Balance of Payments Statistics Workshop

Nassau, Bahamas February 10th-14th, 2020

Introduction to the International Accounts

I. Introduction

- This workshop is carried out in accordance with the criteria of the Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6), of the IMF, an institution that has historically established and disseminated international accepted guidelines for the compilation of these statistics. The BPM6 was released in 2009 and gradually IMF member countries have been adapting their respective statistics to it.
- Balance of payments (BOP) and International Investment Position statistics (IIP) are very important tools for economic analysis and policy formulation.
- For this purpose, it is important to identify the causes of external imbalances, external vulnerabilities, financing needs and, based on this, determine the economic policies to be implemented (commercial, external indebtedness,….?). Based on BOP statistics.

I. Introduction

- Additionally, BPM6 addresses the growing interest in the vulnerability and sustainability analysis through balance sheet data, using the IIP statistics.
- In this context, BPM6 constitutes a standardized framework for recording the flows and positions of an economy vis-à-vis the rest of the world.

I. Introduction

- The International Accounts constitute an integrated framework for the analysis of the economic relations of an economy with the rest of the world:
  - *International Investment Position (IIP).* It shows the value, at a given point in time, of the financial assets and liabilities of the residents of an economy compared to the rest of the world.
  - *Balance of Payments (BOP).* It records the transactions of residents of an economy with residents of other economies, for a given time period.
  - *Other Changes in Financial Assets and Liabilities (OCAL).* Registers changes in the positions of such instruments that do not result from transactions but from other causes, such as: valuation, exchange adjustments, debt repudiation, changes of residence, etc.
- Integrated IIP Statement. It integrates the three financial accounts: the IIP, the financial account of the BOP and the OCAL.

I. Introduction

- Together, the BOP Financial Account and the OCAL explain the changes in the IIP during a given period.

Integrated International Investment Position Statement
By functional categories

			Other changes in financial assets and liabilities			
			Changes in position due to:			
	Beginning of period IIP	Financial account (BOP) Transactions	Other changes in volume	Echange rate changes	Other price changes	End of period IIP
Assets						
Direct investment						
Portfolio investment						
Financial derivatives						
Other investment						
Reserve assets						
Liabilities						
Direct investment						
Portfolio investment						
Financial derivatives						
Other investment						

II. General Framework

- The list of standard components recommended by BPM6 is not limiting. Other items that are of national relevance can be compiled and published.

- The standardized components of the BOP are classified into the following main groups of accounts:
  - Current Account
  - Capital Account
  - Financial Account

- The sum of the balances of the current and capital accounts represent the net lending (surplus) or net borrowing (deficit) of the economy against the rest of the world. It is equivalent to the net balance of the financial account.

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III. Basic Conceptual Aspects

- The items of the international accounts are either flows or positions.
  - The positions refer to the level of financial assets and liabilities vis-à-vis the rest of the world at a given point in time (beginning and end of an accounting period) and are listed in the IIP.
  - The flows reflect the creation, transformation, exchange, transfer or extinction of economic value, which occurs during an accounting period. These are classified in:
    1. Transaction related (legal and illegal). Interaction between two institutional units that occur by mutual agreement or under the law and that implies an exchange of value or a transfer. These form part of the BOP.
    2. Other flows. Variations in the volume, value or classification of a financial asset or liability, affecting its positions, which are not derived from a transaction. These include revaluations (exchange rate or price variations) and other variations in volume.

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III. Basic Conceptual Aspects

- **Balance of payments.** It constitutes the accounting record for a given period of time of the transactions made by resident entities of an economy with the rest of the world (non-residents).
- **Resident entity.** Every **Institutional Unit** has a residence, which corresponds to the **economic territory** with which it has the strongest connection, that is, in which it has **its center of predominant economic interest**.
- ***Center of predominant economic interest.*** When there exists a location, a dwelling, place of production or other type of premises within the economic territory in which, or from which, it engages or intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale (operational definition: one year or more).

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III. Basic Conceptual Aspects

- ***Economic Territory.*** In a broad sense, economic territory can be any geographical area or jurisdiction for which statistics are needed. The concept of Economic Territory most commonly used is the area under the effective economic control of a single government. For the purposes of global statistics it is important to have data on all areas - including special zones - under the control of a given government, even if for some of the government's statistical purposes those areas are excluded or listed separately.

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IV. Economic Territory

- There exist other types of Economic Territory: currency or economic unión, a part of an economy, regions or the world as whole.

- The economic territory has the dimensions of legal jurisdiction and physical location, so that corporations created under their legislation are part of the economy. The economic territory includes:
  - **The land area**.
  - **Airspace.**
  - **Territorial Waters,** including áreas over which jurisdition is exercised over fishing rights and rights to fuels and minerals.
  - **Islands that belongs to the territory.**

IV. Economic Territory

- **Territorial enclaves in the rest of the world.** These are clearly demarcated land areas (such as embassies, consulates, military bases, scientific stations, information or immigration offices, aid agencies, central bank representative offices with diplomatic status) that are physically located in other territories and used by governments that own or rent them for diplomatic, military, scientific, or other purposes with the formal agreement of governments of the territories where the land areas are physically located.

- **International organizations.** The economic territory of an international organization consists of territorial enclave(s) over which the organization has jurisdiction. The international organization owns or rents and uses, and that are formally agreed on with the government of the territory, or territories, in which the enclave(s) are physically located. Each international organization is an economic territory in its own right.

IV. Economic Territory

- **Special Zones (free trade zone, offshore financial center).** If they are under government´s control, even if different regulations apply, they are part of the economic territory. For analysis issues, specific data from the Zones could be developed.

- **Joint zones.** Areas that are under joint administration or sovereignty, that is, an area is under the effective economic control of two or more governments. These areas can be called joint administration or sovereignty zones. Because, typically, they have laws that differ from the primary territories of the individual governments, the zone could be considered an economic territory in its own right. Because the number of enterprises in these zones typically is small, however, it may be preferred to split the enterprises in the zone between the primary territories rather than publish separate data for the zone. The method of splitting should be to prorate on the basis of a relevant factor according to the circumstances, such as some operational indicator or equal proportions for each of the primary territories. This general guidance needs to be applied appropriately to the economic circumstances faced.

V. Institutional Units

- **An economy** consist of all the institutional units that are resident of an economic territory.
- ***Institutional Unit (IU).*** It is an economic entity that has the capacity in its own right, to own assets, to incur liabilities; to carry out economic activities and transactions with other entities; It has a complete set of accounts that includes a balance, or it is economically and legally possible and relevant to prepare a complete set of accounts when necessary.

V. Institutional Units

- There are two types of **IU**:
  - **Households.** Persons or grups of persons***; and,***
  - ***Legal or social entities.*** Those whose existence is recognized by law or society independently of the persons, or other entities, that may own or control them. These consist of corporations (including quasi-corporations), nonprofit institutions, and government units.
    - **Corporations.** They are separate legal entities. Additionally, there exist some arrangements that are not legal entities in their own right that may be recognized as being institutional units, including cooperatives, limited liability partnerships that are not incorporated, notional resident units, and other quasi-corporations.

    Quasi-corporations. It is an unincorporated business that operates as if it were an entity separate from its owner(s). It is treated as if it were a corporation (branches, notional residents for ownership of land, trusts, and so on).

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V. Institutional Units

- **Artificial institutional units.** These units are sometimes identified by breaking up an actual entity. However, to avoid excessive creation of artificial units, such cases are limited to the following:
  - **Branches.** When a non-resident unit has, or intends to carry out, substantial operations over a significant period in an economic territory, but is not a legal entity of its own for those operations, it has a complete set of accounts, and is subject to the system of income taxation in the economy in which it is located, a branch can be recognized as an institutional unit.

    a. **Construction projects.** Some construction projects undertaken by a nonresident contractor may give rise to a Branch (direct investment enterprise). They are major projects (such as bridges, dams and power plants) that require at least one year of construction and are managed through a local office. If they do not meet the necessary conditions to recognize a branch (short-term projects or managed from the territory of origin), the works supplied are classified as international trade in services.

V. Institutional Units

b. **Activities such as consulting, maintenance, training, technical assistance and health care** may be provided by a branch (direct investment) or from a home base (international trade in services).

c. **Mobile equipment, such as ships, aircraft, drilling platforms, and railway rolling stock, may operate across more than one economic territory.** The criteria for recognition of a branch also apply in these cases.

d. **Multiterritory pipeline.**

- **Notional resident units for land and other natural resources.** When land located in a territory is owned by a nonresident entity, a notional resident unit is identified for statistical purposes as being the owner of the land. The nonresident is treated as owning the notional resident unit, rather than owning the land or structures directly. A notional unit is also identified for a lease of land, or buildings, or land and buildings together by a nonresident for long periods.

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V. Institutional Units

- **Multiterritory enterprises.** Enterprises may operate as a seamless operation over more than one economic territory (airlines, hydroelectric schemes on border rivers, pipelines, bridges, tunnels, and undersea cables). It is preferable that separate institutional units be identified for each economy. If that is not feasible because the operation is so seamless that separate accounts cannot be developed, it is necessary to prorate the total operations of the enterprise into the individual economic territories.
- **Special purpose entities (SPEs) or vehicles,** international business companies, shell companies, shelf companies, and brass plate companies are all labels that are applied to flexible legal structures in particular jurisdictions, which offer various benefits that may include any or all of low or concessional tax rates, speedy and low-cost incorporation, limited regulatory burdens, and confidentiality. Typical features of these entities are that their owners are not residents of the territory of incorporation, other parts of their balance sheets are claims on or liabilities to nonresidents, they have few or no employees, and they have little or no physical presence.

VI. Institutional Sectors

- The IU are grouped into Institutional Sectors according to the nature of the economic activity they carry out. They have similar objectives, functions and economic behaviors.
- The SNA identifies the following five Institutional Sectors:
  - Nonfinancial corporations.
  - Financial corporations.
  - General government.
  - Households
  - Nonprofit institutions serving hoseholds.
- ***Total economy*** is defined as the set of all resident IUs, grouped into mutually exclusive sectors.

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VI. Institutional Sectors

- **Subsectors.** Each of the **Sectors can be divided into subsectors.** The method and criterion of sectorization is a function of the analytical need pursued:
  - Economic analysis.
  - Analysis of public policies.
  - Monitoring of particular groups.
- ***Rest of the World.*** The accounts are prepared for the five Sectors and for the Total Economy. Relations with the rest of the world are shown in an additional account. As a consequence**, transactions with the Rest of the World are recorded as if it were a sixth sector**.

VI. Institutional Sectors

- **BPM6 classification of Institutional Sectors.**
  - ✓ Central Bank (Monetary Authorities)
  - ✓ Deposit taking corporations
  - ✓ General Government
  - ✓ Other sectors
    - ➢ Other financial corporations
    - ➢ Nonfinancial corporations, households and NPISHs*

**Nonprofit institutions serving households.*

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VII. Residence

- **Residence.** Each IU has only one residence and it corresponds to the economic territory in which it has its center of predominant economic interest.

- **Residence of Households.** A household is resident in the economic territory in which household members maintain or intend to maintain a dwelling or succession of dwellings treated and used by members of the household as their principal dwelling. Being present for one year or more in a territory or intending to do so is sufficient to qualify as having a principal dwelling there. If there is uncertainty about which dwelling is the principal dwelling, it is identified from the length of time spent there, rather than other factors such as presence of other family members, cost, size, or length of tenure.

VII. Residence: Households

- Special categories of people (households) in which other factors are used to determine their residence:
  - **Students and patients.** They remain residents of the territory of which they were residents before moving abroad. The justification for not changing the territory of residence is that the displacement to a different territory has a temporary motivation.
  - **Crew of** ships, aircraft, oil rigs, space stations, or other similar equipment that operate outside a territory or across several territories are treated as being resident in their home base territory. The home base is determined from where they spend most time other than undertaking their duties.

VII. Residence: Households

- **National Diplomats**, military personel and other civil servants employed abroad in government enclaves, as well as members of their households are considered to be residents of the economic territory of the employing government. Those enclaves form part of the economic territory of the employing government.
- **International organization staff**, including those with diplomatic status and military personnel are resident in the territory of their principal dwelling.
- **Cross-border workers.** Border workers, seasonal workers, and other short-term workers cross borders for a short period to undertake a job. Their residence is based on the principal dwelling, rather than the territory of employment.

VII. Residence: Households

- **Highly mobile individuals.** For individuals who do not have continuous actual or intended presence in any one territory for one year, the territory of the principal dwelling they maintain is the key consideration. In cases of no principal dwelling, or two or more principal dwellings in different economies, the territory of residence is determined on the basis of the territory in which the predominant amount of time is spent in the year.
- **Refugees.** Their residence will change from their home territory to the territory of refuge, if they have stayed or intend to stay in their place of refuge for one year or more, even if that residence is involuntary or transient, and its future status is unclear.

NOTE: The intention to remain in a territory for a year or more can be inferred from the behavior of similar groups in the past (Example: Migrants) .

VII. Residence: Enterprises

- **Residence of Enterprises.** An enterprise is resident in an economic territory when the enterprise is engaged in a significant amount of production of goods or services from a location in the territory. In contrast to individuals and households, which may have connections to two or more economies, enterprises are almost always connected to a single economy (due to taxation and other legal requirements). A separate institutional unit is identified for statistical purposes in cases in which a single legal entity has substantial operations in two or more territories (e.g., for branches, land ownership, and multiterritory enterprises).
  - **Corporations with Little or no physical presence.** A legal entity is resident in the economic territory under whose laws the entity is incorporated or registered.
  - **Production delivered from a base.** An enterprise has a location that is used as a base to deliver services to other locations (transport, on-site repairs, short-term construction, and many types of business services). In such cases, the residence is determined from its base of operations, rather than the point of delivery or location of mobile equipment, unless the activities at the point of delivery are sufficiently substantial to amount to a branch.

VII. Residence: General Government, International Organizations and NPISHs

- **General government.** It includes operations outside the home territory, such as embassies, consulates, military bases, and other enclaves of foreign governments, including those providing training and other forms of assistance.
- **International organizations.** They are resident in an economic territory of their own, and not of the economy in which they are physically located.
- **NPISHs.** They have a center of economic interest in the economy in which the institution was legally created and is officially recognized and recorded as a legal or social entity.

VII. Changes in Residence

- **Of individuals.** The change in the residence by an owner of an asset or by someone who has a liability requires a reclassification, because no exchange is made between two parties and, accordingly, no transaction occurs (It is recorded in the IIP).
- **Entities.** An entity changes its residence (i.e., without moving assets to ownership by another entity). These cases could arise from exchanges of territory between governments (It is recorded in the IIP).

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VIII. Accounting Principles

- **Accounting System**
  - The balance of payments statistics, from the perspective of the reporting economy, has the main characteristic of vertical double-entry bookkeeping basis. Any transaction involves the exchange of one economic value for another or a transfer.
  - A transaction between two parties gives rise to four records. This quadruple-entry bookkeeping is essential for bilateral comparisons and regional or global aggregations.
  - Current and capital accounts show transactions in gross values, while the financial account does so in net figures, separating financial assets and liabilities (shows the acquisition of assets minus the reduction of assets, for each financial asset or liability).

VIII. Accounting Principles

- **Types of accounting entries.**
  - In current and capital accounts, each transaction involves a credit entry (positive sign) and a debit entry (negative sign). The record is done in gross terms.

1. **Credit.** It denotes entries from exports, primary income receivable, transfers receivable, and disposals of nonproduced nonfinancial assets.
2. **Debit.** It is used to record entries for imports, primary income payable, transfers payable, and acquisitions of nonproduced nonfinancial assets.

VIII. Accounting Principles

- In the financial account, for the transactions in financial assets and liabilities, the terms "net acquisition of financial assets" and "net incurrence of liabilities" are used. It highlights the impact of the financial account on the international investment position. A positive change indicates an increase in assets or liabilities and a negative change indicates a decrease in assets or liabilities.

  The interpretation of increase or decrease under the credit or debit notion, however, depends on whether the increase or decrease refers to assets or liabilities:

  1. Increase in assets– Debit.
  2. Increase in liabilities- Credit.

  Financial account items are recorded on a net basis separately for each financial asset and liability: they reflect changes due to all credit and debit entries during an accounting period.

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VIII. Accounting Principles

- In principle, the balance of payments accounts are records of operations based on accounting principles whose total net sum is "theoretically" equal to zero: the accounts are balanced.

- However, in practice, imbalances arise due to imperfections in data sources and in the processes of information compilation. Net Errors and Omissions (E&O) are derived as a residual and presented separately from other accounts. The line of E&O is a residual in net terms, so it can have a positive or negative value.

VIII. Accounting Principles

- **Time of recording of flows.**
  - One of the problems in determining the timing of transactions is that activities of institutional units often stretch over periods in which several important moments can be distinguished.
  - For instance, exports and imports of goods commence with the signing of a contract between a seller and a buyer; encompass dates of crossing borders, a date of delivery, and a date or dates on which payments become due; and are completed only when the last payment is received by the seller.
  - Broadly, the time of recording could be determined on four bases: the due-for-payment basis, the commitment basis, the cash basis and the accrual basis.

VIII. Accounting Principles

- **The BPM6 recommends the use of the accrual basis for determining the time of recording of flows.** This way, flows are recorded at the time economic value is created, transformed, exchanged, transferred, or extinguished.
- This means that flows that imply a change of economic ownership are recorded when ownership passes, and services are recorded when provided.
- **The term "economic property" is central.** A change in ownership from an economic point of view means that all risks, rewards, and rights and responsibilities of ownership in practice are transferred.
- When a change in economic ownership is not obvious, the change is considered to occur at (or is proxied by) the time the parties to the transaction record it in their books or accounts.

VIII. Accounting Principles

- **Valuation.**
  - Market prices are the basis for valuation in international accounts. Market prices refer to current exchange value, that is, the values at which goods and other assets, services, and labors are exchanged or else could be exchanged for cash.
  - A market price defined in this way is to be clearly distinguished from a price quoted in the market, a world market price, a going price, a fair market price, or any price that is intended to express the generality of prices for a class of supposedly identical exchanges rather than a price actually applying to a specific exchange.

VIII. Accounting Principles

- When market prices for transactions are not observable, valuation according to market-equivalent prices provides an approximation to market prices. These may be derived from the market prices of similar goods and services by making adjustments for quality and other differences.
- Positions of financial assets and liabilities should, in general, be valued as if they were acquired in market transactions on the balance sheet reporting date.
- Valuation according to the market-equivalent value is needed for valuing financial assets and liabilities that are not traded in financial markets or that are traded only infrequently. For these assets and liabilities, it will be necessary to estimate fair values that, in effect, approximate market prices.
- Fair value is a market-equivalent value. It is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties. It thus represents an estimate of what could be obtained if the creditor had sold the financial asset.

IX. Balance of Payments Structure

- *Current account*. It is a grouping of accounts in the balance of payments. Its components are:
  - Goods and Services
    - ✓ Goods
    - ✓ Services
  - Primary Income
  - Secondary Income

IX. Balance of Payments Structure

- *Capital Account.* Components:
  - Capital Transfers
  - Aquisition and disposals of nonproduced nonfinancial assets (sales of land, leases and licenses; capital transfers, etc.)

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IX. Balance of Payments Structure

- *Financial Account.* It shows net acquisition and disposal of financial assets and liabilities. Its balance represents net lending (surplus) or net borrowing (deficit). Its components:
  - Direct Investment
  - Portfolio Investment
  - Financial Derivatives
  - Other Investment
  - Reserves

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IX. Balance of Payments Structure

BPM6

Current Account
- Goods and Services
  - Goods
  - Services
- Primary Income
- Secondary Income

Capital Account
- Capital Transfers
- Nonproduced Nonfinancial Assets

Financial Account
- Direct Investment
- Portfolio Investment
- Financial Derivatives
- Other Investment
- Reserve Assets

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