

C.1 Recording of Transactor-Based Components of Services (Travel, Construction, and Government Goods and Services n.i.e.) in the Balance of Payments

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The classification of services in the System of National Accounts 2008 is consistent with the Central Product Classification (CPC) but differs with the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) for transactor-based services. With a view towards greater harmonization of macroeconomic statistics and recognizing the analytical usefulness of product level data for some users, this Guidance Note (GN) considers the adequacy of the existing BPM6 reporting requirements for transactor-based services. This GN recommends² to maintain the current transactor-based approach, but with some additional, supplemental details to allow for greater linkages with the national accounts. The revisions include (i) adding to the supplementary reporting under travel in the BPM to include personal, cultural, and recreational services (acquired by travelers) as a distinct item under the other services category; (ii) introducing supplementary reporting under construction for (a) constructions (the physical outputs of construction activities) and (b) construction services, in line with the CPC divisions 53 and 54; and (iii) providing clarification and methodological guidance on the compilation of government goods and services.

SECTION I: THE ISSUE

BACKGROUND

1. **The classification of services in the System of National Accounts 2008 (2008 SNA) is consistent with the Central Product Classification (CPC) but differs with the Balance of Payments and International Investment Position Manual, sixth edition (BPM6) for some items in the services account.** The respective items³ are classified on a transactor basis (relating to the provider/acquirer rather than the product itself) and include travel, construction, and government goods and services not included elsewhere (n.i.e.). Unlike other services components, travel, construction, and government goods and services n.i.e. encompass several product categories bundled together.

2. **A disaggregation of travel by product for supplementary reporting in the balance of payments table and in the Extended Balance of Payments Services Classification (EBOPS) was devised, but it falls short of establishing a one-to-one correspondence with comparable items reported using CPC in the SNA for these three services.** The implication is that linking transactor-based services to the corresponding activity in the national accounts (using the International Standard Industrial Classification of All Economic Activities (ISIC)) is quite difficult in the absence of very

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² The recommendations have been revised in light of the discussion at the IMF Committee on Balance of Payments Statistics October 2020 meeting. See the *Summary of Discussions*, which can be accessed [here](#).

³ Research conducted by the Economic Commission for Latin America and the Caribbean (Guía práctica de armonización Balanza de Pagos-Cuentas Nacionales. CEPAL – Draft) showed that one of the causes of lack of harmonization between the balance of payments and national accounts was the difference in the approaches (transactor approach for the balance of payments and product approach for the national accounts) in the case of travel, construction, and government goods and services n.i.e.

detailed data. The main question this note deals with is whether the current supplementary reporting provided for in *BPM6* and EBOPS should be maintained in its current form or be extended to address additional analytical needs for more disaggregated product level data and to improve harmonization between the SNA and BPM for the three services categories.

3. **This note takes into consideration comments received from the public consultation and recommendations of the Balance of Payments Committee meeting of October 2020 to an earlier version circulated for comments.** As a result of the feedback received, this version focuses on product breakdown for transactor-based services through supplementary reporting and not in a standard classification of product breakdown as in the previous version.

CURRENT INTERNATIONAL STANDARDS AND SHORTCOMINGS

4. ***BPM6* paragraph 10.88 states that unlike other service categories, travel is not a specific type of service, but a transactor-based component that covers an assortment of goods and services.** Goods and services provided to visitors while on their trips abroad that would otherwise be classified under other items such as postal services, telecommunications, local transport, hire of equipment, or gambling are included under travel. For this reason, travel is not identified as a service in the CPC. To address this shortcoming, paragraph 10.95 notes that a separate supplementary breakdown of travel ***may be*** provided according to product group, to cover (a) goods, (b) local transport services, (c) accommodation services, (d) food-serving services, and (e) other services, to allow for closer links with tourism satellite accounts as well as supply and use tables.

5. **For construction services, *BPM6* paragraph 10.107 states that construction is valued on a gross basis—that is, inclusive of all goods and services provided by the construction contractor as inputs to the work, and inclusive of other costs of production and the operating surplus that accrues to the construction contractor.** Unlike in the case of travel, there is no recommendation for supplementary reporting to provide product level details. The implication is that some products reported as part of construction in the balance of payments, which could be otherwise classified as other products, cannot be identified.

6. **Similarly, paragraph 10.173 states that the service category government goods and services n.i.e. covers (a) goods and services supplied by and to enclaves, such as embassies, military bases, and international organizations; (b) goods and services acquired from the host economy by diplomats, consular staff, and military personnel located abroad and their dependents; and (c) services supplied by and to governments and not included in other categories of services (i.e., “other services supplied by and to governments”).** Paragraphs 10.177 and 10.178 state that all goods and services relevant to the first two components should be included in the government goods and services n.i.e. category, and there is no proposal to change this guidance as it reflects the limits of data sources and estimation models often used to compile these statistics. However, paragraph 10.179 states that the ‘other services supplied by and to governments’ should be classified to specific services (business services, health, etc.), ***if possible***. While this attempts to address the problem of including products that should be classified under different services in government goods and services, it still raises the issue of the accuracy of recording by different compilers given the level of subjectivity compilers may exercise in implementing this recommendation and the difficulty of getting details on expenditures of governments.

7. **Overall, given the analytical need for product level data, such as for the analysis of globalization and climate change, which rely on integrated macroeconomic statistics, and trade policy that may require product level differentiation,** it is important to consider during this round of the update of the manuals how to meet this need. Further, any effort made during this round of updates to the manuals to ensure harmonization will support data consistency across the different macroeconomic accounts.

8. **The key issue, therefore, that this note attempts to address is how to meet this dual objective of harmonizing classification with other macroeconomic accounts while meeting users' analytical needs for product level data on cross border trade.** Some related work has been done in Guidance Note (GN) C.4 "Merchandising and Factoryless Producers; Clarifying Negative Exports in Merchandising; Merchandising of Services" and GN C.7 "Treatment of Travel Packages, Health-Related Travel, and Taxes and Fees on Passenger Tickets". However, the two GNs focus on a narrower scope of the issue. GN C.4 recommends recording of a fee received by the companies involved in the intermediation of services, and GN C.7 recommends unbundling of international transportation, tour operator services, etc., from package tours to ensure only resident/non-resident transactions are captured while maintaining "travel" as a separate component of services. This GN examines all transactor-based services and the existing supplementary reporting in *BPM6* and EBOPS for potential enhancements to the current reporting that would enable sufficient product level differentiation for transactor-based services in the balance of payments.

ISSUES FOR DISCUSSION

9. ***BPM6* and EBOPs provide for a supplementary breakdown of travel by product group, for both business and personal travel to cover:**

- (i) *Goods*
 - (ii) *Local Transport Services*
 - (iii) *Accommodation Services*
 - (iv) *Food-Serving Services*
 - (v) *Other Services*
- Of which:*
- a. *Health Services*
 - b. *Education Services*

As mentioned above, this provides good detail for product classification for travel. However, it may be useful to go a further step to identify additional products that are undisclosed in the residual item of other services after excluding education and health. While there may be several products of interest reported in the *other services* category, it may not be feasible for compilers to provide details on each item without exerting undue burden. However, identifying significant items is useful and one product category that stands out due to its prominence among expenditures of travelers is personal, cultural, and recreational services (audio visual and related services; arts and entertainment; library, archives, museum, and other cultural activities; and sporting and other recreational activities) that are acquired by travelers. A second issue is that only 10 countries provide supplementary tables on travel as of now. This highlights the general absence of product level data on travel and thus the need to encourage more countries to report this information and to provide guidelines and best practices to help countries.

10. **There is no requirement for supplementary reporting of products included in construction in *BPM6* and *EBOPS*.** However, as already mentioned above, construction may be provided together with other products including assorted business services. In consideration of the difficulty of identifying construction services in many countries and the fact that many construction projects take more than one year, it may not be worthwhile to seek very detailed product level reporting for construction. However, some alignment to the *SNA* product level reporting at division level may warrant reporting of supplementary items for CPC division 53 called constructions (covering the physical outputs of construction activities, and in this case, those provided in less than a year) and CPC divisions 54 called construction services, which covers the services provided in constructing the physical output.⁴

11. ***BPM6* explicitly recommends that compilers classify all “other services supplied by and to governments” other than those related to government functions to their respective service categories, if possible.** This recommendation implies that other services supplied by or to government are included in government goods and services only when detailed information cannot be obtained to classify them to the respective service categories.⁵ Subsequently, attempts to provide supplementary information would either not apply because such products would be correctly reported in the respective services, or the information needed would be unavailable. This notwithstanding, some guidance may be needed in the forthcoming BPM on compilation of government goods and services n.i.e. to harmonize with the *SNA*. In particular, clarification on the need to include as far as possible only items corresponding to CPC division 91 (public administration and other services provided to the community as a whole; compulsory social security services) and CPC division 99 (Services provided by extraterritorial organizations and bodies) within this category may be required when compiling services covered by “other services supplied by and to governments”.

SECTION II: OUTCOMES

RECOMMENDATIONS

12. **This GN recommends keeping the current status quo of transactor-based recording for travel, construction, and government goods and services n.i.e. with supplementary reporting of selected products for travel and construction.** This has the advantage of avoiding additional burden on both reporters and compilers. However, it would not address the analytical as well as statistical harmonization issues highlighted in this GN. For this reason and considering the reporting burden, we propose updating the supplementary reporting requirements in *BPM6* and *EBOPs* for travel and construction with a few additional items.

⁴ A given unit produces just one of the two forms of output in a given production process (in division 53 if on own account, in division 54 if provided as a service).

⁵ As discussed above, this recommendation does not apply to goods and services supplied by and to government enclaves and international organizations nor to goods and services acquired by staff employed in enclaves.

13. Specifically, this GN recommends the following changes:

- **Travel:** Adjusting supplementary reporting under travel in the BPM to include *personal, cultural and recreation services (acquired by travelers)* as a distinct item under the *other services* category. The proposed supplementary reporting for both personal and official travel by product would be as follows:
 - (ii) *Goods*
 - (iii) *Local Transport Services*
 - (iv) *Accommodation Services*
 - (v) *Food-Serving Services*
 - (vi) *Other Services*
 - Of which:
 - a. *Health Services*
 - b. *Education Services*
 - c. *Personal, Cultural, and Recreational Services*
- **Construction:**
 - Introducing supplementary reporting in BPM under construction for (a) constructions and (b) construction services, along the lines of the [CPC divisions 53 and 54](#), respectively.
 - Providing methodological guidance to compilers on the collection and compilation of the respective supplementary items to be reported.
- **Government Goods and Services n.i.e.:** Providing additional methodological and compilation guidance on the compilation of government goods and services n.i.e. in respect of the specific products to be included, along the lines of the CPC divisions 91 and 99 for consistency between cross border transactions and the SNA so that countries can adapt their collection instruments to the standards.

OUTCOME OF THE DISCUSSIONS AT THE OCTOBER 2020 IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS MEETING

14. The IMF Committee on Balance of Payments Statistics agreed that the topic needed a more holistic approach considering new forms of digital services and broadening the perspective of the proposed changes to focus on the classification of trade in services to provide the most analytically valuable data over the life of the manual and considering users'/policy makers' needs in the discussion. Therefore, they asked that the recommendations in this GN be revised to reflect the outcomes of GN C.4, GN C.6, and GN C.7, which has been done.

15. The Committee also agreed on the need to maintain the transactor-based approach, and expressed specific concerns regarding the travel category, for which the move to a product-based approach would lead to a significant loss of information on the tourism industry and may be impractical given how these data are collected. A need for further clarifications for government goods and services n.i.e. was highlighted to provide a detailed list of 'other services supplied by and to governments' transactions to be included under this category that would allow for a bridge between BPM and SNA/Central Product Classification, while keeping the transactor-based classification of these services. For construction, a proposed change in the treatment of construction input goods as being owned by the construction services buyer was dropped as all Committee members considered it to deviate from the main balance of payments concept of change of ownership. The GN has been revised to reflect the discussions and recommendations.