

**Seventeenth Meeting of the
IMF Committee on Balance of Payments Statistics
Pretoria, October 26–29, 2004**

Classification of Services

**Prepared by the Statistics Department
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BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTTEG)

OUTCOME PAPER (BOPTTEG) # 17

JUNE 2004

(1) Topic: **Classification of Services**

(2) Issues – see BOPTTEG Issues Paper #17

(3) Recommendations:

(i) On repairs on goods, there was agreement that it would be better classified as a service, although there were suggestions that there should be a presumption against reversing changes made for *BPM5* from *BPM4*. It was also noted that any change should be made consistent with any decision on whether goods for processing should be reclassified as a service.

(ii) The additional detail proposed as supplementary items for travel were supported.

(iii) There was agreement that computing and information services should be combined with communication in the standard components of the new manual. The proposed additional detail of information technology services may be considered as supplementary items, and it should be recognized that rapid technological changes could quickly make such splits redundant. Some members argued that the detail under computing and information services is not attainable even as a supplementary item because of difficulties in distinguishing between the various types of activities.

(iv) The split of construction was agreed.

(v) There was agreement that the treatment of financial services should be brought in line with developments in the OECD and AEG work to the extent feasible.

(vi) These recommendations will be referred to the Task Force on Statistics of International Trade in Services for coordination.

(4) Rejected Alternatives:

(i) It was considered that international passenger transport should not be moved from transport to travel.

(ii) It was concluded that “services between related enterprises n.i.e.” should be avoided and specific items used instead, because it could become a dump item, and because the large, lumpy nature of some results suggested that it may effectively include dividend-like payments. It was noted that this proposal was based on lengthy discussions at OECD-level on the need for such a category.

(5) Questions for the Committee:

(i) Does the Committee agree that goods for repair to be moved to services? See 3(i) above.

(ii) Does the Committee agree that the additional detail for travel be included as supplementary items? See 3(ii) above.

(iii) Does the Committee agree with the combination of communication and computing services? Does the Committee agree that the additional detail for information technology be included as supplementary items? See 3(iii) above.

(iv) Does the Committee agree that the additional split of construction be included? See 3(iv) above.

(v) Does the Committee agree with the harmonization with developments on financial services? See 3(v) above.

(vi) Does the Committee agree that international passenger transport should remain in transport? See 4(i) above.

(vii) Does the Committee support the inclusion of an item for “services between related enterprises n.i.e.” See 4(ii) above.

IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS
BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTTEG)

ISSUES PAPER (BOPTTEG) # 17

CLASSIFICATION OF SERVICES

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BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP

ISSUES PAPER (BOPTEG) # 17

CLASSIFICATION OF SERVICES

I. Current international standards for the statistical treatment of the issue

The **second** column of the following table from the *Annotated Outline (AO)* shows the existing classification.

**Table 9.3. Comparison between Classification of Services:
Proposed Classification and *BPM5* Classification**

Proposed classification	<i>BPM5</i> classification
0. Repairs on goods	(included in goods)
1. Transport	1. Transportation
<i>Of which:</i>	
<i>Passenger</i> [†]	
<i>Freight</i> [†]	
<i>Other</i> [†]	
1.1 Sea transport	1.1 Sea transport
1.1.1 Passenger	1.1.1 Passenger
1.1.2 Freight	1.1.2 Freight
1.1.3 Other	1.1.3 Other
1.2 Air transport	1.2 Air transport
1.2.1 Passenger	1.2.1 Passenger
1.2.2 Freight	1.2.2 Freight
1.2.3 Other	1.2.3 Other
1.3 Other transport	1.3 Other transport
1.3.1 Passenger	1.3.1 Passenger
1.3.2 Freight	1.3.2 Freight
1.3.3 Other	1.3.3 Other
2. Travel	2. Travel
2.1 Business	2.1 Business
Expenditure by border and seasonal workers [†]	
Other [†]	
2.2 Personal	2.2 Personal
Health-related [†]	Health-related*
Education-related [†]	Education-related*
Other [†]	Other*
3. Information technology services	3. Communications services
3.1 Communications services	

Proposed classification	BPM5 classification
3.2 Computer services 3.3 Internet provision services 3.4 Other information provision services	7. Computer and information services
4. Construction services	4. Construction services
4.1 Construction abroad	
4.2 Construction in the compiling economy	
5. Insurance services	5. Insurance services
	Gross premiums**
	Gross claims**
6. Financial services	6. Financial services
8. Franchise fees and payments for the use of proprietary rights	8. Royalties and license fees
9. Other business services	9. Other business services
9.1 Merchanting and other trade-related services	9.1 Merchanting and other trade-related services
9.2 Operational leasing services	9.2 Operational leasing services
9.3 Miscellaneous business, professional, and technical services	9.3 Miscellaneous business, professional, and technical services
Legal, accounting, management consulting, and public relations [†]	Legal, accounting, management consulting, and public relations*
Advertising, market research, and public opinion polling [†]	Advertising, market research, and public opinion polling*
Research and development [†]	Research and development*
Architectural, engineering, and other technical services [†]	Architectural, engineering, and other technical services*
Agricultural, mining, and on-site processing [†]	Agricultural, mining, and on-site processing*
Services between related enterprises n.i.e. [†]	
Other business services [†]	Other*
10. Personal, cultural, and recreational services	10. Personal, cultural, and recreational services
10.1 Audiovisual and related services	10.1 Audiovisual and related services
10.2 Other personal, cultural, and recreational services	10.2 Other personal, cultural, and recreational services
Health services [†]	
Education services [†]	
Other services [†]	
11. Government services, n.i.e.	11. Government services n.i.e.

Proposed classification	BPM5 classification
Alternative breakdown of travel services:	
Goods [†]	
Transport services [†]	
Accommodation services [†]	
Food and beverage serving services [†]	
All other expenditure [†]	

Note: [†] indicates supplementary information

Note: * indicates *supplementary information*
 ** indicates memorandum items

II. Concerns/shortcomings of the current treatment

(a) United Nations, *Manual on Statistics on International Trade in Services (MSITS)* was released in 2002 and recommends a more detailed classification of services than that of *BPM5* (e.g., a more detailed breakdown of transport services by mode; a more detailed breakdown of other business services; separate identification of services between related enterprises n.i.e.). This reflects the desire of users for more detailed statistics.

(b) The classification has a mix of transactor-based and product-based elements.

(c) The distinction between communications services and information technology services (this latter included in computer and information services in *BPM5*) is increasingly difficult to make.

(d) Purchases in the host economy by nonresident companies providing construction services are included indistinguishably in other business services.

(e) Repairs are often considered to be services, but are classified as goods in *BPM5*.

(f) The delineation of “travel” may be questioned as to concept and clarity of terminology; namely, it excludes international transport; it includes goods; it includes seasonal and border workers’ expenditure; and it includes students’ and patients’ expenditure, rather than classifying these expenditure items to education or health, respectively.

(g) The terminology of “royalties and license fees” does not clearly distinguish the item from rents, nor from licenses that are assets.

(h) The coverage of financial services in *BPM5* is more restricted than that of the *1993 SNA* (*BPM5* includes “financial intermediation services indirectly measured” (FISIM) as an unidentified component of interest, rather than in financial services).

III. Possible alternative treatments

A possible alternative, proposed in the *AO* is shown in the **first** column of the table above.

The proposed classification adopts some extensions of detail (for travel, information technology, construction, other personal, cultural, and recreational services) but is still considerably less detailed than *MSITS*. *AO* paras. 9.35 and 9.58 raise the possibility of further extensions for transport and “personal, cultural and recreational services,” respectively. Some supplementary detail is proposed.

AO para. 9.35 raises the possibility of extending the identified modes of provision of transport services beyond the three-way split of *BPM5*. *AO* para. 9.36 raises the possibility that international passenger transport should be reclassified to travel.

AO para. 9.43 raises the possibility that postal and communication services should be reclassified to transport. Para. 9.44 raises clarification of the border between goods and services aspects of software. *AO* para. 9.47 proposes that construction services be split on a directional basis.

While the financial services classification is unchanged, the scope would be extended by the inclusion of financial intermediation services indirectly measured and possibly other implicitly charged financial services, as being addressed as part of the *SNA* review process.

IV. Points for discussion

- (1) *What are BOPTTEG members' views on the proposed changes to the classification of services, including:*
 - (a) *repairs on goods?*
 - (b) *transport?*
 - (c) *travel?*
 - (d) *information technology?*
 - (e) *construction?*
 - (f) *financial services?*

- (2) *Should any other changes be proposed to the services classification?*

References

BPM5 Chapter XI-XIII

Annotated Outline for the Revision of BPM5, IMF, April 2004, Chapter 9

United Nations, *Manual on Statistics of International Trade in Services*