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Strategy to Compile External Sector Statistics in Countries with Low Statistical Capacity

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The 2015 Committee meeting discussed a tailored approach for compiling external sector statistics (ESS) in countries with low statistical capacity (CLSC), considering analytical and policy needs and the structure of economies. This paper informs the Committee on the proposals and actions developed by a working group of Committee members. It covers (i) a prioritization of the balance of payments and international investment position (IIP) components in the report forms that are used by the IMF Statistics Department (STA) to collect data compiled by the CLSC, (ii) a list of actions for the first phase of implementation of the strategy in CLSC, and (iii) actions for advancing the implementation of the BPM6 in non-CLSC IMF member countries. The paper seeks the Committee's views on the prioritized report forms, and on the merits of the proposed actions.

I. BACKGROUND

1. At its 2015 meeting, the IMF Committee on Balance of Payments Statistics (Committee) was updated on the *BPM6* implementation process, and the possibility of adopting a tailored approach for further advancing the implementation of *BPM6* in CLSC was also discussed (see BOPCOM-15/07). Committee members agreed that a tailored approach by means of prioritization should be applied in CLSC. Also it was stated that a gradual approach in improving ESS should be promoted for countries with low statistical capacity, considering analytical and policy needs, economic structure, and capacity for statistical development. In addition, it was agreed that simplified report forms would not be developed for reporting by CLSC. Instead, the current STA report forms would be used for all countries and components to be reported would be prioritized.
2. At the same meeting it was agreed that a working group comprising the Committee members would be established to contribute to designing the strategy for compiling ESS in CLSC. The working group was set up and contributed to the proposals that are presented to BOPCOM herewith.
3. This paper describes the prioritized report forms and presents a timeline plan for the compilation of enhanced ESS in CLSC. It also provides a roadmap for implementing the *BPM6* in other non-CLSC IMF members.

¹ Prepared by Tamara Razin and Eka Trisilowati, Balance of Payments Division, STA. The proposals contained in this paper were prepared in collaboration with a working group of BOPCOM members comprising of Malik Bani Hani (Jordan), Kenneth Egesa (Uganda), Rosabel Guerrero (Philippines), and Yeşim Şişik (Turkey).

II. DEVELOPMENT OF THE PRIORITIZED REPORT FORMS

4. Following up on the 2015 BOPCOM meeting agreement, a working group was established in June 2016 and comprised BOPCOM members with experience in compiling ESS (Jordan, Philippines, Turkey, and Uganda) in different geographical regions, including low income countries. Its tasks were to (i) prepare the first draft of the balance of payments/IIP report form customized for CLSC; (ii) draft the guidance on compiling the customized balance of payments/IIP report; and (iii) assist in drafting this paper on compiling ESS in CLSC.

5. There was broad consensus in the Committee as to the need for a more streamlined, condensed, and simplified requirement for CLSC in terms of balance of payments/IIP data reporting. Consequently, the working group identified and prioritized the balance of payments and IIP standard components and memorandum items that are required to be compiled and disseminated (submitted to IMF for re-dissemination). Given the importance of basic and reliable ESS for policy making and also for IMF surveillance purposes, the prioritization of components was done considering the needs in balance of payments and IIP indicators for (i) offering policymakers a set of data that would assure a better understanding of CLSC situation vis-à-vis the rest of the world, (ii) enhancing transparency and public access to ESS data, (iii) IMF's surveillance work (e.g., Article IV missions and missions for review under the staff monitoring program), (iv) IMF research work for the *World Economic Outlook* issues, (v) conducting the debt sustainability analysis, and (vi) for meeting the IMF's Enhanced General Data Dissemination System's requirements.

6. The working group suggests a two-phase approach for the enhancement of ESS in CLSC: during the first phase, the CLSC would compile, with limited breakdowns, the mandatory balance of payments and IIP aggregates; and in the second phase, the CLSC would gradually expand the number of compiled components to others that are relevant for the economy, to the extent allowed by the available resources.

7. The components identified to be compiled during the first phase of the CLSC strategy were prioritized by two levels: Level 1—for mandatory compilation (shaded in dark blue in the report forms), and Level 2—encouraged requirements (shaded in light blue in the report forms). Appendix 1 includes the and IIP components identified as priority for compilation. Some of the Level 1 components may have no importance for the economy i.e., the volume of cross-border transactions/positions in financial derivatives or debt securities could be negligible. However, their compilation should be integrated into the ESS system to allow for generating higher balance of payments and IIP aggregates, and to avoid omissions in case of new developments in the economy. Regarding the Level 2 components, it is important that each CLSC select to compile those components that are more relevant/important for its economy.

8. The implementation of the prioritized report forms will significantly reduce the reporting burden for CLSC. A comparison of the number of components requested in the standard report forms with those identified for reporting by CLSC is presented in Table 1.

Table 1. *BPM6* Standard Report Forms versus *BPM6* Prioritized Report Forms

	<i>BPM6</i> Standard Report Forms		<i>BPM6</i> Prioritized Report Forms				Percentage Reduction of Reported Components	
	Balance of payments	IIP	Balance of payments		IIP		Balance of payments	IIP
			Level 1	Level 2	Level 1	Level 2		
Standard and supplementary items	847	446	94	80	36	10	84.7	79.8
<i>of which supplementary items</i>	282	104	0	0	0	0	100.0	100.0
Memorandum items	280	62	29	0	0	0	89.6	100.0

9. The first phase of the implementation of the CLSC strategy will be mainly executed through STA technical assistance (TA) missions to the CLSC. The monitoring of the progress will be done from the IMF Headquarters. The following steps will be requested to be undertaken by the TA missions:

- (i) Assessment of existing ESS data collection;
- (ii) Assessment of whether the present data sources could be used in compiling Level 1 and selected Level 2 components;
- (iii) Selection of Level 2 components relevant for the CLSC;
- (iv) Assessment of changes entailed in moving from *BPM5* to *BPM6* for the Level 1 and selected Level 2 components;
- (v) Identification and employment of new data sources with a primary focus on government institutions and players of the major economic activities in the economy;
- (vi) Development of compilation and estimation techniques that would allow for an adequate compilation of Level 1 and selected Level 2 components;
- (vii) Hands-on training in compiling Level 1 and selected Level 2 components.

10. In order to adjust the existing data collection system to the *BPM6* requirements, other complementary data sources could be envisaged. For instance, if an international transactions reporting system is used as the main data source, compilers may consider implementing some direct reporting by the most significant public or private institutions/companies.

11. The second phase of the implementation of the CLSC strategy will be conducted by each CLSC depending on when and how much additional resources will be allocated to the compilation of ESS in the respective CLSC. It will consist of identifying and compiling other balance of payments and IIP components, in addition to those targeted within the first phase, that would become relevant and/or materially significant for the economy. The main tools used by STA for assisting the CLSC in implementing the second phase will be through capacity development (TA and training).

III. STEPS FOR THE FIRST PHASE OF IMPLEMENTATION OF THE STRATEGY FOR ESS COMPILATION IN CLSC

12. Table 2 below includes actions that the IMF will undertake for the implementation of the CLSC strategy. The possible targeted year for the completion is 2019, aligning it with the completion year for the recently launched project on improving ESS in Francophone countries in West and Central Africa.

Table 2. Actions for the Implementation of the CLSC Strategy

Action		Means for Implementation	Comments
1.	Confirmation of list of prioritized components (Level 1 and Level 2)	(i) Consultation with IMF area and functional departments	To be completed by end November 2016
2.	Confirmation of list of CLSC	(i) Consultation with IMF area and functional departments	To be completed by end November 2016
		(ii) Identification of countries/ economies that do not submit ESS to STA or stopped their submission	Further updates to be made after survey of <i>BPM5</i> reporters
3.	Advertising the CLSC strategy	(i) Inform the Balance of Payments Division economists regarding the strategy in CLSC	After BOPCOM meeting
		(ii) Inform short-term experts and long-term advisors in ESS regarding the CLSC strategy	
		(iii) Propose meetings with country delegations representing CLSC during the 2017 IMF Spring Meetings informing them about this initiative and seeking their support	April 2017
4.	Identification of possible ways to execute the first phase of the implementation of CLSC strategy for each identified CLSC	(i) Identify technical assistance missions planned to CLSC during the fiscal year and/or during the ongoing projects	December 2016
		(ii) Include as a task for TA missions to CLSC the development of a	When missions are planned

	Action	Means for Implementation	Comments
		timeline for the first phase of the implementation of the CLSC strategy	
		(iii) Include in the mission schedule for the fiscal year 2018 technical assistance missions to CLSC that have not benefited from the technical assistance in fiscal year 2017	
		(iv) Monitor on a regular basis (e.g., every six months) the implementation of the CLSC strategy in each CLSC according to the timeline with a view to identifying and prioritizing TA delivery	Request from the authorities information on the progress in implementing the actions agreed during the technical assistance mission

IV. IMPLEMENTING THE *BPM6* IN ALL IMF MEMBERS

13. Currently, 132 economies are compiling and disseminating balance of payments in *BPM6* framework, of which 115 economies compile and disseminate also the IIP data in the new framework. Among the economies that are still compiling balance of payments and IIP on *BPM5* basis (see Appendix 2), it is estimated that about 24 are CLSC (see Table 3). Twenty of these 24 countries participate in the IMF's Enhanced General Data Dissemination System (E-GDDS).²

Table 3. Number of *BPM5* Reporters by Region

Region	<i>BPM5</i> reporting economies	
	Total	of which CLSCs (estimated)*
Europe	2	0
Asia and Pacific	7	3
Africa	17	6
Middle East and Central Asia	11	4
Western Hemisphere	23	11
Total	60	24

*Based on STA staff judgments as informed by TA mission findings.

14. In order to better estimate the timeframe for the *BPM6* implementation in all IMF members, the IMF will conduct a survey of remaining *BPM5* reporters asking about their

² For these countries, the strategy would entail dissemination of the data at least in line with the E-GDDS encouraged periodicity and timeliness (quarterly balance of payments with a lag of one quarter, and annual IIP with a lag of three quarters).

plans for implementing the *BPM6*. The survey will establish the expected timeline for implementation, main limitations foreseen that might prevent the timely implementation, and technical assistance needs. In particular, it would also allow for an updated list of the CLSC target group.

15. Based on the survey results, the IMF will plan its activities in order to meet the TA needs and to identify other means for advising the members on issues that they might face during the *BPM6* implementation.

Table 4. Actions for Advancing the Implementation of *BPM6* Framework

Activity	Timeline	Comments
Conduct a survey on IMF members' plans for implementing the <i>BPM6</i>	January 2017	Targeted population: IMF members that are compiling the ESS in <i>BPM5</i> framework
Identify members' TA needs for implementing <i>BPM6</i>	February 2017	Based on survey results
Include in mission schedule for fiscal year 2018 missions to IMF members that indicated need in technical assistance for implementing <i>BPM6</i>	April 2017	Subject to resource availability and support from IMF Area Departments.
Monitor on a regular basis the implementation on <i>BPM6</i> in IMF (non-CLSC) members	Every six months	Request from the authorities information on the progress in implementing <i>BPM6</i> with a focus on actions agreed during the TA mission (if the TA was provided)

Questions for the Committee:

1. *Do Committee members agree with the prioritized balance of payments and IIP components proposed by the BOPCOM working group for the compilation of ESS by CLSC?*
2. *Do Committee members agree that the list of indicators and the list of CLSC be finalized after consulting IMF area and functional departments? Should this consultation result in substantial changes to the items agreed during the meeting, we would revert to the Committee in writing.*
3. *Do members agree with the actions proposed by the BOPCOM working group for implementing the strategy for the compilation of ESS in CLSC?*
4. *Do members have views on the proposal for advancing the implementation of the *BPM6* framework in IMF members other than CLSC?*

Part A. Balance of Payments Components to be Compiled by CLSC During the First Phase of *BPM6* Implementation

Integrated Correspondence System Report Form		
Balance of payments components	Mandatory	Encouraged
Current account	Level 1	
Credit	Level 1	
Debit	Level 1	
Goods and services	Level 1	
Credit	Level 1	
Debit	Level 1	
Goods	Level 1	
Credit	Level 1	
Debit	Level 1	
General merchandise on a balance of payments basis		Level 2
Credit		Level 2
Debit		Level 2
Net exports of goods under merchanting (credit)		Level 2
Nonmonetary gold		Level 2
Credit		Level 2
Debit		Level 2
Services	Level 1	
Credit	Level 1	
Debit	Level 1	
Manufacturing services on physical inputs owned by others		Level 2
Credit		Level 2
Debit		Level 2
Maintenance and repair services n.i.e.		Level 2
Credit		Level 2
Debit		Level 2
Transport		Level 2
Credit		Level 2
Debit		Level 2
Passenger		Level 2
Freight		Level 2
Travel		Level 2
Credit		Level 2
Debit		Level 2
Construction		Level 2
Credit		Level 2
Debit		Level 2
Insurance and pension services		Level 2
Credit		Level 2
Debit		Level 2
Financial services		Level 2
Credit		Level 2
Debit		Level 2
Charges for the use of intellectual property n.i.e.		Level 2
Credit		Level 2
Debit		Level 2
Telecommunications, computer, and information services		Level 2
Credit		Level 2
Debit		Level 2

Integrated Correspondence System Report Form		
Balance of payments components	Mandatory	Encouraged
Other business services		Level 2
Credit		Level 2
Debit		Level 2
Personal, cultural, and recreational services		Level 2
Credit		Level 2
Debit		Level 2
Government goods and services n.i.e.		Level 2
Credit		Level 2
Debit		Level 2
Primary income	Level 1	
Credit	Level 1	
Debit	Level 1	
Compensation of employees	Level 1	
Credit	Level 1	
Debit	Level 1	
Investment income	Level 1	
Credit	Level 1	
Debit	Level 1	
Direct investment		Level 2
Credit		Level 2
Debit		Level 2
Portfolio investment		Level 2
Credit		Level 2
Debit		Level 2
Other investment		Level 2
Credit		Level 2
Debit		Level 2
Reserve assets (Credit)		Level 2
Other primary income		Level 2
Credit		Level 2
Debit		Level 2
Secondary income	Level 1	
Credit	Level 1	
Debit	Level 1	
General government	Level 1	
Credit	Level 1	
Debit	Level 1	
Financial corporations, nonfinancial corporations, households, and NPISHs	Level 1	
Credit	Level 1	
Debit	Level 1	
Personal transfers (Current transfers between resident and nonresident households)	Level 1	
Credit	Level 1	
Debit	Level 1	
Other current transfers	Level 1	
Credit	Level 1	
Debit	Level 1	
Capital account	Level 1	
Credit	Level 1	
Debit	Level 1	
Capital transfers	Level 1	
Credit	Level 1	
Debit	Level 1	

Integrated Correspondence System Report Form		
Balance of payments components	Mandatory	Encouraged
General government	Level 1	
Credit	Level 1	
Debit	Level 1	
Debt forgiveness	Level 1	
Credit	Level 1	
Debit	Level 1	
Financial corporations, nonfinancial corporations, households, and NPISHs	Level 1	
Credit	Level 1	
Debit	Level 1	
Financial account	Level 1	
Direct investment	Level 1	
Net acquisition of financial assets	Level 1	
Equity and investment fund shares	Level 1	
Equity other than reinvestment of earnings		Level 2
Reinvestment of earnings		Level 2
Debt instruments	Level 1	
Net incurrence of liabilities	Level 1	
Equity and investment fund shares	Level 1	
Equity other than reinvestment of earnings		Level 2
Reinvestment of earnings		Level 2
Debt instruments	Level 1	
Portfolio investment	Level 1	
Net acquisition of financial assets	Level 1	
Equity and investment fund shares	Level 1	
Debt securities	Level 1	
General government		Level 2
Short-term		Level 2
Long-term		Level 2
Net incurrence of liabilities	Level 1	
Equity and investment fund shares	Level 1	
Debt securities	Level 1	
General government		Level 2
Short-term		Level 2
Long-term		Level 2
Financial derivatives (other than reserves) and employee stock options		Level 2
Other investment	Level 1	
Net acquisition of financial assets	Level 1	
Net incurrence of liabilities	Level 1	
Currency and deposits	Level 1	
Net acquisition of financial assets	Level 1	
Deposit-taking corporations, except central bank		Level 2
Short-term		Level 2
Long-term		Level 2
Net incurrence of liabilities	Level 1	
Deposit-taking corporations, except central bank		Level 2
Short-term		Level 2
Long-term		Level 2
Loans	Level 1	
Net acquisition of financial assets	Level 1	
Central bank		Level 2
Deposit-taking corporations, except the central bank		Level 2
General government		Level 2
Other sectors		Level 2

Integrated Correspondence System Report Form		
Balance of payments components	Mandatory	Encouraged
Net incurrence of liabilities	Level 1	
Central bank		Level 2
Credit and loans with the IMF (other than reserves)	Level 1	
Deposit-taking corporations, except the central bank		Level 2
General government		Level 2
Credit and loans with the IMF (other than reserves)	Level 1	
Other sectors		Level 2
Insurance, pension, and standardized guarantee schemes		Level 2
Trade credit and advances	Level 1	
Net acquisition of financial assets	Level 1	
Net incurrence of liabilities	Level 1	
Other accounts receivable/payable		Level 2
Net acquisition of financial assets		Level 2
Net incurrence of liabilities		Level 2
Special drawing rights	Level 1	
Reserve assets	Level 1	
Monetary gold	Level 1	
Special drawing rights	Level 1	
Reserve position in the IMF	Level 1	
Other reserve assets	Level 1	
Net errors and omissions	Level 1	
Exceptional financing	Level 1	
Secondary income	Level 1	
Capital transfers	Level 1	
Direct investment	Level 1	
Equity investment associated with debt reduction	Level 1	
Debt instruments	Level 1	
Portfolio investment—liabilities	Level 1	
Equity investment associated with debt reduction	Level 1	
Debt securities	Level 1	
Other investment—liabilities	Level 1	
Other equity	Level 1	
SDR allocation	Level 1	
Other debt instruments	Level 1	
Central bank	Level 1	
New drawings/deposits	Level 1	
Prepayment	Level 1	
Rescheduling of payments due in current reporting period	Level 1	
Accumulation of arrears	Level 1	
Repayment of arrears	Level 1	
Rescheduling of arrears	Level 1	
Cancellation of arrears	Level 1	
General government	Level 1	
New drawings/deposits	Level 1	
Prepayment	Level 1	
Rescheduling of payments due in current reporting period	Level 1	
Accumulation of arrears	Level 1	
Repayment of arrears	Level 1	
Rescheduling of arrears	Level 1	
Cancellation of arrears	Level 1	

Part B. IIP Components to be Compiled by CLSC During the First Phase of *BPM6* Implementation

Integrated Correspondence System Report Form		
IIP components	Mandatory	Encouraged
Net international investment position	Level 1	
Assets	Level 1	
Direct investment	Level 1	
Equity and investment fund shares	Level 1	
Debt instruments	Level 1	
Portfolio investment	Level 1	
Equity and investment fund shares	Level 1	
Debt securities	Level 1	
Financial derivatives (other than reserves) and employee stock options		Level 2
Other investment	Level 1	
Currency and deposits	Level 1	
Loans	Level 1	
Central bank		Level 2
Deposit-taking corporations, except the central bank		Level 2
General government		Level 2
Other sectors		Level 2
Insurance, pension, and standardized guarantee schemes		Level 2
Trade credit and advances	Level 1	
Other accounts receivable		Level 2
Reserve assets	Level 1	
Monetary gold	Level 1	
Special drawing rights	Level 1	
Reserve position in the IMF	Level 1	
Other reserve assets	Level 1	
Liabilities	Level 1	
Direct investment	Level 1	
Equity and investment fund shares	Level 1	
Debt instruments	Level 1	
Portfolio investment	Level 1	
Equity and investment fund shares	Level 1	
Debt securities	Level 1	
Financial derivatives (other than reserves) and employee stock options		Level 2
Other investment	Level 1	
Other equity	Level 1	
Currency and deposits	Level 1	
Loans	Level 1	
Central bank		Level 2
Credit and loans with the IMF (other than reserves)	Level 1	
Deposit-taking corporations, except the central bank		Level 2
General government		Level 2
Credit and loans with the IMF (other than reserves)	Level 1	
Other sectors		Level 2
Insurance, pension, and standardized guarantee schemes		Level 2
Trade credit and advances	Level 1	
Other accounts payable		Level 2
Special drawing rights	Level 1	

**Economies Compiling ESS on *BPM5* Basis
(as of September 1, 2016)**

Economy	Balance of payments*	IIP*
Anguilla	Y	
Antigua and Barbuda	Y	
Argentina	Q	Y
Aruba	Q	Y
Bahamas, The	Q	
Bahrain, Kingdom of	Y	Y
Bolivia	Q	Q
Botswana	Y	Y
Cabo Verde	Q	Q
Cambodia	Q	Q
Cameroon	Y	
Comoros	Y	
Congo, Democratic Republic of	Y	
Congo, Republic of	Y	
Djibouti	Y	Y
Dominica	Y	
Eastern Caribbean Currency Union	Y	
Ecuador	Q	Y
Egypt	Q	Q
Ethiopia	Q	
Faroe Islands	Y	
French Territories: French Polynesia	Y	
Gabon	Y	
Gambia, The	Q	
Grenada	Y	
Guinea	Y	Y
Guyana	Y	
Haiti	Q	Y
Honduras	Q	Q
Kenya	Y	
Lao People's Democratic Republic	Q	
Lebanon	Q	
Lesotho	Q	Q
Libya	Y	
Madagascar	Q	
Mauritania	Q	
Mexico	Q	Q

Economy	Balance of payments*	IIP*
Mongolia	Q	Q
Montserrat	Y	
Namibia	Q	Q
Nepal	Q	Q
New Caledonia	Y	
Nigeria	Y	Y
Oman	Y	
Panama	Q	Q
Papua New Guinea	Y	
Paraguay	Q	Q
Peru	Q	Q
Qatar	Q	
Sierra Leone	Y	Y
St. Kitts and Nevis	Y	
St. Lucia	Y	
St. Vincent and the Grenadines	Y	
Suriname	Q	Q
Swaziland	Q	Y
Syrian Arab Republic	Y	Y
Trinidad and Tobago	Y	Y
Tunisia	Y	Y
Uruguay	Q	Q
Yemen, Republic of	Q	Y

*Q – quarterly, Y – annually