BANCO CENTRAL DO BRASIL

External Sector Statistics – Adoption of the Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6)

November 2014

1. Introduction

As of April 2015, the Central Bank of Brazil (CBB) will start releasing external sector statistics of the Brazilian economy according to the Sixth Edition of the International Monetary Fund (IMF)'s Balance of Payments and International Investment Position Manual (BPM6) [1].

BPM6 takes into account economic and financial developments of the world economy over the last fifteen years; methodological improvements on specific issues, and the need to harmonize the different sets of macroeconomic statistics, especially with regard to the System of National Accounts (SNA 2008[2]).

That methodological updating will not only enhance the national statistical standard, by aligning it with the best international practices, but also ensure consistency with the new National Accounts methodology to be adopted also in 2015 by the Brazilian Institute of Geography and Statistics (IBGE).

This Methodological Note deals with general issues concerning the adoption of the BPM6 and its impacts on the set of the Brazilian balance of payments (BOP) accounts. The following sections contextualize the BPM6 in the framework of methodological updating and provide details about the key changes on the international statistical standard.

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1 BPM6 is available on the IMF website: http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm.

2 SNA 2008 is available in several languages on the United Nations Statistics Division website: http://unstats.un.org/unsd/nationalaccount/sna2008.asp.

2. Contextualization

International methodological standards establish the guidelines for the compilation and release of macroeconomic accounts. In addition to ensure consistency among several macroeconomic statistics, they also have the purpose of allowing comparability among countries.

As of April 2015, CBB will start releasing BOP and International Investment Position (IIP) statistics according to BPM6, published in 2009. Since 2001, CBB has released those statistics according to the Fifth Edition of the Balance of Payments Manual (BPM5), published in 1993[3].

With the aim of ensuring consistency among macroeconomic statistics, the BPM6 was developed in coordination with the System of National Accounts Manual (SNA 2008). The process of methodological review also included the updating of specific manuals for some external account components, such as the 4th edition of the OECD Benchmark Definition of Direct Investment (BDM4)[4], issued in 2008, used in the compilation of statistics on direct investment; the Manual on Statistics of International Trade in Services[5], published by the United Nations in 2010; the International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template[6], and the External Debt Statistics: Guide for Compilers and Users[7], both published by the IMF in 2013.

Besides external sector statistics, international methodological references for fiscal, monetary, and financial statistics are being updated with the goal of bringing their alignment with the SNA 2008, thus improving methodological consistency among several sectors. In March 2014, the IMF published the Government Finance Statistics Manual (GFSM 2014)[8] and in 2015 an updated version of the Monetary and Financial Statistics Manual (MFSM 2000)[9] is expected to be published.

BPM6 defines the balance of payments as "a statistical statement that summarizes transactions between residents and nonresidents during a period. It consists of the goods and services account, the primary income account, the secondary income account, the capital account, and the financial account" (Paragraph 2.12 of BPM6).

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3 BPM5 is available in several languages on the IMF website: https://www.imf.org/external/np/sta/bop/bopman5.htm.
4 BDM4 is available in several languages on the OECD website: http://www.oecd.org/daf/inv/mne/fdibenchmarkdefinition.htm.
5 The manual is available in several languages on the United Nations Statistic Division website: http://unstats.un.org/unsd/tradeserv/TFSITS/manual.htm.
6 The guide is available on the IMF website: https://www.imf.org/external/np/sta/ir/IRProcessWeb/dataguide.htm.
7 The guide is available on the Task Force on Finance Statistics website*:* http://www.tffs.org/edsguide.htm.
8 The manual is available on the IMF website: http://www.imf.org/external/np/sta/gfsm/.
9 The manual is available in several languages on the IMF website: http://www.imf.org/external/pubs/ft/mfs/manual/.

Besides furnishing clarifications of previous recommendations, BPM6 takes into account economic globalization, financial innovations, and recent economic developments for the proposal of new approaches and concepts for external accounts. Parallel to this, by increasing the relevance of the IIP in comparison with previous manuals, BPM6 emphasizes the integrated analysis of stocks and flows as an instrument for evaluating sustainability and perspectives of economies in the face of developments on international markets. By promoting an integrated view of international transactions on the composition and magnitude of assets and liabilities according to functional investment categories (direct investment, portfolio investment, and other investment), type of instrument and maturity, external sector statistics produced under the updated methodology will provide users with enhanced analytical content.

The major source of information of Brazilian BOP statistics are financial transactions recorded in the CBB Exchange System. Therefore, the Brazilian BOP is mainly compiled on the basis of single records for each transaction (micro data). It is an International Transactions Reporting System (ITRS)[10], which allows the CBB to carry out a timely monitoring of the Brazilian economy flows with the international community. In February 2014, a new code system was adopted for the Exchange System, designed with the goal of streamlining and rationalizing the set of requested information and, at the same, meeting statistical requirements consequent upon the BPM6.

Other sources for the monthly compilation of BOP statistics are the Ministry of Development, Industry, and Foreign Trade (MDIC) with regard to information on exports and imports of goods; the Accounting Plan of National Financial System Institutions (Cosif); the CBB Department of International Reserves (Depin); several modules of the Electronic Declaration Register (RDE) of foreign capital in the country; and the Brazilian Capitals Abroad (CBE) survey and the Foreign Capital Census (Censo); coupled with supplementary information received directly from several public and private institutions through specific questionnaires. Methodological changes recently implemented in the CBE (2011) and in the Census (2012), including conceptual framework, coverage and timeliness, such as the quarterly CBE sample and the annual Census sample, are intended to meet the requirements imposed by the new statistical standard.

Key conceptual and methodological changes and their impact on the compilation of BOP and IIP statistics in Brazil are discussed in the following section.

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[10] For concepts and further methodological information on ITRS, see chapter 4 of the 2014 BPM6 Compilation Guide, available on the IMF website: https://www.imf.org/external/pubs/ft/bop/2007/bop6comp.htm.

3. Key methodological changes

BPM6 introduces changes on BOP presentation; some account items; statistical conventions; and concepts. The following topics provide further details on the most relevant general changes.

3.1 BOP structure and presentation

The full version of the new BOP account structure suggested by the BPM6 may be found in the Appendix 9 of the manual. The Annex I of this methodological note presents a summary version with the principal accounts.

The new BOP account structure is summarized in paragraphs from 2.14 to 2.18 of the BPM6. The current account shows flows of goods, services, primary income, and secondary income between residents and nonresidents. The primary income account ("income account" in the BPM5) keeps on presenting amounts payable and receivable in return for temporary use to another entity of financial resources, labor, or nonproduced nonfinancial assets. The terminology of the secondary income account ("unilateral transfers" in BPM5) is adjusted to the national accounts, showing the redistribution of income generated by one economy to another. Personal transfers, an expansion of the previous concept of "workers' remittance", are still the foremost item of this account.

The capital account shows transactions involving the purchase and sale of nonproduced nonfinancial assets and capital transfers. Migrants' transfers are no more understood as a transaction, since there is no transfer of economic ownership of goods or assets between a resident and a nonresident, and, therefore, are no longer included in the BOP, impacting the IIP only.

The financial account continues to show acquisitions of assets and liabilities, identified under the categories of direct investment, portfolio investment (stocks and securities), and other investment (currency and deposits, loans, trade credit and advances, and other assets and liabilities).

3.2 Integrated IIP statement

BPM6 defines IIP as "a statistical statement that shows at a point in time the value of: financial assets of residents of an economy that are claims on nonresidents or are gold bullion held as reserve assets; and the liabilities of residents of an economy to nonresidents. The difference between the assets and liabilities is the net position in the IIP and represents either a net claim on or a net liability to the rest of the world"(paragraph 2.8).

Therefore, IIP shows the stock of external assets and liabilities of an economy, consisting in a more updated and broader version of "Net External Liabilities".

In BPM6, IIP becomes a component of the main standard presentation of foreign external accounts under an integrated statement, by reconciling the opening and closing values of assets and liabilities stocks in each period with the financial account flows (BOP transactions) and other variations (exchange, prices, and other volume changes) (paragraph 2.10). The table below shows the integrated statement.

Table 1 – Example of integrated IIP statement

US$ million

	Stock in 2012	Transactions (BOP financial account)	Price and parity variations	Other variations	Stock in 2013
International Investment Position					
Assets					
Direct investment – assets					
Portfolio investment					
Financial derivatives					
Other investment					
Reserve assets					
Liabilities					
Direct investment – liabilities					
Portfolio investment					
Financial derivatives					
Other investment					

3.3 Sign convention

The interpretation of signs in the BOP accounts represents a relevant change in BPM6 in comparison with the system previously adopted in BPM5.

In BPM5, the sign convention used in the BOP compilation consisted in recording each transaction in two entries with the same absolute values. One of these entries was recorded as credit, with a positive sign; the other, as debit, with a negative sign. In principle, the sum of all credit entries should be identical to all debit entries, and the net balance of all BOP entries was equal to zero. In this context, credits (exports, income revenues, transfer revenues, asset reductions, and liability increases) were recorded with positive signs, while debits (imports, income expenditures, transfer expenditures, asset increases, and liability reductions) were recorded with negative signs.

In BPM6, positive signs indicate exports and imports, revenues and expenditures on income, revenues and expenditures on transfers, and increases of assets and liabilities. Negative signs will only be used for indicating negative revenues (losses) and reductions of assets and liabilities (for example, in the case of reverse investments, i.e. disinvestments)[11].

The purpose of the new sign convention is to render the BOP more intuitive, streamline statistical analysis, and maintain consistency among financial account transactions and the corresponding change of assets and liabilities stocks shown in the integrated IIP (paragraph 3.31). In the financial account, flows that contribute to net increases (decreases) of stocks, either assets or liabilities are recorded with a positive (negative) sign.

BPM6 recommends that only net variations of assets and liabilities be recorded, instead of gross flows. For example, in the case of loans, only the net inflow, that is, the difference between acquisitions and amortizations, should be recorded. The Brazilian BOP, however, will display the gross values of financial account headings (except derivatives), that is, transactions that increase or reduce assets and liabilities will be shown separately. Back to the example of loans, the BOP will display, besides net inflow of loans, also gross inflows, acquisitions, and amortizations, since this breakdown is essential for calculating rollover rates.

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[11] Exceptions may apply to some specific transactions. For example, goods under merchanting (goods purchased and sold abroad without physically entering or leaving the national territory) may result in negative recording of exports under certain circumstances.

The table below compares the sign convention according to BPM5 and BPM6:

Table 2 – Sign convention – BPM5 x BPM6

BOP accounts	BPM6	BPM5
Current account, revenues	+	+
Current account, expenditures	+	-
Balance on Current account	Revenues - Expenditures = +/-	Revenues + Expenditures = +/-
Revenues on capital transfers	+	+
Expenditures on capital transfers	+	-
Balance on Capital account	Revenues - Expenditures = +/-	Revenues + Expenditures = +/-
Net acquisition of financial assets (net Brazilian / foreign capital outflows in BPM5)	+	-
Net incurrence of liabilities (net Brazilian / foreign capital inflows in BPM5)	+	+
Balance on Financial account	Net acquisition of financial assets - Net incurrence of liabilities = +/-	Capital inflows + Capital outflows = +/-
Summary	+ Financial account, net - Current account net - Capital account, net = Errors and omisions	(Current account, net + Capital transfers, net + Financial account, net) * (-1) = Errors and omissions

3.4 Accounting principles

In addition to the sign convention, other accounting principles that govern the BOP recording are discussed in BPM6. These principles aim to ensure the consistency between flows and stocks and the symmetry of recording between counterparty countries. The double-entry bookkeeping system, the time of recording, and the valuation criteria are example of accounting principles (paragraph 3.1).

BPM6 kept the double-entry system by which every BOP transaction is recorded as credit and debit of the same value (Paragraph 3.27). For example, if a Brazilian exporter undertakes an export operation with down payment, after the settlement of the exchange contract, the BOP will record a credit on the export account and, at the same time, a debit in the name of the financial institution that bought foreign currency from the exporter.

The time of recording was also kept substantially unchanged. As a general rule, BPM6 adopts the accrual accounting basis criterion, defined as the moment in which economic value is created, transformed, transferred, exchanged, or extinguished (paragraph 3.35). The time of recording is not necessarily identified when financial resources are delivered or received. Goods and services purchased or sold for future payment are examples of transaction in which financial flows, ownership change, and provision/consumption of services are not matched in time.

The valuation criterion recommended by BPM6 for transactions and stocks is the market price, defined by the amount of money that willing buyers pay to acquire something from willing sellers (paragraph 3.68). Transfer prices should be adjusted and historical values or acquisition values should be replaced by market values. BPM6 establishes several methodologies for the compilation of market value according to available information.

BPM6 reinforces methodological recommendations on the implementation of concepts, as observed in the following cases.

The purchase or sale of a foreign asset between two residents is not recorded as a BOP transaction (the transaction is not carried out between a resident and a nonresident), but as reclassification, which affects the stock positions measured by the IIP if the two parties belong to different institutional sectors (paragraph 3.7). This would occur, for example, when a company resident in Brazil purchases a company abroad, owned by a third company, also resident in Brazil. Exchange market interventions are exception to this rule. So, for example, even though the CBB (resident in Brazil) buy/sell foreign currency from/to a dealer resident in Brazil, this transaction will still be recorded in the BOP.

Similarly, migrants' transfer, i.e., the change of residence of one individual or corporation, and the consequent change of related assets and liabilities from one economy to another, is recorded as reclassification instead of BOP transaction. The possibility of identifying the resident and the nonresident does not matter, since they are the same individual or corporation, and thus the concept of transaction, defined as "…an interaction between two institutional units that occurs by mutual agreement or through the operation of the law and involves an exchange of value or a transfer" (paragraphs. 3.4 and 9.21-9.23), is not fulfilled.

BPM6 introduces the term "economic ownership", emphasizing its distinction from "legal ownership". Exports or imports of goods, or the acquisition of assets or incurrence of liabilities should be recorded in the BOP at the moment in which a change in ownership occurs. Unlike legal ownership, economic ownership takes account of where the risks, rewards, and rights and responsibilities of ownership lie. In general, a change in "legal ownership" also involves a change in economic ownership, but in some cases, a change of "economic ownership" takes place even though the "legal ownership" remains unchanged, e.g. financial leases (paragraph 3.41).

3.5 Economic territory, Units, Institutional Sectors and Residence

BPM6 defines economic territory as the area under effective economic control of a single government (paragraph 4.4). Unlike BPM5, the free circulation of persons, goods, and capital is no longer required. Embassies, military bases, and other enclaves continue to belong to the country of origin, and the economic territory is not necessarily continuous.

BPM6 reinforces the fact that an office or branch, notwithstanding the lack of formalization as a separate legal entity, may be identified as an institutional unit. For example, the local office of a civil construction project, even though not formalized as a corporation, may be classified as an institutional unit able to carry out economic transactions. According to BPM6, the office would be resident in the territory where the project is being constructed, and not in the territory where the corporation’s headquarter is located, provided that: i) the office maintains separate accounting records from the headquarter; and ii) the office is subject to the local tax system or the construction project takes a year or more to be completed (paragraph 4.27).

With regard to the institutional sectors, whereas the BPM5 included the following sectors: General Government, Monetary Authority, Banks and Other Sectors, the BPM6, in line with the SNA 2008, changed Monetary Authority to Central Bank, and Banks to “Deposit-taking corporations except the Central Bank”. The most relevant change refers to the breakdown of Other Sectors, which presents headings for nondeposit-taking financial institutions, such as investment funds, insurance corporations, pension funds, and other auxiliary financial activities (brokerage companies, holdings, among others), in addition to nonfinancial corporations, households, and Nonprofit Institutions Serving Households (NPISHs) (Table 4.2 of BPM6).

No relevant change was introduced in the definition of residence. BPM6, however, clarifies the treatment given to individuals who have dwellings in different territories. In this case, BMP6 determines the residence as the territory in which the predominant amount of time is spent (paragraph 4.126). For corporations with little or no physical presence at all, the residence is determined as the economic territory under whose laws the entity was registered (paragraph 4.134).

3.6 Classifications of Financial Assets and Liabilities

BPM6 also ensures harmonization with the SNA 2008 with regard to the detailed classification of financial assets and liabilities (Table 5.3), in line with MFSM 2000, which is expected to be updated in 2015. Thus, contingent assets and liabilities – recorded under specific conditions or occurrences – are not included in stocks, but one recommends to be provided as supplementary information (paragraph 5.10).

Interbank deposits are now classified as a specific category under Deposits. With the purpose of ensuring symmetry in the distinction between deposits and loans, BPM6 recommends that all interbank positions other than Securities and Other Accounts Receivable/Payable be classified under Interbank Deposits (paragraph 5.42).

Terms used to identify securities with specific features, like “Bonds”, “Notes”, “Commercial Paper”, are replaced by “Long-term securities” (paragraph 5.44). The term “Trade credits” is replaced by “Trade credit and advances” (paragraph 5.70), so as to include anticipated payments of exports and imports, in which the remittance or the receipt of financial resources precedes the transfer of the merchandise ownership, under the modality of trade credit.

BPM6 highlights the importance of debt classification by residual maturity, although the classification by original maturity is maintained as the recommended standard. The residual maturity, provided as supplementary information, considers the total amount to be paid on a specific forthcoming period, regardless of the original contractual maturity of the liability (paragraph 5.104).

Disclosing the composition of assets and liabilities by currency is recommended, since it is a useful tool for the analysis of risk exposure to exchange variations, as well as the short-term debt composition by residual maturity (Tables A9-I-1a and A9-I-2a).

Finally, the classification of debt stocks as either fixed-rate or variable-rate is also recommended to be furnished as supplementary information, so as to allow the analysis of the country’s vulnerability to changes on international interest rates (paragraph 5.109).

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Annex I – Summary BOP analytical structure according to BPM6

Balance of Payments
I. Current account
  Goods and services
    Trade balance (goods)
      Exports
      Imports
    Services
      Manufacturing services
      Maintenance and repair services
      Transport
      Travel
      Construction
      Insurance
      Financial services
      Charges for the use of intellectual property
      Telecommunications, computer, and information services
      Operating leasing services
      Other business services
      Personal, cultural and recreational services
      Government goods and services
  Primary income
    Compensation of employees
    Investment income
      Direct investment
        Dividends
        Interest
      Portfolio investment
      Other investment
      Reserve assets
  Secondary income
II. Capital account
III. Financial account
  Direct investment – assets
    Equity capital and investment fund shares
    Intercompany lending
  Direct investment – liabilities
    Equity capital and investment fund shares
    Intercompany lending
  Portfolio investment – assets
    Equity capital and investment fund shares
    Debt securities
  Portfolio investment – liabilities
    Equity capital and investment fund shares
    Debt securities
  Derivatives – assets
  Derivatives – liabilities
  Other investment – assets
    Currency and deposits
    Loans
    Trade credit and advances
    Other
  Other investment – liabilities
    Currency and deposits
    Loans
    Trade credit and advances
    Other
  Reserve assets
Errors and omissions