

Balance of Payments Division
IMF Statistics Department



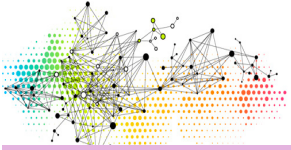
Services Account (L10)

Course on External Sector Statistics

Nay Pyi Taw, Myanmar

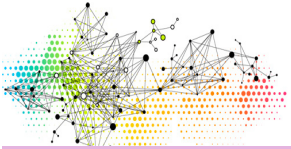
January 19-23, 2015

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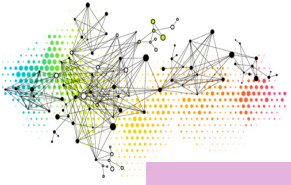
Overview

- General
- Borderline issues
- Components of services



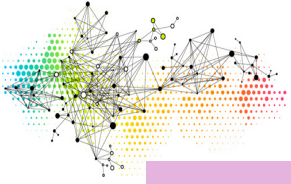
What Are Services

- Results of the ***production process*** that:
 - *change the condition* of the consuming units
 - ❖ Changes in the condition of the *consumer's goods*: the producer works directly on goods owned by the consumer by transporting, cleaning, repairing or otherwise transforming them
 - ❖ Changes in the *physical condition of persons*: the producer transports the persons, provides them with accommodation, provides them with medical or surgical treatments, improves their appearance, etc.
 - ❖ Changes in the *mental condition of persons*: the producer provides education, information, advice, entertainment or similar services in a face to face manner.
 - *facilitate the exchange* of products or financial assets
 - *not generally separate items* over which ownership rights can be established
 - *Cannot generally be separated* from their production



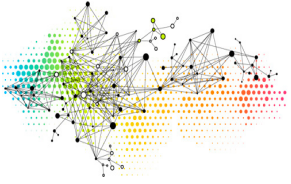
What the BOP Services Classification Represents

- The increasing global importance of *communication* and *financial services* – expansion of international trade in services (about one fifth of worldwide trade in balance of payments terms).
- Better linkages between the BOP and CPC classifications.
- Increased analytic value of classifications to users.
- High degree of compatibility with similar classifications of other international organizations, including those required for multilateral negotiations on international services (e.g., by the WTO).
- A framework that is flexible enough to accommodate the widely varying importance of specific service activities in countries, the rapid pace of change, and varying data availabilities.



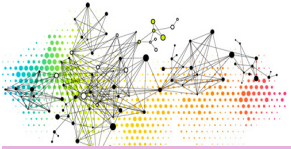
Services Classification

- 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.



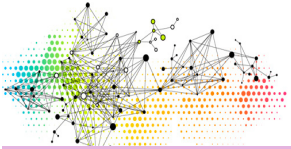
Services: Standard Components

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



Borderline Issues

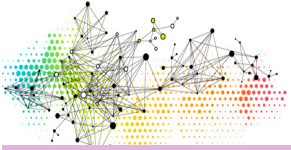
- Acquisition of *services* from payment of *taxes*
 - Is the payment in connection with *a regulatory function of government*?
 - Conduct safety checks on equipment; competence and qualifications checking
 - Carrying out function that government would otherwise not be obligated to do
 - Then, considered a payment for ***services*** provided by government
 - Unless payment is out of line with service received.
- By convention, amounts payable by households for *licenses to own or use equipment; recreational, hunting, licenses etc.* are treated as ***taxes***
- All other licenses and fees such as *passport fees, birth certificate fees, etc.* treated as payments for ***services***



Borderline Issues

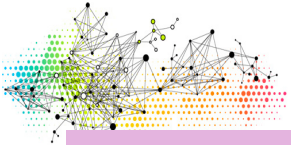
- Provision of *services* from provision of *labor*
 - ❖ Does an ***employer-employee relationship*** exist?
 - Then classified as compensation of employees
 - ❖ If individual is contracted to produce a given result then implies a service contract

How do you determine an employer-employee relationship?



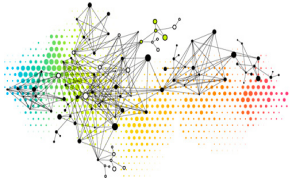
Outsourcing of Services

- Company A contracts Company B (a specialist) to provide service that was previously an internal function
- Services supplied by “Call centers” classified according to the type of service
 - E.g. computer support (computing services)



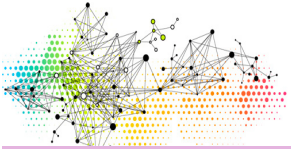
Manufacturing Services on Physical Inputs Owned by Others – **Major change from BPM5**

- In *BPM5*, a change of ownership was imputed for goods undergoing processing by an entity other than the owner that were sent from and returned to the economy of the owner.
 - Gross flows in “*goods for processing*” were recorded in the goods account.
- In *BPM6*, “***Manufacturing services on physical inputs owned by others***” are recorded in services if the goods do not change ownership
 - Covers processing, assembly, labeling, packing, etc. undertaken by enterprises that do not own the goods concerned
 - **No change of ownership of goods**
 - Covers the transaction between the owner and the processor—*only the fees for the service* are included in this item
 - Significant impact for some countries



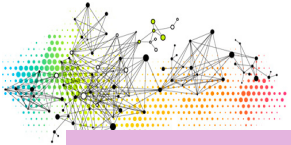
Manufacturing Services on Physical Inputs Owned by Others

- Examples—oil refining, clothing and electronic assembly, other assembly, labeling, packing
- Excludes: assembly of prefabricated construction and packing activities incidental to transportation



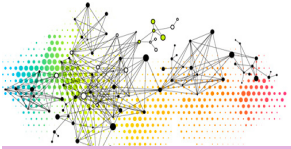
Manufacturing Services on Physical Inputs Owned by Others: Data collection

- Enterprise surveys
 - ❖ Most efficient method
 - ❖ Allows collection of fees as well as values of goods sent and received
 - ❖ Useful to adjust the goods account to measure merchandise trade on a change of ownership basis
- IMTS
 - ❖ Depend on the design of Customs declaration forms
- ITRS
 - ❖ may provide some information on the value of the manufacturing services;
 - ❖ care not to include payments for other goods and services
- Administrative sources: tax data for export processing zones/free zones with preferential tax rates



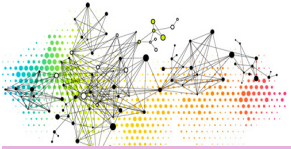
Maintenance and Repair Services, n.i.e.

- Now **included under services** rather than goods
- Covers maintenance and repair work undertaken by residents on goods owned by nonresidents.
- Includes value of repair work (including parts and materials supplied by repairer)
- Does not include the value of goods for repair
- Data collection: enterprise survey or ITRS
- Excludes:
 - Construction repair and maintenance
 - Maintenance and repair of computers



Construction

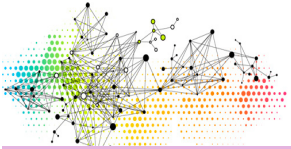
- Covers goods and services related to construction
 - work done on buildings, land improvement, engineering constructions, as well as installation and assembly
- Work provided outside the country of residence of the enterprise performing the work
 - However, if the operations are substantial, may constitute a resident branch in country



Construction

- The following *conditions* should be met for such an enterprise or site office to be deemed resident in the host country (**direct investment**):
 - The construction activities takes more than twelve months to complete.
 - The enterprise maintains (or can maintain) complete and separate sets of accounts of local activities and is subject to income taxes.
 - Has a substantial physical presence
 - Receives funds for its work for its own account, etc

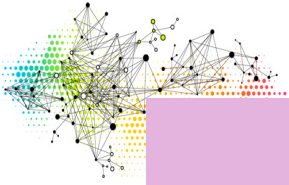
If a branch is constituted in the economy of operation, goods and services supplied **between the branch and the parent** are recorded as imports in general merchandise with the counter-entry in direct investment liabilities; and supplies from third countries as debit entry in goods/services



Construction

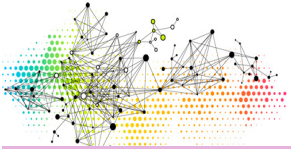
■ Construction as Services:

- Comprises work performed on construction projects by an enterprise or site office that is nonresident in the host country.
- Generally the work is of a short-term nature (note the one year guideline for residence).
- The value of the construction service should equal the full value of the construction project (output).
 - ❖ Gross value of output: value of all goods and services used as inputs to the work, other costs of production, and the operating surplus that accrues to the owners of the construction enterprise



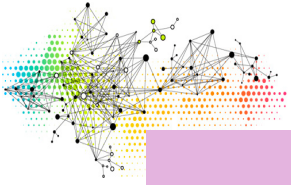
Construction

- Disaggregated and recorded on a gross basis
 - ❖ Allows for recording of both construction work in host and goods and services acquired
- Construction abroad
 - ❖ Credit—construction work abroad by enterprises resident in compiling economy
 - ❖ Debit—goods and services acquired from host economy by resident construction enterprises
- Construction in compiling economy
 - ❖ Credit—goods and services acquired from compiling economy by nonresident construction enterprises
 - ❖ Debit—construction work in compiling economy by nonresident construction enterprises
- ❖ Main sources: ITRS or enterprise surveys



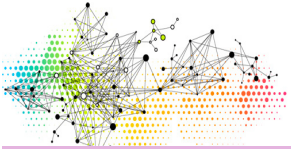
Charges for the Use of Intellectual Property n.i.e.

- Intellectual property products are largely the results of research and development, computer software and databases, and entertainment, literary or artistic originals
- World Intellectual Property Organization identifies two categories:
 - Industrial property: includes inventions (patents), trademarks, industrial designs, commercial names and designations, geographic indications of source;
 - Copyright, which includes literary and artistic works such as novels, poems and plays, films, musical works, artistic works such as drawings, paintings, photographs and sculptures, and architectural designs.



Charges for the Use of Intellectual Property n.i.e.

- BPM5: Term “royalties” has been replaced by “charges for the use of intellectual property”
- Includes:
 - Charges for the use of proprietary rights, such as franchises and trademarks (as in *BPM5*); and
 - Charges for licenses to reproduce and/or distribute IP embodied in originals, prototypes, such as copyrights on books, computer software, cinematographic works and
 - ❖ Related rights for live performances, etc.
- Outright purchases/sales of franchises and trademarks will continue to be recorded in the capital account
- Treatment of flows relating to intellectual property is summarized in Table 10.4 of the *BPM6*



Financial Services

- Services provided by financial intermediaries and auxiliaries (except those of insurance and pension funds).

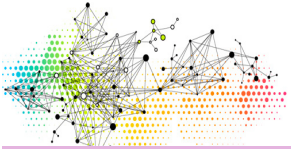
Charged through:

i) **Explicit charges**

- ❖ Charges associated with deposits and lending, commissions and brokerage fees, fees related to letters of credit, financial leasing, money transfer, foreign exchange transactions, etc.
- ❖ Early/late repayment fees
 - But excludes increase in interest rates as a result of late payment (considered with other interest – FISIM)
- ❖ Financial market regulatory services
- ❖ Service charges on purchases of IMF resources

Charges payable for *arranging the provision* of financial resources are to be distinguished from amounts payable to the suppliers for the *use* of these financial resources (=primary income)

L10 - Services Account

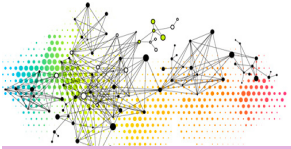


Financial Services

ii) Margins on buying and selling transactions

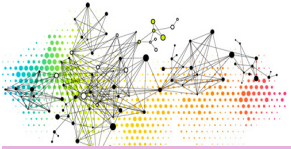
- Dealers in foreign exchange, **bonds, notes, financial derivatives**, etc. (*BPM5* only included dealers in foreign exchange.)
- Not distinguishable from underlying financial transactions
- Estimated charge to
 - ❖ Seller—difference between reference price and dealer's buying price
 - ❖ Buyer—difference between reference price and dealer's selling price
 - ❖ Reference price—usually mid-point between buying and selling prices
 - ❖ Some dealers may have their own internal price
- The service can also be measured by applying the **dealer's average margin** as a percentage to the value of transactions through dealers
- (Forex dealers often transact with one another
 - ❖ In this case, there is no service charge)

L10 - Services Account



Financial Services

- iii) **Asset management costs** deducted from property income receivable (as in the case of asset-holding entities)
- Some entities have the sole or predominant function of holding financial assets on behalf of others (e.g., mutual funds, investment funds, holding companies, trusts, SPEs)
 - Their expenses can be charge explicitly or implicitly paid out of investment income
 - Without recognizing these costs, the asset management enterprises would have a negative operating surplus (=bankrupt)
- Data sources: ITRS or bank statements; surveys on external stocks of assets and liabilities may also collect the explicit fees on financial transactions



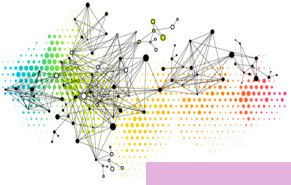
Financial Services

■ iv) Margins between interest and the reference rate on loans and deposits:

Financial Intermediation Services Indirectly Measured (FISIM)

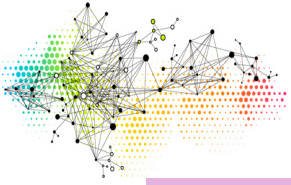
- Change from *BPM5*
- Actual “interest” includes element of income as well as charge for service
 - ❖ Units not charged explicitly for service—hence need to be “indirectly measured”
- Interest margin used to defray cost of service and provide operating surplus
- Need to distinguish between *pure interest charge* (Primary income) and the *service*
 - ❖ Actual interest (loans) = pure interest plus FISIM
 - ❖ Important for debt sustainability analysis (recorded as memo item)

L10 - Services Account



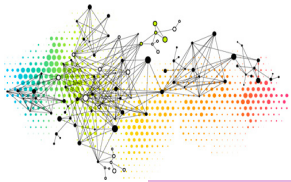
Telecommunications, Computer, and Information Services

- **BPM6:** New grouping of various items previously classified separately
 - defined in terms of the nature of the service, not the method of delivery
 - communications was a standard component in *BPM5*
- **Telecommunications services**
 - Includes: transmission of sound, images, etc, by telephone, telex, cable, broadcasting, satellite, electronic mail, facsimile, teleconferencing, cellular telephone services.
 - Does not include:
 - ❖ the *value of the information* being transmitted.
 - ❖ *installation services for networks and database services*



Telecommunications, Computer, and Information Services

- **Computer Services**
- Includes: hardware and software related services and data processing services (see list - para 10.143)
- Excludes:
 - Charges for licenses to reproduce or distribute software
 - Leasing of computers without an operator
 - Computer training courses not designed for a specific user
 - Noncustomized packaged software
- An example concerns the *treatment of computer software*:
 - 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;
 - a master copy CD, which earns royalties, is a service - it may be classified under computer services because its predominant value is as specialized software rather than the potential to generate future license fees



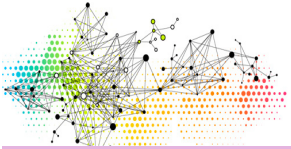
Telecommunications, Computer, and Information Services

■ Information services

- News agency services such as the provision of news, photographs, and articles to the media
- Database services—database conception, data storage, and data dissemination
- Nonbulk subscriptions to newspapers, periodicals, etc.
- Library and archive services

Excludes:

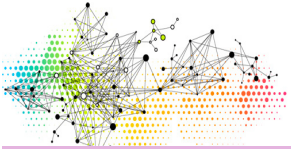
- ❖ bulk newspapers
- ❖ downloaded software



Other Business Services

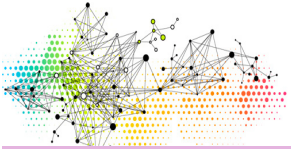
- Includes:
 - R&D Services
 - Professional and management consultancy services
 - Technical, trade-related, and other business services

- **Research and development Services (R&D)**
 - In *BPM5*, considered nonproduced asset and these transactions were included in the capital account
 - *BPM6*: The results of R & D treated as **produced assets** (unlike *BPM5*) and so outright sale transactions in them (e.g., patents, copyrights, trademarks, industrial processes, and) included under this item



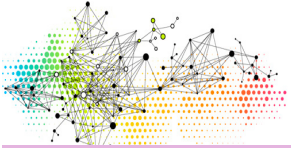
Other Business Services - Research and development (cont'd)

- Covers services associated with research and experimental development of new products and processes (e.g., in physical science, humanitarian, commercial research, etc)
- Definition is wider than the Frascati definition (used to define the scope of capital formation in the *2008 SNA*) as it includes other product development that may give rise to patents
- In practice, it may be difficult to differentiate the amounts payable for the sale of proprietary rights (R&D) from the use of proprietary rights (licences to reproduce and licences to use outcomes of R&D)
 - → charges for the use of intellectual property)
- Valuation at cost unless market value is observable



Other Business Services

- **Professional and management services**
 - Legal services, accounting, management consulting, managerial services, and public relations services; and
 - Advertising, market research, and public opinion polling services
 - *Also:* services for the general management of a branch, subsidiary, or associate provided by a parent enterprise or other affiliated enterprise
- **Technical, trade related, and other business services**
 - Includes agricultural, engineering, waste treatment and de-pollution, operational leasing
 - Trade-related services cover commissions on goods and service transactions payable to merchants, commodity brokers, dealers, auctioneers, and commission agents.
 - ❖ Does not include merchanting (now included under goods)

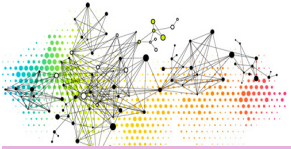


Other Business Services

Operating leasing

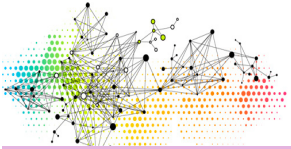
(previously operational leasing in BPM5)

- Renting of produced assets (buildings, machinery, equipment, etc.) but does not involve transfer of bulk of risks and benefits of ownership
- Excludes—nonproduced assets (land and other natural resources)
 - ❖ Rent—classified as primary income
 - ❖ If split between buildings and land not possible? Depends on which is most likely to predominate and to treat as either rent or rental accordingly.
 - ❖ However, if use of land and buildings for purposes of travel, include in **travel**.



Other Business Services

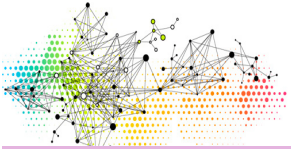
- Operating Leasing
 - Leasing and charter of ships, aircraft, and transportation equipment (such as railway cars, containers), without operator or crew.
 - Leases for other types of goods (e.g., dwellings and other buildings).
 - ❖ are included in this item, *if not included in travel*
 - **Excludes:**
 - ❖ financial leases.
 - ❖ leasing of telecommunications lines or capacity;
 - ❖ rental of ships or aircraft with crew;
 - ❖ rental of cars to nonresident travelers.



Other Business Services

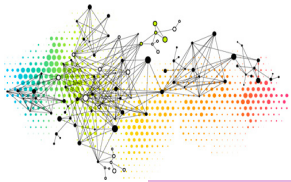
Compare: Financial lease

- A method of financing the purchase of an asset: there is an agreement between the owner (lessor) and the entity that has use of the good (the lessee)
- During the lease period, the owner (lessor) recovers most or all of the costs associated with acquiring and holding the good
- The lease is for most or all of the economic life of the capital good
- Lessee assumes bulk of the risks and benefits of ownership
- Lease payments consist of both interest and principal elements
- There may be provision for a final payment, at which time legal change of ownership takes place



Other Business Services

- Other business services, n.i.e.
 - Distribution services for water, electricity, gas, etc.
 - Subcontracting of business services—“Service merchanting”
 - ❖ Should be recorded gross as being exported and imported by the service arranger



Personal, Cultural, and Recreational Services

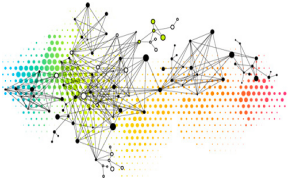
■ ***Audiovisual and related services***

- Services and associated fees related to the production of motion pictures (film or videotape), radio and television programs (live or on tape), and musical recordings.
- Rentals of films, videotapes, etc
- Fees received by actors, directors, producers etc for productions abroad (if they are employees of the entity making payments = *compensation of employees*)
- Fees for distribution rights for a limited number of shows in specified areas
- Charges for access to encrypted television channels (such as cable and satellite services)

Excludes:

- Mass-produced recordings and manuscripts *on CD-ROM, disk, paper* are included in general merchandise
- *Charges or licenses to reproduce or distribute* radio, television, film, music are included in charges for the use of intellectual property n.i.e.

L10 - Services Account



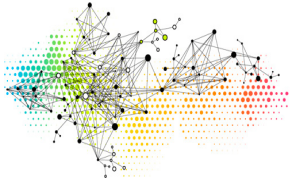
Personal, Cultural, and Recreational Services

■ ***Other cultural and recreational services***

- Other types of services such as those associated with museums, libraries, archives.
- Other cultural, sporting and recreational activities.
- Education services (such as the provision of correspondence courses).
- Health services (services provided in other economic territories)
- Gambling (consists of a service and a transfer element)

Excludes:

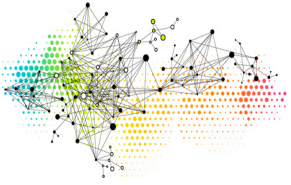
- Education and health services provided to nonresidents *who are present in the territory of the service provider* are included in *travel*
- Acquisition of other personal, cultural, and recreational services (museums, gambling) by persons while outside their territory of residence is included in *travel*



Government Goods and Services n.i.e.

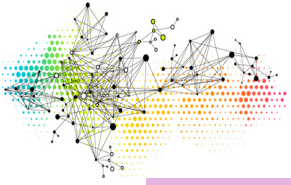
Residual category

- Goods and services supplied by and to enclaves, such as embassies, military bases, and international organizations
 - e.g., office supplies, vehicles, repairs, rental of premises, electricity
- Goods and services acquired from the host economy by diplomats, consular staff, and military personnel located abroad *and their dependents*
 - e.g., also when embassy staff sells his car at the end of his stay abroad (debit of local economy)
- Services supplied by and to governments and not included in other categories of services
 - Technical assistance on public administration, and when not classified to a specific service,
 - Payments for police-type services (such as keeping order)
 - Issue of licenses to exercise some proper regulatory function (if not *taxes*)



Government Goods and Services n.i.e.

- Note that persons posted to serve in embassies abroad are treated as nonresident of the country to which they have been posted regardless of their length of stay. Hence, their expenditures in the host country are BOP transactions.
- One or both parties must meet the transactor criterion.
- Transactions of public enterprises excluded.



Government Goods and Services n.i.e.

- Technical assistance
 - To governments should be classified to relevant service - if possible
 - ❖ If not possible, then classify as government services, n.i.e.
 - Technical assistance from resident of Country X to Country Y classified as exports of services from X to Y—even if employee is resident of Country Y