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## **C.1 Recording of Transactor-Based Components of Services (Travel, Construction, and Government Goods Under Services) in the Balance of Payments**

Prepared by the Current Account Task Team (CATT)

INTERNATIONAL MONETARY FUND



## **C.1 Recording of Transactor-Based Components of Services (Travel, Construction, and Government Goods Under Services) in the Balance of Payments<sup>1</sup>**

*The classification of services in the System of National Accounts 2008 is consistent with the Central Product Classification but differs with the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) for transactor-based services. Differences between product-based and transactor-based services in the BPM6 also raise questions about clarity on the distinction between goods and services and the analytical value of maintaining transactor-based services in the balance of payments. This Guidance Note recommends separation of goods and services that can be classified in goods and other services categories from respective transactor-based services to allow closer alignment to product-based services classification and better delineation between goods and services.*

### **SECTION I: THE ISSUE**

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#### BACKGROUND

1. **The classification of services in the *System of National Accounts 2008 (2008 SNA)* is consistent with the Central Product Classification (CPC) but differs with the *Balance of Payments and International Investment Position Manual (BPM6)* based on the CPC for a few products—including, travel, construction, and government goods and services not included elsewhere (n.i.e.), which are transactor-based (relating to the provider/acquirer rather than the product itself).** Unlike other services components, travel, construction, and government goods and services n.i.e., encompass some goods items in addition to services. Additionally, within each of these services items, there are a variety of services that could be recorded in other categories. For instance, within travel, there are inland transport services acquired by travelers in the economies they travel to, which could be recorded in transport services.
2. **A disaggregation of services in the balance of payments using the Extended Balance of Payments Services Classification (EBOPS) was devised but it falls short of establishing a one-to-one correspondence with the CPC for these three services.** The implication is that linking these services to the corresponding activity in the national accounts (using the International Standard Industrial Classification of All Economic Activities (ISIC)) is quite difficult in the absence of very detailed data. The main question is whether the inclusion of goods and other services categories in these three services items is consistent with the basic structure of the balance of payments which distinguishes between goods and services and within services between different types.

#### CURRENT INTERNATIONAL STANDARDS AND SHORTCOMINGS

3. **The *BPM6* paragraph 10.86 states that travel credits cover goods and services for own use or to give away acquired from an economy by nonresidents during visits to that economy; while travel debits cover goods and services for own use or to give away acquired from other**

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<sup>1</sup> Prepared by Mr. Kenneth Egesa (IMF), Mr. Denis Caron (Canada), and Ms. Consuelo Soto (Peru).

**economies by residents during visits to these other economies.** The rationale for the inclusion of these goods is that they are associated with the notion of “travel” and included among the products acquired or consumed by travelers during travel for own use or to give away. However, all other criteria for classification as merchandise trade in the goods account are also met. For instance, they 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” (*BPM6* paragraph 10.7). An added complication in recent times is the potential to record shuttle trade or informal cross border trade (involving travelers who obtain goods to re-sell in their own economy) as part of “travel services” instead of inclusion in goods.

4. **For construction services, the *BPM6* paragraph 10.102 recognizes three different sources of goods and services acquired by the enterprises undertaking construction work and recommends different treatment for each.** These include goods and services sourced from (i) the economy of location of the construction work to be recorded under construction, (ii) the home economy of the construction company to be treated as resident-to-resident transactions and, thus, excluded from trade and (iii) from third economies (i.e., neither the residence of the enterprise, nor the location of the construction work) to be recorded under the appropriate general merchandise or service item for the economy of the construction company. The recommendations on the treatment of the three types of goods are based on the determination of ownership of the goods and services and their treatment as inputs in construction measured using gross basis valuation.

5. **Like travel, the goods included in construction services meet the criteria for classification as goods but are classified as part of construction services based on determination of change of ownership of the inputs.** While the change in ownership of the inputs is outwardly viewed to be between the construction enterprise and suppliers from different economies, it is also evident that further scrutiny of these transactions reveals that the goods used as inputs are for the benefit of the buyer of the construction services; and are ultimately paid for by the buyer of the construction services albeit indirectly through the construction enterprise. In effect, if ownership of inputs was to be considered based on the ultimate beneficiary, there would be no need for the classification of input goods among these services as they would be recorded in trade in goods of the economy of the buyer of construction services, and the recording in the services account would, therefore, focus on only the construction services.

6. **In the case of government goods and services n.i.e., the *BPM6* paragraphs 10.173 (a) and (b) state that government goods and services n.i.e. should cover goods and services supplied by and to enclaves, such as embassies, military bases, and international organizations; and goods and services acquired from the host economy by diplomats, consular staff, and military personnel located abroad and their dependents.** Unlike goods, in the case of services, the *BPM6* paragraph 10.179 provides clarification that services supplied by and to governments should be classified to specific services (business services, health, etc.), to the extent possible except for services related to government functions that are not able to be classified to another specific service category which should be classified as government services n.i.e. The distinguishing factor between the goods included in this services category is the special status of parties (enclave or staff of the enclave) involved and the functions they perform abroad. All other characteristics of the goods included in government goods and services n.i.e. meet the basic criteria for classification as goods.

7. **Although the *BPM6* recommended way of recording transactor-based services items does not have an impact on the overall current account balance, it does result in overestimation of**

**services and underestimation of goods.** This impacts the analytical value of the goods and services accounts when considered separately. Additional reasons for changing transactor-based services to product-based services and how the change would affect the goods and services accounts are provided in Annex 2.

8. **Related is the growing interest in the integrated analysis of the macroeconomic accounts where balance of payments and national accounts data are used together, for instance in the analysis of the impact of globalization and climate change.** Much of this analysis relies on links between the supply and use tables of the national accounts based on ISIC and CPC with the current account of the balance of payments. However, this analysis is most useful at a product-by-product level that conform to similar classification as far as possible. Classification of some services in the balance of payments based on products and others based on transactors diminishes this type of analysis.

#### ISSUES FOR DISCUSSION

9. **Keeping the current status quo of transactor-based recording for travel, construction, and government goods under services would have the advantage of avoiding significant breaks in time series for certain service categories as well as for goods.** Moreover, in contrast to a product-based recording, there would be no need for additional information to compile these services. Due to the more detailed reporting requirements for these service categories that are foreseen under a product-based recording, maintaining the status quo would not increase the burden for compilers nor for enterprises.

10. **The main issue for discussion is how to address the identified challenges with the current methodological standards in respect of transactor-based services and the potential implications of the recommendation to change to product-based classification.** Overall, addressing the issues highlighted would require changes to the current methodology for the three transactor-based services categories and an update of the goods and services accounts to reflect the changes.

11. **Based on the services definition in the *BPM6* paragraph 10.8 (i.e., items that change the condition of the consuming units) and in line with improving the analytical value of the products in the travel category, several changes would need to be made.** Goods would be reallocated to general merchandise, local/domestic transport services to passenger services, and the categories of accommodation services, foods and beverages serving services would shift from being supplementary items to a combined standard item, while health services and education services would be maintained as separate standard items. As in the case of transport services, other services purchased by travelers that are in the standard breakdown would be reclassified to the respective services.<sup>2</sup> It is important to note here that the *BPM6* already suggests an alternate breakdown of travel statistics that consists of reporting of goods; local/domestic transport services; accommodation services; food-serving services; and other services with additional breakdown to show health services and education services although only 10 countries provide this detail.

12. **Construction services would comprise construction services abroad and in the compiling economy covering activity undertaken during construction.** This would cover all “general

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<sup>2</sup> Booking fees for tours would be classified as transport services while booking fees for accommodation would be classified as accommodation, foods and beverages services.

construction services” such as construction, repair, alteration and restoration services and “specialized construction services (special trades)” such as services related to parts of buildings or civil engineering works, rather than the complete construction project. All goods used as inputs would be reclassified as exports or imports of goods or domestic transactions as proposed in paragraph 3 of Annex 2. Table 1 in Annex I provides a more detailed overview of these transactions.

13. **The main products to distinguish for government services n.i.e after excluding goods, would be public administration and other services provided to the community as a whole;<sup>3</sup> and services provided by extraterritorial organizations and bodies.<sup>4</sup>** All goods and other services would be reallocated to general merchandise in the goods account and respective services in the service account. For the services component of government goods and services n.i.e., the change would align more closely to the *BPM6* encouraged supplementary reporting in the EBOPS for the services to be reported under government goods and services n.i.e.

14. **From a practical standpoint, the needs of users interested in goods and services that are embodied in transactor-based services, such as those in travel services, and in services by mode of supply would require supplementary reporting where possible.<sup>5</sup>** Such supplemental reporting would also serve other purposes, such as compilation of the Tourism Satellite Accounts (TSA), and other similar efforts, such as measures of the direct and indirect value-added implications of tourism using a value chain approach being developed by the OECD WG on Tourism Statistics. However, the extent to which various items would need to be collected could also result in additional data collection challenges which would require improvement of existing data sources and creation of new and innovative ways to get more detailed data. The use of big data, modeling techniques and integration of data from multiple data sources with statistical business registers would need to be explored.

## SECTION II: OUTCOMES

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### RECOMMENDATIONS

15. **Introducing the change from transactor-based services to product-based services, is recommended.** The proposed changes would have positive implications for other macroeconomic statistics. The disaggregation and reclassification would help align balance of payments with national accounts. However, there would be some changes in the composition of trade as services would reduce while goods would increase. In addition, for construction services, trade partner shares would change owing to the proposed recognition of ownership of input goods by the buyer of the construction services. Some items would shift from the external sector to the domestic sector and vice versa without changing the trade level in goods and services. Additionally, estimates based on modes of supply would be

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<sup>3</sup> Public administration and other services provided to the community includes administrative services provided by government including services related to external affairs, diplomatic and consular services abroad; services related to foreign aid (such as technical assistance and training) and military and police services.

<sup>4</sup> Services provided by extraterritorial organizations and bodies include services provided by embassies and representations from other countries and services provided by international organizations such as the United Nations and its specialized agencies or regional bodies.

<sup>5</sup> Countries could also provide supplementary reporting of the transactor-based series to provide users with a consistent time series.

affected for items reclassified from the transactor-based services to a product-based services category which falls under a different mode of supply.

16. **The main downside of this option is the need to update data collection and compilation methods and for some items (like travel) the compilation of supplementary items are needed to permit retention of time series.** The suggestions made in this note are conscious about the likely compilation difficulties and therefore limit reclassification to already existing standard or supplementary reporting items in the *BPM6*.

17. **The team recommends this option and proposes the following updates to the *BPM6*:**

- Adopt to the extent possible<sup>6</sup> product-based classification of services for the respective transactor-based services by
  - Excluding transactions in goods from all transactor-based services and reclassifying them in the goods account as part of general merchandise, except where they are embodied in the specific services;
  - Excluding transactions in services that can be classified in existing services items from all transactor-based services and reclassifying them according to the respective services items, except where they are embodied in the specific services.

18. **The option of maintaining the status quo, which has two main advantages: maintaining current compilation and data collection methodology and continuity of existing data series, was rejected.** This option would not address the conceptual issues related to distinguishing between goods and services; and the consistency between balance of payments services classification and CPC and ISIC.

19. **Overall, the majority of CATT and Balance of Payments Task Team (BPTT) members supported the recommendation to adopt to the extent possible product-based classification for transactor based services.** However, it was observed that the proposed change should focus on adopting a product-based representation and less on the goods versus services distinction which is becoming more tenuous as the boundary between goods and services increasingly gets blurred. For instance, it was noted that the mix of goods and services did not only affect transactor-based items but also affected other items in the current account. However, the guidance in the *BPM6* para.10.6 recommended distinction on the basis of the nature of economic value provided which is open to interpretation.

20. **A few members disagreed with the recommendation and expressed their preference for maintaining the status quo for reporting transactor-based services but making the supplementary reporting of travel components by products mandatory.** The advantage cited for this suggestion was that it would minimize the introduction of major changes in the way statistics are presented in balance of payments while providing useful details for other analytical purposes. In addition, a few members of the BPTT objected to the proposed change in the recording of construction services arguing that the

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<sup>6</sup> Countries could indicate in their metadata if there are set thresholds below which it is too costly to collect information needed to get the required details.

construction company transforms the material and bears the risks if they are damaged and should therefore be recognized as the owner of the goods.

***Questions for Discussion:***

- 1. Does the Committee agree with the proposed recommendations to separate transactor-based services into respective product-based services with components of goods recorded in the goods account?*
- 2. Does the Committee agree with the proposed recommendation for the recording of goods used in construction?*



**Annex I. Table of Proposed Changes to the *BPM6* Transactor-Based Services**

<b>BPM6</b>	<b>BPM6 Update</b>	<b>Comments</b>
<b>1.A.b.4 Travel</b>	<b>Accommodation, food and beverages services</b>	
<b>1.A.b.4.1 Business</b>	<b>Health services</b>	
1.A.b.4.1.1 Acquisition of goods and services by border, seasonal, and other short-term workers	<b>Education service</b>	
1.A.b.4.1.2 Other		
<b>1.A.b.4.2 Personal</b>		
1.A.b.4.2.1 Health-related		
1.A.b.4.2.2 Education-related	<b>Recommended supplementary items</b>	
1.A.b.4.2.3 Other	Business	
	Personal	
<b>Recommended supplementary items</b>		
For both business and personal travel		
1.A.b.4.0.1 Goods		Reclassified as general merchandise
1.A.b.4.0.2 Local transport services		Reclassified as passenger transport
1.A.b.4.0.3 Accommodation services		
1.A.b.4.0.4 Food-serving services		
1.A.b.4.0.5 Other services		Reclassified as personal, cultural and recreational services <sup>7</sup> except components of education and health related services which would be reported in education and health services.
O/w: 1.A.b.4.0.5.1 Health services		
1.A.b.4.0.5.2 Education services		
<b>1.A.b.5 Construction</b>	<b>Construction services</b>	
1.A.b.5.1 Construction abroad	Construction abroad	Goods from compiling economy classified as exports of general merchandise, goods from third party economy excluded from imports of general merchandise and goods from construction economy excluded from imports of general merchandise
1.A.b.5.2 Construction in the reporting economy	Construction in the reporting economy	Goods from economy of construction company classified as imports of general merchandise, goods from third party economy classified as imports of general merchandise and goods from compiling economy excluded from exports of general merchandise
<b>1.A.b.12 Government goods and services n.i.e.</b>	<b>Government services n.i.e.</b>	
<b>Recommended supplementary items</b>	Public administration and other services provided to the community as a whole	All goods reclassified as general merchandise
12.1 Embassies and consulates	Services provided by extraterritorial organizations and bodies	All goods reclassified as general merchandise
12.2 Military units and agencies		
12.3 Other government goods and services n.i.e.		

<sup>7</sup> The *BPM6* recommends classifying types of education and health services that do not require travel as part of personal, cultural and recreational services. It may be worthwhile reclassifying these in the standalone categories of health and education services to ensure full consistency with product-based classification.

## **Annex II. Additional Reasons for Changing Transactor-Based Services to Product-Based Services and How the Change Would Affect the Goods and Services Accounts**

- 1. Looking at the rationale for the transactor-based services, it is debatable whether the type of transactor in the three cases of services (travel, construction and government goods and services n.i.e.) is a sufficient condition for inclusion of the respective goods in services as recommended by the *BPM6*.** For instance, the volume and type of goods included in these three services varies according to the person (travel), project-type (construction) or mission (government). Their classification in services would be justified if the distinguishing factor between these goods and other goods classified in the goods account was that they are essential or relevant to the nature of activity of the respective services. This is the argument made for other goods included in services such as disks that are an integral part of customized software and, thus, classified in computer services. It can be argued that except for goods included in construction services, goods included in travel services and government goods and services n.i.e. are not essential to the provision of these services and should therefore be classified according to the most relevant product which would be general merchandise.
- 2. Further, it is useful in the case of construction activity, to distinguish between the physical outputs, such as buildings and civil engineering works, and the construction services, which refer to the services output as different products (both items are distinctly differentiated by separate CPC codes).** Transactions involving the transfer of ownership of the such physical outputs are more relevant for the capital and financial account while those involving the transfer of ownership of the construction service are relevant for the services account. However, the recommendation in the *BPM6* for staged transfer of ownership of the construction project between the construction enterprise and buyer of the construction services (see paragraph 10.107) in a way seems not to distinguish between the service output and the physical output of construction activity and the fact that the construction company as a non-resident in the economy of location of the construction project cannot own the physical output. A clear distinction between the two outputs of construction activity and recognition that change of ownership occurs for only the services component, which is what companies engaged in short-term construction produce, would be useful in refocusing the measurement to the construction services output. Such a distinction can be facilitated by recognizing the buyer of the construction services as the ultimate owner of the physical inputs used in the construction activities given that they have control over the construction services output in the sense that they determine what is to be delivered by the construction company.
- 3. Nonetheless, it is important to note that focusing on the services output component for construction services together with recognition of the buyer of the construction services as the ultimate owner of the physical inputs used in the construction activities would impact the classification of goods.** Goods from the economy of location of the construction work would be excluded from international transactions as these would be considered domestic transactions. Goods from the home economy of the construction company would be recorded as exports of the home economy and imports of the economy of location of the construction. Further, goods from third economies would be treated as imports of the economy of location of the construction.
- 4. The reclassification of goods used in construction based on ultimate ownership can be considered similar to other types of transactions in the balance of payments where reallocation occurs so that the immediate transactor is overlooked to ensure external sector statistics**

**accurately reflect the transactions.** An example is the case of imported goods where transactions are rerouted if needed to ensure that freight and insurance of imported goods are recorded in a manner that ensures the importer always meets their cost. The same principle is followed in the application of foreign direct investment relationships where the relationship between the ultimate investor and its subsidiaries is established for purposes of reflecting transactions that could be overlooked or misreported in the international statistics.

5. **It is important to note that the reclassification of goods from construction services to the goods account would still be consistent with the gross valuation of construction services recommended in the *BPM6*.** However, the value of construction services would be smaller reflecting better recording of the value of the services component. As an example, if the gross value of construction services under the *BPM6* in the simple case where there is no third-party supplier of inputs involved was 300 inclusive of input goods from the economy of the construction company worth 100, then instead of gross exports of construction services worth 300 for the economy of the construction company, the input goods would be recorded as exports of goods of 100 and the service component would fall to 200. Similarly, for the economy of the importer of construction services, the gross construction services imported would reduce from 300 to 200, and 100 would be recorded as imports of goods.

6. **Although the *BPM6 Compilation Guide* (paragraph A6.13) highlights data issues as one of the reasons behind transactor-based services classification, there are still some data difficulties associated with the existing recommendations for compilers.** For instance, owing to the nuances for some goods to be designated as part of the transactor-based services components, compilers need to make several adjustments to the goods and services accounts during compilation depending on source data used. Specifically, goods for own use or to give away acquired from an economy by non-residents during visits (*BPM6* paragraph 10.23); goods acquired from the home economy of the construction enterprise included on a gross basis in the construction work undertaken (*BPM6* paragraph 10.23); and goods supplied to embassies, consulates, military units or bases, defense agencies and other official entities of foreign governments or their staff have to be excluded from the goods account if international merchandise trade statistics are used for the goods account (*BPM6* paragraph 10.22). The extra requirement for respondents to identify the products purchased and their origins and/or for the compiler to derive such information could lead to more asymmetry.

7. **Additionally, irrespective of the type of source data used for the collection of transactor-based services data, extra care is needed to ensure that respondents or providers of data report in a manner that enables compilers to identify respective components to be classified as recommended.** This means that notes to respondents to surveys or providers of data through the international transactions reporting system (ITRS) and other types of administrative sources need to be carefully prepared in a language that is easy to understand. Moreover, experience shows that even with very clear notes and instructions to data providers, a high level of subjectivity in interpretation may still affect the quality of data provided. It is questionable if the benefit of maintaining transactor-based services outweighs the cost in terms of methodological deviation from other services and national accounts and the cost in terms of effort still needed to adjust different components.