



## Twenty-Eighth Meeting of the IMF Committee on Balance of Payments Statistics

Rio de Janeiro, Brazil  
October 27–29, 2015

BOPCOM—15/07

# A Strategy for Implementing *BPM6*—Towards a Tailored Approach



## A Strategy for Implementing *BPM6*—Towards a Tailored Approach<sup>1</sup>

*After launching the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) in 2009, the IMF's Statistics Department (STA) actively promoted its framework in IMF members' external sector statistics (ESS) through technical assistance and training, and by implementing the BPM6 in IMF databases and key publications. This paper assesses the BPM6 implementation process after six years. It examines the trends in BPM6 data reporting—by economic and geographical groupings—including length of the time series converted and subcomponents reported in the BPM6 framework. Based on the findings and lessons learned, the paper proposes a tailored approach for further advancing the implementation of BPM6 considering analytical and policy needs, structure of economies, and capacity for statistical development; and seeks the Committee's views on the merits of such an approach.<sup>2</sup>*

### I. BACKGROUND

1. After the adoption of the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* at the twenty-second meeting of the Committee on Balance of Payments Statistics (Committee) in November 2009, the *BPM6* framework was implemented by STA in two key directions:

(i) converting the *BPM5*-based data to *BPM6* presentation in the IMF publications: this included the conversion of balance of payments and international investment position (IIP) in *Balance of Payments Statistics Yearbook (BOPSY)* and *International Financial Statistics (IFS)* (completed in 2012 and included time series starting with 2005) and in the *World Economic Outlook (WEO)* (completed in 2014); and

(ii) assisting ESS-compiling agencies in IMF member countries in implementing *BPM6*.

2. In response to strong user demands for a longer time series of *BPM6*-based data, STA released pre-2005 balance of payments and IIP data on a *BPM6* basis in September 2015. For economies that could not back cast their own time series, data were generically converted by STA.

3. The IMF members' approach to implementing *BPM6* and disseminating the *BPM6*-basis data differs across regions and group of economies. Some economies fully aligned their statistics to the new framework while others followed national implementation and

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<sup>2</sup> The scope of this paper is limited to balance of payments data. BOPCOM paper 15/13 discusses the implementation of the enhancements to the international investment position.

dissemination strategies tailored to meet user preferences and/or address resource and capacity constraints.

## II. OVERVIEW OF THE *BPM6* IMPLEMENTATION PROCESS

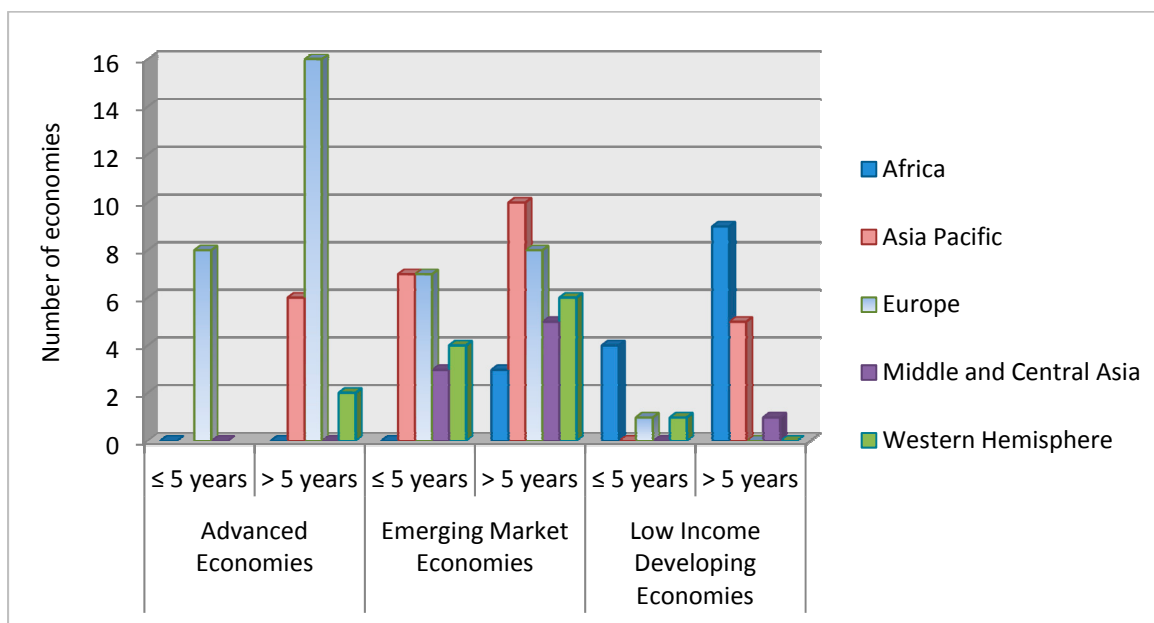
4. As of end-August 2015, 106 economies are reporting balance of payments data on *BPM6* basis to the IMF, while the remaining 96 economies are still working on its implementation. Advanced economies, as expected, have made considerable progress in moving to *BPM6* (91.4 percent out of total developed economies) while for the emerging market economies and the low income developing countries (LIDCs), the share of *BPM6* reporters has not yet attained 50 percent (49 percent and 35.6 percent, respectively).<sup>3</sup> National statistical systems are at differing development stages, having more developed statistical systems as well as generally adequate resources to implement *BPM6* standards, advanced economies are expected to progress faster.

**Table 1. Use of *BPM6*/*BPM5* Frameworks**

Area	Advanced Economies		Emerging Market Economies		Low Income Developing	
	<i>BPM6</i>	<i>BPM5</i>	<i>BPM6</i>	<i>BPM5</i>	<i>BPM6</i>	<i>BPM5</i>
Africa	-	-	3	7	13	22
Asia Pacific	6	-	17	4	5	6
Europe	24	3	15	6	1	0
Middle and Central Asia	-	-	8	16	1	7
Western Hemisphere	2	-	10	22	1	3
<b>Total</b>	<b>32</b>	<b>3</b>	<b>53</b>	<b>55</b>	<b>21</b>	<b>38</b>

5. Some economies have also worked on back casting their balance of payments series. Graph 1 below shows the period distribution of *BPM6* data series, split between less or equal to five years and more than five years, for each region disaggregated by type of economies. Most advanced economies were able to compile fairly long historical data series.

<sup>3</sup> The attribution by group of economies is according to *WEO* classification.

**Graph 1. Available Time Series for *BPM6* Reporters by Group of Economies**

Note: The information is drawn from the STA database.

6. *BPM6* has a high degree of continuity with *BPM5*. However implementing *BPM6* standards implied certain changes and additional datasets. The IMF reporting forms for *BPM6* data (F16 for balance of payments and S16 for IIP) request significantly more additional lines than reporting forms for *BPM5* (F10 and S10, respectively). Having said that, new balance of payments components, new sub-account classifications, and more detailed breakdowns recorded contribute to the informative value of the reporting.

**Table 2. *BPM6* versus *BPM5* Report Forms**

	<i>BPM5</i>		<i>BPM6</i>	
	Balance of payments	IIP	Balance of payments	IIP
<b>Standard and supplementary items</b>	674	155	847	446
<i>of which supplementary items</i>			282	104
<b>Memorandum items</b>	48		280	62

7. The significant increase in the number of balance of payments items to be reported in *BPM6* is mainly due to supplementary and memorandum items. The supplementary items were included in *BPM6* to address users' demand for more detailed breakdown and are relevant mainly for certain group of economies. The memorandum items comprise transactions mainly related to exceptional financing (EF) (the EF components were standard

in *BPM5* framework); the increase in number of such items was mainly due to the different treatment of arrears in *BPM6* compared to *BPM5*. EF items are relevant mainly for LIDCs. However, despite the significant number of memorandum items, only a limited number of transactions are generally reported under those items because the EF transactions seldom occur and affect specific types of instruments. Consequently, the data reporting burden for such items is not directly proportional to the number of line items.

**Table 3. Reported Components in *BPM6* Report Form (F16) by Group of Economies**

Group of economies	Total <i>BPM6</i> reporters <sup>4</sup>	Reported items					
		<300	Share in total	300 – 500	Share in total	>500	Share in total
Advanced economies	32	8	25	19	59	5	16
Emerging market economies	53	24	45	26	49	3	6
Low income developing economies	21	14	67	7	33	--	--
Total	106	46	43	52	49	8	8

8. An analysis of the granularity of data reported on *BPM6* basis by group of economies shows that advanced economies were more capable of expanding the data coverage to report the greater level of details requested in the *BPM6* framework. Around 70 percent of total advanced economies reporting on a *BPM6* basis compile the *BPM6* new series such as FISIM, personal transfers, reverse investment, and investment between fellow entities. The number of new series reported is considerably lower among LIDCs and emerging economies: 67 percent of LIDCs and 45 percent of emerging economies compile less than 300 items.

9. The variety of series reported by advanced economies is greater particularly in the financial account due to developed financial markets and financial instruments involved in cross border transactions. The limited number of series reported by some economies (e.g., LIDCs) in many cases is due to the narrow range of transactions and/or limited access to data sources. The implementation of *BPM6* in LIDCs did not result in a considerable diversification of reported indicators; in many cases the number of breakdowns remained at the same level as in data on *BPM5*-basis.

10. Based on the feedback STA received from reporting countries STA during its technical assistance and training activities on *BPM6*, the following items were stated as being the most challenging for implementation: direct investment – the compilation of requested breakdown for equity and debt instruments as well as information on fellow enterprises;

<sup>4</sup> Exclude Euro area and two *BPM6* IIP reporters that report balance of payments on *BPM5* basis.

manufacturing services on physical inputs owned by others (for economies where this activity is significant); remittances – in compiling the three measures recommended in *BPM6*; merchanting – in identifying data sources; FISIM; insurance – in compiling all balance of payments components related to insurance activity requested by *BPM6*; capturing data on other financial corporations; and adopting the changes in sign convention.

11. The dissemination of *BPM6*-basis data includes two elements: (i) dissemination on national level, mostly through the webpage of the institutions in charge of compiling ESS, and for Special Data Dissemination Standard (SDDS) subscribers and SDDS-Plus adherents—on the National Summary Data Pages; and (ii) data submission to STA for re-dissemination through *BOPSY* and *IFS*.

### III. COUNTRIES' EXPERIENCES OF IMPLEMENTING *BPM6*: LESSONS LEARNED

12. Moving to *BPM6* had no single and fast track. The general approach recommended by STA—and adopted by many economies—was to (i) evaluate the changes entailed by moving from *BPM5* to *BPM6*; (ii) assess the existing data collection in light of *BPM6* requirements; (iii) gauge if the present source data could be used, or would there be a need for improvements; and (iv) identify the gaps and fill them.

13. Advanced economies have moved at a relatively faster pace and revised a longer historical time series. The Australian Bureau of Statistics (ABS) was the first national statistical agency to implement *BPM6*.<sup>5</sup> In Europe, *BPM6* implementation was spearheaded by the European Central Bank and Eurostat, and was binding for the European Union member states by virtue of a regulation adopted by the European Commission. The United States, on account of the broad scope of the changes, adopted a phased approach to implementing the *BPM6* guidelines.

14. Many of the emerging economies and LIDCs implemented *BPM6* adopting the STA recommended approach. These include Russia, Thailand, Indonesia, Belarus, Armenia, Moldova, Seychelles, and others. For some economies (e.g., Bhutan) implementing *BPM6* was straightforward as the changes brought by *BPM6* had practically no impact on the ESS. Implementation for the LIDCs has been a harder toil. For instance, the West African Economic and Monetary Union (WAEMU) member countries<sup>6</sup> implemented a *BPM6*-basis redesigned annual survey forms which were launched in 2012. The survey was not successful and resulted in a suspension of the compilation of balance of payments and IIP by WAEMU countries for 2012 and 2013.

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<sup>5</sup> At a national level, Australia disseminates data on *BPM6*-basis with the *BPM5* sign convention.

<sup>6</sup> The WAEMU member countries are Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

#### IV. STRATEGY FOR TAILORED IMPLEMENTATION OF *BPM6*

15. Producing quality cross-border statistics in LIDCs remains a challenge on account of a number of constraints. The capacity is limited by, among other things, (i) inadequate resources allocated to statistical activities (lack of trained staff and appropriate IT infrastructure); (ii) lack of institutional capacity (low level of political support, lack of funds); and (iii) poor coordination among statistical institutions (bureaucracy, inadequate collaboration and information sharing).

16. From IMF's surveillance experience, it is clear that many low income countries have been struggling to provide a minimum set of data that allows basic macro surveillance, and have reported the challenges imposed by providing data at the level of detail asked for by exercises such as the *BPM6*. Given the importance of basic and reliable ESS for surveillance purposes, there is a clear need for a more streamlined, condensed, and simplified requirement for countries with low or very low capacity in terms of balance of payments data reporting.

17. In view of the diverse levels of capacity and compilation systems across economies, and also to address user concerns, STA is considering recommending a tailored approach, going forward, for the implementation of *BPM6* in its advice to countries. The key elements of the proposed approach are as follows:

- The implementation of *BPM6* should be conducted building on an economy's existing data collection and compilation systems (assuming that the system is adequate), and available staff resources. The capacity to absorb technical assistance (TA) in ESS and to take ownership of TA outputs should also be considered.
- Regardless of the level of capacity, **the first step** towards *BPM6* implementation should include a pre-assessment that would (i) evaluate the changes entailed in moving from *BPM5* to *BPM6*, (ii) assess the existing data collection in light of *BPM6* requirements, and (iii) gauge if the present data sources could be used. The decision on the level of aggregates and their details should be based on the analytical and policy needs and capacity.
- *For economies with adequate resources* (e.g., advanced and emerging economies, and some LIDCs), the **second step** should be (i) revising the existing data collection to bring it in line with *BPM6* requirements, (ii) identifying and employing new data sources that would provide data for specific balance of payments items such as FISIM, insurance, merchanting, manufacturing services on physical inputs owned by others, personal transfers, etc., (iii) updating the existing software to allow for processing new or amended reports and for producing outputs according to *BPM6* framework, and (iv) identifying the gaps and finding ways and options for filling them.



- *For economies with limited resources and capacity, the **second step** would imply first focusing on the compilation of main indicators that are most relevant for the economy. This would include compiling, with limited breakdowns, the highest aggregates such as goods, services (spotlighting the services relevant for the economy), primary income (dividends and income on debt), secondary income (government transfers and personal transfers), capital account (debt forgiveness), and the main components of financial account and IIP. The number of sub-components would be gradually expanded if additional resources are allocated to the ESS.*
- **The third step** comprises the reporting of balance of payments and IIP to STA using standardized forms F16 and S16:
  - (i) As data reports are submitted using STA's Integrated Correspondence System, all economies would submit data using the same forms.
  - (ii) Another option could be to develop simplified forms based on F16 and S16 format. The simplified report forms would follow the same coding system as in F16 and S16 to allow for their integration into the general database framework. However, simplifying or reducing the length of the current standard reporting forms has certain limitations/risks: (a) economies may stop compiling important balance of payments and IIP sub-components, limiting their compilation to the aggregated indicators; and (b) compilers may be reluctant to conduct further work to expand the coverage of ESS, on the grounds that the only requested indicators are those stipulated in the simplified report forms.

***Questions for the Committee:***

1. *Do Committee members agree that a tailored approach should be recommended for implementing the BPM6 framework in economies with limited resources and capacity?*
2. *Do members have views on main indicators to focus or how to set priorities?*
3. *Do members see merits in using simplified report forms?*