

## Frequently asked questions on the changeover to the 6<sup>th</sup> Balance of Payments and External Position Manual and the availability of data (FAQ)

### 1. *What is the 6<sup>th</sup> Balance of Payments Manual (BPM6)?*

The sixth edition of the *Balance of Payments and International Investment Position Manual* (BPM6) was published by the International Monetary Fund (IMF) in 2009. It serves as the standard framework for statistics on the transactions and positions between an economy and the rest of the world. European countries will apply BPM6 and the new international statistical standard for national accounts (SNA 2008) in 2014, once they have adapted their data collection systems.

### 2. *Why do we need a new manual?*

So that the statistics provide a faithful and comprehensive record of all international exchanges. International exchanges have increased sharply since the start of the 1990s when the previous manual, BPM5, was compiled. More and more countries now take part in international trade and, in the emerging world, there has also been a sharp rise in the number of countries that not only export raw materials, but also import them and export semi-finished and finished goods (the “workshops of the world”). Whereas previously, the majority of global financial flows were concentrated between G7 countries and were channelled through banks, today a broad range of financial instruments are used – loans, securities, derivatives – and handled by various intermediaries: banks, investment funds, clearing houses, special purpose vehicles, etc.

BPM6 aims to capture and measure international trade and financial transactions using a shared methodology in order to facilitate international comparability of data. The key concept, used in both the national accounts (and therefore in the calculation of Gross Domestic Product) and the balance of payments, is that of economic ownership. **The balance of payments now reflects transfers of economic ownership between residents and nonresidents**, which does not necessarily correspond to the cross-border flow of goods and services.

The main changes thus relate to transactions in goods and services (merchandise, goods for processing, insurance transactions), income (from investments) and financial transactions (direct investment).

In addition, BPM6 introduces a more detailed method for calculating a country’s international investment position. As the recent financial crises have shown, it is important to have a detailed picture of a country’s international investments in order to detect imbalances.

From a theoretical standpoint, BPM6 strengthens the linkages between balance of payments statistics and statistics on the international investment position. It also increases the consistency between the concepts used in the balance of payments and those used in the national accounts.

### 3. ***What are the main changes to the goods account?***

The most important changes relate to goods and services: the classification of certain transactions as goods or services has changed due to the systematic application of the concept of “transfer of economic ownership” which is used in the national accounts.

Merchanting is now classified as goods whereas under BPM5 it was classified under services. While there is no change in the merchanting balance, receipts and payments are identified, which was not the case under BPM5.

### 4. ***What are the main changes to the services account?***

Aside from the reclassification of merchanting under goods described above, the main change is in the treatment of goods for processing, where goods are sent to a nonresident processor for processing and are then re-imported or re-exported to a third country. Goods for processing are now classified under services (“manufacturing services on physical inputs owned by others”) instead of goods. Under BPM5, when goods were sent by the owner for processing and then returned to the owner’s economy, the value of the processing service provided was included in the value of the goods exchanged and booked under the goods account. In countries where this type of transaction is significant, this reallocation will lead to a reduction in exports and imports of goods and an increase in exports and imports of services.

Financial intermediation service charges indirectly measured (FISIM) are now recognised and booked under services. FISIM notably correspond to the difference between the interest rate financial corporations pay on their interbank loans and the interest they receive on their loans to customers. Under BPM5, FISIM were not separated from interest and were therefore booked as investment income. Pure interest (interest excluding FISIM) is still recorded in the primary income account (see question 5).

The treatment of insurance services is more detailed under BPM6. The value of insurance services is now measured as the difference between premiums received and claims payable, whereas previously the value of insurance services was calculated as a fraction of premiums. In addition, under BPM6, insurance services are measured on an accrual basis and not on the basis of payments received. The amount of premiums recorded for each balance of payments reference period (month or quarter, etc.) is calculated pro rata, based on the amount due for the full year. Under BPM6, amounts accruing to policyholders (such as income on life insurance investments) are also taken into account. In the new format, it is thus possible to distinguish between statistics on life insurance services and on nonlife insurance services.

### 5. ***What is the difference between the terms “primary” and “secondary income” under BPM6 and “income” and “current transfers” under BPM5?***

The terms primary and secondary income introduced under BPM6 are consistent with the national accounts.

The primary income account corresponds to “income” under BPM5, but now includes some of the components previously recorded under current transfers (taxes on production and imports, rents and subsidies). In terms of methodology, the main change to the primary income account is the treatment of direct investments and the recording of reinvested earnings on investment fund shares. In addition, interest on SDR holdings is also included under primary income.

The secondary income account corresponds broadly to current transfers under BPM5. The new manual introduces the concept of personal transfers, which include all current transfers in cash or in kind made or received by resident households to or from nonresident households. They also include

workers' remittances, i.e. transfers by employees to residents of another economy. Net premiums on nonlife insurance and standardised guarantees are also recorded under secondary income.

**6. *What are the main changes to the financial account?***

The main change relates to direct investments which are recorded as gross assets and liabilities. This has no impact on the net transaction balance, but increases the amount of net acquisitions of financial assets and of net financial liabilities. Subordinated loans between monetary financial institutions and fellow investment enterprises, which until now were recorded under direct investment, are now recognised as other investments (lending and borrowing transactions), as the new methodology is designed to distinguish more clearly between interbank transactions and other financial transactions. Intragroup commercial loans, previously recorded under other investments, are now booked under direct investments.

The main change to portfolio investments is the recording of reinvested earnings on investment fund shares. Changes in the value of these investments were previously recorded under the international investment position.

**7. *When will data and series in BPM6 format be available?***

The Banque de France will publish data in BPM6 format as of March 2014 (Stat Info Balance of Payments for January 2014). The 2013 Annual Report on the Balance of Payments, to be published in June 2014, will include a full set of data in the new format. This also applies to the Banque de France's monthly statistical supplement. The European Central Bank will publish data in the new format as of the final quarter of 2014. Retropolated data for the period 2008-2012 will be made available when the 2013 Annual Report is published (June 2014). Longer series (dating back to 1999) will be distributed by the end of 2014.

**8. *Where will we be able to find the new series and who can we contact if we have any questions?***

The Banque de France will publish the data via the web portal Webstat. Data in the old format will still be available via Webstat but will no longer be updated. If you have any questions regarding the implementation of BPM6, please send an email to: [dbdp.secdir@banque-france.fr](mailto:dbdp.secdir@banque-france.fr)

## **Annex: main changes linked to the changeover to BPM6**

*Note: in blue, new item in the 6<sup>th</sup> Balance of Payments Manual*