

## C.6 Trade in Services Classifications

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*The existing Balance of Payments and International Investment Position Manual, sixth edition, (BPM6) classification of services and the corresponding Extended Balance of Payments Services Classification (EBOPS 2010), when adopted in full, provide detailed and comprehensive information on international trade in services flows. However, in practice, many countries are unable to compile the full BPM6 classification, and some only produce the first-level breakdown, which limits the usefulness of existing international trade in services statistics for analysis and policy-making. This Guidance Note (GN) recommends a moderate restructuring of the BPM6 services classification that provides further detail in the main (first-level) BPM service categories and improves the correspondence between the balance of payments classification of services and the Central Product Classification (CPC). In addition, this GN acknowledges that the growing fragmentation of production processes and the rise of digitalization require additional information that is not available within the current balance of payments framework. In this regard, this GN suggests that in the case where the additional information needs related to globalization and digitalization concern the actors involved in the transaction (“who”) or the way the transaction takes place (“how”), the classification of services, which is and should remain a (mostly) product-based classification, should not be affected. On the other hand, if new services (“what”) are identified during the ongoing CPC revision, then the balance of payments classification should reflect them where relevant. Regarding intermediation services in particular, which are also being debated in the context of the revision of the International Standard Industrial Classification of All Economic Activities (ISIC), this GN provides some options to consider and highlights, once again, the need to ensure consistency across different domains and classifications*

### SECTION I: THE ISSUE

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#### BACKGROUND

- 1. Notwithstanding the practical difficulties of attribution of certain transactions to the “correct” service category, the classification of services according to the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*, when adopted in full (including the standard and supplementary items), provides comprehensive information on trade in services flows.** Further details, which improve the analytical value of the information, are available from the corresponding Extended Balance of Payments Services classification (EBOPS 2010).
- 2. The availability of the full *BPM6* (or, better, *EBOPS*) breakdown of services, including also the important presentation of travel by product, ensures broad consistency with the Central Product Classification (CPC).** This consistency is crucial for the comparability and coherence between balance of payments and System of National Accounts (SNA) aggregates.<sup>2</sup>

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<sup>2</sup> The (detailed) *BPM6/EBOPS* is broadly consistent with the CPC classification, with the exception of the transactor-based service categories. These balance of payments items are addressed in GNC.1.

3. **In practice, however, not all compilers provide data with the full details of the *BPM6* classification, and several countries indeed only produce the first-level breakdown, namely the 12 main standard service categories of the *BPM6* (plus Total Services).** In fact, the first-level breakdown ultimately drives the compilation efforts, especially for developing economies. For instance, with the changeover from *BPM5* to *BPM6*, many countries have stopped publishing *telecommunication services* separately from *computer and information services*, even though the breakdown was compiled and published within the *BPM5* framework. Furthermore, the standard category *other business services* accounts for a large share of world services trade (around 23 percent in 2019) but it bundles a heterogeneous group of business-related services and is used by many compilers as a “basket” or “residual” category for unspecified services (having “other” in the name of the category may encourage such practices).

4. **The fact that many economies only compile the first-level balance of payments service categories hinders the ability to link balance of payments and national accounts data at national level.** Importantly, this also limits the possibility of conducting cross-country, integrated analyses of the macroeconomic accounts at the adequate level of detail (e.g., the Organisation for Economic Co-operation and Development (OECD’s) Trade in Value Added database).

5. **The *BPM6* services classification is and should remain a (mainly) product-based classification aimed at categorizing international transactions according to analytically sound product groups that are comparable across different domains.** However, trade in services transactions have become increasingly complex. The growing fragmentation of production processes (into regional/global value chains) and the rise of digitalization not only pose significant challenges in the recording of the transactions but also require additional information that is not typically available within the standard balance of payments framework.

6. **Firstly, the demand for more detailed statistical information on global value chains (GVCs) remains high, including not only “what” is traded but also “who” is driving the international fragmentation of production processes.** Given the key role of multinational enterprises (MNEs) in these processes, the IMF Committee on Balance of Payments Statistics endorsed the recommendations of the final report of the OECD/IMF working group on Balance of Payments Statistics Relevant for GVCs (BOPCOM paper 19/04). Such recommendations include the compilation of the full EBOPS breakdown as well as a further disaggregation of transactions in goods and services according to the characteristics of the trading firm (in terms of ownership status and size), also brought forward by GN C.2 (Goods, Services, and Investment Income Accounts by Enterprise Characteristics).

7. **Secondly, the digitalization of economic transactions draws attention to yet another dimension, the “how” or the “nature” of such transactions.** In this context, the OECD-WTO-IMF Handbook on Measuring Digital Trade proposes a separate accounting framework, allowing for the identification of digitally ordered and/or digitally delivered services transactions. While such framework is orthogonal to the *BPM6* classification (and therefore compatible with any revisions to it), it is important to consider that **digitalization may give rise to “new” services** that, if identified in the revision of the CPC, should also be considered in the revision of the balance of payments classification (e.g., intermediation services provided by digital platforms, tele-education, tele-health, cloud computing, etc.).

8. **Finally, other cross-cutting issues such as well-being, sustainability or climate change, while not directly linked to the balance of payments framework, could have an impact on**

**international trade in services or require international trade in services statistics.** The BPM revision process should therefore provide a consistent classification of services that also serves these purposes.

#### ISSUES FOR DISCUSSION

#### **Main (First Level) Breakdown of Services in balance of payments**

9. **This GN investigates whether a few, moderate changes in the services classification** could enhance the analytical use of the information and improve the correspondence between the balance of payments service categories and the CPC classification, while limiting any additional reporting burden and breaks in time series.

10. **We acknowledge (and support) the proposal of GN C.1 (Recording of Transactor-Based Components of Services) on the supplementary breakdown for Travel and Construction,** namely: (i) the separate identification of *personal, cultural and recreational services* in addition to *health services* and *education services* in the presentation of travel by product and (ii) the additional (supplementary) breakdown of *construction abroad* and *construction in the reporting economy* to separately identify *constructions (goods)* and *construction services* (as defined under CPC divisions 53 and 54, respectively). The services classification recommended for the update of the Balance of Payments Manual should reflect the decisions taken on GN C.1, which will be discussed in October 2021.

11. **As shown in Table 1, we propose a split of the *BPM6* category *Telecommunication, computer and information services* into two standard, first-level categories, to allow a “mandatory” separate identification of telecommunication and computer/information services, which are fundamentally different services.** This in practice means a return to the *BPM5* grouping, which in principle should limit compilation burden and breaks in series. “Modern” information services such as databases and search engines are conceptually close to computer services. Nevertheless, the separate identification of information services should be encouraged (information services are estimated to be less than 1 percent of total world trade in services by WTO). The consultation within the Current Accounts Task Team (CATT) revealed good support for the split, although three members raised the issue of confidentiality and suggested to maintain the *BPM6* framework and instead make the second-level items as standard.

**Table 1. Current vs. Proposed Breakdown of Telecommunications, Computer, and Information Services**

<b><i>BPM6</i></b>	<b>Proposed Changes</b>
<b>1.A.b.9 Telecommunications, computer, and information services</b>	<b>1.A.b.9 Telecommunications services</b>
<i>1.A.b.9.1 Telecommunications services</i>	<b>1.A.b.10 Computer, and information services</b>
<i>1.A.b.9.2 Computer services</i>	<i>1.A.b.10.1 Computer services</i>
<i>1.A.b.9.3 Information services</i>	<i>1.A.b.10.2 Information services</i>

Note: Supplementary items are shown in italics.

12. Finally, we propose to disaggregate the *BPM6* category *other business services* into five standard, first-level items, as shown in Table 2: (i) *research and development services*; (ii) *professional and management consulting services*; (iii) *trade-related services*; (iv) *operating leasing services*; and (v) *technical and other business services*. The coverage of the first two components would be identical to those in the current *BPM6*, while the existing standard group *technical, trade-related and other business services* would be split into three subgroups. The proposed items 1.A.b.13 and 1.A.b.14 would cover *trade-related services* and *operating leasing services*, respectively. The proposed item 1.A.b.15. Technical and other business services would cover the current EBOPS item SJ31 (Architectural, engineering, scientific and other technical services), EBOPS item SJ32 (Waste treatment and de-pollution, architectural and mining services), as well as EBOPS item SJ35 (Other business services n.i.e.), which are deemed to be closer to technical services and thus grouped in this category. This proposal gives technical services the same prominence as professional services and also leaves compilers the option of using this category as a residual when transactions cannot be classified elsewhere. The split of the large *other business services* category into a few, more specific standard items would foster a more precise classification of transactions and also be easier to grasp for data users, for whom the coverage of *other business services* is often unclear.

**Table 2. Current and Proposed Breakdown of *Other Business Services***

<b><i>BPM6</i></b>	<b>Proposed Changes</b>
<b>1.A.b.10 Other business services</b>	<b>1.A.b.11 Research and development services</b>
<b><i>1.A.b.10.1</i></b> Research and development services	<b>1.A.b.12 Professional and management consulting services</b>
<b><i>1.A.b.10.2</i></b> Professional and management consulting services	<b>1.A.b.13 Trade-related services</b>
<b><i>1.A.b.10.3</i></b> Technical, trade-related and other business services	<b>1.A.b.14 Operating leasing services</b>
	<b>1.A.b.15 Technical and other business services</b>

*Note: Supplementary items are shown in italics.*

13. **This GN acknowledges that increasing the level of detail required in the first-level breakdown, as shown in Tables 1 and 2, may raise confidentiality issues, which in turn may result in the suppression of some relevant data points.** This could mean that, for some smaller economies with few reporting entities, less information would be available following the proposed breakdown. However, based on the feedback received from the majority of the CATT members, it is likely that the amount of information available at global level will increase, greatly enhancing the analytical usefulness of the data<sup>3</sup>. It is also worth mentioning that the commonly applied confidentiality rules already affect the data availability at the current (*BPM6*) level of detail. Another possible caveat, also raised during consultations with the CATT, could be related to the necessary adjustments in the IT systems due to these changes.

<sup>3</sup> The consultation with the GZTT and DZTT also provided broad support for the proposed changes.

### ***Information Needs Related to GVCs***

14. **This GN endorses the recommendations of GN C.2 (Goods, Services, and Investment Income Accounts by Enterprise Characteristics) regarding the disaggregation of transactions according to the characteristics of the trading firms.** As the information needs in this case relate to the actors in the transactions rather than specific products or services, this note does not advocate for additional changes in the balance of payments services classification. However, this GN also acknowledges that some other aspects of the globalization of production processes will be addressed in GN C.4, in particular those related to merchanting and to transactions associated to factoryless producers.

### ***Digitalization of International Transactions***

15. **Similarly, this GN supports the adoption of a separate accounting framework (built on top of the balance of payments) to separately identify digital trade** (see OECD-WTO-IMF Handbook for Measuring Digital Trade). In fact, this GN stresses that the balance of payments services breakdown is and should remain mainly a product-based classification (except for the transactor-based items) aimed at categorizing international transactions by product (“what” is traded) as opposed to “how” the products are traded. However, if new services (as opposed to new way of supplying existing services) are identified in the course of the CPC revision, then the balance of payments classification should reflect them where relevant.

16. **In addition, further research is needed for the treatment of intermediation services.** Intermediation services have gained importance in the last years thanks to (but not exclusively) the emergence of digital intermediaries which facilitate transactions in goods and services in exchange for a fee (Digital Intermediation Platforms or DIPs). While most intermediation services (notably in travel and transport) are covered in the balance of payments in the same product they intermediate (with the exception of *trade-related services*), these services are not separately identified.

17. **The issue of intermediation services is also currently being debated in the context of the revision of the International Standard Industrial Classification of All Economic Activities (ISIC)** and therefore no definitive changes in the balance of payments services classification can be proposed before the ISIC revision is concluded. Moreover, the treatment of digital intermediaries will be clarified in the future revisions of the OECD-WTO-IMF Handbook on Measuring Digital Trade. However, in the balance of payments context, a separate identification of the transactions attributable to intermediaries could for instance be envisaged on a supplementary basis (in the form of “of which” items, similar to *transactions payable by border, seasonal and other short-term workers* that do not identify a different product but a different actor in the transaction).

18. **If a separate identification of intermediation services is envisaged, further research will be needed to establish whether those supplementary items should be placed in the sector that is intermediated or, as described in Option I below, whether a breakdown of *trade-related services* into different sub-categories (i.e., the intermediated products) would be preferable (See Annex I).**

19. **In this regard, two options were identified:**

- a. Option I: introduce a breakdown of *trade-related services* to account for the different types of services and goods intermediated.

b. Option II: introduce supplementary items in the update of the Manual of International Trade in Services (MSITS) and in the new EBOPS revision (not in the balance of payments services classification).

20. **Option II,<sup>4</sup> which would be implemented at a later stage, would benefit from further guidance coming from the revision of the SNA and ISIC** and would also incorporate the outcomes of GN C.4 (Merchanting and factoryless producers; Merchanting of services), in particular on the related issue of merchanting of services.

21. **Similarly, the introduction of “digital” services such as tele-health or tele-education, currently not separately identified within the relevant service category, could be envisaged for the update of the MSITS and incorporated in the new EBOPS.** The explicit identification of these digital services within the relevant category would be particularly useful for analysis and policy-making.<sup>5</sup>

## SECTION II: OUTCOMES

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22. **Regarding the main breakdown of services in balance of payments, this GN proposes the introduction of moderate changes to the current BPM6 classification.** Such changes aim at expanding the detail of the information provided by countries as a “default” (i.e., the first-level of balance of payments breakdown) and also at improving the correspondence between balance of payments and CPC. The proposed changes are described in paragraphs 11 to 13 and presented in detail in **Annex I** as well as in the accompanying Excel file.

23. For the breakdown of **Telecommunications, computer, and information services**, CATT members mostly agree that those are independent services and supported the split. However, some countries expressed confidentiality concerns as well as possible breaks in time series.

24. For the breakdown of **Other business services**, again most CATT members agree with the proposal and find it feasible. They stressed in particular the importance of separating research and development services and the opportunity to provide more granular information on services for national accountants. However, confidentiality concerns were also raised for this category.

25. On the suggested treatment of **operating leasing services**, CATT members emphasized it should align with the results of GN C.5.

26. **Regarding the information needs related to globalization and digitalization, this GN does not advocate for additional changes in the services classification.** Consultations with the CATT, Globalization Task Team (GZTT), and Digitalization Task Team (DZTT) members emphasized that, if new services arise, they should be reflected in the CPC revision first, and then included in the trade in services classification.

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<sup>4</sup> This option was also preferred by the overwhelming majority of the CATT members who provided feedback on the first draft of the GN. Consultations with the GZTT and DZTT also showed a clear preference for this option.

<sup>5</sup> Guidance on this particular topic will follow the outcomes of the work undertaken by the Digitalization Task Team and the update of the Handbook on Digital Trade.

27. **In what concerns intermediation services and intermediation fees in particular, the GN identifies two possible options for consideration.** The authors have a preference for Option II, which implies that no changes are introduced in the BPM and that supplementary items would be considered in the *EBOPS* revision. The consultation within the CATT, DZTT and GZTT showed that the overwhelming majority of members also prefer Option II. Members stressed that further analysis and guidance stemming from the revision of both ISIC and CPC, as well as the outcomes of GN C.4, will lay the basis for a consistent treatment of intermediation services across different domains.

**Questions for discussion:**

1. *Do you agree with the recommendation to change the main balance of payments services breakdown as follows?*
  - a. Split the *telecommunication, computer and information services* category into two standard, first-level categories, to allow a “mandatory” separate identification of telecommunication and computer services.
  - b. Split the *other business services* category into five standard, first-level categories: (i) *research and development services*; (ii) *professional and management consulting services*; (iii) *trade-related services*; (iv) *operating leasing services*; and (v) *technical and other business services*.
2. *Do you agree that the information needs related to digitalization require a separate statistical treatment or framework?*
  - a. *If so, could the rise of “new” digital services nevertheless have an impact on the balance of payments services classification? How should they be treated?*
3. *What is your position regarding intermediation services? Which option do you prefer?*
4. *Do you have any views on other service categories not directly discussed in this GN that should be added to the proposed classification?*



## Annex I. Supplementary Information

### PROPOSED BALANCE OF PAYMENTS SERVICES BREAKDOWN

LEVEL	Code	SDMX EBOPS 2010	Description	Type_current	Type_proposed
0	0	S	<b>SERVICES</b>	std	std
1	1	SA	<b>Manufacturing services on physical inputs owned by others</b>	std	std
2	1.1	SAy	Goods for processing in reporting economy - Goods returned, Goods received	suppl	suppl
2	1.2	SAz	Goods for processing abroad - Goods sent, Goods returned	suppl	suppl
1	2	SB	<b>Maintenance and repair services n.i.e.</b>	std	std
1	3	SC	<b>Transport</b>	std	std
x			<b>Alternative 1: Mode of transport</b>		
2	3.1	SC1	Sea transport	std	std
3	3.1.1	SC11	Sea transport; Passenger	std	std
4	3.1.1.a	SC11z	Sea transport; Passenger; Of which: Payable by border, seasonal, and other short-term workers	suppl	suppl
3	3.1.2	SC12	Sea transport; Freight	std	std
3	3.1.3	SC13	Sea transport; Other than passenger and freight	std	std
2	3.2	SC2	Air transport	std	std
3	3.2.1	SC21	Air transport; Passenger	std	std
4	3.2.1.a	SC21z	Air transport; Passenger; Of which: Payable by border, seasonal, and other short-term workers	suppl	suppl
3	3.2.2	SC22	Air transport; Freight	std	std
3	3.3.3	SC23	Air transport; Other than passenger and freight	std	std
3	3.3.1	SC31	Other modes of transport; Passenger	std	std
4	3.3.1.a	SC31Z	Other modes of transport; Passenger; Of which: Payable by border, seasonal, and other short-term workers	suppl	suppl
3	3.3.2	SC32	Other modes of transport; Freight	std	std
3	3.3.3	SC33	Other modes of transport; Other than passenger and freight	std	std
2	3.4	SC4	Postal and courier services	std	std
x			<b>Alternative 2: What is carried</b>		
2	3a.1	SCA	All modes of transport; Passenger	std	std
3	3a.1.1	SCAz	All modes of transport; Passenger; Of which: Payable by border, seasonal, and other short-term workers	suppl	suppl
2	3a.2	SCB	All modes of transport; Freight	std	std
2	3a.3	SCC	All modes of transport; Other than passenger and freight	std	std
1	4	SD	<b>Travel</b>	std	std
2	4.1	SDA	Travel; Business	std	std
3	4.1.1	SDA1	Travel; Business; Acquisition of goods and services by border, seasonal, and other short-term workers	suppl	suppl
3	4.1.2	SDA2	Travel; Business; Other than travel, Other than acquisition of goods and services by border, seasonal, and other short-term workers	suppl	suppl
2	4.2	SDB	Travel; Personal	std	std
3	4.2.1	SDB1	Travel; Personal; Health-related	suppl	suppl
3	4.2.2	SDB2	Travel; Personal; Education-related	suppl	suppl
3	4.2.3	SDB3	Travel; Personal; Other than health-related and education-related	suppl	suppl
2	4a.1	SD1	Travel; Goods	suppl	suppl
2	4a.2	SD2	Travel; Local transport services	suppl	suppl
2	4a.3	SD3	Travel; Accommodation services	suppl	suppl
2	4a.4	SD4	Travel; Food-serving services	suppl	suppl
2	4a.5	SD5	Travel; Other services	suppl	suppl
3	4a.5.1	SD5y	Travel; Other services; Of which: Health services	suppl	suppl

LEVEL	Code	SDMX EBOPS 2010	Description	Type_current	Type_proposed
3	4a.5.2	SD5z	Travel; Other services; Of which: Education services	suppl	suppl
3	4a.5.3		Travel; Other services; Of which: Personal, cultural and recreational services		suppl
1	5	SE	<b>Construction</b>	std	std
2	5.1	SE1	Construction abroad	suppl	suppl
3	5.1.1		Construction abroad; of which: constructions (goods)		suppl
3	5.1.2		Construction abroad; of which: construction services		suppl
2	5.2	SE2	Construction in the reporting economy	suppl	suppl
3	5.2.1		Construction in the reporting economy; of which: constructions (goods)		suppl
3	5.2.2		Construction in the reporting economy; of which: construction services		suppl
1	6	SF	<b>Insurance and pension services</b>	std	std
2	6.1	SF1	Direct insurance	suppl	suppl
2	6.2	SF2	Reinsurance	suppl	suppl
2	6.3	SF3	Auxiliary insurance services	suppl	suppl
2	6.4	SF4	Pension and standardized guarantee services	suppl	suppl
1	7	SG	<b>Financial services</b>	std	std
2	7.1	SG1	Financial services explicitly charged and other financial services	suppl	suppl
2	7.2	SG2	Financial intermediation services indirectly measured (FISIM)	suppl	suppl
1	8	SH	<b>Charges for the use of intellectual property n.i.e</b>	std	std
1	9	SI1	<b>Telecommunication services</b>	suppl	std
1	10	SI2+SI3	<b>Computer and information services</b>	suppl*	std
2	10.1	SI2	Computer services	suppl	suppl
2	10.2	SI3	Information services	suppl	suppl
1	11	SJ1	<b>Research and development services</b>	std	std
1	12	SJ2	<b>Professional and management consulting services</b>	std	std
1	13	SJ34	<b>Trade-related services</b>	EBOPS	std
3	13.a		Trade-related services; of which: transport services		suppl-OPTION I
3	13.b		Trade-related services; of which: accommodation services		suppl-OPTION I
3	13.c		Trade-related services; of which: services n.i.e.		suppl-OPTION I
3	13.d		Trade-related services; of which: sale of goods		suppl-OPTION I
1	14	SJ33	<b>Operating leasing services</b>	EBOPS	std
1	15	SJ31+SJ32+SJ35	<b>Technical and other business services</b>	suppl*	std
1	16	SK	<b>Personal, cultural and recreational services</b>	std	std
2	16.1	SK1	Audiovisual and related services	std	std
2	16.2	SK2	Personal, cultural and recreational services other than audiovisual and related services	std	std
1	17	SL	<b>Government goods and services n.i.e.</b>	std	std

## **Annex II. References**

### **REFERENCED DOCUMENTS**

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International Monetary Fund (2009), Balance of Payments and International Investment Position Manual, 6th ed. (BMP6). Washington, D.C.

United Nations (2012), Manual on Statistics of International Trade in Services 2010.

OECD, WTO, IMF (2019), Handbook on Measuring Digital Trade, Version 1.

International Monetary Fund (2019), Final Report of the Working Group on Balance of Payments Statistics Relevant for the Analysis of Global Value Chains (BOPCOM paper 19/04).

## **Annex III. List of Chapters to Update**

### **STATISTICAL MANUALS**

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IMF (2009) Balance of Payments and International Investment Position Manual. Sixth Edition

UN (2012) Manual on Statistics of International Trade in Services 2010

UN (2016) Manual on Statistics of International Trade in Services 2010 Compiler's Guide