

	Partner economy		
	A	B	C
Economy A records			Net acquisition of financial assets—securities [decrease]
Economy B records	Other change in financial assets and liabilities—securities—volume change [decrease]		Other change in financial assets and liabilities—securities—volume change [increase]
Economy C records	Net acquisition of financial assets—securities [increase]		

Table A5.2 Balance of Payments Transactions of Economy A with Partner Economies

	Economy A's recording of transactions with				Total	
	Economy B		Economy C		Credit	Debit
	Credit	Debit	Credit	Debit		
Goods	...	100	...	...	...	100
Net errors and omissions	...	...	...	2	...	2
	Net acquisition of financial assets (debit)	Net incurrence of liabilities (credit)	Net acquisition of financial assets (debit)	Net incurrence of liabilities (credit)	Net acquisition of financial assets (debit)	Net incurrence of liabilities (credit)
Bank external assets	...	...	-102	...	-102	...
Multilateral settlements		100	100		100	100

Multilateral Settlements

A5.8 Multilateral settlements arise when a company in one economy undertakes a transaction with a resident of a second economy and the payment for that transaction involves a claim on a resident of a third economy. This practice requires the compiler to record offsetting entries in regional balance of payments accounts in order to balance them for particular economies or regions (assuming that balanced accounts at the regional level are required). In practice, those entries will typically be combined with net error and omission items as it is generally not possible to measure a pure multilateral settlement item.

A5.9 An example illustrates these points. Economy A imports a good, valued at 100, from economy B and uses a bank account in economy C to make the

settlement. However, as a result of measurement errors, the payment is recorded by economy A as 102. In compiling a partner economy balance of payments statement, economy A would classify imports from economy B, but the transaction in foreign currency assets would be attributed to economy C. To balance the various accounts, the compiler would have to record multilateral settlements items for economies B and C. Table A5.2 shows the entries that would be recorded in a partner economy classification of balance of payments transactions for economy A. The table demonstrates the necessity for creating the multilateral settlement item to balance the accounts and also shows that these entries cancel each other when accounts are consolidated.

Data Sources and Specific Treatments

Data Sources

Use of international merchandise trade statistics

A5.10 International merchandise trade statistics (IMTS) are described in Chapter 5, which includes a discussion of the international guidelines, concepts, and definitions that the IMTS compiler is expected to follow. According to the change-of-ownership principle, imports would be classified by economy of purchase—the economy where the importer’s contractor is domiciled or has its business—and exports would be classified by economy of sale—the economy where the exporter’s contractor is domiciled or has its business. However, the IMTS guidelines reject this concept as it essentially measures the movement of goods rather than the change of ownership of goods. The guidelines illustrate the inconsistency by using an example, shown in Table A5.3, in which a resident of economy A buys goods produced in economy B and sells the goods to a resident in economy C, but ships the goods directly from economy B to economy C (this is an example of merchanting, which should be recorded in the balance of payments accounts as negative exports when the goods are acquired, and as positive exports when resold (see Merchanting in Chapter 11).

A5.11 Table A5.3 uses the purchase/sale (change of ownership) concept and shows transactions of economies B and C with economy A, which would not record the transaction in merchandise trade statistics as there is no physical movement of the good into or out of economy A. If goods were shipped by economy A, the shipment would be treated as direct

transit trade (unless the goods were cleared through customs into economy A—an unlikely event) and thus would not be recorded. Another problem with the use of the purchase/sale concept with IMTS is that agents often act on behalf of principals and, according to the guidelines, identification of principals can consume considerable time and resources.

A5.12 Another concept used to classify partner economy data for IMTS is economy of origin and consumption. The economy of origin is the economy in which the goods are produced or manufactured, whereas the economy of consumption is the economy known at the time of dispatch as the economy in which the merchandise is intended to be consumed, utilized, or further processed. As the guidelines point out, determinations of economy of origin are usually straightforward, but determinations of economy of consumption are much more difficult.

A5.13 Still another classification is economy of consignment/economy of destination. For imports, the economy of consignment is the economy from which goods were initially dispatched, without any commercial transactions taking place in intermediate economies, to the importing economy. For exports, the economy of destination is the economy known at the time of dispatch to be the final economy where goods are to be delivered.

A5.14 The *International Merchandise Trade Statistics Manual (IMTS 2010)* recommends in the case of imports the origin and in the case of exports the destination concept to be the most suitable for IMTS. However, the *IMTS 2010* recognizes that the partner economy data compiled on this concept are very often

Table A5.3 Comparison of Merchandise Trade and Trade in Goods for Merchanting

	IMTS (movement of goods)			Balance of payments—trade in goods (change of ownership)		
	Partner economy			Partner economy		
	A	B	C	A	B	C
Economy A records	Negative export	Export
Economy B records	Export	Export	...	...
Economy C records	...	Import	...	Import	...	...

not comparable (*IMTS 2010*, paragraphs 6.25 and 6.26) and recommends that economy of consignment be recorded for imports as the second partner economy attribution, and that economy of consignment be an encouraged item for exports.²

A5.15 Table A5.4 provides examples of transactions recorded by using the consignment/ destination and the origin/consumption concept. In the example, petroleum is produced and refined in economy B and purchased by a resident of economy A, who imports the petroleum and stores it in economy A. Subsequently, the petroleum is exported to economy C.

A5.16 Table A5.4 shows that, if the concept of origin/consumption approach is used, economy A shows an export to economy C while the latter shows an import from economy B. Further, economy A shows an export to economy C while economy C registers an import from economy B. If the consignment/destination approach is used, economy B shows an export as destined for economy A; economy A shows an import consigned from economy B and destined for economy C; and economy C shows an import consigned from economy A. In other words, the consignment/destination

approach produces a symmetrical treatment not achieved by the origin/consumption approach.

A5.17 Apart from transactions that involve merchanting and are recorded in goods, the concept of consignment/destination is the same as the change-of-ownership principle required for use in the balance of payments. This *Guide* recommends that the IMTS compiler produce IMTS on a consignment/destination basis and that the balance of payments compiler use these data to compile partner economy statistics on goods. Transactions in goods could be adjusted to a complete change-of-ownership basis if the balance of payments compiler collects data on gross purchases and sales of goods classified by economy from companies involved in merchanting—a subject that is discussed in Chapter 3. Suitable questions in respect of merchanting are contained in model form 5 in Appendix 8.

Use of international transactions reporting system (ITRS)

A5.18 There are no international standards for the content, reporting thresholds, or degree of detail collected in an ITRS, and the method of economy

Table A5.4 Use of Origin/Consumption and Consignment/Destination to Record Goods Trade

	Merchandise trade origin/consumption			Merchandise trade consignment/destination		
	Partner economy			Partner economy		
	A	B	C	A	B	C
Economy A records	...	Import	Export	...	Import	Export
Economy B records	Export	...	...	Export	...	...
Economy C records	...	Import	...	Import	...	...

²*IMTS 2010* states:

Paragraph 6.25: Although no single method of attributing partner country is ideal, attribution by origin for imports meets what is considered to be a priority application of international merchandise trade statistics, namely, matters of trade policy and related economic analysis. Consequently, **it is recommended** that:

- (a) In the case of imports, the country of origin be recorded;
- (b) In the case of exports, the country of last known destination be recorded.

Paragraph 6.26: *Country of consignment*. Since the partner data compiled on the basis of the country of origin (for imports) and the country of last known destination (for exports) are very often not comparable and in view of the needs for internationally comparable partner data for analytical purposes as well as for trade data reconciliation studies, **it is recommended** that country of consignment be recorded for imports as the second partner country attribution, alongside country of origin. Considering, in the case of exports, that countries often do not differentiate the country of last known destination and the country of consignment and that their separate recording could create a significant additional data-reporting and data-processing burden, the compilation of export statistics on the country of consignment basis is only **encouraged**, depending on a country's needs and circumstances. It is recognized that the compilation of country of consignment for exports may be considered by some countries as a longer-term objective.

classification varies from economy to economy. Generally, the classification is based on the economy of residence of the nonresident transactor and, in most cases, this is appropriate for balance of payments purposes. For the recording of financial transactions, an ITRS generally supports the transactor principle.

A5.19 A particular problem in using an ITRS to compile partner economy statistics is that the nonresident principal to a transaction may use an agent who is a resident of a different economy. For example, a resident of economy A may use a security broker in economy B to purchase securities from a resident in economy C. It is unlikely that two principals (in economies A and C) will know each other's identities, and the ITRS in each of these economies will probably reflect transactions with economy B. This classification is inconsistent with the change-of-ownership principle. A similar problem will occur when nominees are used to undertake transactions for nonresident principals. In practice, relatively little can be done to overcome these problems, other than analyzing information that may be available from international financial centers on these types of transactions.

Use of securities databases

A5.20 Chapters 3 and 10 describe the use of securities databases in conjunction with security-by-security collections for the compilation of portfolio securities information. The information included in securities databases can allow for the identification of the economy of the issuer and the economy of the holder.

Use of external sources of information

A5.21 There are a number of external sources that provide information by partner economy to which the compiler will have access. These sources include bilateral data compiled by compilers in other economies that represent the counterparts to transactions of residents of the compiling economy. In addition, the IMF conducts two surveys that can be used as the basis for compilation of bilateral data for components of the financial account and IIP: the Coordinated Direct Investment Survey (CDIS) collects information on direct investment liabilities and can be used in the compilation of direct investment assets and transactions in assets; and the Coordinated Portfolio Investment Survey (CPIS) collects information on portfolio investment assets and can be used in the compilation

of portfolio investment liabilities and transactions in liabilities. More details on the use of CDIS and CPIS in the compilation of balance of payments and IIP statements are presented in Chapter 7.

Use of business surveys

A5.22 If business surveys are used to compile balance of payments statistics, the compiler should ensure that information is classified by partner economy in accordance with the change-of-ownership principle. With regard to financial transactions, business surveys generally support the debtor/creditor principle rather than the transactor principle, and model forms 17 and 18 in Appendix 8 are consistent with the debtor/creditor principle. However, there could be problems with identifying the economies of residence of purchasers of bearer securities issued by companies of the compiling economy. In such cases, sometimes the compiler classifies the transactions to a category called international capital markets. While this solution is practical, it is not optimal, and it reduces the usefulness of information for bilateral comparisons. Securities issued by the compiling economy and held by nonresident nominees located in economies other than the economy of the nonresident principal are likely to be misclassified in business surveys. In practice, apart from the use of partner economy sources, little can be done to overcome this problem.

Issues common to all sources

A5.23 When other balance of payments sources are used, the compiler should make every effort to ensure that partner economy information is classified correctly. If it is not possible to obtain correctly classified data from the source, the compiler should, at least in significant cases, investigate alternative sources to obtain supplementary information. For example, partner economy estimates for trade credits could be derived from an analysis of partner economy shares for imports and exports. Care should be taken to ensure that the supplementary source exhibits a partner economy pattern similar to that of the item that the source is being used to measure.

Presentations of Direct Investment by Partner Economy

A5.24 There are two presentations that are available for use when compiling direct investment (DI)

information, including income flows, transactions, and positions—DI according to the asset/liability principle, and DI according to the directional principle. These presentations serve different analytical purposes. The standard presentation for global balance of payments is according to the asset/liability principle; however, for partner economy data, the directional principle could be more preferred by economies. The CDIS requires data to be reported on the basis of the directional principle, and the *OECD Benchmark Definition of Foreign Direct Investment*, 4th edition, recommends the directional principle to be used for bilateral statistics.

The asset/liability principle

A5.25 DI aggregates as a part of national macro-economic statistics are based on the asset/liability principle. They are consistent with balance of payments statistics and IIPs as well as the components of national accounts statistics. These data provide for an economy the aggregate totals of direct investment positions in assets and liabilities; net acquisition of direct investment assets and net incurrence of direct investment liabilities; and income receivable on assets and income payable on liabilities.

The directional principle

A5.26 DI statistics compiled according to the directional principle show outward investments and inward investments taking into account reverse investments (e.g., investment of DIENTs of the reporting economy into direct investors abroad are recorded as negative inward investment) as well as investment

into fellow enterprises—the direction in the latter case depending on whether the ultimate controlling parent of the resident fellow enterprise is a resident or a nonresident of the compiling economy.

A5.27 Note that the use of the ultimate controlling parent of the resident can lead to asymmetries in treatment where compilers in the economies of both fellow enterprises may both recognize the investment as outward (for example, where the common direct investor does not have a controlling stake in either fellow) or as inward (for example, where the common direct investor has a controlling stake in both fellows, and is resident in a third economy). In both cases, the position should be recognized as a positive inward investment for one economy and a negative inward investment in the other economy; both positions should be valued the same (e.g., at market price).³

A5.28 The identification of the ultimate controlling parent is discussed in Appendix 4, where Tables A4.2 and A4.3 show the different treatment of direct investment aggregates under the asset/liability principle and under the directional principle. These treatments are presented also in Chapter 7 of the *Guide*, Table 7.1.

Specific Treatment of Direct Investment Income

A5.29 Table A5.5 shows the investment income flows among three entities in a direct investment relationship. A company in economy A has a wholly owned subsidiary in economy B, which, in turn, has a wholly owned subsidiary in economy C.

Table A5.5 Income Accounts of Companies in Economies A, B, and C

	Economy A	Economy B	Economy C
Operating profit	60	20	100
Other current income ¹	89 ²	50	-35 ²
Net earnings before tax	149	70	65
Taxes	49	16	15
Dividends	50	25	20
Reinvested earnings	50	29	30

¹Other current income includes interest, dividends, and reinvested earnings on direct investment receivable, less interest payable.

²Income earned by the company in economy A includes accrued interest of 35 from the company in economy C on a loan made by the company in economy A to the company in economy C.

³See the *BPM6*, paragraphs 3.67–3.91, for more details on valuation in balance of payments and IIP.

Table A5.6 Partner Economy Direct Investment Income Statistics for Economies A, B, and C

Economy A's accounts with	Economy B		Economy C		Total	
	Credit	Debit	Credit	Debit	Credit	Debit
Reinvested earnings	29	...	...	...	29	...
Dividends	25	...	...	...	25	...
Interest	...	...	35	...	35	...
Economy B's accounts with	Economy A		Economy C		Total	
	Credit	Debit	Credit	Debit	Credit	Debit
Reinvested earnings	...	29	30	...	30	29
Dividends	...	25	20	...	20	25
Interest	...	...	...	...	...	...
Economy C's accounts with	Economy A		Economy B		Total	
	Credit	Debit	Credit	Debit	Credit	Debit
Reinvested earnings	...	...	...	30	...	30
Dividends	...	...	...	20	...	20
Interest	...	35	...	...	...	35

A5.30 Table A5.6 shows relevant income entries recorded in the regional balance of payments statements of economies A, B, and C. There are no reinvested earnings and dividend transactions between the company in economy A and the company in economy C because reinvested earnings and dividends payable by the company in economy C are solely attributable to the company in economy B. However, income payable by the company in economy C for a loan made by the company in economy A should be shown as an income payment between economies A and C.

Attribution of Data on Merchanting of Goods by Partner Economies

A5.31 Merchanting of goods involves two partner economies for one transaction. Therefore, the compiler needs to be aware of the right allocation of partner

economies. For the economy of the merchant goods are recorded as gross values: negative export (negative credit) for the acquisition and export (positive credit) for the sale. The economy that sold the goods to the economy of the merchant and the economy that purchased the goods from the economy of the merchant (economy A in Table A5.3) record their merchandise trade in the usual way—that is, as exports and imports of general merchandise, respectively, and not as merchanting transactions. Table A5.3 gives an overview about the recording.

A5.32 As the goods involved do not cross the customs boundary of the economy of residence of the merchant, these data need to be collected directly via enterprise surveys by all involving economies (see Appendix 8, model form 5). Details on compiling data on merchanting are presented in Chapters 3 and 11.