

Services Transactions Between Residents and Non-residents

Definition of Services

BPM5 does not define a service; rather it describes services by listing them (see for example para 121, paras 158-168)

Definition of Services

SNA 93 refers to paragraphs 6.8 – 6.13

para 6.8:

Services are not separate entities over which ownership rights can be established. They cannot be traded separately from their production. Services are heterogeneous outputs produced to order and typically consist of changes in the conditions of the consuming units realized by the activities of producers at the demand of consumers. By the time their production is completed they must have been provided to the consumers.

Definition of Services

- ◆ not separate entities over which ownership rights can be established
- ◆ cannot be traded separately from their production
- ◆ heterogeneous outputs, produced to order
- ◆ confined to activities that are capable of being carried out by one unit for the benefit of another
- ◆ typically bring about changes in the condition of the consuming units (at the demand of these units)

Changes to consumers may be:

- ◆ changes in the condition of the consumer's goods
- ◆ change in the physical condition of persons
- ◆ changes in the mental condition of consumers
- ◆ changes in the general economic state of the institutional unit itself
- ◆ changes may be temporary or permanent
- ◆ a single production process may provide services to a consumer or to a group of consumers simultaneously

What the BOP Classification Represents

- ◆ the emergence of new services in the international economy
- ◆ the need to harmonize the balance of payments and the SNA
- ◆ users' needs, in particular international institutions such as the World Trade Organization – the new classification provided increased analytic value
- ◆ the desire to have a clearer distinction between goods and services on the one hand and income
- ◆ the desire to have a framework that is flexible enough to accommodate:
 - the widely varying importance of specific service activities in countries
 - rapid change
 - varying data availability

Key Elements of Conceptual Framework

- ◆ 1. Definition of the BOP
- ◆ 2. Residency
- ◆ 3. Economic transactions
- ◆ 4. Double-entry recording
- ◆ 5. Valuation and time of recording
- ◆ 6. Coverage of the BOP
- ◆ 7. Classification

Residence

Center of economic interest

- ◆ Dwelling, place of production, or other premises, within the economic territory of the country on, or from, which the unit engages, or intends to engage, in economic activities and transactions on a significant scale, for an indefinite or long period (para. 62).

Residence - Households

I. Households and Individuals

- ◆ A household has a center of economic interest when members of that household maintain, within a country, a dwelling or succession of dwellings that the members treat and use as their principal residence. (para. 65)

Residence - Households

The *BPM5* “guideline to be interpreted flexibly” for determining residence is

- presence or the intention to be present
- for a period of one year or more (para. 63).

Residence - Households

Special cases (para. 67):

- ◆ Diplomatic representatives
 - But: non-diplomats, locally engaged staff.
- ◆ Members of the armed forces
- ◆ Students
- ◆ Medical patients
- ◆ Crew members

Summary of Effect of Residence of Households

	If resident household:	If nonresident household:
Compensation of employees received from enterprises in the reporting economy	Non-BOP	Income
Personal expenditure in the reporting economy	Non-BOP	Services – Travel
Transfers to relatives in home country	Workers' remittances	Non-BOP (Possible financial account transactions if made from bank in host country)
Value of personal goods, financial and nonfinancial assets when leaves territory permanently	Migrants' transfers	Personal goods – possibly reported in exports Otherwise, non-BOP

Residence - Enterprises

- ◆ An enterprise has a center of economic interest and is a resident unit of a territory when the enterprise is engaged in a significant amount of production and plans to do so over an indefinite or long period of time (para. 73)
 - One year guideline.

Residence - Enterprises

Particular types of enterprises

- ◆ Operators of mobile equipment (paras. 80-81)
 - For example, airline, railway, trucking, shipping.
 - Based on residence of the operating unit.

Residence - Enterprises

- ◆ Single enterprises operating in more than one economy ctd.
 - Seamless, indivisible operation, e.g., SAS Scandinavian Airlines:
 - Prorate
 - Split based on headquarters and branches (para. 82)

Residence - Enterprises

- ◆ Large, long-term construction or installation projects (para. 78)
 - Site office.
- ◆ Agents (para. 83)
 - Transactions on behalf of principal included in economy of principal.
 - Agent's own services in agent's economy.

Classification of Services

- ◆ Service transactions between residents and nonresidents, including some goods (e.g. goods purchased by travelers, construction enterprises and embassies). Important to note boundary between goods and transportation, and transportation and travel.
- ◆ Special treatment of students and health patients.

SUPPLEMENTARY CLASSIFICATIONS

- ◆ Health, education and other travel services
- ◆ Miscellaneous business services



Treatment of Transportation

Standard Components

Transportation: Definition and
Coverage

Passenger Services

Freight

Other Transportation



In the BOP Standard Components, transportation services are classified

By type of carrier

- Sea Transport
- Air Transport
- Other Transport

By functional category

- Passenger
- Freight
- Other



By type of carrier:

Sea transport covers all transportation services by sea.

Air transport covers all transportation services provided by air, including international passenger transportation.

Other transport:

Additional modes such as

- ✓ Space
- ✓ Rail
- ✓ Road
- ✓ Inland waterway
- ✓ Pipeline transport and electricity transmission



Exclusions:

Goods procured in ports	Goods	Agents' fees (expeditor fees)	Goods
Major repairs of Transport equipment(see BPT, para. 204 for servicing of equipment)	Goods	Consular fees paid by exporter	Not a transaction
Repairs of facilities: rail tracks, harbors, docks, airfields and other facilities	Construction	Charter without crew	Other Business Services
Loading at border, not done by or for the account of the carrier	Goods	◆ Operational leasing	
Postal and courier services	Communication	◆ Financial leases	Loans
		Freight Insurance	Insurance



Passenger Services

- ◆ **Passenger transportation EXCLUDES**
- ◆ services to nonresidents within the economy of the carrier; this is travel.
- ◆ — Carriers do not ask the residence of internal ticket buyers.
- ◆ — All goods and services bought by nonresidents within compiling economy are either *travel* or *government services n.i.e.*



Passenger services

- ◆ **Passenger services include fares and incidental outlays:**
- ◆ On-board food, gifts, souvenirs
- ◆ Excess baggage charges
- ◆ Accompanying personal effects, including autos

Fares that are part of package tours are included.

Rental of transportation equipment *with crew* to transport persons.

Covers rentals or operational leases of vessels, aircraft, freight cars, or other commercial vehicles with crews for limited periods for the carriage of passengers.



Freight Services: Measurement

AFFECTED BY THE FOLLOWING CONVENTIONS:

- ◆ **BPM5** recommends that goods are valued f.o.b. at the customs frontier of the exporting economy
- ◆ that freight charges are borne by the importing economy
- ◆ that f.o.b value of goods include transportation services that are associated with goods and performed prior to arrival of the goods at the customs frontier of the exporting economy
- ◆ transportation services cover transportation of goods to the customs frontier of the importing economy and, within that economy, to the point of delivery. These transportation services are treated as services performed (by residents or nonresidents) for residents of the importing economy



Other Transportation

“Other” subhead under sea and air includes

- ◆ Cargo handling (stevedoring-*NOT done by or for account of nonresident carrier*)
- ◆ Navigation fees
- ◆ Maintenance and cleaning of equipment
- ◆ Commissions and agent fees for transport related services
- ◆ Warehousing
- ◆ Packing, packaging, binding
- ◆ Forwarding, handling, and transferring
- ◆ airport and harbor dues
- ◆ towing, pilotage, and other navigational aid for carriers
- ◆ salvage operations



TRAVEL

- ◆ A demand oriented activity; travelers moves to the location of the provider (residents of the economy visited) for the goods and services desired.
- ◆ Is not a specific type of service but an assortment of goods and services consumed by travelers.



TRAVEL

- ◆ Travel is not identified as a service in the Central Product Classification (CPC), (see Appendix III of the *Manual*)
- ◆ Travel is not synonymous with *tourism* in the SNA and the World Tourism Organization (WTO) (e.g., transportation costs, differences of definition of residence)



Travel Services Cover:

- ◆ goods and services, including health and education services.
- ◆ acquired by nonresidents travelers (Including excursionists)
- ◆ for business and personal reasons
- ◆ in the economy visited
- ◆ seasonal and border workers' expenditures



Traveler

A nonresident staying in an economy for any purpose

Exceptions:

- ◆ Personnel stationed on a military base
- ◆ Diplomats and embassy personnel
- ◆ Accompanying dependents stationed on a military base or employed by an agency of his or her government (treated as government services)
- ◆ Individuals undertaking a productive activity directly for an entity that is a resident BUT personal expenditures by these individuals are included in travel
- ◆ Work done for local entities is recorded under compensation of employees, including reimbursed expenditures for food
- ◆ Reimbursed business expenditures, including lodging and all transportation are considered to be expenditures of employer



Travelers

The one-year rule does not apply to students and medical patients who remain residents of their economies of origin even if the length of the stay in another economy is one year or more. All expenditures made by students and medical patients are recorded in travel.



BOP Classification

- ◆ **Business**
- ◆ Seasonal and border workers*
- ◆ Other*
- ◆ **Personal**
- ◆ Health-related*
- ◆ Education-related*
- ◆ Other*
- ◆ * not a standard component



Inclusions in travel

- ◆ Lodging
- ◆ Food and beverages
- ◆ Entertainment
- ◆ Transportation within economy visited
- ◆ Cruises
- ◆ Gifts taken or sent out of economies visited
- ◆ Any goods for travelers own use and consumed in or taken out of economies visited
- ◆ Goods or services received by travelers without a quid pro quo (counter entry is transfers)
- ◆ All education expenditures including implicit expenditures supported by scholarships or grants. For scholarships and grants counter entry is transfers
- ◆ All medical expenditures Including any free medical services (counter entry is grants)



Exclusions from travel

- ◆ International carriage of travelers
 - ◆ Expenditures of employees of foreign governments' offices in a country
 - ◆ Sales and purchases made by business travelers on behalf of their nonresident company
 - ◆ Fees for services rendered abroad without travel abroad (e.g., medical, and educational, etc.)
 - ◆ Goods and services procured by resident entity for visiting transaction employees
- Transportation
Government Services
- Goods, services.
- Personal,
cultural,
Recreational
- Not a BOP



Business Travel

- ◆ Carrier crews stopping over
(but in-flight, or shipboard expenses incurred by resident crew on resident carrier NOT included)
- ◆ Government employees on official travel
- ◆ Employees of international organizations on official business
- ◆ Employees doing work for enterprises that are not resident in the economies in which the work occurs.



Communications services

- ◆ telecommunications services
 - includes telephone, telex, cable, broadcasting, satellite, electronic mail, facsimile, teleconferencing, cellular telephone services,
 - note: internet “backbone” services
- ◆ postal and courier services
 - pick-up, transport, and delivery of printed materials, parcels, and similar (by national postal administrations and other operators), mailbox rental services



Construction services

- ◆ Comprises work performed on construction projects by an enterprise or site office that is deemed to be nonresident in the host country.
- ◆ The value of the construction service should equal the full value of the construction project.
- ◆ generally the work is of a short-term nature (note the one year guideline)
- ◆ special treatment of expenditures in the host economy on goods and services

The value of the service includes goods and materials imported from the home country for use on site. Local expenditures should be included under other business services.



Construction services

The following conditions should be met for such an enterprise or site office to be deemed resident in the host country.

- ◆ The construction activity should take more than twelve months to complete.
- ◆ The enterprise should maintain complete and separate sets of accounts of local activities, pay income taxes, and have a substantial physical presence.



Insurance services

- ◆ the provision of various types of insurance to nonresidents by resident insurance enterprises (and *vice versa*)
- ◆ includes:
 - life insurance
 - pension funds
 - freight insurance
 - other direct insurance (term life insurance, accident and health insurance, marine, aviation, and other transport insurance, fire and other property damage insurance, insurance against financial loss, general liability insurance, travel insurance ... and so on)
 - reinsurance
- ◆ need to estimate the value of these services



Insurance services

Estimation of reinsurance:

- exports of services: the balance of all flows between resident reinsurers and nonresident insurers.
- imports of services: the balance of all flows occurring between resident insurers and nonresident reinsurers

but note that it may be more appropriate in some circumstances to estimate reinsurance services in a similar manner to that for nonlife insurance services



Reinsurance

- ◆ Reinsurance flows are for most countries external flows
- ◆ Use the same formula as for direct insurers
- ◆ Exports: the ratio of reinsurance charges of the resident reinsurance industry to be applied to premiums accepted from non resident direct insurers
- ◆ Imports: data from the resident direct insurers who use reinsurance services, to be used to calculate their total consumption of reinsurance services. The ratio of reinsurance service charges to premiums ceded to reinsurers, for all reinsurance businesses, can be applied to the premiums ceded to non residents.



Life insurance

Estimation of life insurance service charge:
for exports, either:

- ◆ estimate as for nonlife insurance; or
- ◆ calculate service charge ratio to be applied to premiums payable by nonresidents as (sum of operating costs and profits) divided by (premiums payable)

for imports, the process is similar to that for nonlife insurance

- ◆ in both cases, the excess of premiums over the estimated service charge is treated as a financial account entry (because of the savings element of life insurance)



Financial services

Defined as services provided by financial intermediaries and auxiliaries (defined as subsectors of the economy in the SNA).

Comprises:

- ◆ Intermediary service fees such as those associated with letters of credit, bankers' acceptances, lines of credit, financial leasing, and foreign exchange transactions.
- ◆ Commissions and fees related to transactions in securities, such as brokerage, fees for placement and redemption of issues, underwriting, fees related to transactions in financial derivatives.
- ◆ Services related to asset management, financial market operational and regulatory services, security custody services.
- ◆ note that financial intermediation services indirectly measured (FISIM) are not included



Computer and information services

- ◆ computer services
- ◆ news agency services
- ◆ other information provision



Computer and information services

Computer services

- ◆ hardware and software consultancy and implementation
- ◆ maintenance and repair of computer hardware
- ◆ analysis, design, and programming
- ◆ development, production, supply, and documentation of customized software
- ◆ data processing services
- ◆ web page hosting
- ◆ development and management of databases, and dissemination of data
- ◆ provision of web portals (search engines)
- ◆ **does not include the provision of non-customized ("off-the-shelf" software)**

Information services

- ◆ News-related services
- ◆ Nonbulk Subscriptions to newspapers and periodicals



Royalties and license fees

These are services that represent the use of a fixed asset. They are classified as services rather than income as they represent consumption of fixed capital arising from the use of the asset.



Royalties and license fees

- ◆ franchise fees
- ◆ payments for the use of registered trademarks
- ◆ payments for the use of intangible nonfinancial assets (such as patents, copyrights, industrial processes)
- ◆ includes payments for the use (through licensing agreements) of produced originals
- ◆ does not include payments for the purchase/sale of these assets and rights
- ◆ note:
 - (i) *borderline with income*
 - (ii) *sometimes computer software use generates royalties*



Other business services

- ◆ merchanting and other trade-related services
- ◆ operational leasing services
- ◆ miscellaneous business, professional, and technical services



Other business services

Merchanting and other trade-related services.

- ◆ *Merchanting.* Defined as the purchase of a good by a resident from a nonresident and the subsequent resale to another nonresident, without entering or leaving the compiling country.
- ◆ *Trade-related services.* Include agents fees paid by an importer of goods to a resident of a third economy (not the exporter).
- ◆



Merchanting services

- ◆ goods are purchased by a resident of one economy (the merchant) from a nonresident and subsequently resold to another nonresident from a third economy without the goods entering or leaving the merchant's economic territory
- ◆ valuation: the value of the service is the difference between the value of the goods when acquired and the value of the goods when resold



Merchanting services

- ◆ time of recording:
 - if the purchase and sale take place in one accounting period, this is the time at which the service is recorded
 - if the good is not resold until a later period, the merchanting transaction is recorded at the time of sale
- ◆ recording is asymmetrical: the country exporting and the country importing the good do not record merchanting services; they do however report different valuations



Trade-related services

- ◆ commissions on goods and service transactions between (i) resident merchants, commodity brokers, dealers, and commission agents and (ii) nonresidents
- ◆ excludes brokerage in financial assets, transport-related fees



Other business services

- ◆ **Operational leasing services.** Includes charters of ships, aircraft, railroad equipment, containers, rigs, all without crew.
- ◆ **Other business, professional, and technical services.** Refer to *BPM5 Selected Supplementary Information* table (page 50)

1.



Operational leasing

- ◆ leasing (renting) or charter of ships, aircraft, and transportation equipment (such as railway cars, containers), without operator or crew
- ◆ lease payments for other types of goods
- ◆ but excluding financial leases
- ◆ also excluded are leasing of telecommunications lines or capacity; rental of ships or aircraft with crew; and (special case) rental of cars to nonresident travelers



Note: definition of a financial lease

- ◆ a method of financing the purchase of a capital good: there is an agreement between the owner (lessor) and the entity that has use of the good (the lessee)
- ◆ during the lease period, the owner (lessor) recovers most or all of the costs associated with acquiring and holding the good
- ◆ the lease is for most or all of the economic life of the capital good
- ◆ no legal change of ownership



Definition of a financial lease

- ◆ lessee assumes the rights, risks, rewards, and responsibilities of ownership
- ◆ lease payments consist of both interest and principal elements
- ◆ there may be provision for a final payment, at which time legal change of ownership takes place

rule of thumb: a financial lease arrangement is expected to cover at least 3/4ths of the cost of the good (including freight charges)



Other business services

- ◆ included are a wide range of services:
 - legal, accounting, management consulting, and public relations
 - advertising, market research, and public opinion polling
 - research and development
 - architectural, engineering, and other technical services
 - agricultural, mining, and on-site processing services
 - other business services



Personal, cultural, and recreational services

- ◆ *Audiovisual and related services.*
- ◆ *Other cultural and recreational services.*



Personal, cultural, and recreational services

Audiovisual and related services.

- services and associated fees related to the production of motion pictures (film or videotape), radio and television programs (live or on tape), and musical recordings
- ◆ rentals of films, videotapes etc
- ◆ fees received by actors, directors, producers etc for productions abroad
- ◆ fees for distribution rights for a limited number of showings in specified areas



Personal, cultural, and recreational services

Other cultural and recreational services.

- other types of services such as those associated with museums, libraries, archives
- other cultural, sporting and recreational activities
- ◆ education services (such as the provision of correspondence courses)
- ◆ health services (services provided in other economic territories)



Government services n.i.e.

- ◆ Includes all transactions by embassies, consulates, aid missions, military units and defense agencies in the country where these agencies are located, excluding transaction with residents of the home country.
- ◆ Includes transactions associated with aid services for which the counterpart entries are current or capital transfers.
- ◆ Note that persons posted to serve in embassies abroad are treated as nonresident of the country to which they have been posted regardless of their length of stay. Hence, their expenditures in the host country are BOP transactions.



Government services n.i.e.

- ◆ government transactions in services not included elsewhere
- ◆ defined by the transactor, and covers a wide range of products, including:
- ◆ all transactions with the host economy for goods and services by embassies, consulates, and similar (note that transactions with the home economy are excluded)
- ◆ personal expenditures incurred by diplomatic and consular staff and their dependents in the economies in which they are located
- ◆ transactions associated with general administrative expenditures