

After several years of consultations, the IMF has released the sixth version of its *Balance of Payments Manual*, a document that governs the procedures, methodology, and presentation of balance of payments data. This snapshot summarizes key changes and is intended for users who regularly analyze balance of payments data to track countries' transactions with the rest of the world, such as reserve and debt accumulation, trade, and investment.

Analysts and policymakers can use timely and comparable balance of payments (BOP) data in many ways, including assessing a country's vulnerability to external shocks, scrutinizing the current account balance to gauge excess or under-spending, or monitoring a central bank's money market operations and its changing net foreign assets. The IMF recently introduced a new presentational basis for its BOP data. Beginning with its August 2012 release, BOP data will be presented using the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*. The fifth edition of the *Balance of Payments Manual (BPM5)* had governed BOP data since its release in 1993.

The update in presentation basis was prompted by a changing international economic and financial setting (e.g., currency unions, cross-border production processes, complex multinational corporate structures, and increasing remittances) as well as greater concern in using balance sheet data to examine vulnerability. Like *BPM5*, *BPM6* also provides data in a manner consistent across time and countries, both necessary to compare countries and compile regional and global aggregates.

To date, only 15 countries reported their latest data using the new *BPM6* basis. The overwhelming majority continued to use the *BPM5* basis which is subsequently converted to *BPM6* by the IMF using established conversion formulas. Over time, more countries will report to the IMF using *BPM6*. However, BOP data presented on a *BPM6* basis are available on a quarterly and annual basis beginning only in 2005. The IMF statistics department has indicated in correspondence that its staff is exploring the option of providing a longer historical period on a *BPM6* basis. The remainder of this snapshot summarizes the main changes in the BOP presentation.

Key Changes

The current, capital, and financial account balances as well as reserves and net errors were not impacted by the change in presentation basis. However, both "income" and "current transfers" in the current account were re-labeled as "primary income" and "secondary income" to align with the UN's 2008 System of National Accounts. There were also changes to the sign convention utilized. Both credits and debits in the current and capital accounts are recorded with a positive sign in *BPM6*, whereas *BPM5* recorded debits with a negative sign. In the financial account, increases in assets and liabilities are now depicted with positive signs while decreases in assets and liabilities use a negative sign. Besides these presentational changes, key methodological changes are:

Current Account: Goods for processing

Take as an example a South Korean firm sending goods to China for processing after which these goods are sent back to South Korea without the goods ever changing ownership. In *BPM5*, such a transaction would be recorded as "goods for processing" in the goods account for both countries. In *BPM6*, only goods that change ownership are included in the goods account. Therefore, the fee received by the Chinese firm for processing would be



included in “manufacturing services on physical inputs owned by others” under the services account. Clearly, economies where inward or outward processing is significant will see a shift between their goods and services accounts given the new classification procedures.

Current Account: Goods under merchanting

Take as an example a South African firm buying goods from India that are warehoused in India and later sold to a Namibian customer at a premium. Under *BPM5*, South Africa’s initial purchase is treated as a merchandise import and the same amount deducted from imports when the goods are re-sold to Namibia. The difference in purchase and sale price was previously treated as an export of merchanting services in the services account. With *BPM6*, this difference in purchase and sale price is labeled “net goods under merchanting” and is moved from the services account to the goods account.

Current Account: Remittances

Worker’s remittances from *BPM5* were restricted to transfers within families of employment income. This line item has been replaced by the personal transfers in *BPM6*, a broader concept which includes worker’s remittances in addition to transfers in cash or in kind between resident and nonresident households, regardless of the source of income or the households’ relationship.

Capital Account: Migrants’ transfers

Under *BPM5*, the change in cross-border assets (bank balances, real estate) and liabilities resulting from a change in residency were captured in the capital account under other sectors. *BPM6* eliminates migrants’ transfers from the capital account, but has delayed its removal until 2014, when most countries are expected to have begun reporting using *BPM6*. The justification for removing migrants’ transfers is that it violates general BOP principles, since assets are not changing hands, but rather the owner is re-locating.

Financial Account: Foreign direct investment (FDI)

In *BPM5*, FDI flows were broken down by directional basis (i.e., investment abroad and investment in reporting economy) and then by acquisition/incurrence of assets/liabilities by type of investment (equity capital, reinvested earnings, and other). *BPM6* organizes FDI first by acquisition/incurrence of assets/liabilities and then with information that identifies the relationship between the investor and the direct investment enterprise. *BPM6* also incorporates the concept of fellow enterprises, which are under the influence of the same direct investor but neither holds more than 10 percent of voting power in each other. The box on the next page illustrates the changes in FDI within the financial account.

Other changes

Other changes include treatment of financial intermediary services, insurance transactions, and use of intellectual property in the current account. The capital account is affected by the different handling of transactions involving the outcomes of R&D (e.g., patents and copyrights) while the financial account has changes pertaining to Special Drawing Rights (SDR), debt arrears, and unallocated gold accounts.

Comparison of FDI in BPM5 and BPM6	
FDI in BPM5	FDI in BPM6
Direct Investment abroad	Net acquisition of financial assets
Equity capital	Equity and investment fund shares
Claims on affiliated enterprises	Equity other than reinvestment of earnings
Liabilities to affiliated enterprises	Direct investor in direct investment enterprise
Reinvested earnings	Direct investment enterprise in direct investor (reverse investment)
Other capital	Between fellow enterprises
Claims on affiliated enterprises	Reinvestment of earnings (direct investor in direct investment enterprise)
Liabilities to affiliated enterprises	Debt Instruments
Direct Investment in reporting economy	Direct investor in direct investment enterprise
Equity capital	Direct investment enterprise in direct investor (reverse investment)
Claims on affiliated enterprises	Between fellow enterprises
Liabilities to affiliated enterprises	Net incurrence of liabilities
Reinvested earnings	Equity and investment fund shares
Other capital	Equity other than reinvestment of earnings
Claims on affiliated enterprises	Direct investor in direct investment enterprise
Liabilities to affiliated enterprises	Direct investment enterprise in direct investor (reverse investment)
	Between fellow enterprises
	Reinvestment of earnings (direct investor in direct investment enterprise)
	Debt Instruments
	Direct investor in direct investment enterprise
	Direct investment enterprise in direct investor (reverse investment)
	Between fellow enterprises

Links for More Information

- Balance of Payments and International Investment Position Manual (BPM6)
<http://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf>
- Frequently Asked Questions for change from BPM5 to BPM6
<http://www.imf.org/external/pubs/ft/bop/2007/bpm6faq.pdf>
- BPM5-BPM6 conversion matrix
<http://www.imf.org/external/pubs/ft/bop/2007/pdf/matrix.pdf>

Additional Information

For questions or more information, please contact the author, Cris de Brey, at cdebrey@devtechsys.com.

IMF Balance of Payments data is available on the Economic and Social Database (ESDB) at <http://esdb.eads.usaidallnet.gov/>. The ESDB website also offers other IMF datasets such as International Financial Statistics and Direction of Trade Statistics.