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For discussion

BPM7 Chapter 11. Services Account: Annotated Outline

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(New BPM chapter, split from existing Chapter 10: Goods and Services Account)

Changes from BPM6 highlighted in yellow

I. Introduction

- Following up on the introduction to Chapter 10, this section will provide further elaboration on the concepts and coverage of services.
- Definition of services and related discussion will be expanded to capture important elements from the 2008 SNA paragraphs 6.16–6.22 (and its update) and Box 1.1, *MSITS 2010*.
- Following GNs C.4 and DZ.9, and in continuation to the discussion on outsourcing in *BPM6* paragraph 10.59, this section also introduces the definition of fee-based digital intermediation platform (DIP) services (recommended in the *Handbook on Measuring Digital Trade*) as online fee-based intermediation services enabling transactions between multiple buyers and multiple sellers, without the intermediation platform taking economic ownership of the goods or rendering-services that are being sold (intermediated). For additional guidance on intermediation fee refer to trade-related services.
- Regarding the intermediation services (including the digital intermediation), following the GN C.6, it is clarified that they are not separately identified in the balance of payments services classification. However, supplementary items could be introduced to identify intermediation services in the update of the *Manual of International Trade in Services (MSITS 2010)* and in the new *EBOPS* revision. Further, digital supply and use tables (following the GN DZ.5) will provide useful insights on DIPs—which is identified as one of the “digital” industries under this framework.
- Following GN DZ.8, measurement of cloud computing in balance of payments will be briefly mentioned. (GN is under preparation. This will be further updated when the GN is finalized). These and other aspects of the digitalization are covered in more detail in Chapter 16 (Digitalization).
- This section will briefly mention about digital trade noting that further details are included in Annex 5 (Selected Issues on Trade).
- In addition to the highlighted updates/additions, the consistency of the language with other macroeconomic statistics manuals (e.g., *2025 SNA*, *MSITS 2010*, *IRTS 2008*) will be maintained.
- *BPM6* Table 10.1 will be modified to present an overview of the services account only (goods will be presented in a separate table in Chapter 10)—17 main standard service categories.

¹ Prepared by Venkat Josyula (BPM editor, IMF), Peter van de Ven (SNA lead) and cleared by BPM Project Manager.

² All the recommendations on new data collections in this chapter will be subject to the outcome of the Holistic Review of *BPM6* Update Priorities.

- It will be mentioned that additional breakdowns/supplemental presentation of services (e.g., trade in services by currency is presented in Annex 5) and exports/imports of services by characteristics of the trading enterprise is presented in Chapter 15 (Globalization).
- The chapter will have one separate section in addition to Introduction (Section I)—classification of services (Section II). See the Schematic Overview for details.

Table 11.1 Overview of Services Account (17 main standard service categories)

<p>Manufacturing services on physical inputs owned by others</p> <p>Maintenance and repair services n.i.e.</p> <p>Transport</p> <p>Travel</p> <p>Construction</p> <p>Insurance and Pension services</p> <p>Financial services</p> <p>Charges for the use of intellectual property n.i.e.</p> <p>Telecommunication services</p> <p>Computer and information services</p> <p>Research and development services</p> <p>Professional and management consulting services</p> <p>Trade-related services</p> <p>Operating leasing services</p> <p>Technical and other business services</p> <p>Personal, cultural and recreational services</p> <p>Government goods and services n.i.e.</p>
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II. Classification of Services

- The classification of services will be updated with additional first-level standard service categories, which improves the correspondence between the balance of payments services classification and the Central Product Classification (CPC).
- As in the *BPM6*, the classification is mainly product based, but is transactor based for travel, construction, and government goods and services n.i.e.
- If new services are identified during the ongoing CPC revision,³ then the balance of payments classification will reflect them where relevant.

³ The revised draft CPC will be circulated to the expert groups (including BOPCOM) later this year and the final CPC is expected to be adopted by the UNSC in March 2023.

A. Manufacturing Services on Physical Inputs Owned by Others

- This subsection will be maintained as in *BPM6* with the following important updates.
- The numerical examples related to manufacturing services on physical inputs owned by others from *BPM6* Box 10.1 will be moved to a new box in Chapter 11, Box 11.1. It will also include a numerical example based on GN C.4 that explains the differences between (1) processing-type arrangements (manufacturing services on physical inputs owned by others), and (2) factoryless goods producer (FGP)-type arrangements.
- Box 10.2 will be expanded (new Box 11.2) to briefly explain FGPs in addition to the other existing arrangements and will include the decision tree from GN C.4, Annex II, with links to Section II of the Globalization chapter, which will cover global production.

B. Maintenance and Repair Services

- This subsection will be maintained as in *BPM6* with no changes.

C. Transport⁴

- This subsection will be maintained mostly as in the *BPM6* with the following minor update.
- A reference to the Box on package tours included in the updated subsection on travel will be provided in paragraph 10.77.

D. Travel

- This subsection explains the scope of travel and its measurement as in the *BPM6*, with the following important updates.
- Paragraph 10.86 will be updated to clarify that goods and services provided free to nonresidents by government and NPISH known as social transfers in kind⁵ (e.g., free health services received by a foreign tourist from a hospital within general government, free educational services received by a foreign student from a university within general government) are included under travel. Social transfers in kind will be explained in the updated chapter on Secondary Income Account, consistent with SNA.

Package Tours

- A separate box provides conceptual guidance on the package tours clarifying that they should not be treated as a new product, but as a basket of at least three major services

⁴ Regarding the inconsistency between *BPM6* and *2008 SNA* on the recording of freight services provided by a carrier resident in the importing economy (see example 3, Box 10.3, *BPM6* and paragraph 14.72, *2008 SNA*), it is noted that the issue is being discussed with the SNA editors for agreeing on a consistent recording in the updated manuals.

⁵ Social transfers in kind consist of goods and services provided to households by government and NPISHs either free or at prices that are not economically significant (paragraph 8.141, *2008 SNA*). The assumption on these transfers in paragraphs 8.145 and 9.120 of *2008 SNA* may need to be reviewed.

following the TSA: (i) the services themselves (for example, transport, accommodation); (ii) the services provided by the tour operator; and (iii) the margin of the travel agency (usually different from the tour operator) selling the tour (GN C.7). The box also provides a definition of a package tour (following the *IRTS 2008*), echoing the reasoning given in the updated SNA and emphasizing the cross-border aspect of unbundling the package.

Health Related Travel

- For the health-related travel, the scope of “medical reasons” follows the definition of “health and medical care” from *IRTS 2008* (paragraph 3.17) provided below.

“Health and medical care covers services received from hospitals, clinics, convalescent homes, health and social institutions, thalassotherapy, health and spa resorts, other specialized places to receive medical treatments based on medical advice, as well as cosmetic surgeries using medical facilities and services”.

- It is clarified that the travel expenses of patients’ companions be included under “other personal travel” treating them as “normal travelers”.

Education Related Travel

- Clarification on the treatment of companions of education-related travelers will be provided (based on a separate clarification note to be prepared by BEA)

Other issues related to travel (10.95, *BPM6*)

- Following GN C.1, supplementary breakdown of travel to include personal, cultural and recreation services (acquired by travelers) as a distinct item under the other services category (in addition to Health and Educational services).

E. Construction

- Except the following update, no other changes are suggested to the concepts and coverage of construction in *BPM6*.
- Following GN C.1, a separate supplementary breakdown of construction for both construction abroad (1.A.b.5.1) and construction in the compiling economy (1.A.b.5.2) may be provided for (a) constructions and (b) construction services, along the lines of the CPC divisions 53 (covering the physical outputs of construction activities, and in this case, those provided in less than a year) and 54 (services provided in constructing the physical output), respectively.

F. Insurance and Pension Services

- As in the *BPM6*, this subsection explains the coverage of insurance and pension services, and their measurement in balance of payment with the following updates.
- Following the GN F.12, treatment of hybrid insurance products is explained. Hybrid insurance products are a mixture of the two primary types of insurance—life insurance (insurance whose financial claims arise regardless of an event occurrence—i.e., insurance

with a saving component), and nonlife insurance (insurance whose financial claims arise only if an event occurs). Such insurance products are classified into life (financial account) or nonlife insurance (current transfers) depending on which features are predominant (i.e., the saving component (life insurance) or the component whereby claims are paid only if the insured event occurs (nonlife insurance)). It is clarified that term life insurance will continue to be included in nonlife insurance (as in *BPM6*).

- Further details on insurance including the hybrid products are provided in *Annex 8 Insurance and Pensions*.
- Further details on Takaful and Re-takaful arrangements are provided in *Chapter 17 Islamic Finance and Insurance*.
- It is clarified that Insurance services through fintech (i.e., InsurTech) are covered under insurance and pension services (GN F.7). Further details on this and other aspects of digitalization included in Chapter 16.

G. Financial Services

- As in the *BPM6*, this subsection explains the coverage of financial services and their measurement in balance of payment with the following update.
- Explicit charges. Additional information/links on the service charges on purchases of IMF resources and commitment fees associated with undrawn balances under stand-by or extended arrangements with the IMF to be provided noting that further details are included in *Annex 9 Positions and Transactions with IMF*.
- Fintech. Following the GN F.7, financial services provided by fintech (e.g., payment services/peer-to-peer lending services/other financial services such as capital raising/investment management enabled by Fintech) are classified in the financial services without introducing new services categories. Insurance services provided through Fintech are covered under insurance and pension services. Sectorization of Fintech companies is discussed in Chapter 4 and the classification of financial instrument provided by Fintech in Chapter 5. In addition, Fintech and other aspects of the digitalization are covered in detail in Chapter 16.
- Margins on buying and selling transactions. No changes will be made to the underlying concept of margins presented in the *BPM6*, but further elaboration will be provided on the relevant concepts including a brief mention of practical challenges in compiling this item. Additional guidance on the compilation including the tradeoffs involved with the various compilation approaches (i.e., survey-based, estimation, and/or mixed approach) will be provided in the updated *BPM6 Compilation Guide* noting that countries should assess materiality when considering whether or not to compile this item (based on GN F.13 guidance, which is expected to be finalized soon).
- Factoring: Guidance on the income received by the factor (as fee) will be provided with relevant references to factoring transactions in other chapters of *BPM7* (based on GN F.14, which will be discussed in the October 2022 joint AEG/BOPCOM meeting).

- FISIM and negative interest rates (paragraphs 10.134 and 10.135 to be updated).⁶ While FISIM should be positive irrespective of whether interest rates are either positive or negative (since output cannot be negative), negative interest rates may cast doubts on the right reference rates to be used in the calculation of FISIM. Further, negative interest rates on deposits raise the risk of negative FISIM, as banks may offer interest rates higher than reference rates, to retain depositors. Therefore, compilers shall carefully review the reference rates to be used with a view to avoid negative FISIM.

H. Charges for the Use of Intellectual Property n.i.e.

- This subsection will be maintained as in the *BPM6* with the following important updates.
- The following definition of IPP based on GN DZ.7 (which is update of the 2008 SNA definition in paragraph 10.98) will be included. In addition, clarification on the IPP sale/purchase transactions will be provided.⁷

“Intellectual property products are the result of research, development, investigation, or innovation leading to knowledge or the creation of artificial intelligence systems that the developers can market or use to their own benefit in production because use of the knowledge or system is restricted by means of legal or other protection”

- This subsection will also refer to section III, chapter 15 (Globalization) on determining economic ownership of IPPs among units of an MNE, and the recording of related transactions.

I. Telecommunication Services

J. Computer and Information Services

Following GN C.6, telecommunication, computer, and information services category in *BPM6* is split into two standard, first-level categories, as shown below to allow a separate identification of telecommunication (1.A.b.9) and computer/information services (1.A.b.10).

- Computer and information services will include the provision of cloud computing services (i.e., delivery of computing power, database storage, and other IT resources). Definition of cloud computing (based on GN DZ.8) including the challenges in measuring it will be added with links to further discussion in Chapter 16, Digitalization.

1.A.b.9 Telecommunications services
1.A.b.10 Computer, and information services
1.A.b.10.1 Computer services*
1.A.b.10.2 Information services*

* Supplementary item

⁶ The updated SNA will also include guidance on negative interest rates, and the possible impact on the calculation of FISIM.

⁷ The issue relating to the service of IPPs use and service of IPP sale/purchase will be further discussed with IMF editors to provide a consistent guidance.

- K. Research and Development Services
- L. Professional and Management Consulting Services
- M. Trade-Related Services
- N. Operating Leasing Services
- O. Technical and Other Business Services

- Following GN C.6, other business services category in *BPM6* is split into five standard, first-level categories, as shown below. The coverage of the first two components (1.A.b.11 and 1.A.b.12) would be identical to those in the *BPM6*. The existing *BPM6* category *Technical, trade-related and other business services* would be split into three subgroups—1.A.b.13 and 1.A.b.14 would cover Trade-related services and Operating leasing services, respectively. Technical and other business services (1.A.b.15) would cover *BPM6* items (i) Architectural, engineering, and other technical services (10.151(a)); (ii) Waste treatment and de-pollution, agricultural, and mining services (10.151(b)); and (iii) Other business services (10.151(e)).

1.A.b.11 Research and development services
1.A.b.12 Professional and management consulting services
1.A.b.13 Trade-related services
1.A.b.14 Operating leasing services
1.A.b.15 Technical and other business services

- Regarding operating leasing (and also under financial leasing in Chapter 5), a reference will be made to IFRS 16, preferably in a footnote, highlighting that it is not aligned with the *BPM/SNA* standards regarding the concept of economic ownership (based on GN C.5).⁸
- Further, the concepts of dry and wet leasing of aircrafts (discussed in paragraph 12.34 *BPM6 CG*) and their treatment will be explained in the updated paragraph 10.156, which already discusses the leasing of aircraft/ships etc. with and without crew.
- Following GN C.4, under technical and other business services (1.A.b.15), reference to “services merchanting” in paragraph 10.160 will be removed. It is clarified that “merchanting of services”, from a pure conceptual view, is impossible as services cannot be traded in the same way as goods and “pure” merchanting transactions cannot involve services because no ownership rights can be established on services according to the current international standards. As the production of a service generally coincides with its consumption, services are always directly delivered from the producer to the consumer.
- Services can only be intermediated by a third person against a fee and the fees should be recorded under trade-related services (1.A.b.13), as a supplementary “of which” item in the international accounts of the partner countries. This treatment is suggested for cases

⁸ In general, the language of *BPM* and *SNA* on leasing will be closely examined for possibilities to further align them.

where explicit or implicit intermediation fees should be perceived/recorded. A footnote will be added to this on the following lines. The suggested treatment of this intermediation service is to assimilate them to those defined in *BPM6* paragraph 3.10, when “one unit (an agent) arranges for a transaction to be carried out between two other units in return for a fee from one or both parties to the transaction” (based on GN C.4). It will be clarified that payments from producers to DIPs following the “net approach” (GN DZ.9) are recorded under trade-related services, provided they are cross-border transactions. Additional details on “net approach” and other aspects of DIPs are covered in Chapter 16 (Digitalization).

P. Personal, Cultural, and Recreational Services

- As in the *BPM6*, this subsection explains the coverage of personal, cultural, and recreational services with the following minor updates.
- Tele-health/tele-education are included under Other personal, cultural, and recreational services (10.168/10.169 already provide guidance on health services provided remotely/educational services through internet).

Q. Government Goods and Services n.i.e.

- The scope of this subsection remains unchanged from *BPM6*. However, 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 (under Other services supplied by and to governments), along the lines of the CPC divisions 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), to enhance the consistency between cross border transactions and the *SNA*.

Schematic Overview

I	<p>Introduction</p> <p>Definition of Services</p> <p>Time of Recording and Valuation</p> <p>Table 11.1 Overview of Services Account</p>
II	<p>Classification of Services</p> <p>A. Manufacturing Services on Physical Inputs Owned by Others (Box 11.1 Numerical example to explain the recording of manufacturing services on physical inputs owned by others, FGPs, and difference with merchandising and re-exports in Box 10.1) (Box 10.2 Recording of Global Manufacturing Arrangements-updated as Box 11.2)</p> <p>B. Maintenance and Repair Services n.i.e.</p> <p>C. Transport</p> <p>D. Travel</p> <p>E. Construction</p> <p>F. Insurance and Pension Services</p> <p>G. Financial services</p> <p>H. Charges for the use of intellectual property n.i.e.</p> <p>I. Telecommunication Services</p> <p>J. Computer and Information Services</p> <p>K. Research and Development Services</p> <p>L. Professional and Management Consulting Services</p> <p>M. Trade-related Services</p> <p>N. Operating Leasing Services</p> <p>O. Technical and Other Business Services</p> <p>P. Personal, Cultural and Recreational Services</p> <p>Q. Government Goods and Services n.i.e.</p>

Question for the Committee

- *Does the Committee have any suggestions on the draft outline of the chapter?*
- *Does the Committee agree with the proposed structure and coverage of topics in the chapter presented in this outline?*

References

- GNs C.1, C.3, C.4, C.5, C.6, C.7, DZ.5, DZ.7, DZ.8, DZ.9, F.7, F.12, F.13, F.14, G.5, G.8, G.9, etc.
- Clarification Note on the statistical treatment of negative interest rates
- *BPM7 Chapters 10,15,16, and Annex 5*
- *System of National Accounts 2008*
- *Manual on Statistics of International Trade in Services 2010 (MSITS 2010)*
- *Handbook on Measuring Digital Trade*
- *International Recommendations for Tourism Statistics 2008*
- UN Handbook on Financial Production, Flows and Stocks in the System of National Accounts
- UNECE Guide to Measuring Global Production
- Central Product Classification Ver 2.1 (and its update)

Key Stakeholders Consulted

- SNA and BPM editors, and the OECD