

**TECHNICAL NOTE ON THE INTRODUCTION TO THE IMF BALANCE  
OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION  
MANUAL, SIXTH EDITION (BPM6)**



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# **TECHNICAL NOTE ON THE INTRODUCTION TO THE IMF BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION MANUAL, SIXTH EDITION (BPM6)**

## **BACKGROUND**

The Balance of Payments (BOP) is a statistical statement that summarises, for a specific time period, the economic transactions of an economy (residents) with the rest of the world (non-residents). This information is important as it assists countries in measuring economic flows occurring between its residents and the rest of the world, in international trade in goods, services, income and financial transactions.

Previously, the manual that guided the compilation of BOP statistics of the member territories was the Balance of Payments Manual Fifth Edition (BPM5), which was published in 1993. However, the International Monetary Fund (IMF) has revised the manual. The revised manual titled “Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6)” was released in 2009 and places greater prominence on the compilation of statistics on international investment positions (IIP). The IIP is a statistical statement that shows at a point in time the value and composition of an economy’s external financial assets and liabilities.

In 2014, the Balance of Payment and National Accounts Unit at the ECCB embarked on a project jointly with the Caribbean Regional Technical Assistance Center (CARTAC) to implement the IMF Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6) in the ECCU. In addition, some of the data gaps that existed in the BPM5 series were also addressed. To meet the requirements outlined in the revised manual and to address the existing data gaps, this necessitated the revision of the survey forms and expansion of the survey sample to include other establishments that were not previously surveyed. Hence, coverage of the survey was significantly improved. This has contributed to some of the variations between the data previously published in the BPM5 series and the data compiled in accordance with the BPM6. The survey instruments were also designed to capture more comprehensive data on trade in services (TiS). The project also embodied development of a medium to compile the external sector statistics.

## **COMPILATION PROCESS AND TRANSITION TO BPM6**

Surveys were conducted in all the member territories using the revised survey instruments during the period February 2015 to April 2015 and the compilation of the BOP and IIP estimates started in June 2015. These external sector statistics were compiled for the year 2014. The information provided by individual companies is aggregated and consolidated to ensure confidentiality of the operations of the individual establishments. In the Eastern Caribbean Currency Union (ECCU), compilation of Balance of Payments statistics is a joint exercise between the Eastern Caribbean Central Bank (ECCB) and the National Statistics Offices (NSOs).

With the aim of introducing data users to the BPM6 and to allow for a smooth transition to the BPM6, the ECCB has released summary tables of the preliminary BOP, IIP and TiS estimates for the member territories and the ECCU. Work continues on enhancing the BPM6 estimates. To meet the needs of our data users, the BPM5 data series (including projections up to 2017) will be revised and published in the first quarter 2016. Comprehensive BOP tables will be published using the BPM6 methodology exclusively in October 2016. Detailed IIP and TiS tables will also be published at that time.

The following notes provide a guide as well as explanations to some of the major changes between the BPM6 estimates compiled and the BPM5 ECCU BOP series. These changes were either due to changes in 1) methodology outlined by the revised manual or 2) improvements in the compilation practices of the member countries (improved coverage).

### **I. METHODOLOGICAL CHANGES (BPM6 VS BPM5) – MAIN RELEVANCE TO THE ECCU**

Some of the changes in the Sixth Edition of the BOP Manual with specific consequences for the compilation of BOP statistics in the ECCU are as follows:

- *Treatment of Economic and Currency Unions*

Currency and economic unions are considered as economic territories. The new manual now gives greater guidance to compilers who form part of a currency union. The major change from BPM5 is that the ECCB (as a currency union Central Bank) is an autonomous entity that is not resident to any country. It maintains its own assets and liabilities. Therefore, in compiling the BOP for the ECCU as a whole, the transactions of the ECCB with the rest of the world (i.e. outside of the ECCU) will be added. Currency union issues related to the consolidated regional international accounts are outlined in more detail in the manual<sup>1</sup>.

- *Reporting Format*

The BPM6 introduces the categories Primary Income Account and Secondary Income Account which is conceptually consistent with the Systems of National Accounts. The Primary Income Account replaces the Income account from the BPM5 and the Secondary Income account replaces the Current transfers.<sup>2</sup>

The Capital account will no longer be grouped with the Financial Account as was done previously, but will be grouped with the Current Account. The balance from the Current and Capital account is referred to as Net Lending or Borrowing. This identity (the sum of the balances on the current and capital accounts) represents the net lending (surplus) or net borrowing (deficit) by the economy with the rest of the world. This should be conceptually equal to the net balance on the financial account.

Additionally, the concept of debits and credits on the Financial Account is no longer used and is replaced with Net acquisition of assets and net incurrence of liabilities. For the net acquisition of assets and net incurrence of liabilities, a negative number indicates a decline in assets/liabilities and a positive indicates an increase in assets/liabilities. Previously, the net balance on the Financial Account was calculated by subtracting the total debits from the total credits and the assets and liabilities were not distinguished. However, in the BPM6 recommended format, the net balance of the Financial Account (Net Lending or Borrowing) is

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<sup>1</sup><http://www.imf.org/external/pubs/ft/bop/2007/pdf/chap1.pdf>

<sup>2</sup>See Appendix 1

derived by subtracting total liabilities from the total assets. A positive balance suggests that the country is a net lender during the reporting period, while a negative figure indicates that the country is a net borrower during the review period.

Another structural recommendation was to separate the IMF Loans to member countries from other multi-lateral borrowings in the external sector statistics. For BPM6, this was accomplished.

- *Compilation practices, changes recommended by the revised manual*

*i) Arrears*

Previously, the total principal due (whether paid or not) were reported in the BOP with a corresponding entry for arrears in ‘Other Investment’, as an increase in liabilities. The treatment of debt arrears (*amounts due but not paid*) was revised for BPM6. If the debt contract remains unchanged, debt arrears (both interest accrued for previous periods and principal) remain in the outstanding amount of the debt instrument for which payments have been missed until the liability is extinguished. There is no transaction recorded in the BOP. However, interest accrued in the current period is treated in the same way as in BPM5. The treatment of arrears is outlined below.

**ACCUMULATION OF ARREARS (BPM6)**

	Standard Presentation	
	Credit	Debit
Interest accrued in the <b>current period</b>	Other Investment, Liabilities, Loans	Investment Income, Other Investment
Interest accrued previous period	No transaction	No transaction
Principal due and not paid	No transaction	No transaction

*ii) Goods Account / Merchandise Trade*

Goods procured in ports by carriers are now included under general merchandise rather than a separate item under goods. For the ECCU, this data was sourced from enterprise surveys. With the emphasis on the change in economic ownership in BPM6, migrants personal effects is no longer a concept included in the BOP and should be excluded from merchandise imports. This change also affects the capital account as migrant transfers will no longer be reflected within this account. Also excluded from the merchandise imports are physical inputs owned by others. Goods entering the countries that are not owned by residents of the country are no longer included in the merchandise imports.

## **II. ENHANCEMENTS IN COMPILATION PRACTICES (IMPACT ON ESTIMATES)**

Along with the methodological changes recommended by the revised manual that have been outlined above, the ECCB also took the opportunity to improve their compilation practices, address some existing data gaps and expand the scope and coverage of selected areas. Some of these areas are highlighted below:

- *Travel Credit – Visitor Expenditure*

In some member countries, visitor expenditure surveys are not conducted regularly. As such, the data provided for use in the BOP have been estimated either by the ECCB or the NSOs. In other cases, Tourist Boards and Tourism Authorities have the responsibility for compiling visitor expenditure.

Where estimates were made, these were generally made based on benchmark data from a visitor expenditure survey conducted in the past. In some instances, the average daily expenditure derived from those surveys was outdated and required revision.

In cases where the visitor expenditure was compiled by the Tourist Boards or Tourism Authorities, there are some categories of visitors where estimates of their expenditure are not

made based on their definition of a visitor<sup>3</sup>. For the BPM6 BOP, where estimates were available by the Tourist Boards, Tourism Authorities or NSOs, these were incorporated and augmented to account for the other categories of visitors that were not included in their estimates published.

Within most of the member countries, there exist medical institutions of learning where most students attending are foreigners and are considered non-residents within the context of the BOP. For the compilation of the Balance of Payments, the expenditure of students should be incorporated within the visitor expenditure estimates however their expenditure was not adequately captured previously for most of the member territories. Additionally, because the medical institutions of learning are considered residents of the countries where they are located, transactions between the universities and the students should be recorded in the BOP of the reporting economy. Previously, this was not adequately addressed. The issue of the expenditure students is now more appropriately addressed in the BPM6 BOP. Various sources were used to compile these estimates, including expenditure surveys, estimates of average rental rates, estimates of tuition fees and estimates of students' expenditure obtained online.

- *Coverage of Major Foreign-Owned Establishments*

The coverage was significantly improved to account for the activities of large, foreign-owned establishments that were not adequately captured in the BOP statistics historically. The revised survey instruments have also allowed for better capture of trade in services as well as improved and more comprehensive data on foreign direct investment flows. These enhancements have affected both the current and financial accounts.

- *Treatment of Insurance Entities*

In the previous BOP series, all foreign-owned insurance entities operating in the ECCU were classified as agents. It was assumed that the insurance service was being provided by Principals in Barbados, Trinidad and Tobago and Guyana with the agents acting as intermediaries or

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<sup>3</sup> In tourism statistics, there are only two categories of visitors, those staying for one day (*excursionists, which would include cruise passengers and other passengers arriving by sea*) and those overnighing (*which would include passengers arriving by air or by sea*). The term "*usual environment*" creates distinctions for the crews, students and medical patients that must be taken into consideration when classifying visitors according to tourism statistics. According to the tourism manual, if persons are within their "*usual environment*", they do not form part of the tourism statistics even though they are non-residents.

collection bureaus. This means that previously, all receipts from residents of the reporting economy by the agents were treated as outflows for the ECCU member countries to the Principals.

In the BPM6 estimates, a distinction was made between agents and branches. For agents, receipts from residents (for example, premiums) would be considered outflows as they are collecting funds on behalf of the non-resident principal<sup>4</sup>. For branches on the other hand, funds collected from residents are not considered to be relevant to the BOP. Branches are considered separate institutional units from their head office and are considered residents of the economy where they are located. Extensive discussions were held with Insurance Head Offices and Financial Regulatory Institutions for Insurance Companies to determine which companies were branches and which were agents. Differentiation of branches and agents are outlined in more detail in the manual. The impact of this change on the levels previously reported depends on the number of branches that exist within the territories. If there are more agents than branches, then the impact may be minimal given that all companies were previously treated as agents.

Additionally, the methodology used for classifying re-insurance companies was updated to derive the service, investment income, and transfer and investment elements of re-insurance.

- *Treatment of Offshore Entities - Residency*

In the previous BOP series (BPM5), offshore entities such as banks, gaming institutions and others were treated as non-resident to the ECCU territories. The only transactions that were recorded in the external sector accounts were fees paid to General Government, salaries and wages paid to resident staff and any other service payments made to resident entities. The international standards dictate that these entities should form part of the economic territory of operation and hence this was corrected in the new BPM6 series.

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<sup>4</sup> The Balance of Payments manuals recommend that transactions of agents be attributed to the economies of the principals on whose behalf the transactions are undertaken and not to the economies of the agents representing or acting on behalf of principals. However, the services rendered by the agents to enterprises represented would be captured as an inflow into the economy in which the agents are residents.

- *Treatment of Debt Issued on the Regional Government Securities Market (RGSM)*

Previously (BPM5), securities issued on the RGSM by participating governments were reflected as a BOP transaction where the holders of the securities were not resident of the country of the issuing government. With the exception of one country, all member countries are treating securities issued on the RGSM as domestic debt. In the BPM6 series, for consistency with the debt data published by the ECCU member countries, the securities issued on the RSGM will be treated as domestic debt; therefore there is no BOP related transaction. The treatment of debt issued on the RGSM is being re-assessed with major stakeholders and the member countries. Therefore, the treatment of the RGSM in the BPM6 is subject to further changes.

- *Compilation of the BOP for the ECCU*

The BOP for the ECCU as a whole was previously compiled by adding the BOP of its member territories. Under BPM6, given that the ECCU is considered an economic territory, transactions among its members are considered resident to resident transactions and should not be reflected within the BOP for the ECCU.

With the revisions to the survey instruments, details on the transactions within the ECCU were requested which have allowed the adjustments to be made by removing the transactions between the ECCU members. Additionally, in compiling the BOP for the ECCU as mentioned previously, the transactions of the ECCB with residents outside of the currency union was also added in the compilation of the BOP for the ECCU.

## SUMMARY OF MAIN CHANGES TO THE ECCU EXTERNAL SECTOR ACCOUNTS

ITEM	BPM5	BPM6
Improvements in coverage	Some large companies not captured adequately	Includes large companies not captured adequately previously.
Visitor Expenditure	Expenditure of some categories of visitors not included.	Now includes expenditure of students and other categories of visitors not previously captured.
Insurance	All foreign-owned entities treated as agents	Distinction is made between agents and branches.
Offshore companies	Treated as non-residents	Treated as residents
ECCU	Compilation of the ECCU by adding the BOP for the member countries.	Interregional transactions removed in the compilation of the BOP for the ECCU and the transactions of the ECCB outside of the ECCU region were added.

**APPENDIX I: BPM5 SUMMARY FORMAT VS BPM6**

**BPM5 Summary**

	Credit	Debit	Net
<b>1. CURRENT ACCOUNT</b>			x
<b>A. Goods and Services</b>			
Goods			
Services			
<b>B. Income</b>			x
Compensation of Employees			
Investment Income			
<b>C. Current Transfers</b>			x
<b>2. CAPITAL &amp; FINANCIAL ACCOUNT</b>			
<b>A. Capital Account</b>			x
<b>B. Financial Account</b>			x
Direct Investment			
Portfolio Investment			
Other Investments			
<b>C. Overall Balance</b>			x

**BPM6 Summary**

<b>1. CURRENT ACCOUNT</b>	x
<b>A. Goods and Services</b>	
Credits	
Debits	
Goods	
Credits	
Debits	
Services	
Credits	
Debits	
<b>C. Primary Income</b>	x
Credits	
Debits	
<b>D. Secondary Income</b>	x
Credits	
Debits	
<b>2. CAPITAL ACCOUNT</b>	x
Credits	
Debits	
<b>Net Lending (+)/Borrowing (-) from the Current and Capital Account financial account</b>	x
<b>3. FINANCIAL ACCOUNT</b>	
<b>Net Lending (+)/Borrowing (-) from the financial account</b>	x
<b>A. Direct Investment</b>	
Net acquisition of assets	
Net incurrence of liabilities	
<b>B. Portfolio Investments</b>	
Net acquisition of assets	
Net incurrence of liabilities	
<b>C. Other Investments</b>	
Net acquisition of assets	
Net incurrence of liabilities	
<b>D. Reserve assets</b>	x
<b>4. NET ERRORS AND OMMISIONS</b>	

