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Issue Note – Debits and Credits

Use of Credit/Debit vs Revenue/Expenditure in Balance of Payments Statistics: Issue Note¹

SECTION I: INTRODUCTION

DISCUSSION AT THE JULY 2023 JOINT AEG/COMMITTEE MEETING

1. **At the July 2023 meeting of the IMF Committee on Balance of Payments Statistics (the Committee) and the Advisory Expert Group on National Accounts (AEG), a number of concerns were raised in relation to changing the terminology from credit/debit to revenue/expenditure in balance of payments statistics and it was agreed to further discuss the issue.** The proposal on changing the terms was presented as part of Guidance Note (GN) *CM.2 Terminology and Branding of the Economic Accounting Statistical Standards* to harmonize the terminology across statistical domains.²
2. **Some Committee members expressed concerns that it could lead to confusion if the *Balance of Payments and International Investment Position Manual, seventh edition (BPM7)* moves too far away from the terminology that compilers and users have been using for decades.** Some members also highlighted the additional challenges when translating the proposed changes to terms into other languages. At the same time, there was general support for ensuring consistency of terminologies across statistical manuals.
3. **To facilitate further discussion on the use of credit/debit vs revenue/expenditure in balance of payments statistics, this note examines the feasibility of implementing these changes in the external accounts and presents three options for consideration of the Committee.**

DESCRIPTION OF THE GN CM.2 PROPOSAL

4. **With a view to harmonizing terminology across statistical domains, GN CM.2 noted that the terms *credit* and *debit* used in balance of payments statistics were not aligned with the terms referring to the same concepts in other statistical domains.** In fact, the terminology varies significantly across *BPM6*, the *2008 System of National Accounts (2008 SNA)*, and the *Government Finance Statistics Manual 2014 (GFSM 2014)*. As a result, GN CM.2 proposed a harmonized terminology that would involve changes to all three domains as shown in the table below. In addition, in the case of the capital account of the balance of payments, where *credit* and *debit* are also used, GN CM.2 proposed replacing them with *changes in assets*/*changes in liabilities* to achieve an alignment with the SNA accumulation accounts.

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² Refer to the [Summary of Discussions of the July 2023 joint AEG/BOPCOM meeting](#) for further details relating to the discussion on GN CM.2.

Table 1: GN CM.2 Proposal for Further Alignment of Key Concepts Across Statistical Domains³

BPM6	2008 SNA	GFSM 2014	CM.2 Proposal
Credit	Resource	Revenue	Revenue
Debit	Use	Expense	Expenditure

SECTION II: OPTIONS AND RECOMMENDATION OF THE *BPM7* EDITORIAL TEAM

5. **Consistency in terminologies across statistical domains is important to the extent that the same terms can be used to refer to similar concepts.** Changes to the terminology should not lead to confusion among users and compilers.

6. **The *BPM7* editorial team notes that the biggest change in the use of credit/debit in the main balance of payments tables happened with the transition from *BPM5* to *BPM6*.** With the release of *BPM6*, it was decided to use the terms *credit* and *debit* only in the current and capital accounts (in the presentation of standard and supplementary items), while the terms *net acquisition of financial assets* and *net incurrence of liabilities* were introduced for use in the financial account. Indeed, the new terminology in the financial account was introduced to achieve consistency with the SNA and to clear misunderstandings related to the interpretation of credit transactions (reduction in assets or increase in liabilities) and debit transactions (increase in assets or reduction in liabilities) in the financial account. However, the double-entry basis of balance of payments statistics with the recording of credits and debits still underlies the system at the level of individual transactions as described in Box 2.1 of *BPM6*. Users seem to have adapted well to this change over time.

7. This note lays out three options for the terminology used for balance of payments entries in *BPM7* (see more details in Annex 1). **The first option gives priority to achieving further harmonization and proposes replacing *credits* and *debts* by *revenue* and *expenditure* in the current account, and by *disposal/acquisition of nonproduced nonfinancial assets and capital transfers receivable/payable* in the capital account.** Although the term *accumulation accounts* will be used in *BPM7* (consistent with *2008/2025 SNA*), the capital account is not considered to be part of the accumulation accounts in the case of BPM, because the relevant accumulation of assets is not accounted for in IIP. Therefore, the terms *acquisition/disposal of nonproduced nonfinancial assets and capital transfers receivable/payable* are proposed to be used instead of *changes in assets/changes in liabilities* in the capital account. The proposed terminology would not be consistent with the SNA terminology at the first level but only at the more detailed level.⁴ This change would therefore ensure some (yet not full) harmonization of balance of payments and national accounts terminology for these accounts. Further, the proposed terms are more self-explanatory than *credits* and *debts*. Nevertheless, it will be an important

³ Refer to Table 3, [GN CM.2](#) for complete details on the proposal for alignment of key concepts in SNA, BPM, and GFSM.

⁴ Similar to the correspondence existing in the financial account: as presented in Annex 1, while *2008 SNA* uses *change in assets/change in liabilities and net worth* as the main headings in financial account, the terms *net acquisition of financial assets* and *net incurrence of liabilities* are used at the next level.

change for the users as they would need to adapt to different terminologies across the three main balance of payments accounts (i.e., the current, capital, and financial accounts). From compilers' perspective, implementing this change would require updates to terminology in tables and databases although these costs may not be substantial in many cases when statistical agencies/central banks are converting to *BPM7* anyway. In addition, the scope of *revenue/expenditure*, if implemented in SNA/BPM (current account), will slightly differ from *revenue/expense* in GFSM, which also includes capital transfers (revenue/expenditure as per the GN CM.2 recommendation in Table 1).

8. **The second option in Annex 1 proposes replacing *credits* and *debits* with *revenue* and *expenditure* in both current and capital accounts.** With this option, full harmonization with the SNA (and with the GFSM) would not be achieved. Revenue/expenditure would refer to (i) exports/imports of goods and services, (ii) earned income receivable/payable, (iii) transfer income receivable/payable, (iv) capital transfers receivable/payable, and (v) disposals/acquisitions of nonproduced nonfinancial assets. However, resource/use (revenue/expenditure) in the SNA will only be used in the current accounts, while the SNA capital account covers transactions in nonfinancial assets and capital transfers and uses *change in assets/change in liabilities and net worth*. Consequently, Option 2 would result in using *revenue/expenditure* with different scope in SNA/BPM, which goes against the basic objective of harmonization.⁵ Similar to option 1, the proposed terms are more self-explanatory than *credits* and *debits*. Nevertheless, users may be able to adapt this change easily as this change is straightforward. Further, compilers could easily understand and implement this change with even less transition costs compared to Option 1. As with option 1, the scope of *revenue/expenditure* under this option, if implemented in SNA/BPM, will also differ from *revenue/expense* in GFSM (Annex 2 provides the definitions of the terms revenue/expense, resources/uses, and credits/debits and their main differences).

9. **The third option in Annex 1 proposes maintaining the status quo, namely, using *credit/debit* in the current and capital accounts.** Maintaining this option requires no outreach to users and compilers following the adoption of *BPM7*. While harmonization of balance of payments and national accounts terminology for the current and capital accounts would remain unresolved, as explained none of the other two options would ensure full harmonization either. The pros and cons of the three options are summarized in Annex 3.

10. **The options presented in the note are concerned with the use of the proposed terms in the English language version of *BPM7*.** Based on the agreed option, translation of the terms into other languages could be done ensuring that they are properly understood by the users and compilers of balance of payments statistics in those languages.

Questions for the AEG/Committee:

1. Considering the pros and cons of the three options presented, which option does the AEG/Committee members support to adopt in *BPM7*?
2. Do Committee members have any other comments on the Issue Note?

⁵ The scope of transactions in nonfinancial assets differs between BPM and SNA capital accounts. While in the SNA, it also concerns *gross fixed capital formation* (including own-account production) and *consumption of fixed capital*, in the BPM, it only refers to *acquisitions and disposals of nonproduced nonfinancial assets*,

Annex 1: Terminologies Used in *BPM6/2008SNA* Accounts vs Proposed Options in *BPM7/2025 SNA*

BPM/SNA	current account ^{1 2}	Capital account ^{3 4}	Financial account ³	Other changes in the volume of assets account ³	Revaluation account ³	Balance sheet
BPM6	Credit/Debit	Credit/Debit	Net acquisition of financial assets/Net incurrence of liabilities	Net changes in financial assets due to other changes in the volume/Net changes in liabilities due to other changes in the volume	Net changes in financial assets due to revaluations/ Net changes in liabilities due to revaluations	Assets/Liabilities
BPM7 (Option 1)	Revenue/Expenditure	Disposal of nonproduced nonfinancial assets and capital transfers receivable (CR)/Acquisition of nonproduced nonfinancial assets and capital transfers payable (DR)	Net acquisition of financial assets/Net incurrence of liabilities	Net changes in financial assets due to other changes in the volume/Net changes in liabilities due to other changes in the volume	Net changes in financial assets due to revaluations/ Net changes in liabilities due to revaluations	Assets/Liabilities
BPM7 (Option 2)	Revenue/Expenditure	Revenue/Expenditure	Net acquisition of financial assets/Net incurrence of liabilities	Net changes in financial assets due to other changes in the volume/Net changes in liabilities due to other changes in the volume	Net changes in financial assets due to revaluations/ Net changes in liabilities due to revaluations	Assets/Liabilities
BPM7 (Option 3)	Maintain status quo		Net acquisition of financial assets/Net incurrence of liabilities	Net changes in financial assets due to other changes in the volume/Net changes in liabilities due to other changes in the volume	Net changes in financial assets due to revaluations/ Net changes in liabilities due to revaluations	Assets/Liabilities
2008 SNA	Resources/Uses	Change in assets/Change in liabilities and net worth	Change in assets/Change in liabilities and net worth	Change in assets/Change in liabilities and net worth	Change in assets/Change in liabilities and net worth	Stocks of assets/Liabilities
2025 SNA	Revenue/Expenditure	Change in assets/Change in liabilities and net worth	Change in assets/Change in liabilities and net worth	Change in assets/Change in liabilities and net worth	Change in assets/Change in liabilities and net worth	Stocks of assets/Liabilities

1 SNA: production account, generation of income account, primary and secondary income accounts, use of disposable and adjusted disposable income account

2 BPM: goods account, services account, primary and secondary income accounts

3 SNA records change in assets on the left-hand side of the account/change in liabilities and net worth on the right-hand side for all the accumulation accounts. Same convention is followed for SNA capital account although there no liabilities to be recorded in the capital account

4 GN CM.2 suggests using "changes in assets/changes in liabilities" for BPM capital account. Although "accumulation accounts" terminology will be used in BPM7 consistent with 2008/2025 SNA, capital account is not part of accumulation accounts in the case of BPM. Therefore, terminology suggested by CM.2 (change in assets/change liabilities) used in SNA for the capital account may not be appropriate in BPM straightaway.

Annex 2: Definitions of Credit/Debit, Revenue/Expense, and Resources/Uses

SNA/BPM/GFSM Terms	Definition	Remarks
Revenue (GFSM)	An increase in net worth of a unit resulting from a transaction.	Includes capital transfers receivable (under grants), but transactions in non-financial assets are not part of it
Resources (SNA)	Transactions in the current accounts which add to the amount of economic value of a unit or a sector (for example, wages and salaries are a resource for the unit or sector receiving them). By convention, resources are put on the right side of the account.	Only relates to current accounts. Transactions in non-financial assets and capital transfers are recorded in the SNA capital account
Credit (BPM)	In the BPM, credit entries relate to exports of goods and services, earned income receivable, transfer income receivable and disposals of non-produced non-financial assets (the financial account in the external accounts uses the terms net acquisition of financial assets and net incurrence of liabilities rather than credit and debit).	Credit entries cover both current and capital accounts in BPM
Expense (GFS)	A decrease in net worth for a unit resulting from a transaction.	Includes capital transfers receivable (under grants), but transactions in non-financial assets are not part of it
Uses (SNA)	Transactions in the current accounts that reduce the amount of economic value of a unit or institutional sector (for example, wages and salaries are a use for the unit or institutional sector that must pay them). By convention, uses are put on the left side of the account.	Only relates to current accounts. Transactions in non-financial assets and capital transfers are recorded in the SNA capital account
Debit (BPM)	In the BPM, debit entries relate to imports of goods and services, earned income payable, transfer income payable and acquisitions of non-produced non-financial assets (the financial account in the external accounts uses the terms net acquisition of financial assets and net incurrence of liabilities rather than credit and debit).	Debit entries cover both current and capital accounts in BPM

Annex 3: Pros and Cons of the Proposed Options

Option	Pros	Cons
1: Use <i>revenue/expenditure</i> in the current account and <i>disposal of nonproduced nonfinancial assets and capital transfers receivable/acquisition of nonproduced nonfinancial assets and capital transfers payable</i> in the capital account	<ul style="list-style-type: none"> · Achieve further (not full) harmonization of balance of payments and national accounts terminology for the current and capital accounts · Proposed terms are more self-explanatory than <i>credits</i> and <i>debits</i> 	<ul style="list-style-type: none"> · Transition costs for users (would have to adapt to using different terminologies across the three main balance of payments accounts, i.e., the current, capital, and financial accounts) · Transition costs for compilers (would have to update terminology in tables and databases)
2: Use <i>revenue/expenditure</i> in the current and capital accounts	<ul style="list-style-type: none"> · Achieve further (not full, and less than option 1 for the capital account) harmonization of balance of payments and national accounts terminology for the current and capital accounts · Proposed terms are more self-explanatory than <i>credits</i> and <i>debits</i> 	<ul style="list-style-type: none"> · Transition costs for users (although lower than option 1, i.e., simple change from credit/debit to revenue/expenditure) · Different scope of the terms <i>revenue</i> and <i>expenditure</i> in balance of payments and in national accounts · Transition costs for compilers (would have to update terminology in tables and databases)
3: Use <i>credit/debit</i> in the current and capital accounts (status quo)	<ul style="list-style-type: none"> · No transition costs for balance of payments compilers and users (builds on well-known terminology) 	<ul style="list-style-type: none"> · No further harmonization of balance of payments and national accounts terminology for the current and capital accounts