

Revisions in the Balance of Payments and International Investment Position Statistics Introduced in 2014

- On 30 September 2014 Narodowy Bank Polski will release balance of payments and international investment position data compiled according to new guidelines outlined in Balance of Payments and International Investment Position Manual (BPM6)¹
- Back data, compiled according to BPM6 guidelines, will be published on the same date.

1. New Balance of Payments Manual

Balance of payments and international investment position compilation principles have been outlined in the 6th edition of Balance of Payments and International Investment Position Manual (BPM6). The main objective of BPM6 is ensuring international comparability of data across balance of payments and international investment position. Developments in globalization which led to an increase in cross-border production processes, increase in international labor mobility as well as emergence of complex company structures all have laid ground for the BPM revision. Another significant reason for BPM revision was emergence of new financial instruments and their increased importance in balance of payments. Changes in accounting principles of non-financial corporations also contributed to the revision. In order to provide compliance with new BPM6 standards legal framework of the European Central Bank² and the European Commission³ in the area of balance of payments and international

¹ BPM6 - *Balance of Payments and International Investment Position Manual* published by the International Monetary Fund in 2009. Its previous edition - BPM5 - was published in 1993. <http://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf>

² Guideline of the ECB of 9 December 2011 on the statistical reporting requirements of the ECB in the field of external statistics (recast) (ECB/2011/23), OJ L 65, 3.3.2012, p. 1 https://www.ecb.europa.eu/ecb/legal/pdf/l_06520120303en00010044.pdf

³ Commission Regulation (EU) No 555/2012 of 22 June 2012 amending Regulation (EC) No 184/2005 of the European Parliament and of the Council on Community statistics concerning balance of payments, international trade in services and foreign direct investment, as regards the update of data requirements and definitions (OJ L 166/22) <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:166:0022:0066:EN:PDF>

investment position have been amended accordingly. The BPM6 has been revised in parallel with the update of System of National Accounts 2008 (SNA 2008) and European System of Accounts 2010 (ESA2010). The OECD⁴ Benchmark Definition of Foreign Direct Investment Manual has also been revised. The aforementioned regulations employ unified definitions, classifications and conventions with the view to ensure consistency and comparability of balance of payments statistics and system of national accounts data.

The most significant revisions introduced in BPM6 encompass presentation of *Goods and Services Account* (merchandising, goods for processing, insurance services), *Income and Direct Investment*. Furthermore, methodological adjustments and additional positions in assets and liabilities have been introduced to further comparability with the system of national accounts.

2. Revisions of Goods and Services Account

Key revisions in presentation of goods and services account according to BPM6, when compared with BPM5, have been outlined below.

According to the revised BPM6, goods for processing, previously recorded in trade in goods, have been reclassified as trade in services, which means that „goods“ include only transactions involving transfer of ownership; whereas goods sent for processing to an economy without transfer of ownership from non-resident to resident are not classified as trade in goods. Fees for processing of goods under „manufacturing services on physical inputs owned by others“ are recorded in the *Services* account of balance of payments. The above-mentioned changes will result in decreased gross value of exports and imports of goods and increased value of exports and imports of services. Similar revisions - introduced in BPM6 - refer to maintenance and repair services of sea transport and air transport. According to BPM5 methodology, goods for processing were classified as trade in goods even though there was no change in ownership of processed goods. These transactions were recorded under *Goods* on the gross basis i.e. as “goods sent” and “goods returned”.

In BPM6, merchandising has been reclassified from *Services* to *Goods*. Under new standards, trade in goods related to merchandising is classified as exports (purchase of goods shown as positive and sale of goods shown as negative). According to BPM5 merchandising have been recorded under *Services* as „merchandising and other trade related services“. Difference in

⁴ BD4- OECD Benchmark Definition of Foreign Direct Investment Manual published in 2008. <http://www.oecd.org/daf/inv/investmentstatisticsandanalysis/40193734.pdf>

value of goods at purchase and value of goods at sale was booked as exports of services related to merchanting.

In line with the revised BPM6 exports and imports of financial services encompass *Financial Intermediation Services Indirectly Measured* (FISIM). Lenders and deposit takers operate by offering rates of interest to their depositors that are lower than the rates that they charge to their borrowers. The resulting interest margin is used by financial corporations to defray their expenses and to provide an operating surplus. In this light interest actually payable may be regarded as both income and charge for service. By convention these charges for services are classified as financial intermediation indirectly measured only when they apply to loans and deposits and only when those loans and deposits are provided by or deposited with financial corporations. In BPM5, FISIM was not separated from interest and therefore classified as *Income*.

Revised BPM6 significantly broadened presentation of cross-border insurance services and pensions services. In the new presentation value and time of services better reflect real secure of insurance policy.

3. Revisions in the Income Account

BPM6 introduced terms “primary income” and „secondary income” to be consistent with the system of national accounts.

„Primary income” corresponds to BPM5’s “Income” extended by items recorded under current transfers such as: taxes on production and on imports, subsidies on products and production and rents.

„Secondary income” corresponds in principle with BPM5 „Current transfers”.

Table 1. Income account in the balance of payments

BPM5	BPM6
Income	Primary income
Current transfers	Secondary income

Introduction of new BPM6 standards proved a good opportunity to revise and extend certain time series with detailed data which, thus far, have been recorded in the balance of payments

on an aggregated basis. On the side of credits and debits: volume of non-pension social benefits and social contributions have been estimated. Taxes on income and on capital gains have been added to secondary income account. The data on compensation of short-term employees and remittances send abroad by long-term migrants working in Poland was also revised.

4. Revisions in Financial Account and International Investment Position

Sign convention introduced in BPM6 is compliant with conventions applied in SNA2008 and ESA2010 manuals. Reversal of signs refers only to external assets presented in financial account. In BPM5, negative sign signified increase in assets and positive sign stood for decrease in assets. In BPM6 increase in assets is recorded with positive sign and decrease in assets with negative.

Table 2. Revised sign convention in financial account and reserve assets.

		Financial account and reserve assets - BPM5 convention	Financial account and reserve assets - BPM6 convention
Assets	Outflow of capital = Increase in assets	-	+
	Inflow of capital = Decrease in assets	+	-
Liabilities	Inflow of capital = increase in assets	+	+
	Outflow of capital = decrease in assets	-	-

New sectorial breakdown has been introduced for balance of payments data presented in the financial account. Other sectors (non-government and non-banking) have been broken down to two subsectors:

- financial corporations other than MFIs
- non-financial corporations, households and non-profit organizations serving households.

4.1. Direct Investment

Revisions in the field of direct investment focus on adjusting presentation to other entries in the financial account i.e. booking the data as assets and liabilities. Under BPM5 direct investment had been broken down by foreign direct investment in Poland and Polish direct investment abroad. Previously, in foreign direct investment in Poland, liabilities have been reduced by assets to direct investors (e.g. loans extended to „mother company”). Polish direct investment abroad has been calculated pursuant to the same principle. According to BPM6 methodology data on assets and liabilities are presented separately.

Table 3. Direct investment in balance of payments

BPM5	BPM6
Polish direct investment abroad (1-2) Assets (1) Liabilities (2)	Direct investment - Assets (1+3)
Foreign direct investment in Poland (4-3) Assets (3) Liabilities (4)	Direct investment - Liabilities (2+4)

4.2. Portfolio Investment

BPM6 revision in portfolio investment refers largely to mutual funds investment income. This income encompasses dividends payable to equity holders as well as reinvested earnings. Under BPM5 methodology only dividends payable have been recorded.

4.3. Other Investment

New methodology of calculating insurance services in effect changes the presentation of assets and liabilities in the financial account. According to BPM6 claims and liabilities arising from technical insurance reserves (including reinsurance, pension and related entitlements) are recorded under new position: “Insurance technical reserves”. Stocks of insurance technical reserves are also recorded in international investment position.

From the existing position „Other investment- other external assets/liabilities” two positions have been separated:

- „Other equity” on the side of assets and on the side of liabilities,
- „SDR allocation ” on the side of liabilities.

4.4. Reserve Assets

In reserve assets, reverse repo are included in „Foreign exchange”. According to BPM5 reverse repo were to be presented in “Other claims”.

5. Further clarifications of the balance of payments and international investment position statistics revision.

Please send any questions on revisions of balance of payments and international investment position statistics to the following e-mail: BPM6.2014@nbp.pl.