



Components in BOP and IIP (L3)

Course on External Sector Statistics

Nay Pyi Taw, Myanmar

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Balance of Payments – Standard Items

- **Current account**
 - Goods and services
 - Primary income (instead of income)
 - Secondary income (instead of current transfers)
- **Capital account**
- **Financial account**
 - Functional breakdown: Direct Investment, Portfolio Investment, Financial Derivatives, Other Investment, and Reserve Assets.
 - Increases in financial assets / liabilities presented with positive sign (net acquisition of financial assets / net incurrence of liabilities).



Goods

- The coverage of the goods item is consistent with the SNA.
 - **General merchandise** (including procurement of goods in ports by carriers).
 - Net exports of goods under **merchanting**.
 - **Nonmonetary gold** held as a store of value and as industrial gold.
- The goods item exclude:
 - goods sent abroad for processing for which there is no change in economic ownership.
 - And goods sent abroad for repair and servicing.
- Adjustments are needed to convert goods reported in the trade returns to a balance of payments basis.



Services Classification

- Manufacturing services on physical inputs owned by others
- Maintenance and repair services, n.i.e.
- Travel
- Transport
- Construction
- Insurance and pension services
- Financial services
- Charges for the use of intellectual property, n.i.e.
- Telecommunications, computer, and information services
- Other business services
- Personal, cultural and educational services
- Government goods and services, n.i.e.



Services: Standard Components

- Services classification is mainly ***product-based***.
- However, ***Transactor-based*** for travel, construction, and government goods and services n.i.e.
 - These items include elements of goods and services



Services: Borderline issues

- The boundary between goods and services is sometimes blurred, as items classified as goods may contain elements of services, and items classified as services may contain elements of goods.
- For example:
 - A blank CD is a good.
 - A CD containing off-the-shelf software has elements of goods and services, but is classified as a good.
 - A CD containing customized software is a service.



Primary Income

- Labor income (i.e., compensation of employees)
- Investment income (actual or imputed)
 - Return for providing financial assets: dividends, withdrawals from income of quasi-corporations, reinvested earnings, and interest.
- Rent (i.e., property income)
- Taxes/subsidies on products and production



Secondary income and capital transfers:

- Transactions involving secondary income and capital transfers differ from other transactions in that one transactor provides an economic value to another transactor **but does not receive an equivalent value in return**.
- For example:
 - Workers' remittances
 - Debt forgiveness



Table 12.1. Overview of the Secondary Income Account

	Credits	Debits
<i>Balance on goods, services, and primary income</i>		
Personal transfers		
Current taxes on income, wealth, etc.		
Social contributions		
Social benefits		
Net premiums on nonlife insurance and standardized guarantees		
Nonlife insurance claims and calls under standardized guarantees		
Current international cooperation		
Miscellaneous current transfers		
<i>Total current transfers credits and debits</i>		
<i>Balance on secondary income</i>		

Table 13.1. Overview of the Capital Account

	Credits	Debits
<i>Current account balance</i>		
Acquisitions (DR.)/disposals (CR.) of nonproduced, nonfinancial assets		
Natural resources		
Contracts, leases, and licenses		
Marketing assets		
Capital transfers		
Debt forgiveness		
Other		



Secondary Income

- Various types of current transfers show their role in the process of income distribution between the economies.
 - Current transfers **directly affect the level of disposable income** and influence the consumption of goods or services.
- It includes insurance premiums and claims, social benefits and claims, remittances, and aid transfers.
- The more frequent and regular a transfer, the more likely it is a current transfer.
- *To distinguish current transfers from capital transfers, it is preferable to focus on the special characteristics of capital transfers.*



Capital Account

- Capital transfers facilitate investment.
- The capital account in the international accounts shows:
 - acquisition and disposal of nonproduced nonfinancial assets (natural resources, marketing assets, leases and licenses)
 - ❖ E.g., tradable permits; the purchase of land for embassy use; transfer payments by a soccer club
 - capital transfers receivable and payable
 - a liability forgiven by the creditor.



Financial Account

- There are two categories of economic assets: financial and nonfinancial assets.
- A financial asset is:
 - A *claim* on another party, i.e., there is a counterpart liability
 - The existence of the counterpart liability distinguishes financial assets from other economic assets, such as land, dwellings, machinery, equipment, etc.
 - Plus, the *gold bullion* component of monetary gold



Financial Assets and Liabilities

- **Equity and investment fund shares**
 - Equity
 - Investment fund shares/units
- **Debt instruments**
 - Special Drawing Rights
 - Currency and deposits
 - Debt securities
 - Loans
 - Insurance, pension, and standardized guarantee schemes
 - Trade credit and advances
 - Other accounts payable/receivable
- **Other financial assets and liabilities**
 - Monetary gold
 - Financial derivatives and employee stock options



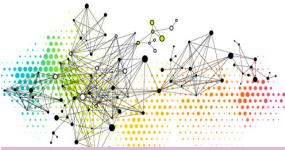
Motivation Associated with the Functional Basis for Classification

- *Direct investment*: Transactions between a direct investor and a direct investment enterprise (which are transactions between related parties) are largely influenced by the **objective of maximizing return on the enterprise's total (global) equity** and having an **effective voice** in the management of the direct investment enterprise.
- *Portfolio investment*: Transactions by portfolio investors are largely governed by the **desire to maximize income and manage risk**.



Motivation Associated with the Functional Basis for Classification

- *Financial derivatives*: Transactions in financial derivatives enable parties to **trade specific financial risks** to other entities that are more willing or better suited to take or manage these risks, and that typically—but not always—do so without trading in primary assets or commodities.
- *Other investment*: A residual category – but with important instruments.
- *Reserve assets*: Transactions in reserve assets reflect **official actions aimed at influencing the exchange rate or supporting the existing exchange rate**.



Equity and Investment Fund Shares

- **Equity** comprises all instruments and records that acknowledge claims on the residual value of a corporation or quasi-corporation, after the claims of all creditors have been met. Equity is treated as a liability of the issuing corporation or other unit.
 - *Comprises listed shares and unlisted shares*
- **Other equity** is equity:
 - not included in FDI
 - not in the form of securities (i.e., not in portfolio investment)
 - to be included in other investment.



Equity and Investment Fund Shares

- **Investment funds** are collective investment undertakings through which investors pool funds for investment in financial and/or nonfinancial assets.
- These funds issue shares (if a corporate structure is used) or units (if a trust structure is used).
- Investment funds include money market funds (MMF) and non-MMF investment funds.



Debt Instruments

- *Debt instruments are those instruments that require the payment of principal and/or interest at some point(s) in the future.*
- Debt instruments comprise:
 - Special Drawing Rights
 - Currency and deposits
 - Debt securities
 - Loans
 - Insurance technical reserves and provision for calls under standardized guarantees
 - Other accounts receivable/payable