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**Harmonization Between Balance of Payments and National Accounts**

## **Practical Guide on Harmonization Between Balance of Payments and National Accounts**

### **Note prepared by UN-ECLAC Statistics Division**

This note is an English summary of the Practical Guide on Harmonization Between Balance of Payments and National Accounts, which is currently only available in Spanish. The guide was prepared by a United Nations Economic Commission for Latin America and Caribbean (ECLAC) Regional Working Group (RWG) which was coordinated by the Central Bank of Uruguay (BCU), with the support of the United Nations Statistics Division (UNSD) and the Statistics Division of UN-ECLAC.

The latest version of the international statistical standards for national accounts (the System of National Accounts 2008 (2008 SNA)) and the balance of payments (the Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6)) has ensured that the methodology and the underlying concepts for these two macroeconomic statistics frameworks are coherent.

However, there are still large differences in the compilation practices between national accounts and balance of payments and there is a need to reconcile national accounts and balance of payment data to ensure consistency.

Factors that contribute to large discrepancies include, amongst others, those due to different compilation practices based, for example, on the use of different data sources, different compilation processes and revision schedules, as well as the various institutional arrangements in Latin America and Caribbean (LAC) countries, for which the compilation of each system is done in isolation from the other.

Within the framework of the Annual Seminar on National Accounts 2016 of UN-ECLAC, a RWG was created with the objective of developing guidance for regional recommendations aimed at strengthening the coordination of the adoption of the theoretical, practical and institutional aspects of the BPM6 and the 2008 SNA . The Group was also tasked to suggest proposals based on good practices in inter-institutional coordination, based on the existing experience in the countries of the region.

This Guide is the outcome of the activities of the RWG. Preliminary versions of the Guide were presented during the Advisory Expert Group Meeting of December 2017 (New York), the UN-ECE Meeting of the Group of Experts on National Accounts, in May 2018 (Geneva), and the UN ESCAP 2018 Asia-Pacific Economic Statistics Week in May 2018 (Bangkok).

The Guide analyzes the reasons for the inconsistencies between the compilation of the national accounts and the balance of payments. It also develops some practical recommendations to resolve these inconsistencies. It also gathers countries' points of view about national experiences to address inconsistencies in the data.

Three specific task groups (TGs) were set up by the RWG that addressed the issues of Goods and Services, Financial Intermediation Services Indirectly Measured (FISIM) and Direct

Investment. These topics were selected by the participating countries as priority areas, in response to the problems of harmonization that were identified.

The Goods and Services TG was initially coordinated by the Central Bank of Venezuela (BCV) and then by the Central Bank of Nicaragua (BCN). The two institutions were assisted by the National Institute of Statistics and Censuses (INDEC) of Argentina, the Brazilian Institute of Geography and Statistics (IBGE) and the National Administrative Department of Statistics (DANE) of Colombia. The FISIM TG was coordinated by the DANE and the Bank of the Republic of Colombia (BANREP), assisted by the IBGE, the BCN and the BCV. The GT of Direct Investment was coordinated by the Central Bank of Costa Rica (BCCR), assisted by the Bank of Guatemala (BANGUAT) and the BCU.

The Guide, as such, is not in its final form. The view of the TGs is that, although many best practices have been identified, and concrete recommendations are accordingly made in the Guide, there is still room for improvement, especially on concrete application guidance at the regional level.

As a first activity of the RWG, a survey was carried out between October and November 2017 by UN-ECLAC addressed to Latin America countries in order to have an initial diagnosis. The survey covered topics such as institutional responsibility in the compilation of national accounts and the balance of payments, the characteristics of publications, the version of the manuals used as reference, the main statistical sources and classifications, the characteristics of the conciliation process between both systems, the main sources of discrepancy, and the institutional arrangements that favor harmonization.

The Guide details on the changes introduced by the 2008 SNA and the BPM6 that are of particular importance for the harmonization of the two systems. In this respect, it contains sections on the definition of center of predominant economic interest, change of residence, goods for processing, merchanting, branches of non-resident units, multi-territorial companies, and special purpose entities. The Guide also contains a correspondence matrix between balance of payments transactions and the Rest of the World Accounts in national accounts.

Regarding Goods and Services, the Guide pays special attention to the concepts of the time of recording, the principle of valuation, illegal transactions and contraband, goods for processing, merchanting, and the distinction between goods and services.

Concerning Direct Investment, the treatment of the different sub-sectorizations that occurs in the 2008 SNA is analyzed. Specific treatments of Direct Investment are also examined, such as the reinvestment of the profits of the Direct Investment companies, the valuation criteria of the equity participations of a Direct Investment company, and the creation of notional resident units.

In addition to the methodological aspects, the document discusses on the statistical processes of compilation of national accounts and the balance of payments. The use of business registers, the statistical strategy and measurement of transactions, other flows and stocks, the use of basic information derived from surveys and administrative registers are analyzed. Furthermore, the Guide tries to shed light on the correspondence between different classifications, the

reconciliation of data through, for example, supply and use tables, the importance of integrated economic accounts, and the lack of consistency between low and higher frequency series. A space is also dedicated to dissemination and revision policy best practices.

Finally, the dimensions of the institutional framework and strategic planning are analyzed. Throughout the document, case studies are presented that reflect the practice of the countries to improve integration between national accounts and balance of payments aggregates.

The Guide is divided into four main Chapters. The first Chapter analyzes the conceptual framework of the two systems, 2008 SNA and BPM6, focusing on the changes introduced in both manuals to ensure integration and conceptual coherence, the relationship between the Accounts for the Rest of the World in the SNA and the International Accounts in the BPM6, the interpretation of the conceptual frameworks, and the moment of their adoption at the national level. Six case studies are presented in this Chapter, covering the experience of Nicaragua and Costa Rica (estimation of goods for processing), Guatemala (reinvested earnings on foreign direct investment), Uruguay (dwellings owned by non-residents and merchanting), and Argentina (leasing of produced assets).

The second Chapter analyzes, following the classification proposed in the Guidelines on Integrated Economic Statistics (United Nations, 2013), the main components of the statistical production process, namely: (a) business registers and frameworks; (b) statistical strategy, including standards, methods and classifications in the processing and editing of data, metadata and data quality; (c) data sources, including surveys and the use of administrative data; (d) integration of statistics and accounts; and (e) dissemination and communication, including exchange of data. This Chapter includes five case studies dealing with business registers (Costa Rica, Uruguay and Colombia), foreign direct investment (Costa Rica and Guatemala), and exchange rate conversion of balance of payments data (Uruguay).

The third substantive Chapter of the Guide deals with dissemination and focuses on good practices for publication of results to users and on revision policies of national accounts and balance of payments data.

The fourth Chapter focuses on the mechanisms of support in the harmonization process, which strongly depend on the institutional framework in its strategic aspects of governance arrangements, process management and strategic planning. This Chapter contains a proposal for the coordination of an integrated process, as well as two case studies of institutional arrangements in Colombia and Brazil.

All over the Chapters, recommendations on main topics are included in boxes. The Guide concludes with three Annexes, detailing on results of the surveys carried out in Latin America countries, a selection of relevant Paragraphs from the 2008 SNA and the BPM6, and an example (Costa Rica) of the information usually required in business surveys for the compilation of the balance of payments.