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Towards a Sixth Edition of the *Balance of Payments Manual*

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TOWARDS A SIXTH EDITION OF THE *BALANCE OF PAYMENTS MANUAL*

Introduction

At its meeting in 1999, the Committee asked that Fund staff provide, for its 2000 meeting, a paper identifying areas of the fifth edition of the *Balance of Payments Manual (BPM5)* that require updating. This paper lists a number of areas where the balance of payments framework might be reviewed and extended or clarified.

Background

For a number of reasons, including the changes that have taken place in the international economy since the publication of *BPM5*, the developments that are taking place in international trade negotiations, particularly in the services area, and the increased focus on both transaction and position statistics during and since the financial crises of 1994, 1997, and 1998, it is now apparent that *BPM5* could be updated in a number of areas.

The development of *BPM5* took place in conjunction with the development of the *System of National Accounts 1993 (1993 SNA)* and the frameworks are now very closely aligned. However, there are a number of areas where the statistical treatments recommended in the two frameworks might be reexamined. Further, given the linkages between the balance of payments and national accounts systems, it may be appropriate that a more detailed discussion of these linkages should be included in a future version of the Balance of Payments Manual (*BPM*).

The Fund has recently published its *Monetary and Financial Statistics Manual*, which has close links to *BPM5*. The links with this new manual could be explored for a future version of the *BPM*.

The financial crises of 1994, 1997, and 1998 have focused analysis more on the financial account of the balance of payments statement and on the financial positions shown in the international investment position (IIP) statement, in particular on external debt and reserves. Concerns about issues of leverage have resulted in more focus on complex transactions such as repurchase agreements (repos) and financial derivatives.

Country compilers have been using *BPM5*, along with its companion volumes, the *Balance of Payments Compilation Guide (Guide)* and the *Balance of Payments Textbook (Textbook)* for some years now. Their use has led to the identification of a number of areas where further discussion is needed in these documents, for clarification and to expand upon topics that were not covered in these publications. Some small inconsistencies among these three publications could also be addressed.

What might be done?

Updates to *BPM5* may be considered under three headings.

I. THEORETICAL FRAMEWORK

1. Given the linkages between the national accounts and balance of payments frameworks, and also the links with the updated standards of the new *Monetary and Financial Statistics Manual*, there could be a more complete discussion of the integration of these frameworks in a future version of the *BPM*.
2. The treatment of financial derivatives has now been clarified, and revisions to both *BPM5* and *1993 SNA* have been agreed and promulgated¹. These would be incorporated, if practicable, in the text of any reprinting of *BPM5*.
3. The treatment of financial intermediation services indirectly measured (FISIM) in the balance of payments, including in areas such as financial derivatives, might be reconsidered. A number of countries are moving towards the estimation of FISIM as part of the financial services component of the balance of payments classification.
4. The treatment of dividends might be reconsidered as a disbursement of capital in the financial account.
5. The treatment of trusts and holding companies might be addressed, in terms of identification (for trusts), and classification and residency (for both).

II. NEW AND EMERGING ISSUES

1. The relationship of external debt statistics to the IIP framework is an issue that might be considered in the light of the work that is now being carried out in developing the *External Debt Statistics: Guide for Compilers and Users* by the Inter-Agency Task Force on Finance Statistics. This development work raises other issues, such as the primacy of the sectoral classification ahead of the functional classification that has primacy in *BPM5*. Further, the distinction between debt denominated in foreign currencies and debt denominated in the domestic currency, and the need for information on foreign currency based derivative instruments have been highlighted in this work. Also, there is consideration given to the need for data on remaining maturity of debt as well as original maturity.

¹ In the case of balance of payments statistics, in the publication *Financial Derivatives: A Supplement to the Fifth Edition (1993) of the Balance of Payments Manual*.

2. The Fund's *Monetary and Financial Statistics Manual* more closely aligns its sectoral classification with that of the *1993 SNA*, and downgrades the importance of the monetary authorities sector. The sectoral classification of *BPM5* might usefully be reviewed to consider this change.
3. Already under discussion are the treatment of repurchase transactions, securities lending, gold swaps, and gold loans. Related to these is the need to clarify the classification of fees associated with gold swaps and securities lending.
4. Also currently under discussion is the issue of the appropriate treatment and valuation of accrued interest in both the balance of payments and the national accounts frameworks.
5. Loans may be onsold by the initial creditor for a discount. Discussion and guidance on the most appropriate way to value the onsold loans could be addressed.
6. The negotiation of the General Agreement on Trade in Services (GATS) has led to a greater focus on trade in services statistics. One of the outcomes of the work on developing the *Manual on Statistics of International Trade in Services (Services Manual)* has been the clarification of the definitions of services in *BPM5*. Further, an updated Annex 3 of *BPM5* (which shows a partial correspondence between the *BPM5* services classification and the provisional Central Product Classification (CPC)) will be produced as a result of this work, and would be integrated into a future *BPM*. An issue for consideration is whether or not the *BPM5* services classification continues to be appropriate. In particular, it would be useful to consider how much of the extended balance of payments classification of services that is recommended in the *Services Manual* might be incorporated into a future version the *BPM*. In the course of the work in this area in the past few years, there have been discussions about whether the *BPM5* classification of services might be even more closely aligned with a future version of the CPC, and that the transactor-based parts of the classification (in particular *travel* and *government services n.i.e.*) might become memorandum items to the *BPM* classification.
7. In some situations, enterprises reward employees through the granting of stock options, as well as or instead of other, more traditional, means. The issues of valuation related to this form of payment should be discussed.
8. With the emergence of e-commerce, it has become apparent that a discussion on pricing levels and distribution margins is needed in the balance of payments manual.

III. CLARIFICATIONS OF *BPM5*

Country compilers have been using *BPM5* and its companion volumes, the *Guide* and the *Textbook*, for some years now. Periodically, the Fund receives requests for clarifications from compilers, and questions arise at the training courses that are conducted by the Fund,

and at other seminars and meeting where Fund staff participate. Issues also arise as a result of work carried out by Fund staff.

1. The financial crises of the 1990s revealed a number of deficiencies in the data available related to countries' holdings of reserve assets. In response, the Fund and the G-10 central banks have developed a data template on international reserves and official sector foreign currency liquidity for use by countries in their reporting of both on- and off-balance sheet data. The Fund has developed operational guidelines on the compilation of the template data. While the reserves template moves beyond the framework of *BPM5*, the operational guidelines provide clarifications of the guidelines included in *BPM5* for distinguishing reserve assets from other assets. Incorporation of these clarifications in a future *BPM* would address difficulties experienced by compilers in interpreting *BPM5*.
2. In the area of direct investment, a number of issues were brought before the Committee for clarification in 1999. These were related to transactions with affiliated financial intermediaries, payments associated with the acquisition of a right to undertake direct investment, and the shutdown of foreign direct investment enterprises that were set up to undertake exploration of natural resources. In addition, there appear to be some inconsistencies between *BPM5*, the *Textbook*, and the *Guide* with respect to direct investment. Examples include (1) the recommendations related to transactions with financial intermediaries, where the *Textbook* appears to contradict *BPM5*, while the *Guide* supports it, and (2) the recommended treatment for investment in real estate in the *Textbook* and *Guide* is not in accordance with *BPM5*.
3. The treatment of shuttle trade; barter trade; nonproduced, nonfinancial assets (both the assets and their associated payments), such as mobile telephone licenses, patents and other intellectual capital, franchises, and the acquisition of rights to fish in territorial waters; capital subscriptions to international and regional organizations; and the treatment of concessional loans (should the grant element of a concessional loan be recorded as a transfer?) are issues that have been raised as areas that need to be more directly addressed in a future version of the *BPM*.

Further considerations

While some countries have introduced the *BPM5* framework for their statistics and have been compiling on this basis for some years, other countries are still developing statistics in line with the *BPM5* framework. For this reason, it is important that changes and clarifications be kept consonant with *BPM5* to the greatest extent possible. However, it is also important to acknowledge that there is and will continue to be a need for ongoing clarification and improvement to the framework for balance of payments statistics. Thus, any medium-term actions would probably be of clarification and extension, not of radical change. Consultation with compilers, through the Committee and directly with individual countries, and with users, should be important considerations in any future work in this area.

Further, much of the work on emerging issues would need to be carried out together with the Inter Secretariat Working Group on National Accounts (ISWGNA), to ensure that the consonance between the balance of payments and national accounts is maintained.

Questions for the Committee

1. Are the issues identified above appropriate?
2. What other issues does the Committee suggest be added to the list given in this paper?