



Balance of Payments Statistics

A NEWSLETTER FROM THE BALANCE OF PAYMENTS AND EXTERNAL DEBT DIVISIONS • STATISTICS DEPARTMENT • IMF

*Latest edition of
yearbook breaks
new ground*

IMF's *Balance of Payments Statistics Yearbook* Adopts New Data Presentation

The IMF will soon release Volume 46 of its *Balance of Payments Statistics Yearbook (Yearbook)*. The Yearbook contains balance of payments data reported to the Fund by member countries.¹ The Fund is indebted to member countries for their cooperation in providing timely, accurate, and comprehensive data.

New Features

Volume 46 of the *Yearbook* offers a number of new features. First, beginning with this volume, the Fund's balance of payments data will be presented in accordance with the standard components of the fifth edition of the IMF *Balance of Payments Manual (BPM5)*.² The Fund published the *BPM5* in September 1993.³ The *BPM5* incorporates major changes in methodology and presentation to take account of developments in international trade and finance over the past decade and to better harmonize the Fund's balance of payments methodology with that of the 1993 *System of National Accounts (1993 SNA)*. To assist users, the Introduction to the *Yearbook* has been revised to explain the coverage of all major components of the balance of payments as set forth in the *BPM5*. The major changes in the *BPM5* methodology that significantly affect the meaning and presentation of the balance of payments data appearing in the *Yearbook* are highlighted in the revised introduction. (They are also shown here on pp. 4-5.) Data presented in the new volume under the standard components of the *BPM5* are accompanied by a new set of data codes. The new data codes have been developed jointly by the Fund, the Organization for Economic Cooperation and Development (OECD), and the Statistical Office of the European Union (EUROSTAT) to harmonize international reporting practices on balance of payments data. The new volume explains the structure of the codes.

To present historical data⁴ in the *BPM5* format, as well as recent data reported by member countries that are still in the format of the fourth edition of the *Balance of Payments Manual (BPM4)*, the Fund staff has expended considerable effort to convert its balance of payments database. Conversion has had two phases. The first was initiated in 1994, when the Fund staff, using formulas it developed, converted all balance of payments (flow) data in the *BPM4* format in the Fund's database to the *BPM5* presentation. Converted

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IMF Balance of Payments Statistics Newsletter • Volume III, Number 2 • December 1995

The IMF Balance of Payments Statistics newsletter is published twice a year by the Statistics Department of the International Monetary Fund. The purpose of the newsletter is to inform balance of payments data compilers and users about national and international developments in the collection of such data. Editions are published in English, French, Spanish, and Russian. The opinions and material contained in this newsletter do not necessarily reflect

the official views of the Fund. Draft submissions are welcome and should be addressed to Anne Y. Kester, Editor, IMF Balance of Payments Statistics Newsletter, Balance of Payments and External Debt Division II, Statistics Department, Room IS5-300, International Monetary Fund, Washington, D.C. 20431, U.S.A. Telephone: (202) 623-7922 • Fax: (202) 623-8017. Graphic design for this newsletter is provided by Isabelle Grohol.

Continued from page 1 data for each reporting country were sent to the respective authorities for review at the beginning of 1995.⁵ Their comments have since been incorporated in the new *BPM5* database. This data conversion has made it possible to present existing data in the *BPM5* format in the latest *Yearbook* without major methodological breaks.

Because of resource constraints and the complexity of its task, the Fund staff will only embark on the second phase of the conversion, which involves converting the *BPM4* stock data (international investment position or IIP) into the *BPM5* presentation, beginning in 1996. For this reason, stock data previously published for selected reporting countries are not presented in the new volume. Such data will be published in future volumes of the *Yearbook* after this phase of the data conversion has been completed. In addition, technical notes accompanying individual country data will be prepared in future volumes to reflect the steps countries have taken to implement the guidelines of the *BPM5*, as well as their data sources and methodologies.

Contents

As in previous years, the 1995 *Yearbook* consists of two parts. Part 1 presents data of individual countries. Part 2, separately bound, contains regional and world totals on major components of the balance of payments.

In Part 1 of the *Yearbook*, balance of payments data for 160 countries are presented alphabetically. For each country, the data are presented in two tables. Table 1 is a summary presentation, with balance of payments components arrayed in a format to highlight the financing items (international reserves and related items), with a view to meeting the analytical needs of users.⁶ Table 2 presents detailed data of the country, arrayed by the standard components of balance of payments as set forth in the *BPM5*. For both Tables 1 and 2, data are shown for the eight most recent years available for each country. Quarterly data are available for about 60 countries. Data for the most recent eight quarters are presented in Table 1A of the specific country.

Part 2 of the *Yearbook* provides aggregates on a global basis by major balance of payments components. For each component, data for countries, country groups, and the world are shown. In addition to data reported by countries as presented in Part 1 of the *Yearbook*, the tables in Part 2 also include aggregated data for international organizations (such as the United Nations, the World Bank, the IMF, and others) and for a number of countries not covered in Part 1. Some countries are not included in Part 1, either because they did not report data in sufficient detail or because they did not report data for all or some of the years covered by Part 1. The Fund staff estimated missing data for these countries; however, the estimates, which are included in regional totals, are not shown for the individual countries concerned.⁷ Data on Fund transactions—for example, transactions in SDRs and of the Fund's General Resources Account—are derived from Fund sources.

Part 2 consists of 40 tables. The first table presents a summary of international transactions, showing world totals of the major components of the balance of payments. Others show in detail the balances of the key components of the

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Major effort under way to convert data to BPM5 format

Primary Changes

- (1) The *BPM5* coverage of the “current account” differs from that of *BPM4*. *BPM5* defines the “current account” as encompassing transactions in goods, services, income, and the receipts/payments of current transfers; in *BPM4*, the “current account” was defined to include goods, services, and all transfers. In *BPM5*, capital transfers are covered under an expanded and redesignated “capital and financial account.” The distinction between current and capital transfers is based on the guidelines established in the 1993 SNA, which characterize capital transfers as follows: (a) a transfer in kind is a capital transfer when it consists of the transfer of ownership of a fixed asset, or of the forgiveness of a liability by a creditor when no counterpart is received in return; and (b) a transfer of cash is a capital transfer when it is linked to, or conditional on, the acquisition or disposal of a fixed asset (for example, an investment grant) by one or both parties to the transaction.
- (2) The coverage of goods in *BPM5* has been expanded to include (a) the value of goods (on a gross basis) received/sent for processing and their subsequent export/import in the form of processed goods; (b) the value of repairs on goods; and (c) the value of goods procured in ports by carriers. In *BPM4*, the net value between goods imported for processing and subsequently reexported was included in processing services, repairs of goods, and goods procured in ports by carriers were all included under services.
- (3) The *BPM5* reclassifies income and services separately; in *BPM4*, income was a subcomponent of services. *BPM5* also reclassifies certain income and services transactions. In *BPM4*, labor income included nonresident workers’ expenditures in addition to the workers’ earnings. In *BPM5*, workers’ earnings are classified under compensation of employees in the income category and their expenditures are classified under travel services. In *BPM4*, compensation of resident staff of foreign embassies and military bases and international organizations was included under government services; this compensation is classified as a credit item of compensation of employees in *BPM5*. Furthermore, *BPM4* classified payments for the use of patents, copyrights, and similar nonfinancial in-

in *BPM5* from *BPM4*

tangible assets as property income. In *BPM5*, they are classified as subcomponents of other services. In general, the *BPM5* concept of income covers investment income plus all forms of compensation of employees; whereas in *BPM4*, it included investment income, most forms of labor income (including workers' expenditure abroad), and property income.

- (4) The *BPM4* "capital account" was expanded and redesignated as the "capital and financial account" in *BPM5*, and it comprises two major categories. The first is the capital account, which covers all transactions that involve (a) the receipt or payment of capital transfers, and (b) the acquisition/disposal of non-produced, nonfinancial assets. The second is the financial account, roughly equivalent to the capital account under the *BPM4*, which covers all transactions associated with changes in ownership with nonresidents of foreign financial assets and liabilities of an economy. Such changes involve the creation, exchange, and liquidation of claims on, or by, the rest of the world.
- (5) As in *BPM4*, direct investment in *BPM5* is classified primarily on a directional basis—resident direct investment abroad and nonresident direct investment in the reporting economy. In *BPM5*, all transactions between nonfinancial direct investment enterprises and their parents are included in direct investment. Transactions between affiliated banks and between other affiliated financial intermediaries are limited to those in equities and loan capital representing a permanent interest. Other transactions between banks and affiliated financial institutions are classified under portfolio or other investment. In *BPM4*, only short-term transactions of these types were excluded from direct investment.
- (6) The coverage of portfolio investment was expanded in *BPM5* to reflect the growth of new financial instruments in recent years. The major change is that money market debt instruments and tradable financial derivatives are now included in portfolio investment; such instruments were treated as "other capital" in *BPM4*.

Continued from page 3 current, capital, and financial accounts; each of these tables provides a breakdown for international organizations, by country group, and by country.

There is also a table showing “global discrepancies” in balance of payments components. Global discrepancies refer to the discrepancies apparent in summing the debit and credit entries of corresponding components of the balance of payments reported by countries and estimated by the Fund staff. For example, the global discrepancy shown for the trade balance represents the difference between the global aggregate of trade surpluses for goods and that of trade deficits reported on goods. In principle, under the balance of payments convention, global aggregates for exports should equal global aggregates for imports, and global trade surpluses should mirror global trade deficits, with the trade balance equal to zero. The same principle applies to other corresponding balance of payments components.

For a variety of reasons, however, countries generally do not correctly record all transactions or they classify corresponding transactions differently. Under these circumstances, errors and omissions in the national data and asymmetries (discrepancies) in the global statistics arise. Within the current account, a negative imbalance or discrepancy indicates an excess of recorded debits, which may reflect an under-recording of credits, an overstatement of debits, or both. A positive discrepancy in the financial account indicates an understatement of capital outflows (increase in assets or decrease in liabilities), and overstatement of recorded inflows (decrease in assets or increase in liabilities), or both. It is estimated that discrepancies in the global current account in 1993 and 1994 declined to approximately -\$80 billion (or about 0.7 percent of gross current account transactions) from an estimated average of -\$110 billion in 1990–1992 (or about 1 percent of gross current account transactions). The discrepancies in the global financial account are estimated to have increased from about \$80 billion in 1993 to approximately \$100 billion in 1994; a level below those for the years 1991 and 1992, which averaged about \$130 billion.

Statistics published in the *Yearbook* are also available on computer tape.⁸ The number of countries and time series covered in the tape version is slightly larger than that appearing in the printed version of the *Yearbook*, as is the number of periods for which data observations of time series are given. Tape subscribers receive Parts 1 and 2 of the *Yearbook* and twelve monthly magnetic tapes; the latter include updates and revisions of the data as they become available. Inquiries about the *Yearbook* should be addressed to:

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¹ From time to time, such data are supplemented by additional details drawn from published sources by Fund economists.

² Volume 1 of the *Yearbook*, published in 1949, was based on the first edition of the Fund's *Balance of Payments Manual*, issued in 1948; Volumes 2-12 were based on the second edition

of the manual, issued in 1950; Volumes 13-23 were based on the third edition of the manual, issued in 1961; and Volumes 24-29 were based on that edition as well as on the *Balance of Payments Manual: Supplement to Third Edition*, issued in 1973. Volumes 30-45 followed the recommendations of the fourth edition of the manual, published in 1977.

³ International Monetary Fund, *Balance of Payments Manual*, Washington, D.C., September 1993.

⁴ For most countries, these data series date back to the 1970s.

⁵ To assist countries to implement the guidelines of the *BPM5*, the Fund's Statistics Department has provided extensive training to member countries. Over the past three years, the Fund has conducted eight regional seminars. In addition, five such seminars are planned for 1996. Similar training courses have also been held at the IMF Institute and at the Joint Vienna Institute, as part of the Fund's technical assistance on balance of payments statistics.

⁶ These summary data are also published in two other IMF publications: (a) monthly *International Financial Statistics* and (b) the annual *International Financial Statistics Yearbook*.

⁷ Data are not yet available for publication for Russia and other countries of the former Soviet Union (except Armenia and the Baltic countries); estimates were not made for these countries.

⁸ The data will be available on CD-ROM in the future.

Planning for Coordinated Survey on International Portfolio Investment Is Underway

Cross-border trading of securities has increased dramatically since the early 1980's. This trend has reflected the liberalization of capital markets, financial innovations, and the need of investors for international diversification. Unfortunately, balance of payments statistics have failed to measure the full extent of such developments. This was highlighted by the Report on the Measurement of International Capital Flows of the International Monetary Fund (IMF) published in September 1992. It concluded that countries generally do not measure the full extent of their external assets, especially portfolio investment assets. The value of recorded external assets on a global basis, for example, was found to be much lower than that of recorded global external liabilities. In theory, external assets should equal external liabilities on a global basis. More recently, the trend has become even more pronounced: in 1993, transactions in portfolio investment assets on a global basis amounted to some US\$170 billion less than such transactions in liabilities.

Worldwide Portfolio Investment Transactions

(billions of U.S.dollars)

	1985	1990	1991	1992	1993
Assets	120.4	187.4	320.2	352.1	506.4
Liabilities	167.5	184.6	420.1	432.4	678.9
Difference (assets less liabilities)	-47.1	2.8	-100.0	-80.3	-172.5

Source: *Balance of Payments Statistics Yearbook*, Part 2, various issues, International Monetary Fund.

In a major effort to improve the external portfolio statistics of countries, an international task force was set up in October 1994 to develop a coordinated survey of portfolio investment among countries. The task force reports to the IMF Committee on the Balance of Payments Statistics.

The rationale for the formation of the task force was that, because of the phenomenal growth of cross-border portfolio investment in recent years and the sheer magnitude of its value, it is of utmost importance that researchers and policy makers be provided with reliable statistics on cross-border portfolio investment. Cross-border investment in foreign bonds and stocks were estimated to be worth at least \$2.4 trillion at the end of 1993.

Overview of the Portfolio Survey Project

The task force is composed of balance of payments compilers of 12 major industrial countries¹, the IMF, the Bank of International Settlements (BIS), the Organization for Economic Cooperation and Development (OECD), and the European Monetary Institute (EMI).

Major industrial countries surveying international portfolio investment

Its mandate is to design a survey, promote its use, and develop means to exchange survey results so as to improve national statistics on both external portfolio assets and liabilities.

Recognizing the variety and complexity of conditions faced by national compilers, the task force focuses on the minimal core requirements needed for the exchange of data. Such an approach leaves much flexibility to national compilers to adapt/extend the survey to meet their specific data needs. A flexible approach is deemed essential to ensure the participation of countries.

The report of the task force, to be presented in March 1996 to the IMF Committee on Balance of Payments Statistics, will take the form of an extensive and detailed guide on how to carry out the portfolio investment survey and exchange survey results.

Portfolio Survey — Key Features

Various guidelines were established for the survey. They were arrived at on the basis of the vast experience of the national compilers represented on the task force—especially those from the United States, Austria, and France—who have conducted surveys on external portfolio investment.

The last day of December 1997 was selected by the IMF Committee on Balance of Payments Statistics as the reference date for which the survey is to be conducted. This date was thought to provide just enough lead time for the task force to complete the guide in March 1996 and for compilers to implement the instructions contained in the guide (some 20 months prior to the reference period).

It was decided that the survey would focus on external assets because the data gaps are most pronounced in this area. Statistics on assets will be improved directly by the results of the survey; statistics on external liabilities will be improved indirectly through the exchange of survey results, as countries will be receiving from their counterparts data on foreign investment in their own domestic securities. For example, Japan's survey results on its investment in U.S. securities will improve not only its own statistics on external assets, but also could be used by the United States to estimate U.S. liabilities to Japan.

It was also agreed that, for purposes of the survey, outward portfolio investment would be geographically allocated according to the country of issuer of the security. This is consistent with guidelines set forth in the IMF's fifth edition of the *Balance of Payments Manual (BPM5)* and allows for exchange of data. Nonetheless, this straightforward approach raises some difficult cases. For example, if a UK controlled company issues a bond through an affiliate corporation set up in an offshore center, the investment will be ascribed to the offshore center, the issuer country, and not to the United Kingdom, the country that controls or owns the affiliate or guarantees the security. The US experience shows that some 10-12 percent of securities held by US residents are issues of offshore centers.

It was agreed that the survey would inquire, at a minimum, about a country's investment in foreign bonds and stocks. These securities can be identified more easily than other financial instruments that are less standardized. Countries

The survey will be carried out in early 1998 for reference year 1997

Survey ground rules determined

could extend the survey to cover investment in foreign money market instruments and derivatives.

It was decided to use market value as the basis for valuation. A number of other valuations were considered, including cost, book value, and par value. Market value was chosen as the most appropriate for several reasons, not the least of which being that it is the valuation recommended by the *BPM5* to compile external statistics. Furthermore, there are a number of private databanks in existence that can be tapped to obtain market value.

The currency details of foreign securities, while desirable, are not made compulsory for countries in conducting their surveys. It was agreed, however, that the investment in foreign securities would be converted at the yearend closing rate of the national currency of the country conducting the survey.

Taking into account the role played by institutional investors in foreign securities, three major types of entities have been identified as potential targets to be surveyed: custodians, end-investors, and a mixture of custodians and end-investors. Because of the diversity of institutional arrangements among countries, it was agreed to leave the definition and coverage of the targeted entities to the discretion of national compilers. The guide is being developed according to the three potential types of respondents.

It was agreed that the information to be collected from custodians would pertain to foreign investment of resident investors. Custodians could also be asked to provide information on the investment held on behalf of non-resident investors. For example, in addition to providing data on the foreign investment of U.S.-domiciled investors, U.S. custodians would also be requested to provide data on behalf of foreign investors, such as German investing in U.K. securities.

The survey could be conducted requesting that respondents provide aggregate data on the total of foreign stocks and bonds by country, that they offer detailed data on foreign stocks and bonds by country, or that they employ a mixture of the two approaches. It was decided that the choice would be dictated by different conditions prevailing in various national statistical agencies. For example, Japan initiated an annual aggregate survey in 1995, whereas the benchmark survey initiated by the United States in March 1994 was a detailed survey. Instructions in the guide will treat the two major types of surveys.

The Survey Guide

Among subjects addressed extensively in the survey guide are these:

- Survey instructions, including discussion of the purpose, scope, and outlines of both the detailed and aggregate surveys.
- Glossary of financial terms.
- Means to identify survey units and to develop a register of potential respondents.
- Means to value securities at market price.
- Software for mailing out the survey instrument and following up.

- Software for processing data received.
- Analytical tools to edit data collected.
- Methods to address and resolve potential confidentiality issues.

Conclusion

The initiative to conduct a coordinated international survey of portfolio investment is unprecedented. This is a challenging project because of the difficulties inherent in devising a survey to be coordinated among countries. It is recognized, however, that, despite such obstacles, the benefits of the project, both at the national and international levels, will far outweigh the costs.

First, the project will allow international institutions to harmonize more closely their efforts in the statistical area. As noted above, the task force includes as members the OECD, the BIS, and the EMI. While the task force is developing the guide to the survey, international institutions are making a concerted effort to keep countries apprised of the progress of the project. The IMF officially announced the survey project in the first Annual Report (1993) of the IMF Committee of Balance of Payments Statistics. This was followed by a progress report in the 1994 edition. Furthermore, the IMF Statistics Department keeps national compilers informed of such developments through this bi-annual *Balance of Payments Statistics Newsletter*, and the Director of the Fund's Statistics Department invited the various statistical agencies, in a letter of September 1994, to plan for the upcoming survey. More recently, in July 1995, the Managing Director of the IMF addressed a letter to the all industrial countries and selected developing countries to participate in the survey. At the same time, the OECD, the BIS, and the EMI are keeping their members informed of the status of the project. The BIS is exploring the possibilities of further developing its extensive database on foreign securities. In addition, the IMF has joined forces with EMI to approach the Association of National Numbering Agencies (ANNA), an international private institution, based in Geneva, to inquire about modifying codes developed to facilitate trading and settlement in international securities for statistical purposes. ANNA agreed at its annual meeting in June 1995 to set up a task force to study this request.

Second, the benefits of the survey for national compilers are multiple. Compilers will receive comprehensive instructions on how to conduct their portfolio surveys. The surveys will improve their statistics on portfolio investment abroad. They will also give participants a unique opportunity, through data exchange, to establish who are the foreign holders of their securities. The survey results should narrow the gap between external assets and liabilities at the worldwide level. The results could also be used to provide a benchmark for the international investment position of specific countries. To the extent that this gap remains sizable, national compilers will have to assess more closely the possibility that their national investors, especially in the resident household sector, conduct investment through foreign custodians, possibly at offshore centers. While not directly measurable, such investment could then be more easily estimated using the survey results.

Finally, the portfolio survey project will provide an additional incentive to standardize data in other external series, as well as to facilitate exchanges of other

Survey will bring numerous benefits

external data. By their very nature, external statistics can be measured both from a domestic angle and from that of the counterpart foreign party. Domestic sources of information are no longer sufficient by themselves in a world in which economies increasingly and at a quickening pace are being integrated into an international market economy. □

This article is adapted from a paper by Lucie Laliberté of Statistics Canada. The paper was presented at the annual meeting of the National Association of Business Economists (NABE), September 1995, San Francisco. Ms. Laliberté is a member of the Committee on Balance of Payments Statistics and Chairperson of the Task Force on the Coordinated Portfolio Investment Survey.

¹ Australia, Austria, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States.

The IMF Committee on Balance of Payments Statistics Pursues Large Work Program

In 1995, the Committee made substantial progress on its two principal projects. The two are the conduct of a coordinated portfolio investment survey, which is planned for the end of 1997, and the enhancement of the international banking statistics for use in balance of payments compilation. In addition to these data-related issues, the Committee reviewed several papers prepared by the Fund's Statistics Department to provide national compilers and users of balance of payments statistics with additional information on the conceptual underpinning for the statistical treatment adopted for certain transactions in the fifth edition of the *Balance of Payments Manual (BPM5)*, as well as on practical aspects of implementing the recommended treatments. Also in the area of statistical methodology, the Committee undertook further work on issues relating to the classification and measurement of cross-border transactions in financial derivatives.

1997 Coordinated Portfolio Investment Survey

In light of the very large discrepancies apparent in the global balance of payments statistics on portfolio investment capital flows and the difficulties that many countries have encountered in accurately recording the growing volume of cross-border activity in portfolio securities, the Committee is organizing coordinated surveys of portfolio investment positions. (See the article on pages 8-12.) Such coordinated surveys are aimed to help compilers to identify errors in cross-border portfolio investment statistics and provide better instrument and geographic detail than is currently available to national compilers. Subject to confidentiality constraints, the exchange of data among participating countries would help to close recording gaps.

During the year, the Fund wrote, at the request of the Committee, to major industrial countries and selected developing countries, including offshore centers, to invite them to participate in the survey. Overall, the Committee and the Fund are very pleased with the responses received, which showed strong support for this important and timely international initiative.

International Banking Statistics

Nonbank transactions with nonresident banks appear to be poorly measured in many countries, especially as regards funds deposited with nonresident banks. The Committee, in close collaboration with the Bank for International Settlements (BIS), is working to enhance the international banking statistics for use in balance of payments compilation. The Committee is also seeking ways to make these data more widely available to balance of payments compilers, without compromising the confidentiality attached to these statistics.

The international banking statistics are compiled by the BIS based on reports filed by the monetary authorities in the major banking centers on a geographic breakdown of their banks' cross-border assets and liabilities, which, in turn, are broken down by banks and nonbanks and by currency. At present,

*Coordinated
portfolio
investment survey
will improve
quality of data and
provide greater
detail*

information is reported by 18 industrial countries and six major offshore financial centers as shown in the text box below:

Industrial reporting countries		Other reporting centers
1. Austria	10. Japan	19. The Bahamas
2. Belgium	11. Luxembourg	20. Bahrain
3. Canada	12. Netherlands	21. Cayman Islands
4. Denmark	13. Norway	22. Hong Kong
5. Finland	14. Spain	23. Netherlands Antilles
6. France	15. Sweden	24. Singapore
7. Germany	16. Switzerland	
8. Ireland	17. United Kingdom	
9. Italy	18. United States	

Use of international banking statistics will help close data gaps in balance of payments

The “derived” data obtained by aggregating the reported data for each country in the geographic breakdown provide fairly comprehensive estimates of non-resident banks’ outstanding claims on, and liabilities to, the bank and nonbank sectors in a great number of individual countries. Using the reported currency breakdown of banks’ outstanding claims and liabilities, exchange-rate-adjusted changes in outstanding claims and liabilities can be calculated; these can be used as proxy measures for transactions vis-à-vis nonresident banks and nonbanks. Data on outstanding claims and liabilities can also be used in balance of payments compilation to estimate investment income accruing to, and payable by, countries on their deposits with, and borrowing from, nonresident banks.

In 1994, the BIS undertook a pilot project to derive estimates on changes in banks’ assets and liabilities, excluding their holdings and their own issues of long-term securities; this would align the international banking statistics more closely with the balance of payments data for loans and deposits and thus facilitate their use in balance of payments compilation. The BIS estimates that currently reported data include 80–90 percent of securities held and issued by banks. By the middle of 1995, the BIS was able to circulate detailed tables on banks’ loans and deposits (on the adjusted basis) to central banks of the reporting industrial countries for comments. The results were generally regarded as satisfactory.

In April 1995, the BIS published a new Guide to the BIS Statistics on International Banking, which updates an earlier version published in 1988. The new BIS Guide contains a detailed account of current country practices regarding the coverage and disaggregation of the international banking data reported to the BIS and, unlike the earlier version, it also provides the reporting countries with definitions and guidelines for the reporting of data. The reporting system has also been expanded to collect additional information in several important areas, which, if implemented by the BIS-reporting countries, would better align the data with balance of payments methodology and provide improved measures of banking transactions.

Working Papers on Concepts and Methodologies

In connection with the Committee’s March 1995 meeting, the Fund’s Statistics Department prepared four discussion papers relating to selected areas of balance of payments methodology; the aim of these papers was to clarify the guidelines set out in the *BPM5* and assist in their implementation at the national level. The discussion papers covered a range of issues, which included:

- identification of capital transfers;
- recording of insurance transactions;

- recording interest income in accordance with the accrual concept;
- measurement of reinvested earnings on direct investment;
- market valuation of direct investment;
- valuation of the international investment position;
- estimation of earnings of financial intermediaries; and
- defining establishment trade statistics.

The Committee provided extensive comments on a range of conceptual issues raised in these papers as well as on practical considerations dealing with the implementation of the proposed statistical treatment in their countries. Taking into account the views expressed by the Committee, the four Fund papers were converted into IMF Working Papers and were distributed to the Fund's balance of payments correspondents.

Financial Derivatives

The Fund this year established a small informal expert group to clarify and guide the treatment accorded in the *BPM5* and the *1993 System of National Accounts (1993 SNA)* to interest rate swaps and variation margins related to financial derivatives. This initiative arose in connection with work undertaken by compilers in selected countries (hereafter referred to as "compilers") on the feasibility of introducing new statistical collections for data on financial derivatives. The compilers proposed that net receipts/payments from interest rate swaps be included in the financial account and not in the current account (as recommended by the *BPM5* and the *1993 SNA*). The rationale was that there is a close substitutability between these instruments and other financial derivatives, for example, interest rate futures, which are included in the financial account. With regard to variation margins, some of the compilers were of the view that when ownership of these margins changes hands, this transfer in ownership be recognized as a transaction in financial derivatives in the financial account.

The expert group concluded that, while the basic methodology on financial derivatives in the *BPM5* and the *1993 SNA* is clear, countries could interpret matters variously. The group observed that some amplification and clarification of the international standards are required. The Committee endorsed this position.

With regard to the treatment of net receipts/payments from interest rate swaps, the expert group was split. There was some support for the approach advanced by the compilers. But there were others who focused on the "effective cost" of borrowing: the true interest rate cost faced by the borrower is that inclusive, rather than exclusive, of the interest rate swap. The expert group favored not changing the approach in the *BPM5* and the *1993 SNA*.

The consensus among the expert group on the treatment of variation margins was to regard them as deposits owned by the entity that had placed them and not as a transaction in financial derivatives (as proposed by some of the compilers). However, it was apparent that practices vary in the different markets, and this was reflected in the views of the expert group.

The Committee endorsed the Fund's approach to create another expert group encompassing not only balance of payments compilers but also national accountants and financial statisticians. The new group would further develop guidelines on financial derivatives with the objective of producing a final report in time for a Fund-sponsored meeting of financial statistics experts in the summer of 1996. The meeting will be held in connection with the finalization of the Fund's *Monetary and Financial Statistics Manual*. □

Selected Topics

United States

U.S. international services data are used for many purposes . . .

. . . and the data have been improved over time

United States Introduces New Surveys To Better Measure International Services Transactions

The U.S. Department of Commerce's Bureau of Economic Analysis (BEA) has embarked on two initiatives to augment and improve the U.S. Government's statistics on U.S. international trade in services — the development of new surveys of financial services transactions with unaffiliated foreign persons and the modification of existing surveys to obtain more detailed data on services transactions between U.S. parent companies and their foreign affiliates by type of service. These initiatives, as well as BEA's other recent improvements in services trade data, recognize the rapid growth of international services transactions as trade barriers have been reduced or eliminated, and businesses have increasingly operated on a global basis.

BEA's estimates of U.S. international trade in services are used in compiling the U.S. balance of payments accounts and national income and product accounts. They are also used by the U.S. Government for monitoring trade in services, analyzing its impact on the U.S. and foreign economies, formulating and evaluating U.S. trade policies, and supporting bilateral and multilateral trade negotiations. In addition, businesses use the data to assess the size of foreign markets (and their share of those markets) and to evaluate market opportunities.

These initiatives extend the series of improvements BEA has made since the mid-1980's in its statistics on international services. The earlier improvements included increasing the number of foreign countries for which BEA's detailed estimates of services transactions are available (previously, estimates of some types of transactions with these countries were combined in more aggregate regional totals and were not available separately); improving the coverage of selected business, technical, and professional services by designing and implementing new benchmark and annual surveys covering transactions in about 30 types of services not previously surveyed; collecting more comprehensive data on construction and insurance services, and on royalty and license fee transactions, by making reporting mandatory; designing new estimation methodologies to calculate international trade in services on a monthly (rather than only on a quarterly or annual) basis; improving estimation methodologies, and acquiring new source data, for several types of services that are not covered by BEA surveys, such as travel and education services; and revising presentations and definitions to conform U.S. services data more closely to international guidelines. In addition to these improvements in data on cross-border services transactions, BEA also developed new information on services delivered to U.S. and foreign markets through locally established affiliates.

New Benchmark Survey of Financial Services Transactions With Unaffiliated Foreign Persons

Lack of complete information on financial services transactions is one of the few remaining significant data gaps in services in the U.S. balance of pay-

ments accounts. Because of the need for more accurate and detailed data, the U. S. Congress directed the Secretary of Commerce to undertake a benchmark survey of financial services transactions. In addition, the International Monetary Fund¹ and a U.S. National Academy of Sciences study panel,² among others, have stressed the importance of obtaining more comprehensive and accurate data on trade in financial services. Because additional funds were not provided for this work, BEA is conducting the survey by reallocating resources from other activities.

BEA's current estimates of financial services transactions are made by applying estimates of fee and commission rates to incomplete source data on the volume of gross financial transactions and positions. In 1994, BEA estimated gross sales of financial services to unaffiliated foreign persons of \$7.0 billion, and gross purchases of financial services from unaffiliated foreign persons of \$6.8 billion. However, these estimates may be imprecise and actual exports and imports of financial services may be considerably higher or lower than these estimates indicate.

The new benchmark survey covers purchases and sales of financial services between U.S. financial services providers and unaffiliated foreign persons during fiscal year 1994. (Transactions with affiliated foreigners, and purchases of financial services by U.S. persons that are not financial services providers, are collected on other BEA surveys.) The following types of financial services are included on the survey: financial management services (including management of mutual funds, commodity pools, and financial assets that are not contained in a fund or pool); services related to issuance and trading of securities and other financial instruments (including brokerage, underwriting, and private placement services); credit card services; other credit- and lending-related services; financial advisory services; and other financial services.

The survey excludes interest and dividends, capital gains, option premiums, and capital flows related to transactions in derivative financial instruments, which are not considered financial services for economic accounting purposes. The proposed survey also excludes insurance premiums and losses, and stock quotation and financial information services, which are already collected on other BEA surveys.

The survey must be filed by U.S. persons that are financial services providers or intermediaries (or whose consolidated U.S. enterprise includes a separately organized subsidiary or part that is a financial services provider or intermediary) and that had financial services transactions exceeding \$1 million directly with unaffiliated foreign persons. Thus, a consolidated U.S. manufacturing company that owns a finance company must report on the survey only for its finance company, and not for the parts of its organization engaged in manufacturing. In order to facilitate responding, separately organized financial services subsidiaries or parts of a consolidated enterprise have the option of either filing separate reports or of filing together on a single report. The data from the survey are scheduled to be included in the U.S. balance of payments accounts to be released in June 1996.

BEA has also developed a new annual survey of unaffiliated financial services transactions for updating information collected on the benchmark survey.

United States

New surveys will provide the needed financial services data

United States

More data categorized by types of services will be available

Data reported on the annual survey will be combined with estimates of financial services transactions that are not reported on the annual survey, in order to produce universe estimates of financial services transactions in non-benchmark years. Thus, together the benchmark and annual surveys will produce a continuous annual time series of data on financial services that are out of the scope of other international services surveys. The first annual survey will be for 1995, the year following the new benchmark survey. The annual survey covers the same types of financial services that are covered by the benchmark survey, but the exemption level below which reporting is not required is \$5 million, compared with \$1 million in the benchmark survey.

Additional Detail on Affiliated Services by Type

Another important data improvement BEA has underway in the international services area is the collection of expanded data on services transactions, by type, between U.S. parent companies and their foreign affiliates. BEA previously collected information on total purchases and sales of services between U.S. parent companies and their foreign affiliates, with minimal detail by type of service. Data were obtained separately only for royalties and license fees for the use or sale of intangible assets, charges for the use of tangible property, film and television tape rentals, and the total of all other business, professional, and technical services combined. The new information will, for the first time, disaggregate these "other" business, professional, and technical services by type. At present, such a disaggregation is obtained only for services trade with unaffiliated foreigners.

The new information is being collected on BEA's 1994 benchmark survey, and on its quarterly survey, of U.S. direct investment abroad. (The data must be reported on the quarterly survey only once a year and, like the data from the benchmark survey, should cover transactions for a full year, not for the individual quarters of the year.) Specifically, the Bureau is obtaining separate data on receipts and payments for insurance services, financial services, transportation, computer and information services, communications services, and all other business, professional, and technical services combined. The specific categories of services transactions selected for disaggregation are consistent with the standard categories in the 5th edition of the International Monetary Fund's *Balance of Payments Manual*.

In 1994, U.S. parent receipts from their foreign affiliates for all of these services combined were \$9.4 billion, and U.S. parent payments to their foreign affiliates were \$5.4 billion. The more detailed data for 1994 by type of service should be available in 1997, when final, comprehensive results of the benchmark survey are scheduled for release.

BEA also plans to revise its benchmark and quarterly surveys of foreign direct investment in the United States to collect similar additional detail by type of service on transactions between U.S. affiliates and their foreign parent companies. Collection of the additional detail will probably begin with the

next benchmark survey of foreign direct investment in the United States, covering 1997. □

This article was contributed by Gerald A. Pollack of the Bureau of Economic Analysis, U.S. Department of Commerce. Mr. Pollack is a member of the IMF Committee on Balance of Payments Statistics.

¹ See (a) *Report on the World Current Account Discrepancy*, International Monetary Fund, September 1987 and (b) *Report on the Measurement of International Capital Flows*, International Monetary Fund, 1992.

² Readers may refer to (a) Anne Y. Kester, ed., *Behind the Numbers: U.S. Trade in the World Economy*, National Academy Press, Washington, D.C., January 1991 and (b) Anne Y. Kester, et al, *Following the Money: U.S. Finance in the World Economy*, National Academy Press, Washington, D.C., September 1995.

United
States

Germany

Current account annual balance less affected by changes than individual components of current account

Germany Implements Guidelines of Fifth Edition of the *Balance of Payments Manual*

This article describes changes being made in the concept and presentation of Germany's balance of payments. The "record of all economic transactions between residents and non-residents" is being restructured to comply with various international agreements to which Germany is a party, some of which require more detailed financial reporting as well as to take account of rapidly evolving national and international economic conditions. Some of the methodological innovations being introduced also are designed to meet the wide variety of user needs. Most of the changes appear to be having a comparatively small quantitative effect on the various balances of the balance of payments accounts; however, certain gross figures are being altered significantly. Some of the transactions and definitions particularly affected by the innovations are discussed below.

The balance of payments is an important database in Germany, not only for domestic and external monetary policy analysis but also for the compilation of the national accounts. The structure and presentation of the German balance of payments are largely based on internationally agreed concepts, which, in turn, are based upon analytical requirements. Until recently, the framework of Germany's balance of payments was modeled on the fourth edition of the International Monetary Fund's *Balance of Payments Manual*, which appeared in 1977. The fifth edition of the *Manual (BPM5)*, which was published in 1993, contains significant changes and sets out the principles for compiling balance of payments data more clearly than before. Its publication provides the rationale for presenting the German balance of payments in its new form.

The Effects on Germany's Balance of Payments

A number of the changes recommended in the BPM5 have now been implemented in the German balance of payments.

The methodological changes introduced thus far appear to have had only a slight effect on the current account annual balance. This is because the transactions removed from the current account — capital transfers, some life insurance transactions, and certain components of investment income — are not significant in Germany's balance of payments. For example, the conceptual changes raise the current account deficit in 1994 by only DM 2 billion, to DM 38.6 billion.

The changes, however, have significantly altered the magnitudes of individual components of the current account. The services account has "deteriorated" substantially in terms of the balance over the past ten years. Although some items traditionally in deficit are no longer part of the services account (processing, certain insurance transactions, and compensation of employees), investment income, which has on balance been in surplus over a long period, has been removed from the services account. As a result, the deficit on services as now calculated amounted to a total of DM 174 billion between 1985 and 1994, compared with one of DM 89 billion under the old system. However, the deficit on services fell

slightly in 1994 because of the changes. The total value of services transactions has almost been halved over the past decade as a result of the conceptual changes. Most of the transactions removed from the services section now appear under the income component, which ran a surplus of DM 3 billion in 1994 and totalled more than DM 150 billion between 1985 and 1994. In the future, the magnitude shown under factor income will clearly indicate how large cross-border investment income is in its own right and what influence it has on the size of GNP.

Not all of the changes can be made retrospectively in financial transactions to conform with the *BPM5*. Credit transactions between affiliated enterprises, which are to be classified under direct investment, will be reflected in the German balance of payments only from 1995 onward. Direct investment in 1994 is therefore not affected by methodological changes (purchases of real estate had already been allocated to direct investment). By contrast, there are significant changes in the value of the portfolio investment account. Through the inclusion of money market fund certificates and money market instruments (which represent net capital exports of DM 15 billion and DM 15 1/2 billion, respectively), as well as financial derivatives (net imports DM 3 1/2 billion), the deficit for 1994 rises from DM 28 billion to DM 55 billion.

Changes also occur in the record of the increases or decreases in monetary reserves and in the net external assets position of the Bundesbank. Given the fact that only transactions are supposed to be shown in the balance of payments without including any valuation changes, changes in the net external assets of the Bundesbank will be shown at transaction values in the future. The change at balance sheet rates, including the revaluation at the end of the year, will be given in a memorandum item. The "Balancing item in respect of the Bundesbank's external position," which was previously shown explicitly, can be established by calculating the difference.

Future Developments

More changes are planned for the future. These include, for example, the recording of interest income on an accrual basis and the harmonization of the balance of payments data with those of the national accounts.

It is also expected that Germany's international investment position, which the Bundesbank regularly calculates and publishes, will be compiled in accordance with the *BPM5* in the last calendar quarter of 1995. □

For more information, readers may refer to "Changes in the Methodology of the Balance of Payments," Deutsche Bundesbank Monthly Report, March 1995.

Germany

*Some changes still
on the drawing
board*

France

Changes made to date largely involve reclassification of components in current and financial accounts

France Presents Balance of Payments Data Based on *BPM5*

France, like other countries of the European Union (EU), is introducing a number of changes in its balance of payments presentation and compilation methods to conform with the fifth edition of the IMF *Balance of Payments Manual (BPM5)*. Although changes adopted to date have not been drastic, additional adjustments are contemplated for 1996 and 1997 that will further transform France's compilation system for balance of payments. Some of the steps taken by the authorities, as well as those planned by them for the future, are highlighted in this article.

In implementing the guidelines of the *BPM5*, France, like the other EU countries, pays particular attention to two objectives. The first is to work to harmonize balance of payments methodologies used by EU countries. Such an approach is intended to increase the symmetry of data among the EU member states. In this effort, the Bank of France is working with EUROSTAT's Committee on Monetary, Financial, and Balance of Payments Statistics, which is composed of central banks and statistical agencies, and the European Monetary Institute's Working Group on Statistics, which comprises central banks.

The second objective relates to France's decision to make its balance of payments data compatible with its revised system of national accounts. This change, planned for 1997, holds the prospect of enhancing cooperation between two agencies: the Bank of France, which is responsible for the compilation of balance of payments and the flow-of-funds accounts, and the Institute for Statistics and Economic Studies (INSEE), which compiles the national accounts.

Since January 1, 1995, France has relabelled and reclassified a number of components in the current account and financial accounts of its balance of payments. (See Table 1.) These have included:

- Redesignating the customs export and import data as trade in goods and adjusting such trade to include transactions that involve no payments;
- Reclassifying merchanting, previously included in goods, to services;
- Transferring goods for processing and repairs on goods from services to goods;
- Separately classifying services components from those of income;
- Changing the classifications and names of several services, and grouping them under a general component; for example, "sea transport" and "other transport" are now subsumed under transportation;
- Placing all capital flows in what is now called the financial account, which is subdivided into long- and short-term investment and reserve assets; the distinction between short- and long-term investment is retained in 1995; beginning in 1996 financial flows will be classified by type (direct investment, portfolio investment, other investment) and by domestic sector (monetary authorities, general government, banks, and other sectors, including nonfinancial transactors and households);

- Separately identifying changes in claims and liabilities of the general government and those of the monetary authorities; and
- Including in other investment these items: trade credits and long-term loans granted to or received by all of the sectors.

France

Table 1

Former Name	New Name
Current transactions	Current account
Exports-Imports	General merchandise
Merchandise	Goods
Heavy construction	Construction
Incidental costs on goods	Trade services
Technical cooperation	Technical services
Management services	Administrative services among affiliates
Miscellaneous services	Other services
Wages and other income from work	Workers' compensation
Interest and other capital income	Investment income
Official sector unrequited transfers	General government current transfers
Transfers of workers' savings	Workers' remittances
Capital transfers	Capital account
Total capital flows	Financial account
Long-term capital flows	Long-term financial flows
Short-term capital flows	Short-term financial flows
Adjustments	Net errors and omissions
Net official sector assets	Reserve assets

Beginning in January, 1996, transactions in financial items will be presented in detail, with a breakdown by instrument (securities, deposits, etc.) and by institutional sector (banks, etc.). Consideration is also being given to introducing new methods and sources to compile additional data.

Table 2

Before	As of January 1, 1995	As of January 1, 1996
I. Current transactions	I. Current account	I. Current account
II. Capital transfers	II. Capital account (transfers)	II. Capital account
III. Long-term investment	III. Financial account	III. Financial account
- trade credits	1) Financial flows	1) Financial flows
- direct investment	(excluding reserve assets)	- direct investment
- loans	- long-term	- portfolio investment
- portfolio investment	• direct investment	- other investment
	• portfolio investment	
	• other investment	
IV. Short-term investment	- short-term	
(net assets of official sector)	2) Reserve assets	2) Reserve assets
V. Adjustments	IV. Net errors and omissions	IV. Net errors and omission

This article is based on information that appeared in "Ongoing Methodological Changes in France's Balance of Payments and International Investment Position," 1994 Annual Report of Balance of Payments and International Investment Position, France, August 1995 (in French).

Meetings Calendar

1996	Selected International Statistical Meetings
January 16-17	Interagency Task Force on Services Statistics, Geneva
February 1-2	Committee on Monetary, Financial, and Balance of Payments Statistics, EUROSTAT, Luxembourg
March 13-14	EUROSTAT Working Party on Balance of Payments, Luxembourg
March 19-21	World Trade Organization Task Force on International Trade Statistics, Geneva
April 15	Intersecretariat Working Group on National Accounts, New York
April 15	Twelfth Meeting of Steering Committee on Coordination of Technical Assistance in Statistics to the Countries of the Former Soviet Union, New York
April 16-19	United Nations Working Group on International Statistical Programs and Coordination, United Nations, New York
April 25-26	IMF Task Force on the Coordinated Portfolio Investment Survey, Washington, DC
April 29-30	IMF Committee on Balance of Payments Statistics, Washington, DC
May 7-9	Subcommittee on Statistical Activities, United Nations Administrative Committee on Coordination (ACC), New York
May 15-17	OECD Group of Financial Statisticians, Paris
June 6-7	Committee on Monetary, Financial, and Balance of Payments Statistics, EUROSTAT, Luxembourg
June 10-13	Conference of European Statisticians, Economic Commission for Europe (ECE), Geneva
July 2-5	5th Independent Conference, International Association for Official Statistics, Reykjavik