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**The Revision of the fifth edition of the Balance of Payments Manual - Progress and
Plans**

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THE REVISION OF THE FIFTH EDITION OF THE *BALANCE OF PAYMENTS MANUAL*—PROGRESS AND PLANS

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Summary

Measurement of the external transactions and positions of member countries has been a central feature of International Monetary Fund operations since inception. Such measurement is conducted in the dual context of IMF responsibility for the surveillance of countries' economic policies and the provision of financial assistance in support of adjustment measures to correct balance of payments disequilibria. Consequently the IMF has a compelling interest in developing and promulgating appropriate international guidelines for the compilation of sound and timely balance of payments and international investment position (IIP) statistics. Such guidelines, which have evolved to meet changing economic circumstances and analytic requirements, have been embodied in successive editions of the IMF's *Balance of Payments Manual* since its first edition was published in 1948. Successive editions were published in 1950, 1961, 1977, and 1993.²

Against the background of significant changes in the international and financial environment since the fifth edition (*BPM5*) was published in 1993, the IMF Committee on Balance of Payments Statistics (IMF Committee)³ decided that it would be appropriate to revise *BPM5*. The revision is being coordinated with the simultaneous review of the *System of National Accounts (1993 SNA)*, which is being undertaken under the auspices of the United Nations. Because the balance of payments accounts are an articulation of the rest of the world accounts of the national accounts, it is regarded as critically important that the two systems remain consistent to the maximum extent possible.

The new manual will take into account specialized manuals, emphasizing consistency with the basic concepts of the *Manual on Statistics of International Trade in Services*. An extensive process of development, consultation, and review is now underway to produce new guidelines with a target date of late 2008. The target date fits well with the proposal to complete a review of the *System of National Accounts 1993* by 2008.

¹ This paper is prepared for the Technical Subgroup Meeting on Mode 4, September 15–16, 2004. The views expressed are those of the authors and do not necessarily reflect the views of the IMF or IMF policy.

² A supplement to the 1993 (fifth) edition—covering the measurement of financial derivatives—was published in 2000.

³ A committee of senior statistical experts, from IMF member countries and from international organizations, who advise the IMF on balance of payments and international investment position statistics, and foster greater coordination among countries.

1. NEEDS FOR A REVISED MANUAL

Despite changes in economic circumstances and policy since *BPM5*, it is considered that the existing guidelines have been robust and that the *overall structure* of the international accounts will be essentially unchanged in the new manual. However, there will be differences in detail. Specifically the factors that led to the decision to produce a new edition are the needs to:

- (a) take into account financial innovations that engender new types of financial assets and liabilities and increase growth in financial services;
- (b) clarify selected areas (e.g., scope of direct investment, services, the borderline between use of an asset and sale of an asset);
- (c) increase emphasis on the international investment position to facilitate the growing importance of balance sheet analysis and show the IIP fully interlinked with transactions and other flows;
- (d) demonstrate the integration between international accounts statistics and other macroeconomic statistics, taking into account changes made as part of the review of the *System of National Accounts 1993 (1993 SNA)* and the publication of the *Monetary and Financial Statistics Manual 2000* and the *Government Finance Statistics Manual 2001*;
- (e) take account of developments in international accounting standards;
- (f) take into account specialized manuals, emphasizing consistency with the basic concepts of the interagency *Manual on Statistics of International Trade in Services*, interagency *External Debt Statistics: Guide for Compilers and Users*, IMF *Coordinated Portfolio Investment Survey Guide*, IMF *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template*, IMF *Compilation Guide on Financial Soundness Indicators*, and *OECD Benchmark Definition of Foreign Direct Investment*;
- (g) introduce the idea of supplementary or satellite presentations that use the same underlying principles but with (i) additional detail and/or (ii) some alternative concepts (such as number of visitors or migrants) so that the manual can be used as a starting point for other types of analysis, and so maintain a consistent base; and
- (h) deal with the special issues related to currency unions and other regional monetary and economic arrangements.

2. PROCESSES OF DEVELOPMENT, CONSULTATION, AND REVIEW TO PRODUCE THE NEW GUIDELINES

The IMF Committee has established a process of development, extensive consultation, and review that is well underway in order to prepare the revised manual on a target date of 2008. This is also the target date for completing the review of the *1993 SNA*.

2.1 Annotated Outline

In April 2004, the IMF Statistics Department released for public comment the *Annotated Outline for the Revision of the Balance of Payments Manual, fifth edition (AO)*. The *AO* raises issues that have been identified and points to possible solutions. The attachment to this paper lists and explains some of the issues that relate to GATS Mode 4 supply of services. The *AO* is designed to provide a framework for discussions on the updating of *BPM5*. To assist reviewers, questions about key issues are included. The *AO* is circulated to give statisticians and users an opportunity to provide views, and is posted on the IMF's website.⁴ It is being translated into Arabic, Chinese, French, Russian, and Spanish.

2.2 Establishment of Technical Expert Groups

To assist in the research and resolution of more complex methodological issues and to undertake a general review of the draft of the manual, three technical expert groups have been established. These groups are:

- (1) Direct Investment Technical Expert Group (DITEG). A range of issues are associated with direct investment. DITEG is a joint group of OECD and IMF. The work of DITEG is to be coordinated with the OECD revision of the *Benchmark Definition of Foreign Direct Investment*.
- (2) Currency Union Technical Expert Group (CUTEG). The issues associated with currency unions are specialized and will be given increased priority in the new manual, so this group will assist in dealing with the issues identified.
- (3) Balance of Payments Technical Expert Group (BOPTEG). This group will examine all other issues related to the update of *BPM5*. Terms of reference for the TEGs have been drawn up and the membership established. The membership of these groups includes 44 experts from IMF member countries in all regions of the world and seven other international organizations. The documents of these TEGs (such as list of topics, issues papers, outcome papers) are posted on the IMF's website for information and comment.⁵ Specific questions and comments on the papers of the three TEGs are welcome and should be e-mailed to bpm5update@imf.org. DITEG is expected to complete its work by March 2005 and the work of the other two TEGs is expected to be completed by 2006 or 2007.

In addition to the TEGs, various interagency task forces/groups will provide inputs for *BPM5* update. In particular, the Interagency Task Force on Statistics of International Trade in Services (IATFSITS) and the Technical Sub-Group on the Movement of Natural Persons, Mode 4 (Sub-Group on Mode 4) will advise the Committee on services-related issues and the Interagency Task Force on Finance Statistics will advise on external debt-related issues.

⁴ See <http://www.imf.org/external/np/sta/bop/bopman5.htm>.

⁵ See <http://www.imf.org/external/np/sta/bop/bopman5.htm>.

2.3 Process for the Update

The next two years are particularly important for the update process because this period encompasses the most intensive review of and consultation on the methodological issues. Continuing contact will be maintained between the balance of payments community and the IATFSITS and the Sub-Group on Mode 4.

Continuing contact will also be maintained with the Intersecretariat Working Group on National Accounts (ISWGNA) and the Advisory Expert Group on National Accounts (AEG), established by ISWGNA to assist in the *1993 SNA* review. By April 2006, the balance of payments community needs to report to the ISWGNA on the balance of payments issues that affect the *1993 SNA* review, after which no more substantive methodological changes are to be considered in that review. After October 2006, new issues will not, for the most part, be considered for inclusion in the revised balance of payments manual. Later in 2006, a draft of all chapters is scheduled for release on the IMF website for public review. Specific questions or comments on draft chapters or on the general update of *BPM5* can be emailed to bpm5update@imf.org.

In 2007–08, a program of broad consultation and review of the draft chapters will take place. It is planned that the Committee will approve a final draft of the manual at its meeting in late 2008, at which time the final draft, subject only to editing, will be placed on the IMF website. It is expected that the revised manual will be made available in hard copy in 2009 in English, with publication in other languages to follow.

GATS MODE 4-RELATED ISSUES FOR REVIEW IN THE BPM5 REVISION PROCESS

1. Residence

With increasing globalization, there is an increasing number of individuals with connections to two or more economies. In these cases, identification of the economic territory of residence is not straightforward. In particular for households, the identification of the residence of temporary workers and mobile individuals can be difficult. It is desirable for the principles relating to territory of residence to be harmonized or reconciled with those for demographic, migration, and tourism statistics.

In addition, there is strong emerging policy interest in individuals who move to take up employment on a nonpermanent basis and the associated transfers of funds (e.g., workers' remittances) between economies.

Current treatment

Residence of individuals and households is defined in *1993 SNA* paras. 4.15-4.16 and 14.12-14.21. One of the guidelines for identifying a resident household is based on maintaining a principal dwelling for one year or more (but with some exceptions and discretion allowed).

Possible changes

- Should the SNA definition of residence be extended to “*predominant* center of economic interest” to recognize better that some units have connections to two or more territories and to focus attention on how to select between alternatives?
- Should the principles for residence of households be harmonized with demographic, immigration, and tourism statistics? Should the one-year guideline for individuals be made more rigorous so as to increase international consistency? Should any specific principles be provided for temporary workers?

2. Migrants' transfers

The principle of change of ownership is central to the determination of the time of recording of transactions in both financial and nonfinancial assets (including transactions in goods and services).

Current treatment

The flows of goods and changes in financial accounts arising from a change in residence of individuals are treated as imputed transactions in the *BPM5*, which are offset in the capital

account by capital transfers called migrants' transfers (*BPM5* paras. 352-355). The *1993 SNA* is not explicit about changes in financial account and migrants' transfers (as capital transfers), but it includes migrants' effects (goods brought by migrants) in imports and exports of goods (*1993 SNA* para. 14.92).

The flows of goods and changes in financial account result from a change in the owner's residence status, and hence, should not constitute transactions (which take place when there is a change of ownership). Migrants' transfers involve no transfer in that the asset stays in the same hands. Further, migrants' transfers are different in nature and motivation from other kinds of transfers, which involve an intention of wealth transfer.

Possible changes

- Should changes in financial claims and liabilities due to change in residence of individuals be treated as reclassifications in the other changes in assets accounts? This treatment would be conceptually correct. Such treatment will eliminate imputing capital transfers (migrants' transfers) in the capital account and have no impact on balance sheets. The goods account would exclude the personal effects of migrants.

3. Supplementary presentation on individuals and households with connections to two or more territories

There is increasing demand for information relating to the fourth GATS mode of supply of services (presence of natural persons). This covers the case when an individual has moved into the territory of the consumer to provide a service, whether on his or her own behalf or on behalf of his or her employer (*MSITS* para 2.19). It covers both supply of services in a *BPM5* sense and also the provision of labor inputs to production, where these are on a "nonpermanent" basis; however GATS provides no definition of nonpermanent employment.

Possible addition to the revised balance of payments manual

- The Annotated Outline (page 53) proposes an appendix to recommend a supplementary presentation that draws together relevant components of services, compensation of employees, workers' remittances, migrants' transfers, and financial flows and positions components of the balance of payments and international investment position statements that are relevant to the movement of workers on a nonpermanent basis. It could also include data on certain resident-to-resident transactions undertaken by those with connections to other territories, such as expenditure by long-term guest workers. Such a presentation would not be a standard requirement, but would provide a standard for compilers in economies where the impact of individuals with connections to other economies is economically significant.
- This would be either an appendix to a chapter or an appendix to the manual.

4. Clarification of the borderline between the provision of services and other components of the current account

The borderline between the provision of services and other components of the current account, in particular the borderline (i) between the provision of services and the provision of labor; (ii) the contrast between putting a produced fixed asset at the disposal of another entity (a service) and putting a nonproduced asset at the disposal of another unit (income); and (iii) between the acquisition of a service and the requirement to pay taxes.

Proposed change

- These borderline issues will be discussed and their treatments clarified.

5. Balance of payments and the GATS modes of supply

The balance of payments is one source of data for compilers of statistics on trade in services by mode of supply.

Proposed change

It is proposed to provide an appendix to the manual that describes the links and the differences between the data included in the balance of payments statistics and the four modes of supply of services (cross-border supply, consumption abroad, commercial presence, and presence of natural persons). This would be provided to assist compilers of statistics by mode of supply and would be consistent with *MSITS*.